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## Interdependency Among Target Populations – With Reference to the Sri Lankan Foreign Direct Investment Policy Reforms in 2017

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**ABSTRACT:** Public policies which have been shaped by implementing Social constructions on target population have a certain degree of impact on the success of the policy process of it. But when there is a correlation and interdependence on different target groups it is a duty of the policy maker to consider those emerging situations. Following Schneider and Ingram, target population has received wide attention in the policy implementation literature. However, scholars have not given the attention or not developed theoretical frameworks regarding the social constructions of interdependence between target populations. This study therefore, improves the Schneider and Ingram's theory by expanding into an another level of social construction. Sri Lankan Foreign Direct Investment policy design process and recent legal amendments to the policy have been examined as a case study. This research carries out empirical data survey and qualitative research methodology. The results underscore the importance of considering interdependence of the target populations in the policy process, implications of the findings and a future research agenda.

**KEYWORDS:** *Social Construction, Target population, Law Reforms, Foreign Direct investment*

### I. INTRODUCTION

Target population is a concept from the policy design literature that directs attention to the fact that policy is purposeful and attempts to achieve goals by changing people's behavior. (Helen Ingram, 1991)

Policies typically carve out certain populations to receive benefits or burdens and often embed positive or negative social constructions of the targeted groups. These constructions will be useful to grant or reduce the benefits to those categorized populations. It depends on the necessity and the nature of that policy. But it can be a question of the law of equality. Policies always not serving to all the people at one time. Some policies will be targeting special target groups with the intention of development. But policy makers have to have a solid logical reasonable base on it. As Lindblom says, policy is whatever government choose to do or not to do. They organize society and rendering services to the people of that society. But Social construction of target populations can positively or negatively affect the policy design and it will force to change the policy too from time to time. There are specialized policy planning groups which are leading the policy formulation.

FDI strengthening policy assumed by the state and policy makers enable the international investors to integrate into the local market and expand the production by using local resources. Variety of economic theories compete for preeminence as ways of achieving the goals. Investment theories have been guided by different theories time to time.

Classical theory generally views a market economy as a self – adjusting mechanism. In the other words this theory relies on the free movement of prices to counter both recession and inflation. Keynesian theory believes that the economic instability was a product of fluctuations in demand. Both unemployment and lower wages are reducing the demand for goods. Only government could take the necessary countercyclical steps to expand demand by spending more money itself and lowering taxes. Also some economics argue that long term sustainability is the key factor of the investment policy and they believe that the free market is better equipped than government to bring about lower prices and more supplies of what people need. High Taxes penalize the hard work, creativity, investment and savings. Government should facilitate the trade by formulation of better policies.

This study focuses on the investment policy of Sri Lanka and public policy design process of the policy design. Specially it will be looking at the social construction of targeted populations by the time of policy designing. The purpose of this qualitative case study was to examine the Sri Lankan FDI policy design process. This study examines how policy actors in Sri Lanka socially constructed citizens while designing investment legislation. Additionally, this study identifies the important policy tools of this policy design and the impacts of the politics in

selecting the tools of the policy design. This research will examine the social construction of the target population with regard FDI policy of Sri Lanka. Further it will study how the designed policy maximizing their political interest by utilizing Laws and Regulations.

#### A. **Significance of the Study**

*To my knowledge, most of the studies on investment legislation studies do not examine the policy design process. This process tolerates for a better understanding of the social constructions used in order to justify and provide benefits and burdens to target populations. Thus, this study contributes to a theory of social construction of target populations by examining how government legislative body socially constructed people in the design of the investment policy.*

#### B. **Focus of the Study**

There was a self-imposed delimitation in order to focus the scope of this study. This study will focus on the Sri Lankan FDI Policy Process. I limited the case to Sri Lanka because its policy has fragmented due to the regime change in an election. This study focuses on the considerable legislative changes of the Investment policy that has been done by the Government in 2017 and amending previous FDI policies. This choice was necessary to get an accurate snapshot of this particular policy design and to narrow the focus of the research.

#### C. **Content of the Study**

The First part of this paper dealing with the Sri Lankan investment policy patterns and changes. Specially, which factors have been involved in Sri Lankan economic policy formulation process and the advent of new governance paradigm into Sri Lankan FDI Policy in 2017.

Second part of the paper will be looking at how policy design has been affected by the theory of social constructions of target populations. It will be examining how the investors' social construction has changed by economic policy after the changes were implemented in the Investment policy after 2017 and the level of allocations of benefits and burdens on investors and the power of politics

Third Part of the paper will be discussing why some groups are advantaged more than others independently of traditional notions of political power and how policy designs reinforce or alter such advantages.

Finally, it will be focusing on why some groups are interdependence on each other and how it is affecting to policy formulation. The paper concludes that, targets groups are interdependent. Therefore, policy actors should consider the all the other groups also rather focusing only on the targeted group that want to be advantage. Then only it would make the better path to get the utmost benefit of the policy design.

## II. METHODOLOGY

This paper draws upon Schneider and Ingram's (1993; 1997; 2005) policy design framework to identify how the social construction of target populations shapes the diffusion of American criminal justice policy innovations. The policy design framework provides a systematic approach for thinking about how the design of policy shapes patterns of policy adoption

Further this study focuses on the Sri Lankan Foreign Direct Investment policy by following case study method. I have reviewed the annual reports of the Central Bank of Sri Lanka, Easy Doing Business rankings, and various scholars' articles on this theory and applications. Also I have examined legislative histories, statutes, guidelines, and analysis of the contained therein. Specially, I have created an special insight by expanding the social construction behavior within the Sri Lankan context.

### II. POLICY DESIGN AND THE SOCIAL CONSTRUCTION OF TARGETS

Policies reflect the future vision of the government. Policy formation can be based on different theories. Once, Lasswell said that Politics is who get what, when and How? (Schneider & Ingram, 1993) Social constructions of target populations gives a comprehensive answer for this question. Understanding elected officials behavior and why are they supporting or discouraging targeted group is very important. Schneider and Ingram argue that the social construction of target populations is an important factor that influence the policy agenda and the selection of policy tools as well as the rationales that legitimate policy choices. (Schneider & Ingram, 1993)

Policy Design perspective is unique as it incorporates the importance of human nature and its effects on policy formation as well as recognizing that a policy can reflect different theories at different times (Schneider & Ingram, 1994) Through an analysis of the agents (those who implement the policy) and its "targets" (those at whom the policy is directed), a more complete understanding is formed about the nature of policy, its goals, and its outcomes (Schneider & Ingram, 1990) Social construction of target populations can powerfully influence to the public officials and shapes the policy design. Policy sends messages about what government is supposed to do, which citizens are deserving and what kind of attitudes and participatory patterns are appropriate in a democratic society. (Schneider & Ingram, 1993) The policy message can be different on the behavior of each target group.

Schneider and Ingram's policy design model provides four categories for understanding the distribution of policy benefits and burdens. They are the advantaged, the contenders, the dependents, and the deviants.

	Described positively	Described negatively
Powerful	<i>advantaged</i> , treated positively in public and receiving benefits publicly	<i>contenders</i> , treated negatively in public but negotiating benefits privately
Powerless	<i>dependents</i> , treated positively in public but unable to mobilise to negotiate benefits	<i>deviants</i> , treated negatively in public and punished by policy

Source: (Schneider & Ingram, 1993)

**A. The advantaged group**

*They positive and they have strong political power. They can acces to political leaders to fulfill their needs. They are viewed by society as deserving and intelligent; policy tools will emphasize “capacity building, inducements, and techniques that enable the target population to learn about the results of its behavior and take appropriate actions on a voluntary basis” (Schneider & Ingram, 1993, p. 339).*

**B. Contenders**

*Contenders have strong political power but their status are negative. They can clearly influence to the political agenda of the country. When policy benefits are given to contenders, they are often masked while burdens are overstated even though their overall impact is limited (Schneider & Ingram, 1993)*

**C. Dependents**

*Dependents are positive but powerless. Benefits for this group are very rule oriented, Benefits, are undersubscribed (Schneider & Ingram, 1993).*

**D. Deviants**

*Deviants are Powerless and negatively constructed by society. When gains are made, political leaders justify their actions by framing the benefits as unavoidable (Schneider & Ingram, 1993). Burdens are oversubscribed and compliance to policy is ensured through coercion, punishment, or force. These categories are not stagnant. Movement readily occurs when support and power are altered. (Hogan, 1997)*

Finally, Schneider and Ingram describe the relationship between reelection and social construction of a policy's target population. They point out that social constructions become part of the reelection calculus when public officials anticipate the reaction of the target population itself to the policy and also anticipate the reaction of others to whether the target should be the beneficiary (or loser) for a particular policy proposal . . . (Schneider & Ingram, 1993, p. 2) .

According to Schneider and Ingram politicians—almost constantly thinking of reelection—are often influenced by how they believe different groups will receive their actions (Hodge, 2018). Therefore these all calculations are doing with their own consent. here are strong pressures on public officials to provide beneficial policy for powerful, positively constructed target populations and to devise punitive, punishment oriented policy for negatively constructed groups. Policy send strong alert to the populations about what government is looking to do by implementing the policy. It reflects the future intentions of the government. But the nature of the alert could be vary to group by group since their needs and positions are differ from the other groups.

### III. LITRETURE REVIEW

*The theory of social construction of Target populations*

Researchers have focused on the targets of public policies to gain insights into how the definition of public problems shapes the design of public policies. Studies of the social construction of public problems have observed that the targets of innovations themselves shape patterns of political decision-making (Donovan 2001; J. Nicholson-Crotty and S. Nicholson-Crotty 2004; Schneider and Ingram 1993; Schneider and Ingram 1997; Schneider and Sidney 2009; Wilson 1973).

Public Policies can create distinctive clusters (Groups) that did not previously exist. . . . . (Schneider and Ingram; 1995) Policy making dynamics incorporate policy entrepreneurs, interest groups, social movements, agencies and elected officials as well as their staffs and others who have a more direct role in determining policy designs. (Paul. A. Sabatier, 2014) Grame Boushey (2012) found that state legislations that provide benefits to positively constructed groups and penalties to those negatively constructed is likely to diffuse faster than if benefits and penalties were distributed the other way round.

Policy Design Process is the state legislature engages in a policy design process, which are the steps to adopting and implementing a policy. Ingram and Schneider (1993) defined the policy design process as, “the elements found in the content of policy that affects target populations and other citizens” (p. 71). Additionally, policy design reflects the various decisions of many different people (Ingram & Schneider, 1993). Schneider and Ingram

(2008) noted that social construction develops by the use of symbols, interpretation, and discourse in society. Target populations, or groups of people, are shaped by social constructions.

The target population is a group of people that receive benefits and burdens from policy. Ingram and Schneider (1993) defined target populations that benefit as a group embodied within a policy that have social relevance and political power, which includes large size, mobilization, or resources. Likewise, target populations that receive burdens are seen as having less political power, resources, and social relevance (Ingram & Schneider, 1993).

Social construction theory uses a two-by-two taxonomy to divide target populations into four groups based on strength (political power) and deservingness: Advantaged, Contenders, Dependents, and Deviants. Advantaged are both politically strong and constructed as deserving; Contenders are politically strong but constructed as undeserving; Dependents are constructed as weak but deserving; and Deviants are constructed as weak and undeserving. Though the 2 X2 taxonomy leads to four categories, it is also possible for groups to be “between categories” as society struggles over which social construction of many competing ones will dominate (Schneider and Ingram 1997; Pierce et al. 2014; and see several chapters in Schneider and Ingram 2005).

Schneider and Ingram (1997) argue that, within a degenerative democratic system, policy makers tend to shape policies based on these social constructions and how voters perceive each of these groups. For example, during elections, candidates tend to focus their campaigns on policies that satisfy advantaged groups, such as business owners and the middle class, or design policies that put burdens on deviant groups, such as criminals. The reason the candidates do this is because advantaged groups are politically strong, and they are seen as deserving; thus, providing them benefits is accepted by the public and can provide gains for politicians since these groups are powerful (Schneider and Ingram 1997: 108).

Contenders tend to be politically strong, but they have bad reputations. Putting burdens on Contenders and openly helping them are both politically risky; thus, benefits to these groups will be hidden (deceptive) and effective burdens rare (Schneider and Ingram 1997: 116).

Schneider and Ingram (1997) are ultimately concerned with actual outcomes of policy rather than with what may appear to be, or are stated as, the effects of policy. Contenders are target populations that are powerful yet negatively constructed. Public officials will give the benefits to them when their largesse is concealed from the public view, yet fear of political fallout drives these officials to inflict policy burdens on contenders when public interest is relatively high.

### **III. FOREIGN DIRECT INVESTMENT (FDI) POLICY OF SRI LANKA**

#### **A. Who is the Targeted Group of Foreign Direct Investment (FDI) Policy of Sri Lanka?**

Having identified that Sri Lanka needs high levels of FDI to meet its growth targets, several initiatives have been taken by the government to promote and facilitate sustainable investment. (Sri Lanka (2017) 57th Meeting of the Asia Pacific FDI Network, Thailand)

Currently, the BOI is following BOI regulation No.2 of 2006 when granting approvals and incentives until a new investment law and incentives are formulated. Some of the current incentives are listed below. Potential investors are encouraged to contact the BOI directly for information as the incentive structure is undergoing changes (Investment Climate Statement- 2016).

We propose to phase out tax holidays, which have been the main traditional incentive offered to investors, and switch to other forms of efficiency improving incentives. The new investment framework will ensure policy coherence and consistency, and streamline procedures to improve the overall business climate and attract FDI (The changing face of A Dynamic Modern Economy- 2017).

The 2015 Global Competitiveness Index points to three critical areas where reforms are needed: 1.Strategic economic sectors (in particular energy sources and power generation, textiles, pharmaceuticals, and small and medium-size enterprises), which must be opened up to competition by removing bottlenecks and barriers to entry; 2.Labor markets, which should be made more flexible and hence more efficient in making use of all available human capital; and 3.Public administration, which must be overhauled in order to implement structural reforms effectively.

#### **B. Evaluation of the FDI policy in Sri Lanka**

Foreign Direct Investment (FDI) of Sri Lanka playing a major role in the country economy. But, The Central Bank says in its annual report, there is a lack of national development policy consensus as they change from time to time, in line with the different changes of the political parties. It means that the policy process has always fluctuating due to the change the interest of the target group of ruling party.

In 1977, Open economic reforms increased FDI by creating investment friendly environment in Sri Lanka. Most of other south Asian countries even introduced FDI liberalization policies after year 1980. In 1978 Sri Lanka shifted away from socialist approach and implemented open economic policies into the country. Most of other south Asian countries introduced FDI liberalization policies after year 1980. When compare with other south Asian countries with Sri Lanka concerned US \$ 40 million annual average FDI inflows (Jayathilake, 1999)

After 1978 Sri Lankan Investment policy has been amended by changing various policy factors in order to attract more foreign direct investment to the country. The Governments have changed the policy arena time to time. The



present government of Sri Lanka follows a pro-business stance with an emphasis on expanding exports, upgrading industry, and boosting private investment and public private partnerships (Lanka, 2017).

During the 1983-89 period, the incentives for FDI were eroded in the foreign trade. Also, in year 2000, FDI inflows were fell down and there were increasing trend in FDI up to year 2008 and FDI was reduced as a result of global financial crisis in year 2009. Basically due to the secure macroeconomic environment, Sri Lanka reached highest level of FDI in 2014. Sri Lanka did not have a constant policy for investment sector.

Now again, Sri Lanka is to change its Foreign Direct Investment (FDI) policy. Government moving away from an over-dependence on tax holidays and other duty concessions on imports of raw material and machinery during their policy formulation and a greater focus will be on maximizing the country's competitive advantages in location, skills base, and ongoing preparation work of free trade agreements with both developed and emerging markets. Former government (2005-2015) followed a statist economic policy and its advocate for Government control of strategic enterprises and expanding the role of the state. Mainly they introduced a substantial Government infrastructure development program, largely financed with Chinese loans.

Sri Lanka shifted away from a socialist orientation and opened up to foreign investment in 1978, although changes in Government have often been accompanied by reversals in economic policy. The Government follows a pro-business stance with an emphasis on expanding exports, upgrading industry, and boosting private investment and public-private partnerships. It is a mixed approach of the socialist orientation and the pro-business.

Countries often make the mistake of designing investment policies around the type of foreign investments that they already have. As opposed to that, authorities in Sri Lanka should instead tailor policies to suit the type of investment that they want to grow and the linkages with the local economy they want to develop. To do this, authorities need to identify the types of investors that are more likely to make a positive contribution to the domestic economy. In turn, the investment policy that is developed for the country should address the specific concerns of these types of investors and facilitate generation of linkages and spillovers in the domestic economy (World Bank, 2016).

Sri Lanka needs to develop a well-articulated and coherent Investment Policy, clarifying how the country can use investment to better insert itself into a globalized economy and achieve the development goals of the country. At the present time investment, trade and other policies relevant for investment in Sri Lanka are not fully aligned and compatible. In addition, currently Sri Lanka does not have a modern umbrella legal framework clarifying in a single instrument the roles of the different agencies interacting with investors as well as the specific guarantees applicable to both domestic and foreign investors.

Accordingly, the Policies and instruments to attract FDI to Sri Lanka should be guided by a clear vision on the type of FDI that the country pursues. Investment attraction efforts are not enough in absence of a stable foundation. Investors seek macroeconomic and political stability in the host country. Beyond that, they prioritize having access to qualified staff (see figure below). Factors such as the availability of infrastructure have substantially decreased in importance in recent years. The size of a domestic market has also become less important for foreign investors, relative to the premium they put on efficiency and links to global markets (WorldBank, 2014).

Given the above, it will be critical for Sri Lanka to enhance its institutional framework to meet 21<sup>st</sup> century trade challenges. The strategic trade policy framework in itself will enhance predictability of trade policy by setting the agenda for the medium term, and ensuring that the more detailed policy guidelines do not deviate from it. Beyond that, capacity building in the Government will be essential to enable Sri Lanka to effectively meet WTO requirements and negotiate trade agreements to maximize benefit to the country. A coherent and synergistic approach on trade policy will require effective leadership and coordination among the different agencies involved in trade.

### C. *A humane approach to reforms*

Reforms have a differentiated impact on different segments of the economy. Policy reform will lead to gains, which are often dispersed over time and space, as well as losses, which can be immediate. There will be sectors, firms, and workers that will succumb to competition unleashed with the opening up of the economy and declining protection for domestic industries. However, it is important to focus on the fact that the costs will be far outweighed by the overall benefits to the Sri Lankan economy. Firms and exporters will gain access to world class inputs at competitive prices, and thus be able to reach new markets. Since trade and investment complement each other, trade liberalization will also bring FDI, which, in turn, will bring skills, technology, and foreign capital as well as access to Global Value Chains and new markets. Most importantly, Sri Lankan consumers, whose welfare has to be given due consideration, will gain – they will have access to goods of greater variety, better quality, and at cheaper prices.

The role of the Government during the reform process will be to ensure that those who are negatively affected by reforms are not forgotten. Keeping that in view, reforms should be carefully sequenced and calibrated, but with a finite schedule, to allow time for adjustment. The phasing in period will also allow the opportunity to address

cross-cutting competitiveness issues which hamper firm productivity. It will also be important to design appropriate retraining programs to facilitate movement of workers out of the affected firms and sectors. Similarly, it will be important to ensure there are business support programs that help firms, for instance, to negotiate new markets by supplying the requisite market information. Through all of this, Sri Lanka will need to be mindful that its aspiration to become a prosperous and competitive center, in the world.

New and better jobs in the medium term, can be achieved only by looking outward and harnessing trade as an engine of growth, job creation and poverty reduction. The new strategic trade policy framework shall be framed with that underlying objective.

#### IV. *THE CHALLENGING PHASE OF THE FDI POLICY ARIANA 2016- 2017*

For long period of time Government officials were of the view that there should be a considerable amount of policy changes in order to attract more investment into the country. This thought became true by doing some changes into the investment legal framework of the country. These changes mainly focus on attracting more investors to the country.

In the 7th Meeting of the Asia Pacific FDI Network, Thailand 2017 Sri Lankan government clearly pointed out about the major changes to the Sri Lankan FDI policy to uplift the investors in order to attract more FDI into the country. The Board of Investment (BOI) Law No. 4 of 1978 and its amendments is the principal law applicable to foreign investments in Sri Lanka. The Board of Investment of Sri Lanka (BOI) is the central facilitation point for foreign investors. Since inception BOI has been granting incentives including fiscal incentives as a strategy to attract FDI.

In 2017, the government introduced a new Inland Revenue Act in consultation with IMF, allowing the Government to scrap the complicated tax system and establish a “fair but transparent tax policy for Sri Lanka with plans to increase government revenue from direct taxes.

Instead of providing traditional tax holidays for investments, Sri Lanka has moved to a new incentive regime with the introduction of the new Inland Revenue Act. Accordingly, investors will be granted Incentives by way of Accelerated Depreciation Allowance (ADA) and Tax Credits (TC) based on the investments made on depreciable assets.

	Positive	Negative
	<u>Advantages</u>	<u>Contenders</u>
<b>Strong</b>	<i>Investors</i> (After 2017)	<i>Investors</i> (Before 2017)
		Politicians
		Land Owners
		The Rich
		Lawyers
		Labor      Unions
	Environmentalism	
	Unemployment	
	Tourists	Tax Payers
		Polluting Industries
<b>Weak</b>	Consumer welfare	Communists
		Human Right Victims
	<u>Dependents</u>	<u>Deviants</u>

Also Sri Lanka has repealed Exchange Control Act and a new Foreign Exchange Act No. 12 of 2017 has been introduced in July 2017. The new Exchange Control Act has further liberalized foreign investments and the whole purpose is to attract investors to the country.

The regulation issued under the previous Exchange Control Act granted permission for the issue and transfer of shares in a company up to 100% of the issued capital of such company, to approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka

(inclusive of Sri Lankans resident outside Sri Lanka) subject to the exclusions, limitations and conditions herein after set out. (ACT, 2017)

Investors are more benefited by the amendments that have been done to the Land (Restrictions on Alienation) Act, No. 38 of 2014. Under the Land (Restriction of Alienation) Act No. 38 of 2014, foreigners and foreign companies with foreign shareholding over 49% are prohibited to purchase land on outright basis. It introduced a lease arrangement with an upfront lease tax of 15%, which was relaxed subsequently under the Land (Restrictions on Alienation) Amendment Act,

No. 3 of 2017. (Section05, 2017)

The Article 157 of the 1978 constitution guarantees the safety of investment protection treaties and agreements approved by parliament by a two thirds majority. Sri Lanka has signed bilateral Investment Protection Agreements (IPA) with 28 countries. Sri Lanka also has bilateral Double Tax Avoidance Agreements (DTAA) with 42 countries.

#### V. INVESTORS AS "THE ADVANTAGED"- INTERDEPENDENCY OF THE OTHER GROUPS.

Applying Schneider and Ingram's framework to the FDI policy provides a way to understand policy actors' motivation to change the behavior of "advantaged" Investors as well as to understand the ways that other groups of the society is reacting to the boom of the particular policy changes.

The key policy changes have been made with the intention of advantaging the Investors. Specially, Contribution to improve the investment climate (Doing Business Ranking, Country bench marking studies, policy recommendations), targeted Investment Promotion, Acceleration of investment approval process, Improvements to investment facilitation, Development of new zones and upgrading of existing zones. Government wanted to refocus BOI Strategy by strengthening investor safety.

According to my view government has made these changes to make investors confident and to send the message that they are the deserve advantage group of this policy changes. These main changes to the investment policy have clearly shifted the investors from the position where they were before this policy changes. They were powerful but not positively constructed so far. It was changed after this policy changes to the FDI policy.

### VI. CONCLUSION

Schneider and Ingram's framework provides one way to explain these policy changes. Schneider and Ingram point out that officials, particularly when seeking reelection, often craft policies that are designed to privilege groups they perceive as "advantaged" or politically powerful. Policies intended to appeal to advantaged groups typically offer incentives and capacity building, with few burdens. The government of Sri Lanka is in the need of strong investment inflows into the country.

The Policy designed with the intention of making investor advantaged environment. Schneider and Ingram indicate that when facing reelection, politicians will often construct policies that benefit the advantaged, even when those policies seem to be for the direct benefit of another group. (Hodge, 2018)

But the important factor is the interdependent nature in-between the other groups. Particularly, Sri Lankan FDI policy targeted investors with the intention of make them as the beneficiaries by doing positive changes to the policy. But still Government is not in the position to facilitate other groups. Without considering other factors specially, the post war allegations, Human right victims' positions government would not be able to attract investors or benefit them as the advantage group in the Sri Lankan Context. Therefore, Sri Lankan policy actors need to identify the present scenario of the policy development.

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