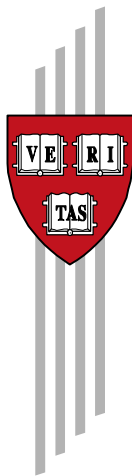# Learning to Improve the Investment Climate for Economic Diversification: PDIA in action in Sri Lanka

Matt Andrews, Duminda Ariyasinghe, Amara S. Beling, Peter Harrington, Tim McNaught, Fathima Nafla Niyas, Anisha Poobalan, Mahinda Ramanayake, H. Senavirathne, Upatissa Sirigampala, Renuka M. Weerakone, and W. A. F. Jayasiri Wijesooriya

Working Papers

Center for International Development
at Harvard University

# Learning to Improve the Investment Climate for Economic Diversification

## *PDIA in action in Sri Lanka*

Matt Andrews, Duminda Ariyasinghe, Amara S. Beling, Peter Harrington, Tim McNaught, Fathima Nafla Niyas, Anisha Poobalan, Mahinda Ramanayake, H. Senavirathne, Upatissa Sirigampala, Renuka M. Weerakone, and W. A. F. Jayasiri Wijesooriya

**Abstract**

Many countries, like Sri Lanka, are trying to diversify their economies but often lack the capabilities to lead diversification programs. One of these capabilities relates to preparing the investment climate in the country. Many governments tackle this issue by trying to improve their scores on 'Doing Business Indicators' which measure performance on general factors affecting business globally (like how long it takes to open a business or pay taxes). Beyond these common indicators, however, investors face context specific challenges when working in countries like Sri Lanka that are not addressed in global indicators. Governments often lack the capabilities to identify and resolve such issues. This paper narrates a recent initiative to establish these capabilities in Sri Lanka. The initiative adopted a Problem Driven Iterative Adaptation (PDIA) process, where a team of Sri Lankan officials worked with Harvard Center for International Development (CID) facilitators to build capabilities over a six-month period. The paper tells the story of this process, providing documented evidence of the progress over time (and describing thinking behind the PDIA process as well). The paper will be of interest to those thinking about the challenges associated with creating a climate that is investor or business friendly and to those interested in processes (like PDIA) focused on building state capability and fostering policy implementation.

# Introduction

Sri Lanka's economy needs to diversify, by nurturing new economic activities already underway in the country and attracting new investors to bring both financial resources and know-how needed to produce new goods and services. This is a major challenge for government, which will play a major role in promoting such novelty. But does government have the capabilities it needs to engage in such work?

One of the needed capabilities relates to the role government plays in ensuring the business or investment climate is attractive to new investors (as well as facilitating ongoing business interests in the country). 'Investment or business climate' issues are a common focal point in economic policy-making. For instance, Lee Kuan Yew's vision for Singapore in the 1960s recognized the importance of 'climate' in attracting new business opportunities:

> "Lee's goal was "to create a First World oasis in a Third World region." If Singapore could develop top-rate security, infrastructure, telecommunications, education, transportation, and health services, it could attract engineers, managers, and entrepreneurs who wanted to do business in the region. Singapore differentiated itself from other emerging countries *by creating a climate that bolstered the confidence of foreign investors*. "We had one simple guiding principle for survival," Lee wrote, "that Singapore had to be ... better organized, and more efficient than others in the region. If we were only as good as our neighbors, there was no reason for businesses to be based here."[1]

Policies to address 'climate' issues usually manifest in a strategy to improve performance on the 'Doing Business Indicators'.[2] This is a set of indicators identified by the International Finance Corporation (IFC) as generally applicable measures of a country's business climate. They assess the ease of starting a business, accessing a property, opening a warehouse, paying taxes, and other issues considered common to all businesses.

Sri Lanka has a large team working on improving the country's performance on the Doing Business Indicators (trying to develop a better score on the indicators, as a signal—to the global business community—that government is fostering a hospitable 'climate'). The 'capability' to ensure an attractive investor climate is in place goes well beyond improving Doing Business indicator scores, however. Investors often shy away from a country because of context specific issues that they either perceive (from reputation) or identify when engaging with the country. These issues could pertain to difficulties in accessing skilled workers, or in getting visas for foreign managers, or in getting timely responses from government agencies.

Governments that want to be competitive destinations for foreign investors—and fertile environments for their own businesses to grow—need to build the capability to (i) identify these contextual issues, (ii) solve these issues, and (iii) show investors and business operators that they are responsive (and can address any issue that may arise when investing or doing business). *In theory, this capability should improve the view that firms have of government, and the accumulation of these positive views should itself generate new business confidence (which is vital if government is trying to foster more activity in the private sector).*

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[1] Schuman, M. 2009. *The Miracle*. New York: Harper Business, pp. 79-80.

[2] See the Doing Business website at http://www.doingbusiness.org.

This paper tracks the efforts of a team in the Board of Investment of Sri Lanka (BOI) to build the capability needed for such work, in a rapid period, through a learning-by-doing approach. The work took place through an engagement with Harvard's Center for International Development (CID). This engagement involved a small group of government officials adopting a Problem Driven Iterative Adaptation (PDIA) process. The PDIA process is used by CID to address complex challenges in governments,[3] engaging officials in a work program comprising multiple two-week iterations through which they find their own solutions to pressing problems, learning as they progress, and releasing new or latent capabilities in the process.

The paper is being written at the tail-end of the first part of this PDIA process (in April, 2017) after six months of work. It intends to show how the PDIA process works, and to reveal the capabilities that are emerging in Sri Lanka through this process (to engage with the investment climate). The paper offers a qualitative, dense, case narrative[4] of the PDIA engagement (which shares many characteristics of an action research initiative).[5] The narrative is based on a sequential presentation of documentary evidence produced every two weeks over the short period covered. Referenced documents included regular (bi-monthly) progress updates by the team of government officials, and regular (monthly) participant observation reports by facilitators from Harvard's CID. These materials were combined into the narrative provided here, written primarily by the CID team members. The overall story is also enhanced by 'lessons learned' from the government team members (to provide a control on individual interpretive bias and ensure the narrative captured multiple views on the story[6]). Given the inclusive process of doing this work, the co-authors include everyone involved—as authorizers, team members, and facilitators—who also had a hand in writing or improving or commenting on the final piece.[7]

## PDIA to create an 'investment climate' response capability

This is not the first paper to note the need for diversification in Sri Lanka, or to identify the fact that investment and business climate issues complicate the drive for diversification. Economists in the country have been raising the issue for over a decade, and government itself has been fixed

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[3] The PDIA methodology has emerged in the CID work stream over the past five years, and is actively used by the Building State Capability program (BSC) at CID. See the BSC website: https://bsc.cid.harvard.com Also see the initial work on PDIA: Andrews, M., Pritchett, L., & Woolcock, M. 2013. "Escaping Capability Traps Through Problem Driven Iterative Adaptation (PDIA)." *World Development* 51(2013): 234 – 244.

[4] This is a linear story of the PDIA work process in the team (the case), written by those involved in the process.

[5] The PDIA process is designed in much the same way as an action research initiative, where external facilitators work with teams to iteratively solve problems, learning all the while about the kinds of capabilities they lack and need to develop—and actively developing those capabilities.

[6] Case narratives are often not considered serious research, especially in 'hard' social sciences. They are seen to lack rigorous data collection and are also considered susceptible to various other research limits (especially related to the many difficulties involved in collecting evidence about 'the story' and of managing bias in interpreting evidence that is collected). This paper attempts to ensure a high level of reliability in the narrative by: (i) reporting on a recent, short process (that is still in progress, and is hence subject to limited bias because of memory concerns); (ii) drawing on regularly developed, procedural documents (that were designed to ensure a constant and consistent source of evidence about progress); (iii) engaging all individuals involved in the process to either write primary documents used as evidence, or gather these together for the final paper, or review and comment on this paper.

[7] The multi-author approach is common in the sciences, where many researchers participating in an experiment are credited with the final article. This is also the approach taken when publishing results of randomized control trials (RCTs), which are also seen as experiments. One could consider the current case paper as a non-random, non-controlled, trial (or organizational action research experiment) involving all those credited as authors.

on the diversification challenge for a while. As Professor Sirimevan Colombage noted in 2016, "Economic transformation and export diversification are subjects that have been discussed extensively in Sri Lanka as well as in other developing countries over the last so many decades, and there are numerous empirical studies on the subject."[8]

The task has acquired new urgency though. In early 2016 Harvard CID began to conduct a growth diagnostic of Sri Lanka's macro-economic performance in recent years and found real cause for concern. Despite consistent growth, Sri Lanka's exports are not diversifying, and this threatens the country's growth and development in the medium to long term. FDI as a % of GDP has been relatively low in Sri Lanka on average: Sri Lanka has averaged FDI inflows of about 1.3% of GDP since the year 2000, compared with middle income countries, where the average FDI inflow annually between 2000 and 2015 was about 2.5% of GDP and Malaysia, China and Vietnam have seen FDI flows exceeding 3% of GDP, over this period.

These data show that foreign investors do not see Sri Lanka as the attractive destination that policymakers would have hoped, especially in the years after the end of the civil war. Reports point to 'investment climate' issues that seem to be influencing this less-than-optimal view of the country. The press regularly notes that government policies are uncertain, for instance, and not sufficiently supportive of business start-ups (leading to low and declining scores on Business Sentiment indicators).[9] Other reports point to a negative reputation for overly bureaucratic procedures, difficulties in accessing visas, challenges with moving money, and many more issues that one can expect to turn foreign firms off opportunities in the country.[10]

This is a real challenge for Sri Lanka, because foreign firms bring money into the country but—more important—they also bring know-how, experience and capability. The data show that this kind of FDI is limited in Sri Lanka. As a result, Sri Lanka is struggling to diversify.

Faced with such realization in August 2016, the government decided to collaborate with Harvard CID to explore a new approach to develop the capability to respond to Sri Lanka's investment climate challenges (on top of addressing 'Doing Business Indicators', which they were already doing as part of a World Bank project). The work was focused within the Board of Investment (BoI), where the Director General identified a team of officials drawn from several different departments and tasked these people with working in a focused, consistent and iterative way to identify critical constraints and problems facing investors in Sri Lanka, and then to solve those problems.

This group was nominated to participate with four other teams also working on addressing problems related to Sri Lanka's growth challenge. The teams would work with a Harvard CID team in a multi-month Problem Driven Iterative Adaptation (PDIA) workshop that CID calls 'Launchpad'. The PDIA workshop employs an approach to building state capability that involves local teams identifying, addressing, and solving pressing problems through a process of repeated iteration. Teams work consistently for a six-month period, stopping every two weeks to assess

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[8] http://www.sundaytimes.lk/160124/business-times/harvards-ricardo-hausmann-has-no-fresh-message-for-crisis-ridden-sl-economy-180119.html. See also http://www.dailymirror.lk/62893/need-to-diversify-export-items-and-destinations. See also a 2013 blog on the topic by the Pathfounder Foundation: http://pathfinderfoundation.org/pf-projects/on-going/economic-flash/178-export-expansion-and-diversification-in-sri-lanka-towards-a-new-paradigm.
[9] See, for instance, http://www.lankabusinessonline.com/debrief/
[10] See, for instance, the Oxford Business Group report: https://www.oxfordbusinessgroup.com/overview/law-land-look-legal-environment-and-investment-climate

progress and determine next steps. The goal is to both resolve the problem and build capabilities to ensure the problem can be more organically resolved in the future.

In pursuing such novelty, the PDIA process engages agents in a purposeful set of actions designed to foster quick lessons and new engagement and interactions. This action learning and interaction is intended to promote what complexity theorists call 'emergence', defined as follows by the sociologist Herbert Mead: "When things get together, there then arises something that was not there before, and that character is something that cannot be stated in terms of the elements which go to make up the combination."[11] As described, there is obviously an element of serendipity in the PDIA process; it yields something new that could not be foreseen or pre-planned or pre-programmed. In a sense, then, PDIA is about 'creating luck' to promote novelty.[12]

## First PDIA Launchpad workshop

The Investor Climate team – which became known during the process as "the C team" – began this journey together with the four other teams in September 2016, by participating in an inaugural workshop organized by Harvard's Center for International Development. Held at an offsite location in Colombo, the workshop was designed to initiate the 6-month process described above and introduce the teams to the concept and process of PDIA.

The workshop began by introducing teams to the overall purpose of the 6-month programme, situating their presence and work in the context of the broader economic challenge facing Sri Lanka (of declining exports, FDI and endangered growth). The first step in the PDIA process was then to prompt each team to develop a clear definition of the problem they were seeking to solve.[13] All the teams were working on separate but connected problems (but only the C team was working directly on the investment climate).

### Problem construction

There are several reasons why PDIA begins with problem definition (or 'construction'). First, it triggers a discussion through which different interpretations of the work can be surfaced. This is essential for consensus to emerge about the purpose of the work and avoids disagreement later on, or the realization of very different assumptions later on, which can bog projects down. Second, it fosters a sense of shared commitment among the group dedicated to addressing the problem – people feel more ownership over something they have had a role in shaping and defining. Third, there is good evidence that well-constructed problems can promote disruption and mobilization, and hence facilitate a change-inducing context.[14]

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[11] This quote is from pg 30 of Mihata,K.(1997). The Persistence of 'Emergence' in Eve, R. Horsfall,S, & Lee, M. (Eds) *Chaos, Complexity & Sociology: Myths, Models & Theories*. Thousand Oaks, Ca: Sage. pp. 30-38.

[12] The CID team regularly characterizes PDIA as a process where agents work aggressively to prepare themselves for emergent opportunities, reflecting the oft-cited comment attributed to the Roman philosopher Seneca that, "luck is what happens when preparation meets opportunity."

[13] The four other teams were; a 'T' team – developing a mechanism to identify strategic sectors that will diversify Sri Lanka's economy; an 'I' team, tasked with conducting investment outreach to new sectors; an 'E' team tasked with helping existing exporters expand and diversify; and a 'K' team, working on unblocking a stalled tourism project

[14] For a longer discussion on the role of problems in fostering change, see Andrews, M., Pritchett, L., and Woolcock, M. 2015. Doing Problem Drive Work. Harvard Center for International Development Working Paper 307. See also the view of Lichtenstein et al (2014, as already cited, page 4) that [in complex systems] "emergence starts when

During the problem construction process each team was challenged to identify what their problem was, why it mattered, who it mattered to, and who it needed to matter to more. During a series of short discussion segments, all teams were instructed to discuss these questions, and to try to arrive at a common description of the over-arching problem, producing the result on flip-charts.

To prime the discussion, the C-Team had been given a short note the day before the workshop by the Harvard facilitators, which offered some thoughts and ideas with which to approach the question of investor climate. The note pointed to the already mentioned issue of Sri Lanka's declining FDI, declining exports as a share of GDP, resulting trade deficit and asked what factors on the ground in Sri Lanka's business climate may be contributing to these trends. It also noted that 'investor climate' is a broad term, but for the purposes of the work ahead it referred to the conditions that put Sri Lanka in a position to attract successful and sustainable foreign direct investment (FDI), specifically FDI that is externally (export) focused. Those conditions could everything span from red tape to labour availability and regulations, infrastructure, legal processes, tax and fiscal rules, land, barriers to innovation, lack of government, coordination, or policy inconsistency or unpredictability. This focus was in line with the primary concerns expressed by the BoI leadership.

These issues were also echoed in Sri Lanka's rankings across various indexes that measure the climate for business and investment. If these issues are addressed effectively, Sri Lanka is likely to see these indexes improve, as well as improving FDI. However, the Harvard facilitators urged the team to focus on the outcome of improved FDI and exports, rather than better index scores, or to rely solely on indexes as a diagnosis of which problems to tackle.

The note ended by asking team members to make notes answering the following questions and bring their notes to the workshop:

1. Do you agree that there are problems with Sri Lanka's investment climate? If so, what are they and why do they matter?
2. How would we know if the problems were solved?
3. What do you think has limited government's ability to improve the investment climate?
4. What parts of the problem do you think would be most accessible to start addressing in the next six months? How would you start taking action to address these areas?

Some of the team members had come having read the note and prepared notes, and the team took these questions as their starting point. The facilitators encouraged the team to narrow their focus to those conditions for business (both existing and potential) that will specifically enable and promote an increase in FDI that catalyzes exports.

Taking investor confidence as a central measure of the climate, therefore, the team eventually stated their headline problem as follows (and as shown in the photograph in Figure 1.): "Attraction of FDI is not treated as a national endeavor by state, which affects investor confidence to implement projects speedily."

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individuals or groups identify a problem or opportunity, and begin to actively pursue it, initiating a phase of disequilibrium."

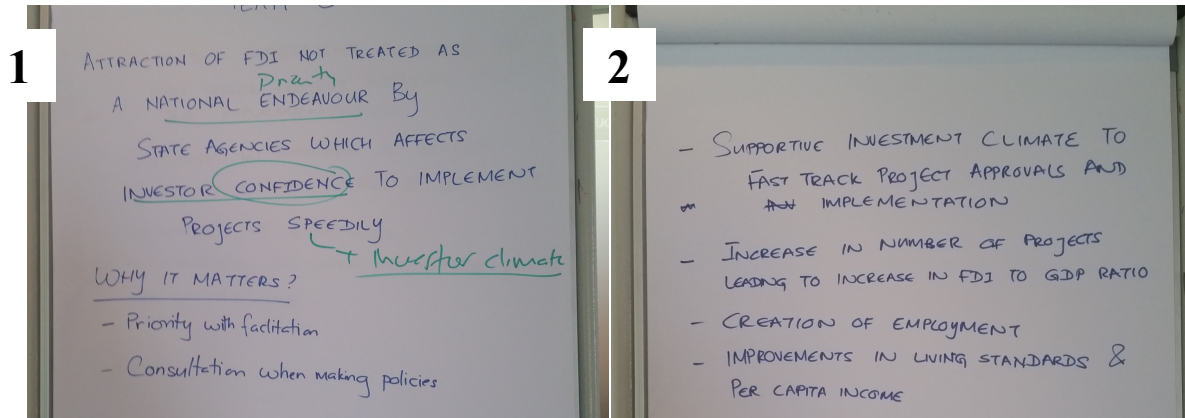**Figure 1. Photographs of the problem construction flip-charts**



Figure 1.1 shows the problem construction and statement, and notes on 'why it matters'. The facilitators pushed the team to think harder about why the problem matters and who it matters to, and they responded that it connects directly to the ability of Sri Lanka to attract FDI, as well as the ability of existing firms in Sri Lanka to expand or diversify exports (both problems being tackled by other teams in the room).

Figure 1.2 summarizes the team's discussion about what the problem would look like solved. When the team added this component, they were able to link the problem to broader outcomes that matter to a large number of stakeholders. Having this link increases the chance of rallying decision makers and authorizers to devote resources and support to tackling the problem – the lack of which is a consistent reason for the failure of policy initiatives.

*Problem deconstruction*

Having constructed a meaningful problem statement that matters and links to significant outcomes, the teams were now challenged to 'deconstruct the problem'. This is a key step in the PDIA process, where actors are asked to identify the root causes underlying the stated problem. After being introduced to the model of a 'fishbone' (or Ishikawa) diagram by the facilitators, the teams were asked to construct a fishbone breaking or 'deconstructing' the problem down into branches that represent underlying causal strands. Going through this process yields a sophisticated picture of a problem, and from there ways to start to tackle it.

**Figure 2. C-Team fishbone diagram**
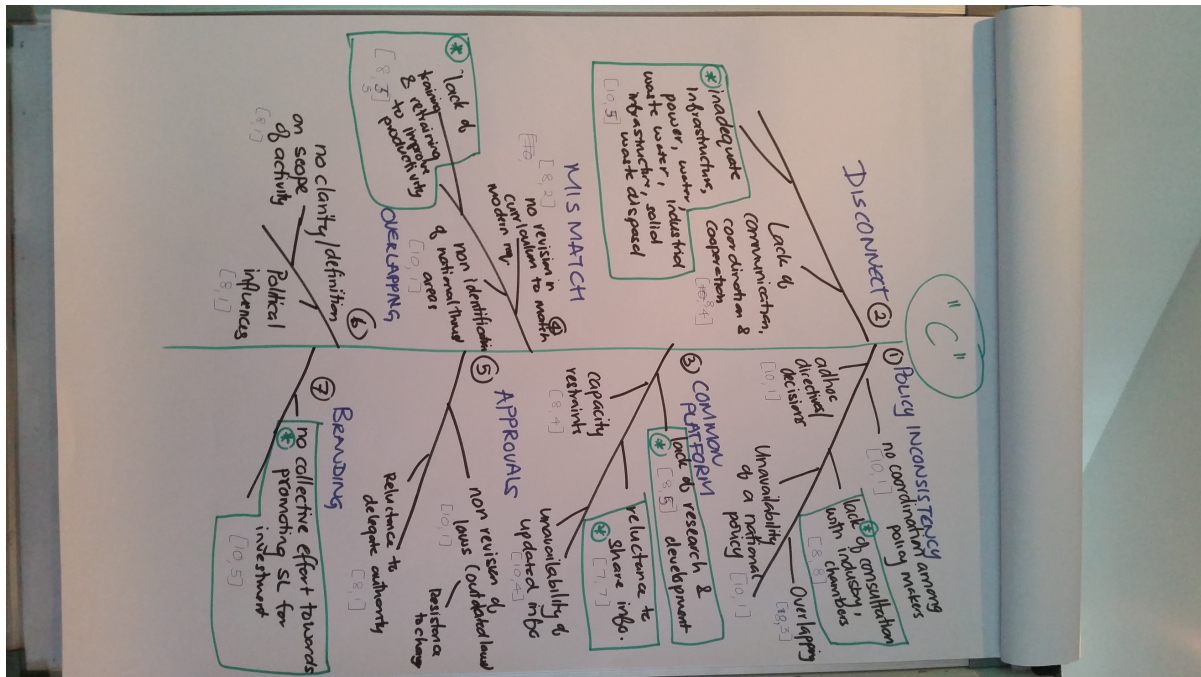


The results of the C team's fishbone exercises can be seen in Figure 2. They identified seven initial branches each with sub-branches:

1. Policy inconsistency
   a. No coordination among policy makers
   b. Directives are ad hoc
   c. Lack of consultation with industry
   d. No national policy
2. A disconnect in activities
   a. Lack of communication and cooperation
   b. Inadequate infrastructure: power, water, transport, waste mgmt. etc
3. Lack of a common platform
   a. Lack of R&D
   b. Reluctance to share up to date info
   c. Capacity constraints
4. A mismatch in meeting needs
   a. Curricula are not matched to today's needs
   b. Lack of training to improve productivity
5. Approvals
   a. No revision of laws (outdated)
   b. Reluctance to delegate authority
6. Overlapping activities
7. No effort to promote SL

In order to move the team towards action, the team members were asked to identify the 'criticality' and 'accessibility' of each strand. Criticality focuses on the importance of the cause to the problem (where 1 is low importance and 10 is high importance). Accessibility focuses on whether the team felt they could do something to actually address the problem in the short run (where 1 implies that they cannot act in the short run, and 10 implies that they can act in the short run).[15]

The team applied this scoring system (visible in Figure 2 with light notation next to each branch and sub-branch), and based on the scores the team identified 6 of the sub-problems as critical 'entry points' to start to tackle the overall problem. (Figure 2, circled in green).

The team then chose five of these six sub-problems (see Figure 3, discarding the lack of research and development on the basis that this was not a direct government activity: 1. Lack of consultation with industry; 2. Inadequate infrastructure: power, water, transport, waste mgmt. etc; 3. Lack of research and accessible up-to-date information; 4. Mismatch in labour training to improve productivity. 5. No collective effort to promote Sri Lanka.

*Identifying next steps*

**Figure 3. Five 'entry-point problems'**
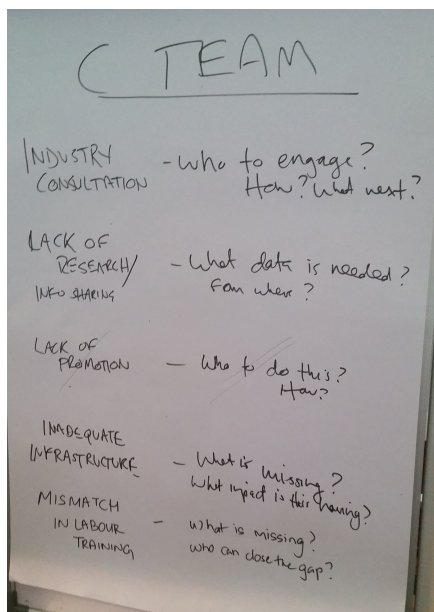


At this point all teams had constructed the problem, deconstructed it into causal strands, and then scored each of the strands in terms of their importance and accessibility yielding 'entry-point' problems where they could start to work. The teams were then asked to identify the action they could take to start addressing each of the selected 'entry points', as well as what they hoped to achieve in two months and then in six months in each area (where the 6-month objective is always defined as 'what would the problem look like solved, in this period').

The PDIA focus is always on being practical, and ensuring that the 'next steps' identified are small enough to be possible (so that the teams feel empowered to act) but also provide enough action through which to learn and to create space for the 'next steps' thereafter. In promoting such practicality, and given that they worked in government, the teams were encouraged to think about who would authorize their work and how they would reach out to their authorizers to gain necessary support as a first order of business.

Beyond this, they were also asked to consider specific activities they could take to explore four potential domains where 'ideas' are often found when solutions are unknown: (i) examining current practices to see if there are opportunities for improvement (what are called 'Kaizen' ideas in the PDIA method);[16] (ii) reflecting on ways to promote new practice, by pressuring incumbent

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[15] The two dimensions are a simplification of the 'change space' or 'triple A' method CID employs to assess the accessibility of causal areas for change. See Andrews, M., Pritchett, L., and Woolcock, M. 2015. Doing Problem Driven Work. Harvard Center for International Development Working Paper 307.

[16] Where Kaizen is a Japanese philosophy of constant process improvement. See a definition and explanation of the approach at the Kaizen Institute (https://www.kaizen.com/about-us/definition-of-kaizen.html).

actors to use existing capabilities in new and more aggressive ways ('Latent' ideas in  PDIA);[17] (iii) searching for instances where the problems being addressed have been solved in the local context, and attempting to describe and diffuse the practices observed ('Positive Deviance' in the PDIA method);[18] and (iv) identifying practices that have solved the problems in places other than the context in question, and describing  and adopting such ('External Best Practice' in PDIA).[19]

Some team members were surprised that they were being pressed into this kind of action, and so quickly. They indicated that most workshops or externally supported activities were designed to yield discussion and then direct the external group's work—or to shape a project or activity that would emerge gradually over years. A focus on immediate next steps ('what are you doing in the next months, month, two weeks, and even week') was quite new.

**Figure 4. The C Team discussing their next steps**



The team was then asked to identify: a) where they wanted to be by March 2017, b) where they wanted to be in two months' time (10 November 2016), c) where they wanted to be in one months' time when the next workshop will happen (6 October 2016), and, d) what they will have completed in two weeks' time (by 22 September 2016) in order to get there.

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[17] The CID team often employs tools similar to those used in the 'rapid results' process to foster the emergence of latent ideas and capabilities. These are discussed at the Rapid Results Institute web site (http://www.rapidresults.org) and in Matta**,** N.**,** and Morgan**,** P. (2011). *Local Empowerment through Rapid Results. Stanford Social Innovation Review* (Summer), 51–55.

[18] The idea of positive deviance draws on an established literature. For example, read Marsh, D.R., Schroeder, D.G., Dearden, K.A., Sternin, J. and Sternin, M., 2004. The power of positive deviance. *BMJ: British Medical Journal*, *329*(7475), p.1177.

[19] External best practice is an important source of ideas, and policy ideas need to transfer better between governments. However, the process of policy transfer is a difficult one and governments should be careful in choosing what external best practice they choose to work with and how they learn from the experiences underlying the adoption of such practice. For a discussion, see Andrews, M. (2012). The Logical Limits of Best Practice Administrative Solutions in Developing Countries. *Public Administration and Development*, 32 (2), 137-153.

Breaking the work down in this way is based on the idea that starting aggressively with quick small steps (with a clear goal in sight) can help generate momentum and avoid spending significant time developing detailed Gantt charts, logframes or project plans that rarely survive contact with reality and try to project a linear progression that is quickly disrupted. Working in multiple two-week bursts (or 'sprints') instead allows rapid iteration, regular checking in and course correction.

The C team identified their goals for March, visible in the flip-chart in Figure 5. The team also developed their interim action goals for the next two weeks, one month and two months (Figure 6).

They were asked to submit these in the form of a team assignment due a few days after the end of the Launchpad workshop, via an online learning platform designed specifically for this course, where every participant has a dedicated account and teams can submit homework, engage in discussion, as well as read teaching material posted by CID tutors.

The regular calendar of individual and team assignments used in the Launchpad process has several benefits: it gives teams the opportunity to work together towards common deadlines, ensures the tempo of progress and helps the Harvard team understand the progress of the teams and tailor support effectively to what they need. It also helps teams and authorizers maintain commitment to the process and creates a record of progress and achievement.

**Figure 5. C team initial goals for March**



Overall, these steps may seem small and mundane, but experience in doing PDIA indicates that small and mundane steps are the way in which big and surprising products emerge. This is especially the case when each 'next step' yields learning (with new information, and experiential lessons) and expands engagement (with new agents, ideas, and more). This is because the problems being addressed are either complicated or complex, and are addressed by expanding engagement and reach (which opens opportunities for coordination needed to confront complicated problems, and for interaction vital to tame complexity) and fostering learning (which is crucial in the face of the uncertainty and unknowns that typify complex problems). In keeping with complexity theory already discussed, the principle idea is that action leading to novel learning and engagement and interaction fosters emergence, which is the key to finding and fitting solutions to complex problems. Further in keeping with theory, the idea here is that any action can foster learning, and it is thus more important to get a team to act in small ways quickly than to hold them away from action until they can identify a big enough (or important enough) next step.
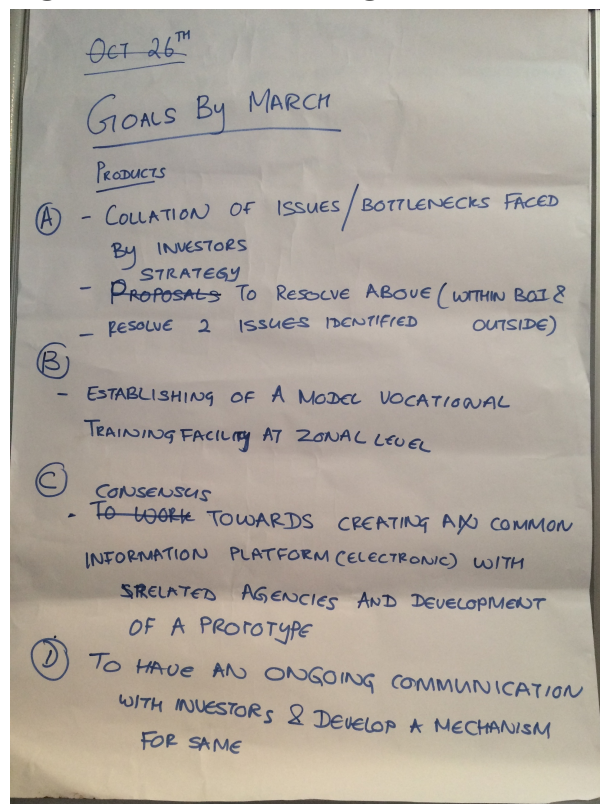
**Figure 6. C-Team Assignment 1 – First action plan**

Issue 1: Lack of Industry Consultation
What is the goal for two months' time (10 November)?
- Obtaining stakeholder inputs on industry needs/ gaps

What will we need to achieve in one month's time to get there (6 October)?
- To meet with 5 key associations and/ or chambers and key companies

What will we need to achieve in two weeks to get there (22 September)?
- Identify focus areas and key associations & companies to be met

What will we do in the next two weeks to get to our 9/22 goal?
- Team research to identify areas – Team Meetings (9/13)
- Peer consultation (9/14-16)
- Presentation of Action Plan to Director – General of BOI (9/15)
- Team meeting to develop questionnaire structure (9/19)
- Make appointments with identified associations (9/19-22)
- Consultation with Harvard team on above (9/20)

What will we do in the two weeks after that to get to our 10/6 goal?
- Finalized questionnaire structure to be sent & followed by meetings (9/22 – 10/6)
- Begin the process of collating the information (10/6 – Onwards)
- Present to Head of Organization for view/ concurrence (10/20)


Issue 2: Mismatch in labour training
What is the goal for two months' time (10 November)?
- To present a draft proposal to develop a mechanism to address the skill gaps in the EPZs

What will we need to achieve in one month's time to get there (6 October)?
- Identify skill development needs vis-à-vis industry requirements

What will we need to achieve in two weeks to get there (22 September)?
- Conclude meetings with Vocational Training Authority

What will we do in the next two weeks to get to our 9/22 goal?
- Team meetings (9/13)
- Presentation of Action Plan to Director – General of BOI (9/15)
- Source available data and analyze to decide the 3 key areas in the manufacturing sector based on job opportunities available in BOI Enterprises (9/19)
- Collate information on institutions that provide skill training (9/22)

What will we do in the two weeks after that to get to our 10/6 goal?
- Draft proposals for discussion with Vocational Training Authority on skill needs (10/1-10/6)
- Draft mechanism to implement proposals (10/1-10/6)
- Consultation with Harvard team (10/4)


Issue 3: Lack of research / information sharing
What is the goal for two months' time (10 November)?
- To have a proposal for the development of a common electronic platform for information sharing

What will we need to achieve in one month's time to get there (6 October)?
- Stakeholder consent to share information

What will we need to achieve in two weeks to get there (22 September)?
- Identify stakeholder agencies and relevant information required

What will we do in the next two weeks to get to our 9/22 goal?
- Team meetings to identify type of information and relevant stakeholders (9/13)
- Presentation of Action Plan to Director – General of BOI (9/15)
- Consultation with ICTA and SLASSCOM to discuss the creation of an electronic platform (9/20)
- Make contact/ communicate/ meet with relevant stakeholder agencies (9/19-9/22)
- Consultation with Harvard team on methodology (9/20)

What will we do in the two weeks after that to get to our 10/6 goal?
- Meetings with relevant stakeholder agencies (9/22-10/6)
- Structure an information format/data sheet required to facilitate investors (9/22 - 10/6)

Finally, the teams were asked to identify and submit a list of the most important authorisers and stakeholders for their work. The authorisers – direct supervisors or more senior decision-makers relate to the concept of an 'authorizing environment'. This idea is critical to PDIA. Government officials operate in a rule-bound environment, with hierarchy, formal and informal institutional norms, and power dynamics within and between institutions. The 'authorizing environment' is a

shorthand to conceptualise these myriad dynamics, and to recognize the need for any actor to consider, navigate and (as far as possible) shape those dynamics to enable them to do work.

A core concept here is that the authorising environment is much more complex than a mere institutional organogram wold suggest, resembling more a web of relationships that to a greater or lesser extent will influence the outcome of any initiative. Any government activity will have one or two obvious direct authorisers, but probably multiple indirect authorisers. And the more complex a problem, the more complex its authorising environment will be.

## First push

Beyond the first framing workshop, the PDIA 'Launchpad' process involves a set of repeated active iterations over six months, where teams go away and take the action they identify, agreeing to meet again at a set date and time to 'check-in' on progress. Each iteration is called a 'push period' in which team members push themselves and others to take action and make progress they otherwise would not.[20] The team then reassembles, with the PDIA facilitators, at the 'check-in' date – and reflects on three questions: 'What was done? What was learned? What is next?' (a fourth question, sometimes employed, also asks 'What are your concerns?')

When considered as one full iteration, the blend of programmed action with check-in questions and reflection is intended to foster action learning and promote progress in solving the nominated problems.[21] The combination of learning while producing results (through solving problems) is key to building new capability and even institutions (where the PDIA approach builds on the belief that the experience of finding how to be successful should lead the identification and establishment of institutions assumed to bring success. In other words, success builds institutions, not the other way around).

During the week of the 19th of September, the Harvard team conducted the first check-in via separate conference calls with each team to mark the end of the first two-week 'push' and take stock of progress. During this intervening period, in recognition of the breadth and complexity of the issue of investor climate, the Harvard team sent a memo to the C team offering some guidance on how to approach the subject. At the workshop, the C team had prioritized consultation with industry, so the memo suggested the team segment industry into four groups:

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[20] The Scrum version of agile project management processes have similar time-bound iterations, called Sprints, which are described as 'time-boxed' efforts (see http://scrummethodology.com/scrum-sprint/). The CID team refers to 'push-periods' instead of Sprints, partly to reflect the real challenges of doing this in governments (where CID focuses its PDIA work). Team members are pushing themselves to go beyond themselves in these exercises, and the name recognizes such.

[21] This approach builds on PDIA experience in places as diverse as Mozambique and Albania and South Africa, which has attempted to operationalize the action learning ideas of Reg Revans (1980) and recent studies by Marquardt et al. (2009). These combined efforts identify learning as the product of programmed learning (which everyone has), questioning, and reflection (L=P+Q+R), which the PDIA process attempts to foster in the structure of each iteration (with action to foster experience, a check-in with simple questions about such experience, and an opportunity for reflection—facilitated by an external 'coach' figure). The questions asked in the PDIA check-in are much more abbreviated than those suggested by Revans and others, largely because experience with this work in busy governments suggests that there are major limits to the time and patience of officials, and asking more questions can be counter-productive (and lead to non-participation in the reflection process). The three questions posed to teams are thus used to open opportunities for additional questions: like 'who needed to be engaged and was not?' or 'why did you not do what you said you would?' or 'what is the main obstacle facing your team now?' As the team progresses through iterations, they start to ask these more specified questions themselves, and come into the check-in reflection session with such questions in their own minds.

13

1) Foreign firms that attempted to invest through BoI but withdrew their interest; 2) Foreign firms that attempted to invest through BoI and did actually end up investing; 3) Foreign firms that have never invested through BoI but are investing in neighbouring regions (like India); and 4) Local firms that are investing in their productive capacities. (While the facilitation team is careful never to provide the 'answer' or direct next steps, during early stages it is often helpful to offer suggestions, relevant cases or reading, or useful frameworks with which to think about the task.)

The Skype check-in on the 20th September started with a reflection on the actions taken since the framing workshop (which were provided in written form before the meeting). These included: (i) having three initial team meetings to discuss the way forward; (ii) identifying the sectors on which they wished to focus initially: these were Apparel, Tourism, Services (Hub operations), Manufacturing (precision engineering/automobile), and IT; (iii) identifying chambers of commerce with which to engage first; (iv) developing their initial questionnaire; (v) meeting the Director General of the Board of Investment to secure authorization in addressing the identified problems; (vi) deciding on a regular time and venue for team meetings; (vii) reviewing the note provided by Harvard.

The team were particularly focused on their first problem of industry engagement, specifically how to identify and approach these groups, and developing a questionnaire that could be used to survey the groups. The team also added a fifth group to the list: firms that had invested but closed within 5 years.

During these initial two weeks, the team identified some interesting lessons learned – including the insight that Sri Lanka seems to have been slow to try and capitalize on strategic sectors in comparison to neighbouring countries, and the importance of linking the work of other parts of the BoI with the Research Department. They also commented on the difficulty of finding time to meet to dedicate time to projects outside of their normal daily tasks. This is a common lesson in PDIA work, where officials' time is one of the most common constraints to innovation, policy change, or reform. All team members are government officials working within existing structures in the BoI and on existing day-to-day tasks. While all the officials had been designated as members of the team, such designation seldom comes with a reduction of workload in other dimensions of their jobs. The CID facilitators are constantly on the lookout for this kind of procedural problem, which can undermine the PDIA process.

To conclude the check-in, the team set a series of next steps: a) expand the list of targets in each category, 2) send the questionnaire, 3) follow up, and meet with stakeholders identified in Sri Lanka. They set their next team meeting for Tuesday 27th September – a step always encouraged by the Harvard facilitators to ensure the team keeps momentum.

## Second push

The PDIA check-in at the four or five-week point is usually more involved than the mid-month check-in. A team first meets with CID facilitators for a discussion centred on the same prompt questions ('What was done? What was learned? What is next? What are your concerns?') and then—a day or two later—the team participates in a PDIA workshop with other teams (usually four or five other teams) and shows their progress (using the same questions to structure brief 10-15 minute presentations). The closed session with CID facilitators allows for intra-team discussion and learning, and the open session with other teams (and CID facilitators) creates opportunities for cross- (or inter-) team learning. The open session also creates some friendly

competition across teams, where all attendees vote for the team with most progress and a small prize is given to members of the selected team.

The C team presented what they had done in the previous two-week 'push', on each of their priority three issues, displayed in Figure 6.

## Figure 6. C team report for the first month

WHAT HAVE WE DONE?

- Identification of sectors/ chambers / stakeholders/ firms to hold consultation with
- Peer consultation
- Development and finalization of questionnaire
- Collection of primary data to identify companies to be contacted
- Consultation with the identified sectors/ chambers/ stakeholders/ firms
- Collation of information collected through consultations and interviews as well as previous studies by relevant chambers

WHAT HAVE WE DONE?

For the issue of **Mismatch in labour training**, the following institutions were identified and consultations held with;

- Vocational Training Authority
- Ministry of Skill Development and Vocational Training
- Committee on Vocational & Technical Training appointed by the Policy Development Office of the Prime Minister's Office

For the issue of **Lack of research / information sharing**, the following institutions were identified consultations held with;

- Sri Lanka Association for Software and Services Companies (SLASSCOM)
- Information and Communication Technology Agency (ICTA)

A new picture was already starting to emerge for the C team after the first month's work (in which team members were interviewing business, expanding engagement and learning new views on the business climate). This new picture revealed a business community much less happy with the business climate in Sri Lanka than the team had previously thought. Their engagements had already yielded feedback quite sharply critical of the government's services and facilitation of business, and a high level of dissatisfaction (see Figure 7). Firms noted a lack of coordination between government agencies, and indicated that they found it difficult to locate responsive interlocutors in government.

This C-team learning– gained by stepping outside of normal routines and engaging with their stakeholders in an open way – is an extremely valuable product of this process, because it generates new insight and thinking, which can then lead to doing things differently.

## Figure 7. C team learning from the first month

WHAT HAVE WE LEARNT?

Interviews and consultations highlighted the following main points;

- Shift of focus from manufacturing to knowledge based areas such as innovation, design, production of prototypes in the area of apparel;
- Constraints at the point of entry and also at operational levels;
- Constraints in the foreign currency transactions ( such as paying of salaries to expat, purchasing of patents);
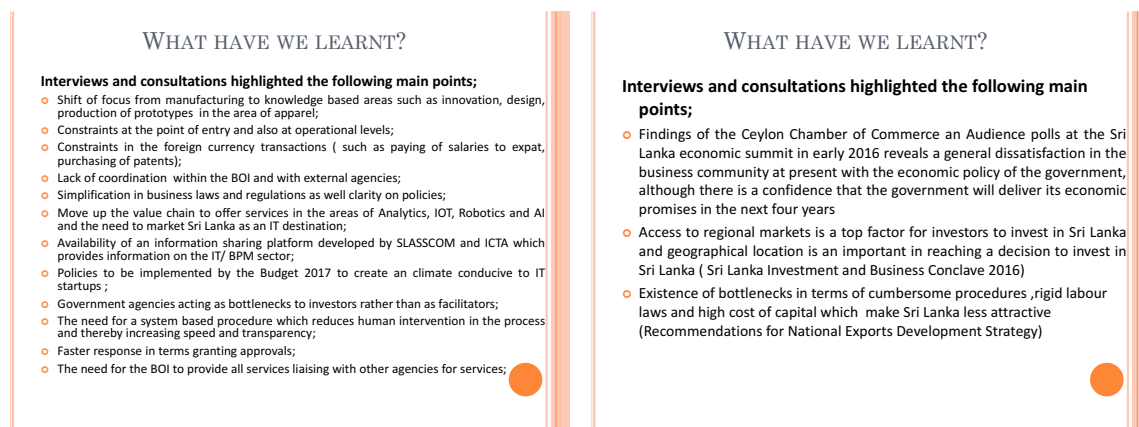- Lack of coordination within the BOI and with external agencies;
- Simplification in business laws and regulations as well clarity on policies;
- Move up the value chain to offer services in the areas of Analytics, IOT, Robotics and AI and the need to market Sri Lanka as an IT destination;
- Availability of an information sharing platform developed by SLASSCOM and ICTA which provides information on the IT/ BPM sector;
- Policies to be implemented by the Budget 2017 to create an climate conducive to IT startups ;
- Government agencies acting as bottlenecks to investors rather than as facilitators;
- The need for a system based procedure which reduces human intervention in the process and thereby increasing speed and transparency;
- Faster response in terms granting approvals;
- The need for the BOI to provide all services liaising with other agencies for services;

WHAT HAVE WE LEARNT?

Interviews and consultations highlighted the following main points;

- Findings of the Ceylon Chamber of Commerce an Audience polls at the Sri Lanka economic summit in early 2016 reveals a general dissatisfaction in the business community at present with the economic policy of the government, although there is a confidence that the government will deliver its economic promises in the next four years
- Access to regional markets is a top factor for investors to invest in Sri Lanka and geographical location is an important in reaching a decision to invest in Sri Lanka ( Sri Lanka Investment and Business Conclave 2016)
- Existence of bottlenecks in terms of cumbersome procedures ,rigid labour laws and high cost of capital which make Sri Lanka less attractive (Recommendations for National Exports Development Strategy)

The lessons did indeed have such effect, with the team adjusting course slightly to re-align their next steps. They planned further consultation with institutions such as the Institute of Chartered Accountants, Land Commissioners Department, Vocational Training Institute, Ministry of Higher Education and the BOI (to create a platform to share information and resources). They also planned further interviews and consultations with firms in Sri Lanka. These, they judged, would help identify more issues which they could present to their authorizers to generate consensus, propose solutions and get support for those solutions. On the issue of labor training mis-matches, the team planned to hold consultations with the Katunayake Free Trade Zone investors to analyse their skill profiles, and then seek to co-develop training programmes to address such. The goal was to develop a partnership between the national Vocational Training Authority and the BoI, and establish a new training facility.

At this stage all teams were asked to review their goals and deadlines for the two-month, one-month and two week stages set the previous month and review their direction. This regular course-correction is essential to working in an adaptive, iterative way. Often this involves a revision of ambition to be more conservative. Figure 8 shows the C team's revised goals.

**Figure 8. C team revised goals and deadlines**

**TEAM C – ASSIGNMENT 5**

**GOALS TO BE ACHIEVED BY MARCH**

- Collation of issues / bottlenecks faced by investors
- Strategy to resolve above (within and outside BOI)
- Resolve 2 of the issues identified
- Develop a prototype model for a Vocational Training Facility to be established at the BOI to address skill gap issues concerning new entrants and existing workers
- Establishing of a model vocational training facility at Katunayake Export Processing Zone as a pilot project
- Consensus towards creating a common information platform (electronic) with related agencies and development of a prototype for the same
- To have an ongoing communication with investors and develop a mechanism for same

**ACTION PLAN LEADING UPTO OCT 26TH**

- Identification of Enterprises that have invested in the region and establish contact and / or obtain consent for interview
- Identification of other Enterprises to be interviewed
- Further interviews with Enterprises such as Hub operators, Enterprises in the Tourism sector
- Finalise list of skill gaps in selected sectors
- Identification of information requirements of investors and the relevant stakeholders who possess this information
- Presentation of Goals to be achieved by March to the Authorisers

**ACTION PLAN LEADING UPTO NOV 09TH**

- Collation of information obtained from Enterprises and identification of the most common issues / bottlenecks
- Identify possible solutions for these issues / bottlenecks
- Series of Consultation with government institutions such as the Vocational Training Authority, Ministry of Skill Development and Vocational Training, Committee on Vocational & Technical Training appointed by the Policy Development Office of the Prime Minister's Office and Industry consultation with The Free Trade Zone Manufacturers' Association
- Establish contact with relevant stakeholders to present and obtain consent for the establishment of a common information sharing platform

## Third push

By the middle of October, the C team had started to gather pace in their interactions with the private sector in Sri Lanka and to understand some of the issues the private sector was struggling with. During their outreach they had managed to meet several firms falling into the fourth and fifth categories of firms (those seeking to expand in Sri Lanka, or those who closed prematurely). These discussions were already revealing a gulf between the government's intentions and the experience of firms: one CEO of a major garment company, who wanted to expand and evolve into a hub, told the team that he had faced significant bottlenecks in the approvals process, was disappointed with the operational effectiveness of the government's One Stop Shop, and had to learn about (and then rely on) informal networks to make progress.

At this stage, the team recognized that they needed to start to bring greater structure into their work, and into their canvassing of firms, in order to be able to distil and interpret the feedback. With the help of the Harvard team, they developed a spreadsheet to collate the problems raised by firms, and started to use this consistently in their outreach. Beyond this, the team needed to develop a strategy to respond to the firms' problems. For this, they developed, with support, a spreadsheet to focus on problems where the identified problems could be listed, along with questions like 'what is being done to address this problem? What has already been tried? Who needs to be mobilized to find a solution? Which entity will take the lead? What is a realistic timeline?'

This sort of structure is essential when dealing with complex problems that do not necessarily have a clear 'owner' in government, and which will require the cooperation of multiple agencies to address. These challenges are the very essence of the task being undertaken by the C team – a fiendishly difficult process of finding problems, generating consensus within government that the problems should get priority attention, and then mobilizing other entities (often with little incentive) to solve them.

During this push, the team also completed their sixth team assignment, which was to meet their authorizer (in this case the Director General (DG) of the BoI) and discuss their progress. At this meeting, the DG encouraged them to focus as much as possible on investors and firms that are "forward looking" – interested in sectors that will diversify Sri Lanka's economy – and looking to make substantial investment. This connected to a problem that the C team would increasingly face over the coming months – the difficulty of finding and talking to firms falling into their first three categories, who were outside Sri Lanka, to understand their perspectives and needs. The team decided to engage the Research Department to try and find lists of firms that had attempted to invest in Sri Lanka but had withdrawn.

During this push, the team also made progress on their second and third areas of work – the issue of labour training (which they had decided to focus within Sri Lanka's Special Economic Zones), and the lack of an information sharing platform on labor availability:

- On the information sharing issue, members of the team had finally managed to hold a meeting with SLASSCOM – the Sri Lanka Association of Software and Service Companies, the country's IT industry association. They discovered that a platform already existed, but for the IT/BPO industry only. SLASSCOM indicated they would be willing to work with BOI to expand this platform to service all targeted sectors.

- On the labor training issue, other team members met with the Vocational Training Authority (VTA) and the VTA agreed to facilitate the proposed new training facility at the Katunayake SEZ and put it in their action plan for 2017. The team also compiled data on job vacancies in all the zones, which revealed that the main areas of need were in welding, tailoring and mechanics.

By the time a Harvard facilitator returned after two weeks, the team had filled out the first template with the results of 10 interviews. Based on this, they were already looking for emerging patterns and beginning to think about solutions. One issue, mentioned by several firms, was the lack of support available for start-ups in Sri Lanka. Another issue centered on "a lack of a mechanism to service priority investors." In response to this second issue, the team proposed working on a set of criteria within the BoI to identify 'strategic priority' investors, ranked or 'tiered' according to importance. A Harvard facilitator helped them to deconstruct this idea, and the team decided to continue to develop the concept and seek an initial response from the Director General. The team recognized that they had not met all the deadlines they had set themselves for October 26th, and identified several next steps:

1. Sending draft criteria for the proposed priority ranking mechanism–by Monday, Oct. 31
2. Conducting 10 more interviews by November 9
3. Filling out the two spreadsheets by November 9
4. Have a detailed strategy for 2-3 identified problems by November 9
5. Meet with the promotions department/web developer – to get ideas on what we can include in the new joint platform with SLASSCOM
6. Identify which information should be available on the platform – interviews with investors will help inform this too. The team agreed to provide a spreadsheet with this information list by the workshop (9th)
7. Meet the Vocational Training officials in Katunayake - 6 enterprises altogether (2 apparel, 2 electronics, 2 engineering).

## Fourth push

The team's fourth push ended on November 9, when they met with a Harvard facilitator and participated in the usual all-team workshop. In the two-week push since the last check in the team had made a major step forward. Having conducted a dozen more interviews with firms in categories 4 and 5 (within Sri Lanka), and after collating the survey feedback, they felt they had identified six specific problems that were recurring. They also judged that the BOI was in a position to mobilize solutions to these problems, which were:

1. A complicated Exchange Control system makes it difficult for firms to make payments
2. There is no VAT exemption for Hub companies purchasing from local suppliers
3. Sri Lanka lacks support for start-ups and is not promoted as a destination for start ups
4. There is a lack of labour (technical skills, semi-skilled workers), and of graduates with certification in key skills needed for the manufacturing sector
5. There is a lack of economic zones with proper water supply, and wastewater disposal to the ocean and solid waste management, suitable for industry
6. There is poor coordination within BOI – especially in investor servicing.

Once agreed and authorized, they would start to work on these six problems alongside (or integrated with) their existing work-streams.

When challenged by the Harvard facilitator, the team did acknowledge at this stage that their survey sample had not been what they originally intended it to be. Because of the difficulties of identifying and accessing firms in the first two categories, their survey 'results' were skewed heavily towards issues experienced by firms already present in Sri Lanka. In particular, they were missing feedback from regional investors who avoided Sri Lanka, and investors who showed interest but didn't invest ultimately.

The team decided to continue moving forward with the six identified issues, but to also seek to expand their survey sample to include the missing categories. At the multi-team workshop, the team presented their new suite of problems, and proposed criteria for the new tiering mechanism (Figure 9).

At the workshop, the C team described difficulties with mobilizing 'stakeholders' to address the problems it had identified. It was interesting to note that other teams were experiencing similar struggles in the fourth push period. Several teams had started to express concerns about authorization, for instance, and about the complexity of the relational connections needed to solve the complex problems they were addressing. It had taken approximately this much time for the teams to understand their problem(s), to reflect on the implications, and to recognize the degree of political clout and number of other actors whose support would be required, and the full realization of this challenge was now weighing on everyone.

### Figure 9. C team completed actions at the fourth check-in

#### WHAT HAVE WE DONE?

For the issue of *industry consultation*;

- Interviews with further Enterprises namely MAS Active (Private) Limited, Brandix Apparel (Private) Limited, London Stock Exchange Group, Oceanpick (Private) Limited, Expo Lanka (Private) Limited, Laugfs Gas Terminal, Okaya Lanka and Institutions such as JICA

- Identified the following five (05) problems which was highlighted through the various interviews to develop solutions for;

**Problem 1** – Simplification of the Exchange Control Systems especially in terms of transferring funds to make payments and also educating the banking system on the exchange control exemptions and facilities available to BOI firms

**Problem 2** - No provision in the VAT Act to exempt Hub companies when they purchase goods/services from local sources.

**Problem 3** - The need to promote Sri Lanka as a destination for start- ups
*The possibility of establishing an incubator for Start- ups in association with SLASSCOM and ICTA who will be taking the lead role*

**Problem 4** - Need for improvement of technical skills and provide graduates with 3rd party certification such as CISCO to increase their employability and in the manufacturing sector difficulty in obtaining as well as retaining semi skilled categories of workers

**Problem 5** - Need to develop zones with water supply, treated wastewater disposal facility to ocean and solid waste management

#### WHAT HAVE WE DONE?

For the issue of *industry consultation*;

**Problem 6-** Need for better coordination within the BOI in terms of granting approvals as well as appreciation at different levels of the investment process and thereafter of the importance of looking after investors

*Establish a system whereby a point person will be appointed to coordinate all internal aspects of the process of establishing a BOI enterprise for priority companies. Priority firms will be identified through a tier system which will also be introduced. The tier system will include various criteria which will be given weights to identify priority firms.*

*Below is the prototype that we have created and potential investors will be scored out of 100 and those scoring 75% will be considered Tier 1, those scoring 60% as Tier 2 and anything below would be Tier 3 / routine. The various Tiers will be colour – coded for ease of identification.*

#### WHAT HAVE WE DONE?

| Criteria | Weightage |
|---|---|
| Global recognition and branding | 7 |
| Global Network | 7 |
| Innovation and R& D | 6 |
| Technology | 6 |
| Net worth | 5 |
| Eco-friendly operations | 5 |
| Investment (FDI) | 4 |
| Listed Company | 4 |
| Employees | 3 |
| Export Market | 3 |
| | 50 |

#### WHAT HAVE WE DONE?

For the issue of *Mismatch in labour training*,

- Identifying industry needs and their proposals and obtaining their response to the proposal for having vocational training facility at zones as an initial step

- Development of a Conceptual model for a vocational training facility at zones

For the issue of *Lack of research / information sharing*;

- Identification of information gaps

The challenge of dealing with many stakeholders is something common in PDIA processes. As noted in the introduction, PDIA as a theory and practice draws heavily on the recognition that many problems faced by governments are not simply technical problems with technical solutions, but complex, 'wicked hard' problems involving multiple dimensions, and multiple stakeholders. Such problems require actors to work diligently, adaptively and collaboratively – often requiring the gathering of new coalitions of support and authorization around a problem and its solution.

The growing 'stakeholder' concerns were thus a reflection of the fact that all teams were tackling complex problems, and as such it was essential that they paid careful attention to the web of different stakeholders needed to foster 'success'.

A workshop session was dedicated to this common and timely issue. All the teams were asked, first, to identify stakeholders they needed to engage in their coming work. They were then asked to review their stakeholder list, and place each stakeholder on a grid showing 1) their interest in the team's project, and 2) their influence on the work being done. The teams were then asked to identify the ten stakeholders they most urgently needed to engage during the next push.

During this process the C team expanded its stakeholder list and categorised the stakeholders with greater clarity than they had before (Figure 10).

**Figure 10. C team stakeholder mapping**
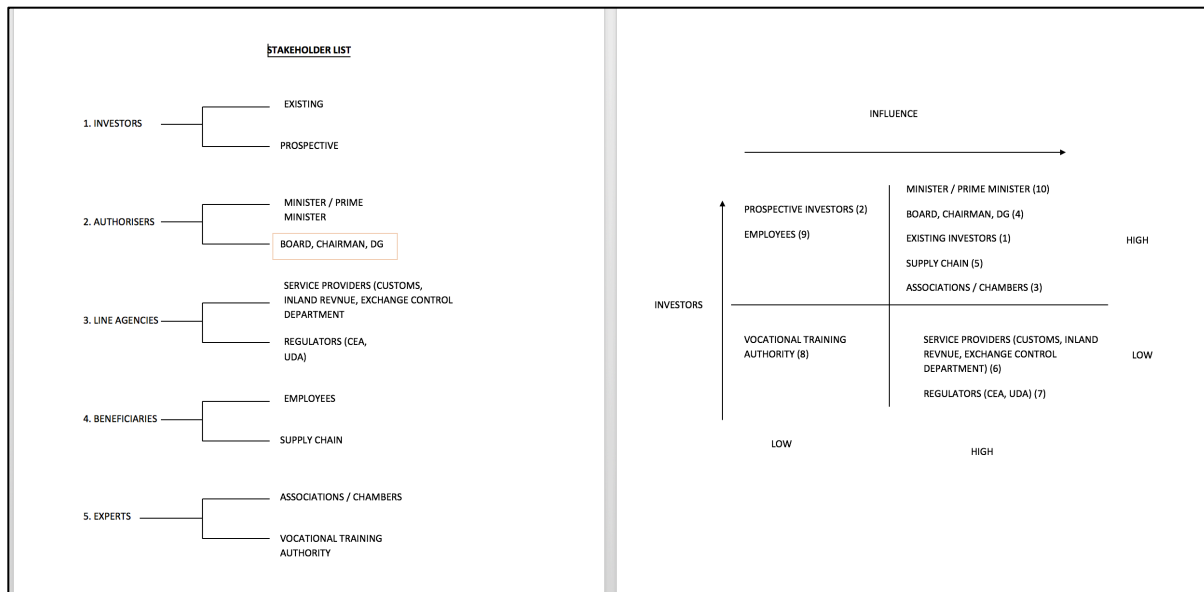


In terms of next steps, the C team identified further interviews with Enterprises; testing of the prototype of the tier system to determine its suitability; steps being taken to solve the other 5 problems being identified; identification and discussion with relevant stakeholders on the provision of information for the information platform. The team also updated their goals and deadlines, shown in Figure 11, and showing the evolution from the plan in Figure 8.

**Figure 11. C team goals and deadlines after fourth push**



TEAM C – ASSIGNMENT 9

**ACTION PLAN LEADING UPTONOV 23RD**

**ACTIVITIES**

- Meet selected investors to clarify the "6" problems selected to resolve
- Identify and interview / send survey forms to investors from the two missing categories of investors not yet interviewed
- Identify stakeholders that can provide inputs for the information platform
- Meet with the BOI Web Developer
- Presentation to the DG

**GOALS**

- To clearly define the "6" problems
- To identify issues concerning the investors in the two categories
- To develop a prototype for the information platform with the assistance of the Web Developer
- To update and obtain approval from the DG on the next course of action by the C team

**ACTION PLAN LEADING UPTODEC 07TH**

**ACTIVITIES**

- Develop a strategy and initiate steps to solve the 6 identified problems and any other new problems
- Meeting with primary stakeholders
- Meeting with the Agency for Developmentwith a presentation on the Team exercise and the results

**GOALS**

- To initiate steps to solve the 6 problems
- To discuss the identified problems and reach a consensus towards a solution
- To share the team findings and obtain views and inputs

## Fifth push

During the fifth two-week push, the C team entered a 'mid-marathon slump', where momentum and motivation appeared to slow. This manifest in the fact that the team had not managed to fully meet any of its November 23rd deadlines (shown in Figure 11). The struggle to find and speak to regional companies was proving extremely difficult. The team located a new list of companies that had shown interest but not invested, and had tried to filter this down to focus on their preferred sectors (manufacturing, tourism, infrastructure, IT and apparel). The team sent surveys to 12 firms, but did not receive responses. The team also engaged with more domestic firms, and crystallised the 6 common problems they had identified (but did not act more on these). The team had also not met with the web developer, nor produced a list of stakeholders to contribute to the information sharing platform.

Impasse moments like this tend to be dreaded by professionals providing external support or capacity building to organizations like a government, but these moments can sometimes be the most instructive for team members. Hitting a brick wall can force a team to think laterally in its efforts to solve an obstacle. In discussing the challenge of finding firms to survey outside Sri Lanka, for instance, the team decided to try following up on the surveys they had sent with direct phone calls. They also proposed contacting Sri Lankan embassies, or using chambers of commerce in other countries, to reach these out-of-country firms.

Slumps can also be a result of the point when the scale of the challenge heaves fully into view of the participants. Given that this is common in PDIA processes (and all change initiatives), the Harvard facilitators focused on motivating team members; reminding them of the overall goal and its significance in the core effort (to diversify Sri Lanka's economy and secure sustainable growth) and encouraging them to keep chipping away at their work, making small steps that would build into a bigger product over time.

# Sixth push

The team struggled to meet regularly and attendance suffered during the sixth push period. Despite the lull, however, the team made progress. They met with a new company, completed their collation of feedback (Figure 12), finished the problem action template (Figure 13) and lined up meetings with several stakeholders identified in this template: Customs, Exchange Control, Inland Revenue, Immigration, and the Department of Labour.

**Figure 12. Collated feedback from firms**

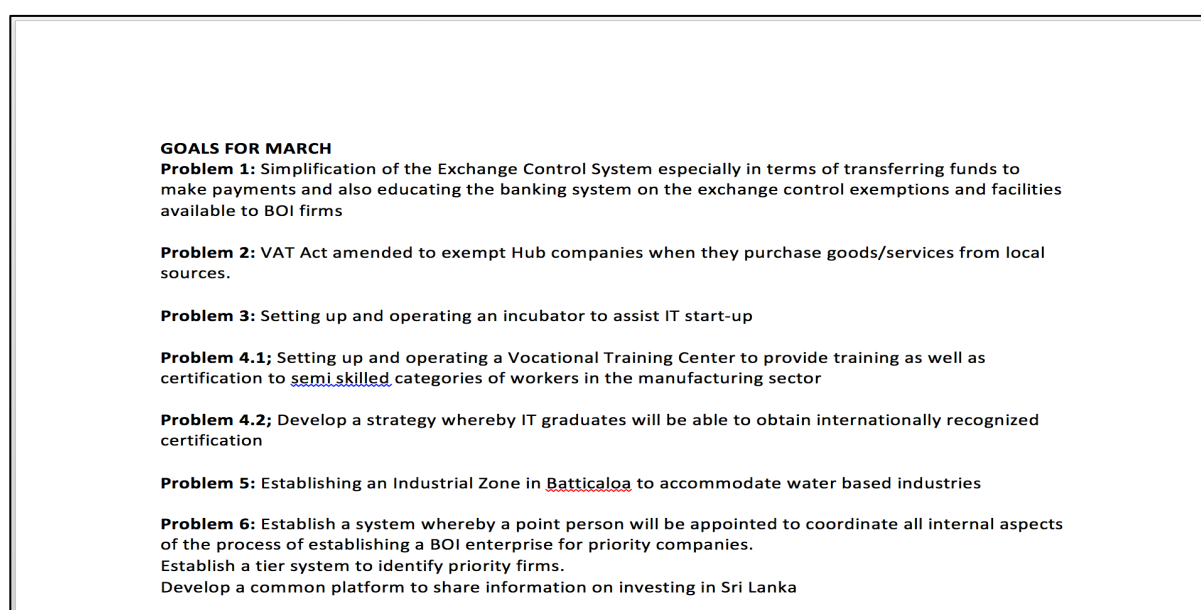| Firm name | Contact name | Sector | Problem 1 identified by the firm | Problem 2 identified by the firm | Problem 3 identified by the firm | Problem 4 identified by the firm | Problem 5 identified by the firm | Problem 6 identified by the firm |
|---|---|---|---|---|---|---|---|---|
| Company name removed for privacy | Name removed for privacy | Apparel | The need for Sri Lanka to shift of focus from manufacturing to knowledge based areas such as innovation, design, production of prototypes in the area of apparel | The need for a system based procedure which reduces human intervention in the process and thereby increasing speed and transparency | Government agencies acting as bottlenecks to investors rather than as facilitators; | Lack of coordination within the BOI and with external agencies/ Lack of clear policy at entry point | Faster response in terms of granting granting approvals Facilitation being the key factor | The need for the BOI to provide all services liaising with other agencies for approvals |
| Company name removed for privacy | Name removed for privacy | Apparel | Constraints at the entry point as well as in the operational level with regard to BOI approvals, VAT registration, Company Registration, Income Tax registration and Custom registration.This is due to cumbersome procedure and lack of inter institutional coordination compels the investor to provide unnecessary information, duplication etc | Constraints in the banking system to transfer funds | Problems encountered by the investor/enterprises as a result of various government organizations not respecting exemptions under BOI Agreement. | Recommended level of service of the BOI One-Stop-shop to be improved where investors can collect various approvals within a specified time limit from the One-Stop-Shop itself rather than being referred to the respective institutions by the officials at the One-Stop-Shop. | | |
| Company name removed for privacy | Name removed for privacy | Hub operations | Difficulties encountered at the point of entry due to lack of clarity in policy with regard to logistic hub operations | Problems with the Banking system when opening LCs, in carrying out entrepot trading and also with customs and other state institutions due to lack of understanding of the business by those institutions | | | | |
| Company name removed for privacy | Name removed for privacy | IT | Not enough publicity/lack of awareness of Sri Lanka as an IT destination. as Sri Lanka is not identified for its potential to offer expertise in the areas of Software Development, Product Development and BPM | Sri Lanka needs to understand that we cannot compete with countries like India and Vietnam and it is necessary to move up the value chain and focus our human capital in the areas of Analytics, IOT, Robotics and AI and as such education / higher education courses need to be streamlined to suit these industry requirements | Difficulties with exchange controls where the process needs to be simplified | Simplification of business regulations and laws to implement concepts such as crowdfunding which are important in bringing investments in the IT sector | Encourage more private Universities to set up in IT field for capacity building in the industry | Investment climate to be more conducive , Eg Restrictions on ownership of land by foreigners who would like to own land , * high cost of electricity *provide space for startups |
| Company name removed for privacy | Name removed for privacy | IT/ BPO Shared Services | Appreciation at different levels of the investment processand thereafter of the importance of looking after investors which can improve the ease of doing business | Need for improvement of technical skills as well as of empoyess. Important that graduates / employees receive 3rd party certification to increase their employabilityEg CISCO | Encourage students and support to follow Math stream -only 1000 schools do A/L math currently | Introduce finishing schools for Training & coaching on communications skills to bring graduates upto speed is required | Provide easy sourcing of infrastructure such as land, power etc | Transparent procedure to be in place withou having to take up issues at the highest level of govt |
| Company name removed for privacy | Name removed for privacy | Apparel | The need for preferential trade agreement to improve the competitiveness of Sri Lanka | More focus by the government on providing assstance for R & D | A possibility of 100% electronic documentation in the Customs process | The need for tax concessions | | |
| Company name removed for privacy | Name removed for privacy | Apparel | Ease of obtaining access and approvals for land, water, effluent discharge | The need for BOI to act as a one-stop agency which will provide the necessary business climate | Clarity in labour laws and regulations | Provision of information such as demographics of labour to potential and new investors | Logistics infrastructure (rail/road) to facilitate businesses to operate | Ensure standards are maintained on compliance aspects for sustainability |
| Company name removed for privacy | Name removed for privacy | | No Provision in the VAT Act to excempt Hub companies when they purchase goods/services from local sources. | Hub Companies in the Construction phase and operate on the basis of an is a EPC contract (Engineering , Procurement and Construction ) and therefore the contractor has the full right for all procurement decision subject to the quality criteria provided by the Hub Companies. Hence the settlement for the imports are done by the contractor but technically as the Hub Company is the consignee for the imports (on Open Accounts ) and as the contractor does not have a business registration in Sri Lanka it is not possbie to include the contractor in the cage 9 of the Cusdec ,as the settlement party | | | | |
| Company name removed for privacy | Name removed for privacy | Apparel | Difficuly in obtaining semi skilled categories of workers. | Difficulty in retaining experienced labour in the semi skilled category | School leavers coming as job applicants are completely disoriented to an industrial environment in terms of attitudes, expectations and discipline. | Experience workers leave the organization in the absence of a system to recognize the experience gained on the job so that it can be marketed for future career prospects | | |

**Figure 13. Problem action template**

| Problem number | | | What is being done to solve this problem? | What action has already been taken (provide dates of past action)? | What action is next? | Which entities in government are needed to work towards this solution? | Which entity will take the lead? | Has this entity been authorized to lead the process in this area? | Who is the key contact in that agency? | What is this contact's cell phone number? | What is this contact's email address? | What is the date for check-in on this action? |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | Simplification of the Exchange Control Systems especially in terms of transferring funds to make payments and also educating the banking system on the exchange control exemptions and facilities available to BOI firms | Discussion with Exchange Controller to devise possible ways to resolve the problem and request the Controller to communicate to Banks on the exchange control exemptions and facilities available to BOI firms | | | Exchange Control Department | | | | | | |
| 2 | | No povision in the VAT Act to exempt Hub companies when they purchase goods/services from local sources. | | | | Inland Rvenue Department | | | | | | |
| 3 | | The need to promote Sri Lanka as a destination for start-ups | Establishment of an incubator - A long term lease to be granted by the BOI of BOI -owned land to SLASSCOM and ICTA who will together establish and manage the Incubator | o Discussion between the Chairman, BOI and Vice Chairman, SLASSCOM on the possibility of setting up an incubator. o Discussion by the team members with the DG on the setting up of an incubator for his suggestions (3/11/2016) | o To carry out further discussions with SLASSCOM and ICTA on the model they intend to use to identify potential start- ups | ICTA | ICTA and SLASSCOM | | | | | |
| 4 | | Need for better coordination within the BOI in terms of granting approvals as well as appreciation at different levels of the investment processand thereafter of the importance of looking after investors | Establish a system whereby a point person will be appointed to coordinate all internal aspects of the process of establishing a BOI enterprise for priority companies. Priority firms will be identified through a tier system which will also be introduced. | o Development of a possible tier system to categorise new investors (31/10/2016) o Discussion by the team members with the DG on the tier system for his suggestions (3/11/2016) | o Test the tier system on established BOI Enterprise | N/A | BOI | N/A | N/A | N/A | N/A | |
| 5 | | Need for improvement of technical skills and provide graduates with 3rd party certification such as CISCO to increase their employability and in the manufacturing sector, difficulty in obtaining as well as retaining semi skilled categories of workers | Identifying industry needs and their proposals obtaining their response to the proposal for having vocational training facility at zones as an initial step | o Conceptual model developed | o Workshop with all stakeholders to discuss the model | Ministry of tertiary education and vocational training ,Vocational training Institute, BOI , | Ministry of tertiary education and vocational training ,Vocational training Institute | | | | | |

The team's goals for March had evolved again (see Figure 14)—being clearer than ever before (given that the team knew more about what they were dealing with). The team had met the Director General of the BoI again, and received endorsement of these goals. They now had a

vision of 'problem solved' for each of the issues identified iteratively over the past 12 weeks – progress which belied the team's lacklustre meetings. In this period, the team also made several important steps in adapting their work (where PDIA emphasizes adaptation based on lessons arising from action):

- They had merged the work to set up the vocational training facility with the work on Problem 4 (certifying IT graduates). This meant Problem 4 (lack of training and certification) now had two goals attached to it (4.1 and 4.2 – see Figure 14 below)
- The work with SLASSCOM had expanded from the establishment of a shared information platform, to the establishment of an incubator for IT start-ups in collaboration with SLASSCOM to address the lack of certification for IT graduates ((NVQ certification and SLASSCOM certification).

**Figure 14. C team goals for March 2017 after the sixth push**

**GOALS FOR MARCH**
**Problem 1:** Simplification of the Exchange Control System especially in terms of transferring funds to make payments and also educating the banking system on the exchange control exemptions and facilities available to BOI firms

**Problem 2:** VAT Act amended to exempt Hub companies when they purchase goods/services from local sources.

**Problem 3:** Setting up and operating an incubator to assist IT start-up

**Problem 4.1;** Setting up and operating a Vocational Training Center to provide training as well as certification to semi skilled categories of workers in the manufacturing sector

**Problem 4.2;** Develop a strategy whereby IT graduates will be able to obtain internationally recognized certification

**Problem 5:** Establishing an Industrial Zone in Batticaloa to accommodate water based industries

**Problem 6:** Establish a system whereby a point person will be appointed to coordinate all internal aspects of the process of establishing a BOI enterprise for priority companies.
Establish a tier system to identify priority firms.
Develop a common platform to share information on investing in Sri Lanka

To try and accelerate progress, Harvard facilitators reminded the team of the stated goals and deadlines in their last action plan, and tried to use procedure and routine to keep the team moving. At the team meetings, the team itself was starting to challenge each other to move ahead more aggressively. They decided that the proposed tier-ing system introduced criteria that were quite difficult to apply, and needed revision. They also identified the need for a mechanism to respond to problems raised by companies. They were reminded that these challenges were their responsibility. Even if a solution required another agency (or other agencies) to take a specific action, it was the team's role to ensure those actions happened. The team was urged to keep having conversations with companies, and make the strategies to tackle the six problems as practical as possible.

The challenge for the C team was that it needed to embody a new and unprecedented way of thinking about government's role that does not yet exist in Sri Lanka – acting as a highly responsive link between the companies (which face problems) and the government (which can provide the solution) – and assuming responsibility for coordination failures that are diffused across government. This is a very difficult task, and the team expressed legitimate concerns over the level of political support and authorization required to play this role.

## Seventh push

Towards the end of December, the C team rediscovered some vigour, and some motivation. At the team meeting after the usual Launchpad workshop, the team showed real appreciation of the importance of the task ahead. They had also been impressed by the aggressive progress made by the other teams (one of the advantages of the workshop structure of bringing all the teams together). There was a sense of not wanting to let the other teams down, especially as many of the other teams' work depended on the C team having an impact. The workshop seemed to have helped them understand how their work 'fit' in the bigger picture, providing a purpose and a vision for them. In response to this, the team decided to convert their problems and action plan into a more structured strategy with clearly defined deadlines. This is shown in Figure 15. The team also assigned responsibility within the team for different areas.

### Figure 15. C Team next steps and deadlines after the sixth push



The team was also learning – through their stakeholder meetings– how sticky some of the problems were. On the issue of VAT Act exemptions, the issue appeared to be misinterpretation of the Act and different definitions of a 'bonded area' (which receives exemption).[22] Facing this discrepancy, the team decided to make a submission to the Inland Revenue Ruling Committee to clear up this interpretation. The team had also identified a potential location for a new zone with the requisite facilities for industries with high water and waste management needs (to address problem 5), located near Batticaloa in Erravur.

On the 16th December, all the teams were scheduled to meet and present to the Minister of Development Strategies and International Trade. The team had been advocating for higher-level attention to the work since October, noting that any reforms would require significant authorization and support. It was thus important that the Ministry of Development Strategies and International Trade (MODSIT) had asked the team to present their work to the Minister just a day before their regular check-in with the Harvard facilitators.

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[22] The Inland Revenue Department doesn't recognize bonded areas as being offshore. They only consider goods as exports once they have physically left the country. However, the transaction between a local manufacturer and a hub operator should be considered an export. As a result, local exporters are not getting their VAT refunds because their transactions with hub operators are not recognized as exports – and this is the problem.

At the meeting, the team presented all six problems they had identified and the Minster quickly honed in on the issue of exchange controls, mentioning that he had received a lot of complaints about this. He pointed out that a forthcoming Act would solve the matter, but the team remained concerned that the Act would not reflect the necessary changes. The Minister was also strongly interested in the initiative to support start-ups and asked for the team's strategy to address such issue. The team promised a strategy by early 2017. The Minster also shared concerns about the availability of land, the fact that most of Sri Lanka's special economic zones are full, and recommended locating the new zone near Trincomalee instead of Batticaloa.

Even with such challenging questions, the meeting was a boost for the team. They received a strong endorsement from a key authoriser and came away from the meeting feeling supported and given the green light to continue working.

The team met once more before the holiday period, on December 23 for its official mid-month check-in, with Harvard facilitators joining by Skype in Boston. Discussion focused on what rapid progress needed to be made in the New Year. The team said that the land for the zone could be acquired by March, but the infrastructure would take much longer and need budget allocation, which the Minister had instructed the Director General of the BoI to start examining. The team were somewhat confused as to whether they should change to Trincomalee after the Minister's comments, but decided to press on until given a clear instruction to change.

The team agreed that there was nothing left now but to implement. No more analysis, or surveys, or interviews, or research – simply the need to get on and do. And it was coming into clear view now how much of their success would rely on other agencies, so the team decided to review their ever-evolving stakeholder list.

## Eighth push

Little was done by any of the teams in the next two-week push, due to the holiday period. A sub-set of the C team met with the facilitator, and shared a task sheet that showed each step in the action plan with the responsible officer. For a team that had so far struggled to structure the work and manage the division of labour, this was a major step (see Figure 16). The sheet also demonstrated a new granularity of the required tasks – the result of steady but persistent process of refining the 'crude oil' of three months ago into the relative 'jet fuel' of highly targeted and actionable steps, with clarity of what is required from whom, and emerging consensus and political support – reflecting multiple layers of work and iteration.

The team was still waiting to receive a feasibility report from the Hydraulics Institute regarding the proposed site for the new zone in Erravur. Once that was received, the team would submit a Cabinet paper to get approval for the new zone and allocate the land to the BoI. Meanwhile, the proposals for a start-up incubator were going to the BoI Board for approval, and the team aimed to launch it by March. The team was also due to do the following: (i) meet with key Banks to discuss the exchange control issue and study the exchange control act, (ii) hold a stakeholder meeting with the Vocational Training Authority, BOI and other Associations, and (iii) meet the Deputy Director General of the Inland Revenue Department on the VAT issue. The team were still concerned that the real problem in regards the exchange control exemptions and the issue relating to VAT would not be properly addressed by the legal drafters without their intervention.

**Figure 16. Responsibility sheet**

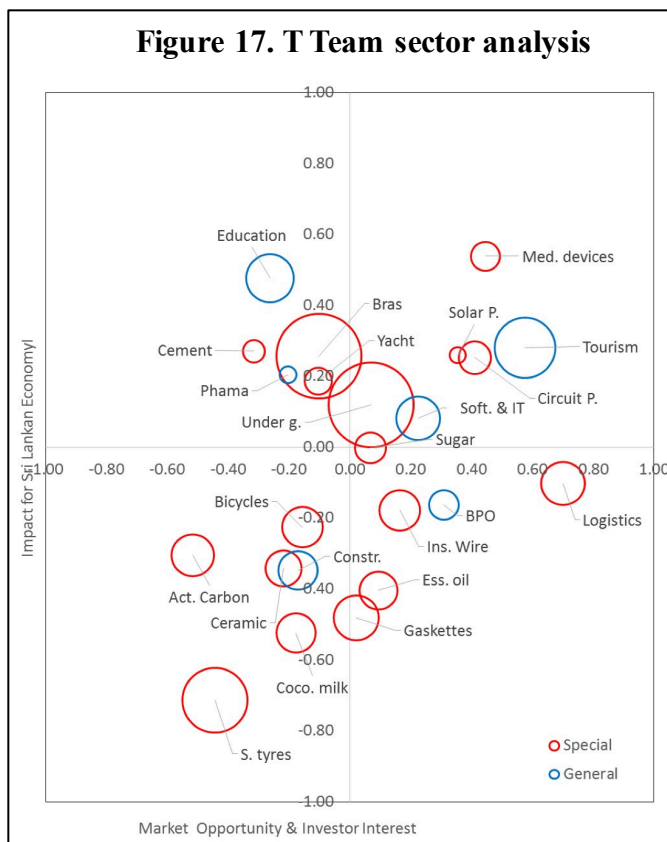| | Responsible Team Member | Deadline |
|---|---|---|
| **PROBLEM 1 - Simplification of the Exchange Control System especially in terms of transferring funds to make payments and also educating the banking system on the exchange control exemptions and facilities available to BOI firms** | Name removed for privacy | |
| Contact two Banks on the issue relating to Exchange Control exemptions | Name removed for privacy | 23-Jan and 25-Jan |
| Inputs from Mr. Jayatilleka on the issue raised by an investor on Exchange Control exemptions | Name removed for privacy | 23-Jan |
| Study and research on the Exchange Control Act | Name removed for privacy | 23-Jan |
| Make appointment with the Exchange Controller and if possible the Deputy Governor to discuss the issue | Name removed for privacy | TBD |
| **PROBLEM 2 - Issues faced by Hub Companies in relation to the VAT Act and other issues** | | |
| Meeting with Authoriser for his consent on the next steps in resolving the issues faced by Hub Companies | Team | 25-Jan |
| Draft letter to be sent to Sec | Name removed for privacy | 23-Jan |
| **PROBLEM 3 - Need to promote Sri Lanka as a destination for start- ups** | | |
| Appovl by the Baord for the MoU | Name removed for privacy | End of Jan |
| **PROBLEM 4.1 - Difficulty in obtaining as well as retaining semi skilled categories of workers in the manufacturing sector** | | |
| Stakeholder meeting with Vocational Training Authority, BOI and other Associations | Name removed for privacy | 23-Jan |
| Draft MoU in place for the setting up of the training facility to be finalized | Name removed for privacy | 23-Jan |
| **PROBLEM 4.2 - Need for improvement of technical skills and provide graduates with 3rd party certification such as CISCO to increase their employability** | | |
| Check on VTA website on the details of the certification | Name removed for privacy | 25-Jan |
| Feedback to LSEG | Name removed for privacy | TBD |
| **PROBLEM 5 - Non – availability of a Zone to support water based industries - Batticaloa** | | |
| Obtaining of technical feasibility report from the Lanka Hydraulics Institute | Name removed for privacy | 14-Feb |
| Meeting with Mr. Senarath to discuss possible actions taken by T team on this issue | Name removed for privacy | Done |
| Identification of other stakeholders whose support and approval will be required for the setting up and development of the Zone. | Name removed for privacy | 23-Jan |
| Submission of final draft Cabinet paper with regard to acquisition of land identified for the proposed industrial zone in Eravur Batticaloa to the Ministry of Development Strategies and International Trade. | Name removed for privacy | TBD |
| **PROBLEM 6 - Need for better coordination within the BOI in terms of granting approvals as well as appreciation at different levels of the investment  process and thereafter of the importance of looking after investors** | | |
| Meeting with BOI web developer | Team | 25-Jan |
| Inputs from the Harvard team on tiering system | Team | 20-Jan |
| Discussion of the Tiering system at the next team meeting | Team | 25-Jan |
| Testing the tiering system against available details of existing firms | Team | TBD |
| Present to the DG the tiering system for his approval | Team | TBD |

## Ninth push

The C team had a busy ninth push period. The period – from early to late-January – coincided with a visit from the head of Harvard CID, Professor Ricardo Hausmann. The team presented their progress and received positive feedback on the importance and relevance of the problems they had chosen, as well as the importance of the process of engaging the private sector and solving the problems.

The team met a few days later and the task sheet with responsibilities was already yielding dividends (it should be noted that this was a template created from within the team, not imposed from outside) and helping team members hold each other accountable.

Eager to get back on track in the New Year, and energised by the positive feedback from Minster and then Prof. Hausmann, the C team decided that its meetings with companies should become an ongoing process. They also decided to choose companies after meeting with another of the teams involved in the PDIA process (the 'T' team, which had been developing a sector targeting mechanism for the BoI to use). Despite the fact that all the teams participate in the same monthly workshop, the C team wanted to meet the T team to discuss which sectors they should focus on.

They also wanted the T team's input on the tier-ing mechanism they had developed for investor applications. Although the BoI does not have a mechanism based on objective criteria like this, and it may cause consternation about differential treatment, the team felt it was important to try and establish it.

The C team met the T team on 13th January and the T team shared their sector ranking analysis – a sophisticated model using multiple data sources the results of which indicate strategic new sectors that a) present a clear market opportunity and b) would have the most beneficial impact for the Sri Lankan economy (the upper right quadrant on Figure 17). The T team had also been preparing deep dive sector profiles for the most strategic sectors, and agreed to share them with the C team, as a way to inform the C team's list of companies to meet with. The meeting was also an opportunity for both teams to grasp the potential of the synergies between the work they were all doing – while the T team identifies strategic sectors to target, another team is developing outreach methods to find them, while the C team can lay the groundwork for a conducive investment environment. There was general agreement that the T team's analysis could also help the C team identify sectors needing strengthening (for the C team to then engage—to identify problems and solve them).



**Figure 17. T Team sector analysis**

Meanwhile, the C team's proposals for the tier-ing mechanism were met with some scepticism by members of the T team, who were unsure if it was correct to give preferential treatment based on the C team's criteria: previous experience, financial background, company profile, exports, background, employment, market share, and corporate structure. The T team argued that the only important information is an investor's financial background and that BoI shouldn't be discriminating based on anything else. At the end of the meeting, the C team decided to re-think the tier-ing system and discuss a different approach, and to take the list of sectors and identify companies to meet with in those sectors.

The ninth push period concluded in the usual facilitated team meeting and multi-team workshop. At the workshop the C team presented their progress to their peers (Figure 18).

# Figure 18. C Team progress after the ninth push

## WHAT HAVE WE DONE?

Interviews with 23 Enterprises and Chambers (including Star Garments Group, MAS Active (Private) Limited, Brandix Apparel (Private) Limited, London Stock Exchange Group, Oceanpick (Private) Limited, Expo Lanka (Private) Limited, Laugfs Gas Terminal, Okaya Lanka and Institutions such as JICA) in the following categories :

- **Foreign firms that attempted to invest through BOI but withdrew their interest**

- **Foreign firms that attempted to invest through BOI and did actually end up investing.**

- **Foreign firms that have never invested through BOI but are investing in neighbouring regions**

- **Local firms that are investing in their productive capacities**

- **Foreign firms that invested through BOI but closed within five years of operations**

*Our interviews with these various Enterprises brought a total of 55 problems that the investors face in Sri Lanka. From these issues we have identified 6 problems that we intend to address*

## PROBLEM 1

NEED FOR THE SIMPLIFICATION OF THE EXCHANGE CONTROL SYSTEM ESPECIALLY IN TERMS OF TRANSFERRING FUNDS TO MAKE PAYMENTS AND ALSO EDUCATING THE BANKING SYSTEM ON THE EXCHANGE CONTROL EXEMPTIONS AND FACILITIES AVAILABLE TO BOI FIRMS

**STEPS TO BE TAKEN**

- *Discussion with Head of Corporate Banking of two Banks (Bank of Ceylon and Sampath Bank) on the reasons as to why they restrict transferring of funds of BOI Enterprises.*
- *Study and research on the Exchange Control Act*
- *Discussion with Exchange Controller and the Deputy Governor of the Central Bank to devise possible ways to resolve the problem and request the Controller to communicate to Banks on the exchange control exemptions and facilities available to BOI firms.*

## PROBLEM 2

ISSUES FACED BY HUB COMPANIES IN RELATION TO VAT ACT AND OTHER ISSUES

**Issue 1 -** In terms of the Finance Act, Hub Companies are exempted from the payment of VAT. As such they are not able to register under the VAT Act and therefore not considered as zero rated which makes them liable to pay VAT on the inputs purchased in Sri Lanka

**Issue 2 -** Sri Lankan manufacturers on the sale of products to Hub Companies are not able to record such sales as export as the definition in terms of the Inland Revenue is not broad enough to cover the operations of the Hub Companies

**STEPS TAKEN:**
- *A discussion has been held with the Deputy Commissioner General, VAT of the Inland Revenue Department on his views on exempting Hub Companies from the payment of VAT*

- *Further interviews with Hub Operators such as Laugfs, Hayleys and APL was held in order to clearly understand the problem;*

- *Further Discussion with Officers of the Inland Revenue Department;*

**STEPS TO BE TAKEN:**
Based on the outcome of the interview the following steps to be taken;

- *Submission of a proposal for amendments to the Finance Act to the Ministry of Finance in consultation with and the under the authority of the Secretary to Ministry of Development Strategies and International Trade*

## PROBLEM 3

THE LACK OF PROMOTION OF SRI LANKA AS A DESTINATION FOR START UPS

**STRATEGY**
The possibility of establishing an incubator for Start- ups in association with SLASSCOM and ICTA who will be taking the lead role

**STEPS TAKEN:**
*Discussion between the Chairman, BOI and Vice Chairman, SLASSCOM on the possibility of setting up an incubator.*

**STEPS TO BE TAKEN:**

- *Submission of the proposal to Board for its approval*

- *Follow – up on the executing of an MoU with the BOI and the relevant stakeholders on the setting up of an incubator*

## PROBLEM 4.1

DIFFICULTY IN OBTAINING AS WELL AS RETAINING SEMI SKILLED CATEGORIES OF WORKERS IN THE MANUFACTURING SECTOR

**STRATEGY**
As a solution pertaining to Enterprises in the Zone it is proposed to establish a Vocational Training Facility at the BOI Zone in collaboration with the Vocational Training Authority and as a pilot project it is proposed to establish the first such facility at the KEPZ.

**STEPS TAKEN:**
- *Conceptual model for the Vocational Training Facility developed*
- *Approved obtained from the vocational and Technical training committee of in the Prime Minister's office*

**STEPS TO BE TAKEN:**
- *Discussion between BOI and VTA for the finalisation for MOU in this regard is scheduled for 23.01.2017*
- *Proposed to set up the facility by the end of March*
- *The facility is expected to provide;*

  (1) Short course on industry orientation

  (2) General courses for specific skills development as identified by the industry

  (3) Company/ trade specific training with Resource Personnel from the industry

  (4) Issue NVQ level certificate for those workers with industry skills gained on the job

  (5) Further training for those who have left the job at maturity.

## WHAT HAVE WE DONE?

## PROBLEM 4.2

NEED FOR IMPROVEMENT OF TECHNICAL SKILLS OF GRADUATES AND THE NON-AVAILABILITY OF 3RD PARTY CERTIFICATION SUCH AS CISCO FOR GRADUATES TO INCREASE THEIR EMPLOYABILITY

**STEPS TAKEN:**
- *Confirmation obtained that NVQ certification provides certification for IT qualifications*

**STEPS TO BE TAKEN:**
- *Feedback to Enterprises who raised concerns in regards the certification for IT qualifications.*

**PROBLEM 5**

NON – AVAILABILITY OF A ZONE TO SUPPORT WATER BASED INDUSTRIES

**STRATEGY**

Develop a Zone with water supply, treated wastewater disposal facility to ocean and solid waste management at Eravur, Batticaloa

**STEPS TAKEN:**

o  *Assessing of the Technical Feasibility of the Proposal, the study of which has been commissioned to Lanka Hydraulics Institute*

o  *Discussion with the Land Reform Commission on obtaining the leasehold rights of the land*

**STEPS TO BE TAKEN:**

o  *Appointment of an in-house team to work on the development of the Zone*

o  *Identification of other stakeholders whose support and approval will be required for the setting up and development of the Zone.*

o  *Submission of final draft Cabinet paper with regard to acquisition of land identified for the proposed industrial zone in Eravur Batticaloa to the Ministry of Development Strategies and International Trade.*

**PROBLEM 6**

NEED FOR BETTER COORDINATION WITHIN THE BOI IN TERMS OF GRANTING APPROVALS AS WELL AS APPRECIATION AT DIFFERENT LEVELS OF THE INVESTMENT PROCESS AND THEREAFTER OF THE IMPORTANCE OF LOOKING AFTER INVESTORS

**STRATEGY**

Establish a system whereby a **point person** will be appointed to coordinate all internal aspects of the process of establishing a BOI enterprise for priority companies. Priority firms will be identified through a **tier system** which will also be introduced. The tier system will include various criteria which will be given weights to identify priority firms.

**STEPS TO BE TAKEN:**

o  *Development of the tier system and test the model with the assistance of the Harvard team*

o  *Present the model to senior officials of the BOI for their comments and concurrence*

o  *Establish the model within the BOI*

The team's progress report was lengthy, and showed specific progress in all areas:

- On Problem 1 (complexity of the Exchange Control System), the team had learned that different acts had become barriers for investors, and that the Central Bank did not honour BoI exemptions. This revealed major coordination problems in government. The Minister had said that this issue would be solved through the new act, but the team decided continue addressing the problem as they were concerned that any new act would have the same limited impact of others (and would thus not address the problem effectively). The next step was to talk to the Central Bank about honouring BoI exemptions, and meet with whoever was writing the act to ensure the concerns were reflected in the new legislation.
- On Problem 2 (the VAT regime), the team had found definitively that the VAT Act failed to exempt Hub companies from VAT payments. The team had met with the Inland Revenue Department again and was informed that amendments to the VAT Act should be submitted via the ministry secretary by April 2017. If the team followed this timeline, their recommendations would be considered for inclusion in the new legislation.
- On Problem 3 (the lack of support for start-ups), SLASSCOM had submitted a detailed proposal for a new incubator to the BOI chairman. The proposal was due to be discussed at the next BoI board meeting. The team felt this incubator should be in Colombo to start off with, and reported that investors from Silicon Valley were interested in the idea. They were concerned about the risk of this initiative, however, given that government would incur start-up costs and need resources to ensure sustained activity. The team discussed options to mitigate such (including leasing the space to for-profit firms and entering into joint venture agreements around the use of space in the incubator).
- On Problem 4 (the difficulty of obtaining and retaining semi-skilled workers in the manufacturing sector), a proposal for the new vocational training facility had been accepted and the BoI Chairman now had to hold a meeting to sign a Memorandum of Understanding about this facility. The team did not have a date for this meeting, but was aware that they needed to know when it was happening to ensure it took place. Under the agreement, the BoI would provide the infrastructure and the training entity would provide training. The C team recognised the need to engage another team working on export promotion and engaging with vocational training providers to solve certification issues.
- On the second part of Problem 4 (the lack of third party certification), the team's research indicated that there was adequate certification available for IT graduates in Sri Lanka. They

were going to provide relevant information to companies who raised concerns about this issue (given that the firms may not have known about certification options).

- On Problem 5 (the lack of a suitable zone for water-based industries), the team reported that a feasibility study was still being carried out for Erravur. It was expected within three weeks. The identified land was 375 acres and the team was considering the potential of leasing it out. The team decided they should find out more about infrastructure and transport facilities in Batticaloa so they could answer potential investors' questions. They also wanted to approach firms who had noted the lack of suitable land for water-based industries to inform them of the Erravur option and to ask whether it was suitable and if they (the firms) would relocate provided required facilities were in place.

- On Problem 6 (the tier-ing mechanism to identify and fast-track priority investors), the C team responded well to concerns that their initial criteria risked disqualifying potentially good investors by setting 'the wrong bars too high'. They were encouraged to simplify the tier-ing concept into a simple binary 'fast-track' concept (where an investor or proposal is either fast tracked or not) rather than complex tier-ing, based on (a) the importance of the sector (is it a priority sector for Sri Lanka according to the T team's targeting mechanism?), (b) the quality of the firm (is it a potential partner? is it a real firm with adequate financial backing? is it incorporated in the industry?), and (c) the project – (how realistic is their timeline/estimates?).

After the workshop, the C team resolved to meet more of the other teams to discuss synergies. This revealed the way in which the multi-team PDIA process was delivering inter-team lessons and opportunities. The C team wanted to meet the export development team to discuss certification, given that its members were already doing some work on ICT start-ups and could help the C team coordinate with the banks. The C team wanted to meet the team working on investment promotion to discuss the country's pitch to be a logistics hub, and to learn issues that the I team had identified as worrisome to potential investors. The C and T team also needed to share data on interagency coordination and approvals, and the list of targeted sectors, so the C team could promote training in these sectors. The C team also planned to meet the team working on the Kuchchaveli tourism project, as the Tourism Board also faced a 'retraining' issue and the team working on such offered to share its list of potential solutions.

To cap off a productive ninth push, and building on the lessons and engagement described here, the C team posted an updated task list.

## Tenth push

In January, the C team was invited to the Prime Minister's Office to present their work and proposals to the head of the Policy Development Office (PDO). This was a significant moment for the team. Having been concerned about accessing senior-level political clout at various times, this was an opportunity to convince very high level decision makers of the importance of their work, and to ask for support. It was also an important moment for more senior figures in government to see the outstanding work that can be done by empowered officials (in a relatively short period, and while still doing other work).

The team gave a short, general presentation and then went through each problem with the PDO staff. The head of the PDO asked what help they needed in each case. He asked that the team submit a note to him by the end of the week via their Director General, requesting the Official Committee take this up. On the VAT Act, the team explained that the proposed amendment was

sent to the Finance Ministry but the team had yet to meet with Finance and ensure the ideas would be incorporated into amendments (to exempt Hub companies from VAT). The PDO chief asked the team to send him a copy of the amendment, through the Director General in the BOI (following established lines of hierarchy).

Overall, the meeting was another boost for the C team. It gave them the opportunity to secure support for their work from senior levels of government. Later in the week, the team met with the Director General of BoI to discuss the documents that were to be sent to the PDO, and to ensure these documents were rapidly dispatched.

After a very productive meeting, however, the process became strangely stalled at the follow up stage. There is a chain of communication along which formal communications between the BoI and the PDO must be made (via the Ministry), and the response got stuck along this chain. As a result, and despite several direct phone calls from the PDO to the BoI, it took several weeks before the documents reached the PDO. This blockage became a source of considerable frustration for the team, and highlighted the degree of bureaucratic drag they experience on a day to day basis in their work. It also meant that other teams in Launchpad could not meet the PDO as the PDO only wished to engage one team at a time.

Meanwhile, in their meetings, the team decided to revive their work on the information sharing platform and hoped to meet the web developer. One of the team members was also able to call on the firms interviewed to clarify the VAT issue before finalizing the document for the PDO. The team member received a very surprised but positive response from the firm that the concern raised was still on the team's radar. The same member clarified that the Inland Revenue act didn't recognize free zones as offshore locations, but the finance act did.

## Eleventh and final push

In mid-February a facilitator came to Colombo to check in with the team, which had again lost momentum, possibly as a result of the communication problems and general frustration they were experiencing in following up with the Prime Minister's Office.

The facilitator made it clear to the team that the 6-month Launchpad cycle was about to come to a close—and would formally end when the CID facilitators returned in mid-March. The team therefore had a hard deadline to work towards. In the following few weeks, the team met regularly to push hard and complete as much of their work as possible before this deadline. Attendance at meetings picked up, and eyes focused on the final push to the finish line. Between late February and early March, a large proportion of the work involved securing meetings between the right authorisers. This was taking time, and illustrates the extent to which even rapid progress on solving problems still has to clear various final bureaucratic hurdles if it is to succeed:

- On Problem 1 (Exchange Control exemption), the team had met with the Central Bank and found that they agreed with each other on the need to include a BOI exemption in the directions to commercial banks. For this to happen, the BoI Chairman needed to send a letter with the request to the Exchange Control Department at the Central Bank. The Bank would then send out instructions to the commercial banks to honour this exemption. The team planned to meet with the Chairman to arrange this. The team also undertook to update the relevant companies once the letter had been sent to the Central Bank.

- On Problem 2 (VAT exemption), the team was finally making progress. After finally getting the written follow-up to the Prime Minister's Office unstuck (it had been stuck in the Ministry Secretary's Office), the team finally received a commitment from the PDO that the proposal would be tabled at the Officials Committee for Economic Management (OCEM – a powerful committee that sits under the Cabinet Committee: for Economic Management). This represented a huge step forward, as the OCEM has the decision-making power to operationalise a solution. The team submitted the required document and were informed that the issue was on the agenda for early March.
- On Problem 3 (the SLASSCOM start-up incubator proposal), the team needed to get the issue included on the agenda of the Board of the BoI, but were struggling to follow up effectively with the Director General to make this happen.
- On Problem 4.1 (the Vocational Training issue), a representative from the PDO had followed up with the Director General and contacted the BoI Chairman to confirm a date to meet and sign the MOU. This represented further value gained from the PDO meeting, underlining the importance of connecting problem-solving activities vertically and horizontally. At the meeting, the Chairman indicated that he wanted to execute this on a larger scale, and proposed locating the facility at a building currently used as a training site. This would require a procurement by BoI, or the formulation of a partnership, and the team was asked to investigate the details of both options.
- On Problem 4.2 (certification), the status was the same as previously: the team had established that the Vocational Training Institute offered several relevant training programs, and needed to revert to the companies and provide them with this information.
- On Problem 5 (creating a zone for industries with heavy water requirements), the team was still waiting for payment to be made to the company performing the feasibility study. Once this was complete, the ensuing step would be to prepare and send a proposal to the Ceylon Environmental Authority.
- On Problem 6 (fast-tracking priority applications), the team had crystallized a proposal. They agreed that the priority sector identification would be based on the sectors identified by the Targeting Team. The profile of the firm would be based on experience and expertise. The evaluation committee would then be instructed to analyse the candidate's financial status. The team further decided to include measures to assess a firm's potential for backward linkages/attracting other firms to Sri Lanka, and criteria on the project's level of innovation. The next step was to present these proposals to the Director General.

The team had also not given up on their quest to meet the BoI web developer and discuss ideas for an online information sharing platform for investors. The team engaged the head of the BoI Promotions Department, and set up a meeting. At the meeting, the team gave the developer input on what to include on the site, and followed up with written outlines.

## Status as at the final Launchpad workshop

In mid-March, the final Launchpad workshop took place in Colombo. This workshop marked the end of the 6-month period over which the 5 teams had undertaken their work. This would also be the point at which participants 'graduated' from the process, to reflect the learning that had taken place in terms of problem solving and practical implementation. It was a moment for the C team to stand back and assess how far they had come.

Each team had made different progress after 6 months. None of the teams had achieved

everything they set out to achieve, but all had achieved surprising results. In some ways, despite being consistently unsure of its progress and often low on momentum and motivation, the C team came closest to completing the work it cut out for itself. They presented their status in a set of Powerpoint slides shown in Figure 19, which showed that all the problems were either effectively addressed or close to solution:

1. **Exchange control** – the letter to Central Bank was still yet to be sent, but the Central Bank had given assurances that the required exemptions would be honored.

2. **VAT exemption** –the proposal had gone to the OCEM, which was considering approval.

3. **Incubator** – the team's proposals had been discussed at the BoI Board-level. The Board had asked for further clarification on several issues, which the team was addressing.

4. **4.1 Vocational Training** – the proposal to set up a new Vocational Training Facility (in conjunction with the Vocational Training Authority) had been approved by the Chairman of the BoI, who also wanted to implement the idea at a larger scale. The team felt sceptical about the work required to undertake this idea at a larger scale, and resolved to discuss with the Chairman to propose to start small and then scale up.

   **4.2 NVQ certification** – having learned that the existing Vocational Training Authority offers the relevant CISCO qualifications, the team still had to write to the London Stock Exchange and other relevant firms to inform them.

5. **Water based industrial zone** – the feasibility report recommended the identified land be used as a zone for industries with heavy water usage. The remaining step would be to initiate the land release process, which the team expected to take until April.

6. **Fast track applications for priority sectors** – the team had presented a new proposal to the Director General, who asked the team to develop the proposal further but committed to approve it and send it to the screening committee.

**Figure 19. C Team Presentation at Final Workshop**

## WHAT HAVE WE DONE?

Interviews with 23 Enterprises and Chambers (including Star Garments Group, MAS Active (Private) Limited, Brandix Apparel (Private) Limited, London Stock Exchange Group, Oceanpick (Private) Limited, Expo Lanka (Private) Limited, Laugfs Gas Terminal, Okaya Lanka and Institutions such as JICA) in the following categories :

- **Foreign firms that attempted to invest through BOI but withdrew their interest**

- **Foreign firms that attempted to invest through BOI and did actually end up investing.**

- **Foreign firms that have never invested through BOI but are investing in neighbouring regions**

- **Local firms that are investing in their productive capacities**

- **Foreign firms that invested through BOI but closed within five years of operations**

*Our interviews with these various Enterprises brought a total of 55 problems that the investors face in Sri Lanka. From these issues we have identified 6 problems that we intend to address*

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**PROBLEM 1**

ISSUE 1 – Need for the simplification of the Exchange Control System especially in terms of transferring funds to make payments

ISSUE 2 - Educating the banking system on the Exchange Control exemptions and facilities available to BOI firms

**STRATEGY**

- *Discussion with Head of Corporate Banking of two Banks (Bank of Ceylon and Sampath Bank) on the reasons as to why they restrict transferring of funds of BOI Enterprises.*

- *Discussion with Exchange Controller and the Deputy Governor of the Central Bank to devise possible ways to resolve the problem and request the Controller to communicate to Banks on the exchange control exemptions and facilities available to BOI firms.*

**CURRENT STATUS**

- *Discussions held with Sampath Bank as well as the Additional Exchange Controller and a letter is to be sent to the Exchange Controller to inform to instruct the Banks to honour the Exchange Control exemptions granted by the BOI.*

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**PROBLEM 2**

ISSUES FACED BY HUB COMPANIES IN RELATION TO VAT ACT AND OTHER ISSUES

**Issue 1 -** In terms of the Finance Act, Hub Companies are exempted from the payment of VAT. As such they are not able to register under the VAT Act and therefore not considered as zero rated which makes them liable to pay VAT on the inputs purchased in Sri Lanka

**Issue 2 -** Sri Lankan manufacturers on the sale of products to Hub Companies are not able to record such sales as export as the definition in terms of the Inland Revenue is not broad enough to cover the operations of the Hub Companies

**ACTIONS EXECUTED:**
- *Discussion with the Deputy Commissioner General, VAT of the Inland Revenue Department on exempting Hub Companies from the payment of VAT*

- *Further interviews with Hub Operators such as Laugfs, Hayleys and APL was held in order to clearly understand the problem and Officers of the Inland Revenue Department;*

**CURRENT STATUS:**

- *Submission of an Issue Paper to the Officials Committee which has been referred to the Investor Facilitation Committee to be discussed at their meeting today*

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**PROBLEM 3**

THE LACK OF PROMOTION OF SRI LANKA AS A DESTINATION FOR START UPS

**ACTIONS EXECUTED:**

- *Discussion between the Chairman, BOI and Vice Chairman, SLASSCOM on the possibility of setting up an incubator for Start- ups in association with SLASSCOM and ICTA who will be taking the lead role*

- *Submission of the proposal to Board for its approval*

**CURRENT STATUS**

- *The Board has raised certain questions on the model for the incubator which will have to be clarified prior to approval being granted by the Baord*

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**PROBLEM 4.1**

DIFFICULTY IN OBTAINING AS WELL AS RETAINING SEMI SKILLED CATEGORIES OF WORKERS IN THE MANUFACTURING SECTOR

**SOLUTION**

As a solution pertaining to Enterprises in the Zone it is proposed to establish a Vocational Training Facility at the BOI Zone in collaboration with the Vocational Training Authority and as a pilot project it is proposed to establish the first such facility at the KEPZ.

**ACTIONS EXECUTED:**
- *Conceptual model for the Vocational Training Facility developed*
- *Approval obtained from the vocational and Technical training committee of in the Prime Minister's office*
- *Discussion between BOI and VTA for the finalisation for MOU*

**CURRENT STATUS:**

- *Commence the process of setting up the Vocational Training Facility*

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**PROBLEM 4.2**

NEED FOR IMPROVEMENT OF TECHNICAL SKILLS OF GRADUATES AND THE NON-AVAILABILITY OF 3RD PARTY CERTIFICATION SUCH AS CISCO FOR GRADUATES TO INCREASE THEIR EMPLOYABILITY

**ACTIONS EXECUTED:**
- *Confirmation obtained that the Vocational Training Authority that it provides certain courses which are CISCO certified*

**CURRENT STATUS:**
- *Feedback to Enterprises who raised concerns in regards the certification for IT qualifications.*

**PROBLEM 5**

NON – AVAILABILITY OF A ZONE TO SUPPORT WATER BASED INDUSTRIES

**SOLUTION**

Develop a Zone with water supply, treated wastewater disposal facility to ocean and solid waste management at Eravur, Batticaloa

**ACTIONS EXECUTED:**

○ *Assessing of the Technical Feasibility of the Proposal, the study of which has been commissioned to Lanka Hydraulics Institute*

○ *Discussion with the Land Reform Commission on obtaining the leasehold rights of the land*

**CURRENT STATUS**

○ *The Report recommends having a the area for setting up a Zone to house high water consuming and waste water discharging industries*

○ *Discussions being held today for the release of the land*

**PROBLEM 6**

NEED FOR BETTER COORDINATION WITHIN THE BOI IN TERMS OF GRANTING APPROVALS AS WELL AS APPRECIATION AT DIFFERENT LEVELS OF THE INVESTMENT PROCESS AND THEREAFTER OF THE IMPORTANCE OF LOOKING AFTER INVESTORS

**SOLUTION**

Establish a system whereby a **point person** will be appointed to coordinate all internal aspects of the process of establishing a BOI enterprise. These Enterprises will be identified through a 3- Step Process.

**ACTIONS EXECUTED:**

○ *Development of the model with the assistance of the Harvard team*

○ *Presentation of the model to Director General of the BOI*

**CURRENT STATUS**

○ *Presentation of the model to the senior officials of the BOI for their comments and concurrence*
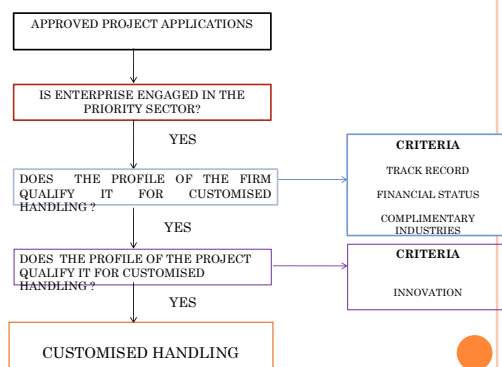


THANK YOU

After presenting this progress, the team talked about including their problem-solving work on the BoI website (issues undertaken and resolved) to demonstrate the BoI's capacity and commitment to be responsive to investors and solve problems.

While some of the teams (who were not as close to achieving their goals) chose to continue the PDIA process into a second 6-month phase, the C team decided not to continue into a Phase 2 with new problems. However, the team wanted to finish the job on those problems that were still outstanding, and resolved to do so.

## Capturing learning after six months of work

None of the six issues that the C team worked on was clearly known or understood to the BoI in September 2016. But 6 months later they had been identified as important to the BoI's core customers – investors and firms – and had been analysed, understood and addressed (with different, but always advanced levels of completion, being either solved or close to resolution). Although no-one would argue that these six issues are the only problems in Sri Lanka's investment climate, or that solving them will unleash an avalanche of investment (domestic or foreign), the problems nevertheless represented genuine and significant pain points experienced by the private sector – problems that were holding firms back and making it harder to do business. They were real and practical, not abstract measures.

Apart from addressing these real issues, a good outcome in itself, two other results were

noteworthy after this six-month period:

- First, the firms that the team reached out to now perceive that they are served by a government (represented in this case by the BoI) that is interested in, and responsive to, their problems (and which takes action to resolve those problems, and then follows up to talk about it). This *relational* dimension, much harder to capture in any metric, deeply affects the confidence that business have that they can flourish under this climate and with this government as a partner. It is a hugely valuable outcome of such work, and the hope is that the effectiveness of the approach could influence the BoI to take a more listening, engaging and responsive posture.
- The second result is perhaps the most important of all. So much of the thought and philosophy underpinning the PDIA approach is the acknowledgement that external interventions or expertise cannot solve a country's or a government's problems. Only the country or the government itself can do that. To do so, however, they need capability, and the most valuable outcome of work of this nature is the learning that the team gains in the process (about new capabilities). It is more important than the result (in fact failure is often the best teacher), and will enable the individuals and the institution to tackle similar problems effectively in future, without the need for external support.

To capture learning, CID gave the team a brief individual survey designed to assist self-reflection and capture lessons learned. It started by asking if any of the team had done work like this before. Most answered "no", or that they had only done something like this as part of an academic exercise, never as part of their practical work. The one exception was a team member who had worked within the Investor Response Unit.

Asked what they had learned about the substance of the work, responses highlighted "The need for constant dialogue with investors to understand operating environment challenges faced by them and take steps to address them", and "The importance of engaging with investors". Responses also highlighted learning about problem identification, "the step by step approach to problem solving" and "carving out solutions".

A third question asked what the team members had learned about their colleagues. Several responses emphasized that their colleagues are "committed and capable", that "each team member has their own strengths and capabilities and by working together it is possible to create new things", and that "Different perspectives drawn from diverse disciplines of team members makes it a more wholesome exercise ". One response also diplomatically pointed out that "Not all members may have time to actively contribute."

The next question asked the team, 'what did you learn, about the potential of your organization to produce meaningful products quickly?' Answers were mixed and interesting. "Procedures, processes and lack of resources in most instances slow down the speed of delivering outputs," said one. Others focused on the latent capability that exists: "The capability has always been existing within". "The organisation has the expertise in all the fields required for investment facilitation", "if armed with a pool of skills and expertise and led and coordinated towards focused goals." "We have many abilities that we have not used."

The next question asked team members what they learned about themselves. Responses were again varied and encouraging: "The exercise has been empowering as I was able to learn new information and meet new people. I have also learnt the importance of managing time"; "[M]uch can be accomplished by breaking up the issues to be addressed by assigning timelines and

sharing the workload with the team's assistance"; "I have been always keen on analytical approach to problems solving and this exercise has enriched this approach".

The final question asked team members what should be the next step with the work. Here, consensus was clear: All agreed that they wanted to complete the work: the "remaining goals should be completed." But they all also agreed that "The BOI needs to set up a system of engaging investors as on- going process in order to resolve the issues raised by them without delays." Another said the BoI needs to "set up a mechanism for this exercise as an ongoing process. The entire process should be made part of the organizational culture and key outcomes and methodologies need to be institutionalized."

**To conclude (for now)**

These responses, and the status of the work at 6 months, indicate that this is work in progress and has not yet concluded. This is consistent with the idea that complex challenges are not achieved in one big step or in short exercises. Instead, complex problems are solved through tight iterations of action that generates learning and engagement—both fostering the emergence of new capabilities, ideas, and solutions to pressing problems.

As introduced, the PDIA approach focuses on promoting emergence of novelty in the face of complex and complicated challenges. In other words, creating luck by structuring aggressive, iterative preparation and generating new opportunities. The C team has already benefited from its preparation and found itself able to take advantage of surprising opportunities. The challenge is to keep this progress going, and to ensure that the lessons learned about fostering such progress stick in future.

Beyond the PDIA process, however, the challenge will be to take lessons about what made this process work and institutionalize such in other areas of Sri Lanka's policymaking and implementation system. This challenge involves ensuring that government recognize the kind of rules and structures needed to empower its people to facilitate and even lead adaptation in the economy (needed to achieve diversification goals). From experience to date, various PDIA process structures seem to provide examples of such rules—having facilitated progress with the C-team activities. These include the focus on problems as drivers of action, and the repeated iterative process (involving action with check-in reflections) intended to promote action learning. These procedural rules create conditions for what theorists call a "'self-organizational' process, that is manifest in 'incremental innovation' and 'learning by doing,'" and "approximates weak emergence."[23]

This 'self-organizational' process is what C-team members refer to when mentioning the empowerment they have experienced in this targeting exercise. It is a process that is undeniably fostering progress in targeting for economic diversification in Sri Lanka. It is important to recognize that "none of this takes place in an institutional vacuum,"[24] however; continued progress will depend on the degree to which Sri Lankan leaders recognize process rules they need to change to keep momentum going.

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[23] Foster, J. and J. S. Metcalfe (2011). Economic emergence: An evolutionary economic perspective. *Journal of Economic Behavior and Organization, page 427*.

[24] Foster, J. and J. S. Metcalfe (2011). Economic emergence: An evolutionary economic perspective. *Journal of Economic Behavior and Organization, page 427*.