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SRI LANKA COUNTRY REPORT

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1) **Executive Summary**

In 2007, the Sri Lankan economy recorded a growth above 6 per cent for the third consecutive year for the first time since 1948. Construction Sector contribution to Sri Lankan GDP in the year 2007 has been 9%.

The policy in Sri Lanka, for Infrastructure development, has been for the public sector to invest through direct budgetary allocation or foreign donor support. Construction Investment shows Continuous growth in most sectors during the years 2003 to 2005.

Creation of a separate Ministry for Construction, and the new Parliamentary Act proposed, is expected to accelerate the development of the industry.

There is a positive sign in the development of Sri Lankan construction companies. Sri Lankan Contracting Companies are graded and registered by the ICTAD, and the grading has recognition in the industry.

The employment in construction industry, in Sri Lanka, has experienced an increase of 40% during the Years 2002 to 2005, whereas the total employment has increased only by 15.3%

The need to improve on quality and productivity in construction is felt more in Sri Lanka as well. Measures to improve the productivity of the Construction Industry needs to be done by both State and the private sector.

Construction cost in almost all sectors has increased drastically during the last 5 years in Sri Lanka. World situation and the fuel crisis too has contributed to escalation of prices of all inputs in construction.

Export of Construction Services, from Sri Lanka has potential and needs to be pursued.

2) **Macro Economic Review and Outlook**

2.1 **Overview of National Economy**

In 2007, the Sri Lankan economy recorded a growth of well above 6 per cent for the third consecutive year for the first time since Independence, demonstrating that Sri Lanka has now moved on to a higher growth path of above 6 per cent per annum from the historical average of around 4-5 per cent.

The economy grew by 6.8 per cent, the annual average rate of unemployment reached its lowest ever recorded level of 6.0 per cent, while the per capita income rose further to US dollars 1,617 in 2007. This performance is commendable, as it was achieved in a challenging environment of heightened security concerns and rising petroleum and commodity prices in international markets. This was achieved amidst significant challenges faced by the

government such as rising defense expenditure, rising domestic interest rates and the need to grant several tax and duty concessions.

The regulation and supervision of the financial system was further strengthened with the implementation of several new prudential regulations.

At the same time, the government continued with its higher public investment programme, aiming at expanding the country's economic and social infrastructure to facilitate future economic growth.

The external sector demonstrated its resilience to external shocks, with the balance of payments recording a surplus of US dollars 531 million, which raised the country's external reserves to a higher level, along with a greater stability in the exchange rate. Country received the highest ever foreign direct investment (FDI) inflow of around US dollars 734 million demonstrating the continuous foreign investor confidence.

While higher growth in exports and a steady increase in worker remittances mitigated the impact of higher petroleum and commodity prices on imports to some extent, the higher expenditure on import of investment goods required for infrastructure development was financed partly through debt and partly through FDI inflows. **The financial sector continued to grow strongly and the financial system remained resilient in the face of unfavourable global financial market conditions and rising domestic interest rates.**

2.2 Main Economic Indicator*

	2003	2004	2005	2006	2007
GDP and Components					
GDP at real Prices** (2002) (Rs. / billion)	1,733	1,827	1,941	2,090	2,232
GDP at current market prices (Rs. / billion)	1,822	2,091	2,453	2,939	3,578
GDP growth (%)	5.9	5.4	6.2	7.7	6.8
Agriculture, Forestry and Fishing					
% growth	1.7	0.0	1.8	6.3	3.3
Manufacturing Sector					
% growth	3.9	5.2	6.2	5.5	6.4
Services Sector					
% growth	7.6	6.7	6.4	7.7	7.1
Construction Sector					
% growth	3.7	5.9	9.0	9.2	9.0
Demographic Indicators					
Population ('000 persons)	19,252	19,462	19,668	19,886	20,010
Population growth rate (5) (per cent)	1.2	1.2	1.0	1.1	1.1
Total labour force	7,654 (c)	8,061 (d)	7,312 (e)(f)	7,599 (f)	7,489 (f)

('000 persons)					
Labour force growth rate (%)					
Unemployment rate (per cent of labour force)	8.4 (c)	8.3 (d)	7.2 (e) (f)	6.5 (f)	6.0 (f)
Financial Indicators					
Short term interest rate (Commercial banks' average weighted prime lending rate)	9.26	10.23	12.24	15.19	17.95
Long term interest rate					
Changes in consumer price index (1952 = 100)	6.3	7.6	11.6	13.7	17.5
Changes against US\$					

Source of Information : Department of Census & Statistics / Central Bank of Sri Lanka

3) **Overview of the Construction Industry**

In Sri Lanka, Construction Sector contribution to GDP in the year 2007 has been 9%. This shows continual growth from the year 2003 onwards.

The strategy, adopted by Sri Lanka for Infrastructure development, has been for the public sector to invest through direct budgetary allocation or foreign donor support. This is the policy in the **Ten-Year Horizon Development Framework 2006-2016**. These programmes have been designed with investments channeled through the Consolidated Fund, private and foreign direct investments and Public Private Partnerships (PPP).

Roads, energy, water supply and sanitation, ports and aviation, transport and rural infrastructure development are the main areas focused. Infrastructure services showed mixed performance in 2007. A rapid growth was seen in the **telecommunications industry** and in **Port services**, while the **energy sector** continued to suffer.

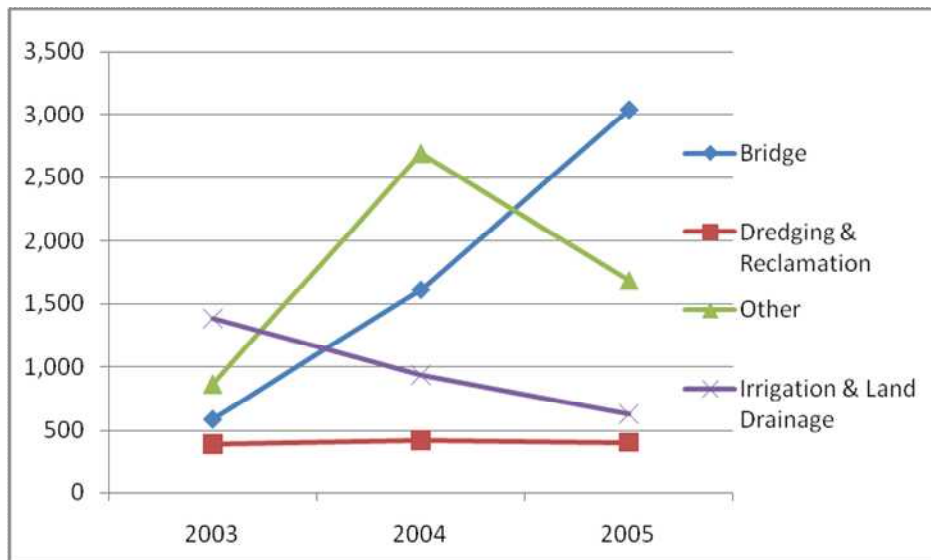
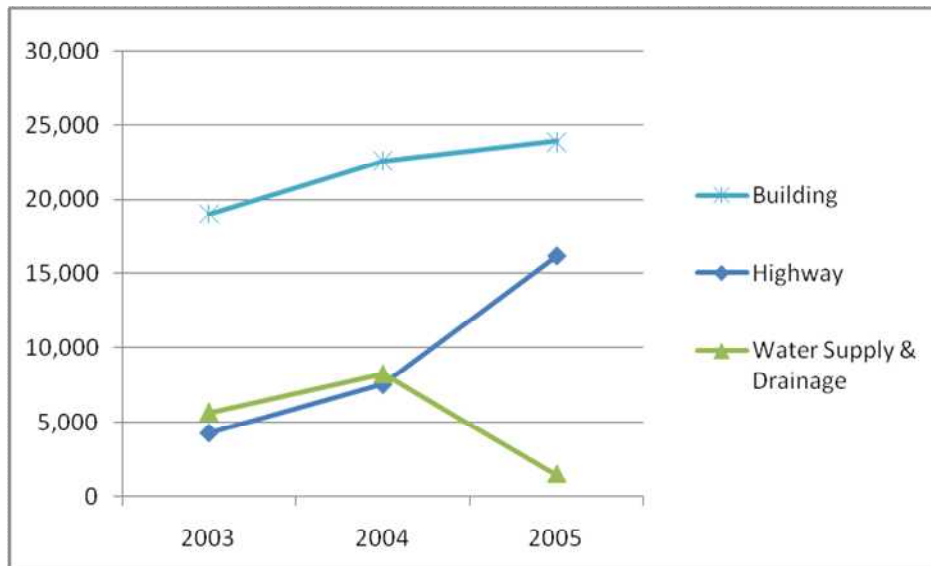
Creation of a separate Ministry for Construction Sector in 2007 has been a remarkable achievement for the industry. A new Parliamentary Act is being proposed to transform the present **Institute for Construction Training and Development (ICTAD)** to a '**Construction Development Authority**', giving the institution, much wider power and coverage.

3.1 **Construction Investment**

Continuous growth is shown in most sectors.

Value of Work Done by Type of Construction Rs. Mn. – Current Prices

Source – Dept. of Census & Statistics



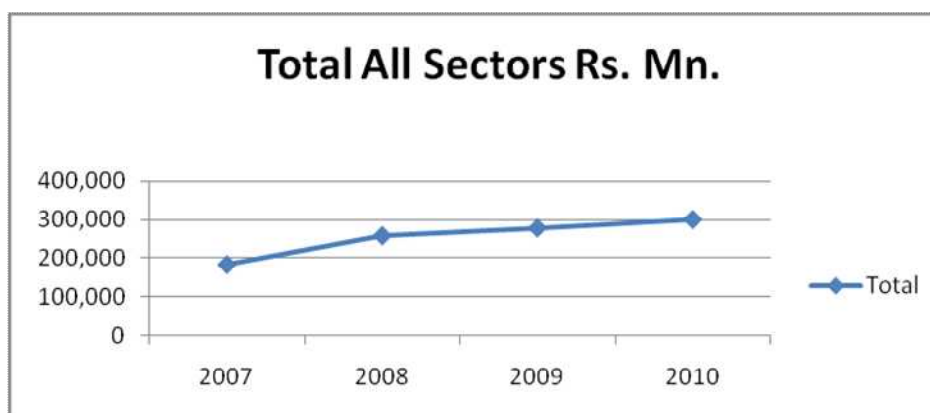
Type of Construction	Value of Work Done (Rs. Mn.)			
	2003	2004	2005	Total
Total	32,279	44,107	47,404	123,790

Source of Information : Department of Census and Statistic

Construction Investment Plan of the Government 2007 – 2010

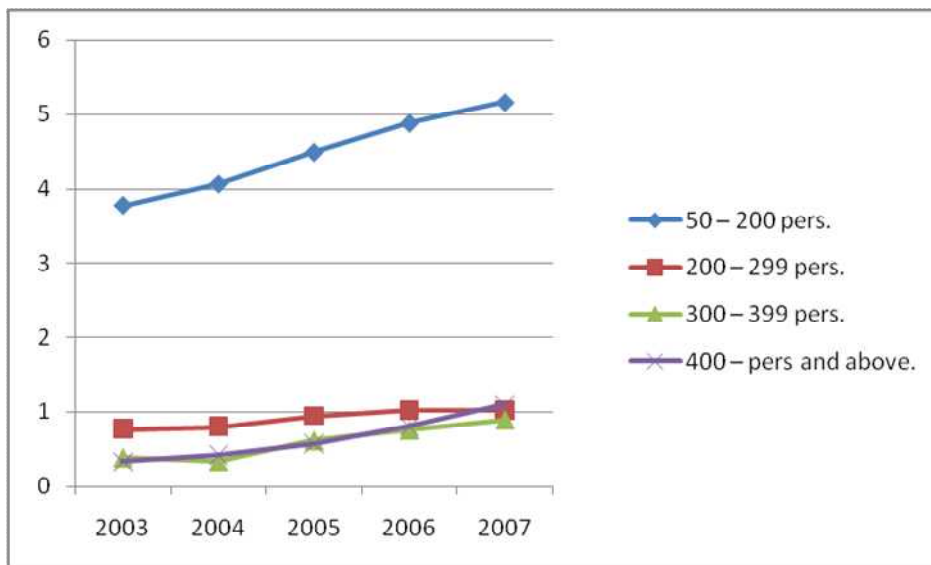
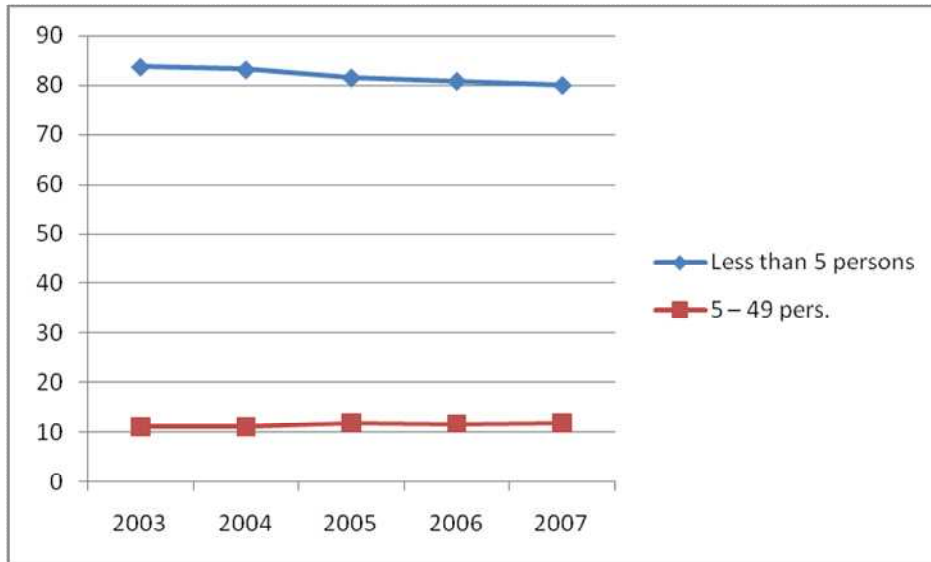
Sector	Project Investment (Rs. Mn)				
					Total
	2007	2008	2009	2010	2007 - 2010
Port and Aviation	7,330	30,014	32,489	30,999	100,832
Tourism	300	300	300	400	1,300
Urban Development	13,600	15,500	14,400	12,800	56,300
Housing Development	18,200	24,300	19,400	16,700	78,600
Power & Energy	50,386	64,341	78,260	123,350	316,337
Water Supply & Sanitation	31,705	40,931	38,362	24,922	135,920
Roads	62,100	74,331	81,729	73,847	292,007
Transport Services	582	7,785	12,146	16,000	36,513
Total	184,203	257,502	277,086	299,018	1,017,809

Source of Information : Ten Year Horizon Development Framework 2006 – 2016



3.2 Construction Companies - Distribution of Contractors

Percentage Distribution of Contractors by Employment Size



Source of Information : ICTAD

It is a positive sign to note that the% of bigger companies grow while the % of companies that employ less than 5 persons has come down.

Sri Lankan Commercial Contracting Companies are graded and registered by the ICTAD, based on their capacity.

ICTAD Grading System for main contractors :

Grading	Financial Limits (Rs. M)	Field of Specialisation
Grade C 10	$0.5 \geq X$	<ul style="list-style-type: none"> • Buildings • Highways • Bridges • Water Supply & Drainage • Irrigation & Land Drainage • Dredging & Reclamation
	$1.0 \geq X$	
Grade C 9	$2.0 \geq X > 1.0$	
Grade C 8	$5.0 \geq X > 2.0$	
Grade C 7	$10.0 \geq X > 5.0$	
Grade C 6	$20.0 \geq X > 10.0$	
	$25.0 \geq X > 20.0$	
Grade C 5	$50.0 \geq X > 25.0$	
Grade C 4	$100.0 \geq X > 50.0$	
Grade C 3	$150.0 \geq X > 100.0$	
	$300.0 \geq X > 150.0$	
Grade C 2	$600.0 \geq X > 300.0$	
Grade C 1	$X \geq 600.0$	

Source of Information – ICTAD

ICTAD Grading is mandatory for undertaking construction work of State funded projects only. But almost all contractors are keen in obtaining the registration, as it has earned recognition in the industry.



Current registration of ICTAD stands around 2300 contracting organisations. This primarily consists of private sector entities, while only a handful of commercial contracting organisations are owned by the State.


3.3 Employees and Construction Labour Number of Construction Workers by Job Type

3.3.1 Breakdown of employment in terms of occupations

The current employment in the construction industry of Sri Lanka is about 542,000. This includes four categories of employees, professional, technical, crafts and machine operators.

A breakdown of employment in terms of occupations as follows.

	Professional	11%
	Technical	12%

	Craft	71%
	Operator	06%

Almost 97% of total employment of the industry constitutes males, where 75% fall within the age group of 25 – 45 years of age and 52% has a working experience of less than 5 years.

3.3.2 Current Employment

According to statistics, the total employment of the country has increased by 15.3% where as the employment in construction industry has experienced an increase of 40% during the Years 2002 to 2005. It is therefore evident that the contribution of the construction industry to the increase in total employment in Sri Lanka is extremely important.

Table : - Comparison of construction industry employment with other main Economic Sectors - 2002-2005

NO.	ITEM	2002	2003	2004	2005
1.	Construction Industry employment as a % of total	5.93	6.48	6.41	7.22

Source of Information : special survey August 2005 – Department of Census & Statistics

3.3.3 Demand for occupations in construction industry 2007 – 2010

The estimated employment of the construction industry services to be large and almost 15% higher than present levels

Table: - Demand for Different Occupations of the Construction Industry.

OCCUPATION	2007	2008	2009	2010
A. Technical Grades				
Sub Total	54,228	56,118	57,511	59,604
B. Crafts & Related				
Sub Total	402,156	416,176	426,506	437,575

C. Machine Operators & Mechanics				
Sub Total	25,888	26,790	27,455	28,168
Total	482,271	499,084	511,472	524,746

*Source of Information : Vocational Education Training Plan 2007 –
Tertiary & Vocational Education Commission*

4) **Productivity**

4.1 **Productivity of the Sri Lankan Construction Industry**

Construction Industry has its own difficulties in improving productivity, as the product or service delivered is not standard. However the need to improve on quality and productivity is felt more and more, for several reasons, including those of environmental concerns.

Higher productivity no doubt helps to achieve, objectives of '**Clean Production**' and '**Green Building**' concepts, that are being applied gradually in Sri Lankan Industry as well.

Poor management and disruption in cash flow, resulting from payment delays, too have affected the construction productivity. Escalation of prices of inputs in the recent times has aggravated this problem. Frequent interruption of work has been noticed due to this reason.

In Sri Lanka, very limited work has been done, to study the productivity in the Construction Industry. Nevertheless, it is felt that much has to be done to improve on it.

4.2 **Construction Labour Productivity**

4.2.1 **Value Added Per Employee**

In the year 2004 it is observed that the Labour Productivity has come down in almost all the sectors as a result of increased number of employees engaged, without a substantial or no increase in Value Addition. However in 2005 it has reversed. This may have been caused by the volatile nature of employment in the construction industry, where labour migration and shifting takes place, specially in the informal sector.

	V.A.Rs.000s	No.of Emp.	Lb. Prd.	V.A.Rs.000s	No.of Emp.	Lb. Prd.	V.A.Rs.000s	No.of Emp.	Lb. Prd.

	2003			2004			2005		
Building	8,672,540	62,859	138.0	9,420,520	158,409	59.5	11,856,631	89,520	132.4
Highway	1,608,230	17,562	91.6	3,386,845	45,961	73.7	6,326,822	37,360	169.3
Bridge	167,873	4709	35.6	497749	11199	44.4	761,349	4078	186.7
Water sup. & Draing.	2,341,404	20,188	116.0	2082650	36227	57.5	363,638	3783	96.1
Irrig & L. Drainage	402,772	16,771	24.0	407875	13652	29.9	309,973	5017	61.8
Dredging & Reclam.	193,665	2147	90.2	266864	2478	107.7	231,284	334	692.5
Other	308,731	5453	56.6	805346	8929	90.2	607,021	7574	80.1
Total	13,695,215	129,689	105.6	16,867,849	276,855	60.9	20,456,718	147,666	138.5

4.2.2 Physical Measurement of Construction Productivity

Little data is available on Physical Measurement of Construction Productivity

New Buildings constructed, additions and alterations within Municipalities, Urban Councils and Pradehiya Sabhas in 2006

	Floor Space (Sq.ft.)		Cost		Cost per sq.ft.	
	Res.	N.Res.	Res.	N.Res.	Res.	N.Res.
Municipal Councils	1,166,733	498,273	1,136,721,585	323,195,808	974.28	648.63
Urban Councils	643,787	169,740	635,279,979	195,337,548	986.79	1150.80
Pradeshiya Sabhas	2,315,413	359,514	2,172,092,683	419,781,384	938.10	1167.64

Source of Information : Department of Census & Statistics

4.2.3 Measures to improve the productivity of the Construction Industry

Role of Institute for Construction Training and Development (ICTAD)

ICTAD has planned to make it mandatory, for all registered contracting companies, to have ISO Quality Management Systems established in their organisations. This is a bold step taken by the institution in achieving productivity and quality improvement in the industry

ICTAD has ventured into a new programme to uplift the knowledge of skills of tradesmen and to offer them the '**National Vocational Qualification Levels**' (**NVQ**) through '**Recognition of Prior Learning**' (**RPL**),. The most important factor here is that they are being provided with access to the newly set up **University of Vocational Technology**, , where they can earn a degree in the respective field, It is expected to attract more youngsters to the occupation as well as to gain recognition in the society, for a vocation in the industry.

Construction Excellence Award Scheme conducted annually by ICTAD is a well recognized event among the stakeholders of the industry, that motivates all contracting companies for quality and productivity improvement. Awards are presented to projects on the overall performance after regular monitoring.

Private Sector Participation

Similar measures are taken by the **National Construction Association of Sri Lanka (NCASL)** and the **Chamber of Construction Industry (CCI)** as well, in enhancing knowledge of industry staff.

Annual Award Scheme for projects, conducted by the NCASL too, gives encouragement and motivation for the contractor members to attain quality end products, in their projects undertaken, giving emphasis to productivity.

Professional Bodies

Professional Bodies related to construction also conducts regular programmes in updating and enhancing the knowledge of their members, as well as other personnel involved in the industry on various aspects.

Human Resource Issues

A serious problem that has been experienced by the industry during the last few years, is the dearth of experienced manpower, in almost all occupational categories. This has been primarily caused by the migration to Middle Eastern and other countries, where construction booms exist and lucrative employment opportunities exist.

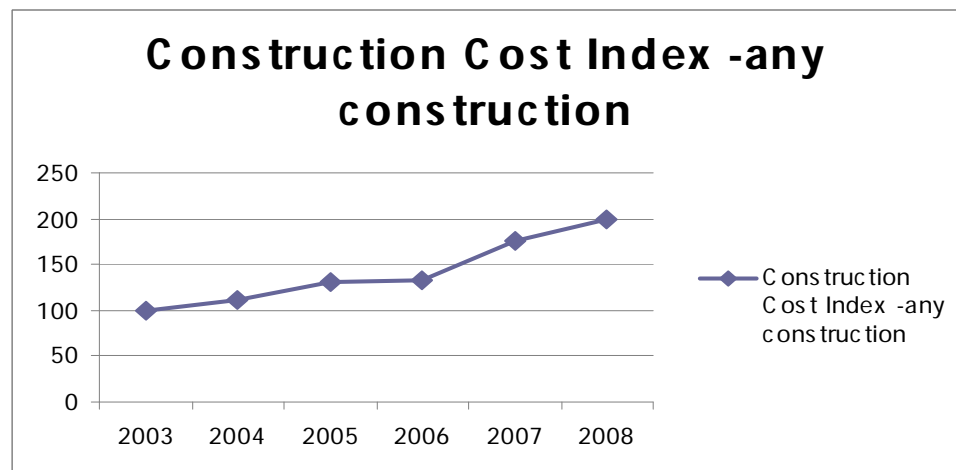
A need that has been identified in improving the productivity of skilled personnel in the industry, is to have a higher level of basic education and literacy of the persons who intend joining the occupation. Writing and reading skills, both either in Sinhala or Tamil, as national languages, and English, needs to be of a better level than what exists. As the main communication, in Construction Industry in Sri Lanka, in the production of drawings, instructions or other forms of exchange of information, takes place in English, the language or literacy has become an issue. The knowledge of **basic mathematics** and the ability in the **interpretation of drawings**, would no doubt help increase the productivity of these employees.

As such, attempts are being made to attract school leavers, after **G.C.E. (OL)**, who do not qualify to proceed to **Advanced Level**, and the students, who do not qualify to seek further education after Advanced Level, into these areas of occupation.

However, there has also been noticed, **a reluctance** on the part of younger generation/school leavers to seek employment in skilled trades, specially in construction sector. **Lack of social recognition** in the traditional society, despite better financial gains, is believed to be the main cause behind the problem. The Ministry of Construction & Engineering Services, together with ICTAD and other related agencies, carryout number of propaganda work, through mass media, to address this issue. A novel programme '**Sisu Nena Pola**', to raise funds to offer scholarships to prospective needy trainees in these areas of trades, is being conducted by the Ministry of Construction & Engineering Services, jointly with related Ministry organisations. **An exhibition, trade fair and a carnival** held monthly in various parts of the country for fund raising, awareness buildup and earning of recognition for the occupation, are primary activities of the programme.

5) Construction Cost

Construction cost in almost all sectors has increased drastically during the last 5 years in Sri Lanka ; increased costs of inputs including that of Human Resources, have contributed to this situation. Worldwide increases and the fuel crisis are the main causes.



Source - ICTAD

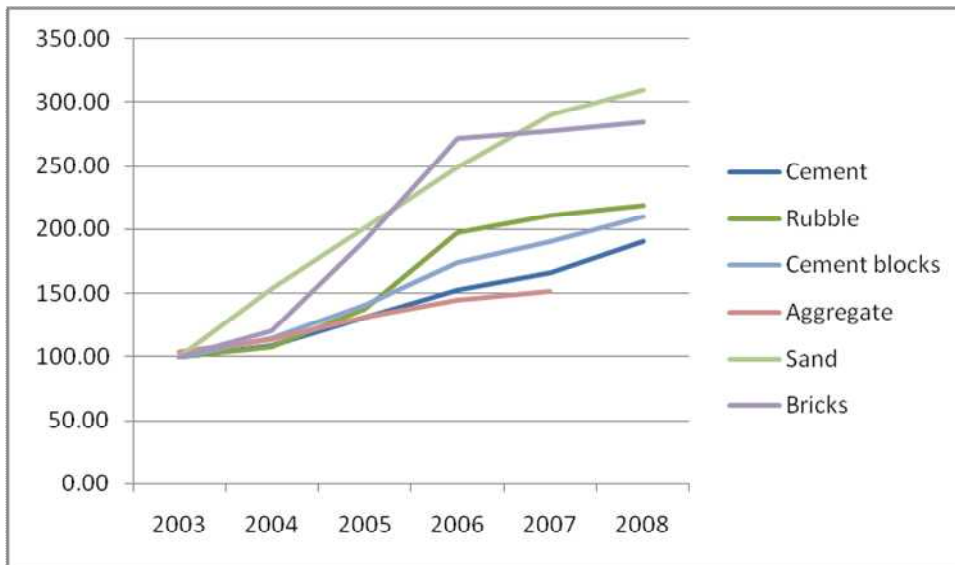
5.1 Average Construction Material Prices

Average construction material prices have risen very high in Sri Lanka during the last 5 years.

Post Tsunami increase in construction activities that created a huge demand in sand, metal and earth fill material led to unscrupulous and over exploitation of resources, causing serious environmental damage. State in turn had to impose stricter conditions for extraction of these material, which led to still higher prices.

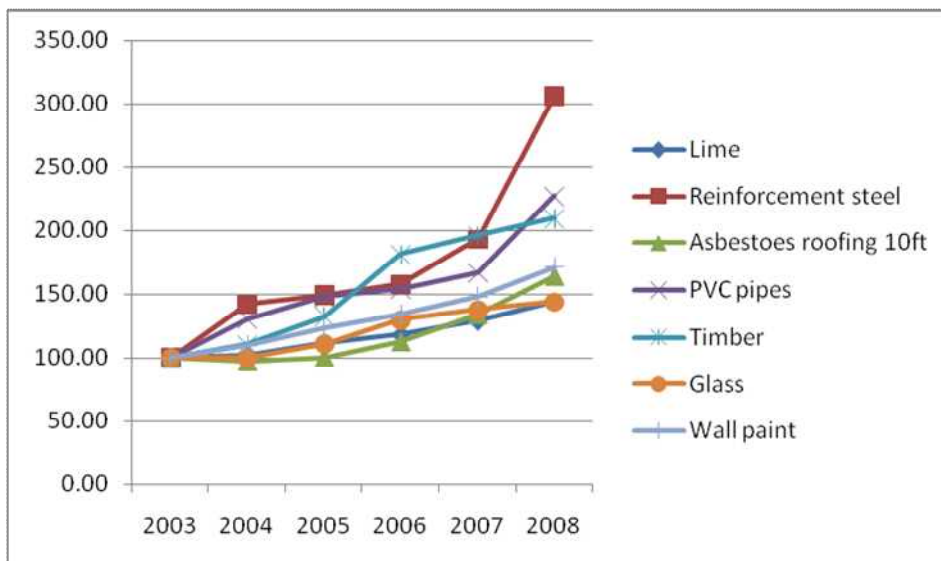
Alternatives are sought with the intervention of both Government and Private Sector for meeting the demand for sand. Deep sea sand mining and rock sand production are some areas, where initiatives have been taken.

Fluctuation of Prices of Construction Inputs reflected by Indices.



Worldwide increased demand, specially for steel and cement, and other material that are imported, has been a major factor for high prices. Fuel crises too has contributed to escalation of prices.

Fluctuation of Prices of Construction Inputs reflected by Indices.



5.2 Construction Industry Salaries and Wages

Average No. of Employees and Monthly Salaries by Type of Construction - 2004

	Skilled Emp.			Unskilled Emp.			Tech. Emp.			Prof. Emp.		
	No.	Sly. Rs.000s	Av. Sry.	No.	Sly. Rs.000s	Av. Sry.	No.	Sly. Rs.000s	Av. Sry.	No.	Sly. Rs.000s	Av. Sry.
Building	60259	1401246	23254	87593	1538946	17569	4922	341492	69381	5635	227691	40407
Highway	16831	247099	14681	25935	382818	14761	2870	79152	27579	325	38299	117843
Bridge	4451	126699	28465	6131	149765	24427	444	19396	43685	172	23530	136802
water Sup. & Drain.	13362	551998	41311	20428	808506	39578	1989	329066	165443	447	108320	242327
Irrig. & Land Drain.	4454	65944	14806	8347	82129	9839	528	18899	35794	323	16310	50495
Dredg. & Reclaim.	893	18429	20637	1406	10110	7191	122	12536	102754	58	9888	170483
Other	3334	104086	31220	4675	100061	21403	565	68423	121103	354	36149	102116

Source - Dept. of Census and Statistics

As stated earlier there is a sharp increase in Salaries and Wages in the industry, during the last several years, specially after Tsunami. However a notable factor is the reluctance on the part of younger generation to join the occupations in Construction Trades.

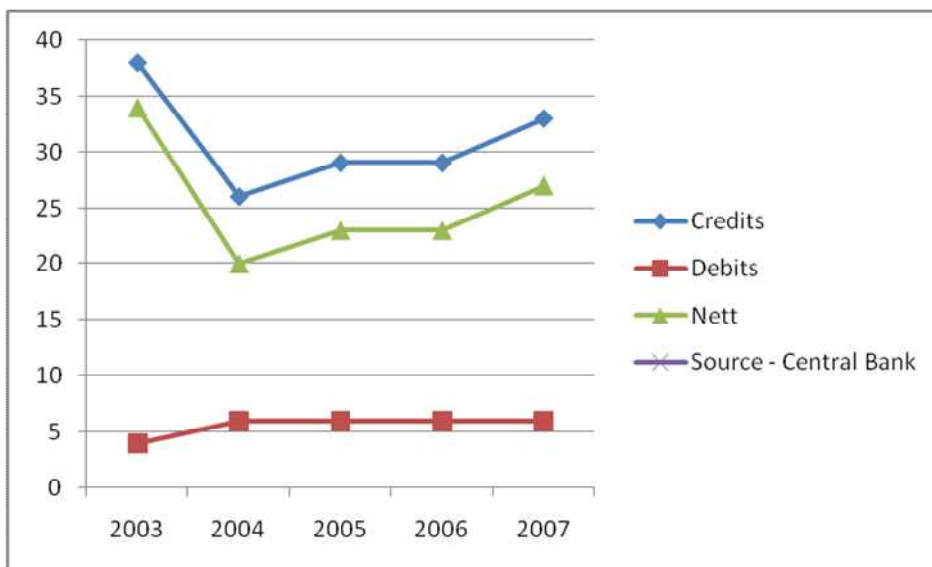
6 Import and Export of Construction Services

6.1 Annul Import and Export of Construction Services

There is only a little work done by Sri Lankan Consultants or Contractors outside Sri Lanka. In Nov. 2007 a trade delegation was led by the new ministry of Construction and Engineering Services to the Middle East, seeking work for Consultants as well as for Contractors. Some Contractors have been successful in getting some work and the matter is still being pursued. Several Consultants and Contractors have carried out work in the Maldives.

Supply of Construction Labour, primarily to middle eastern countries, has been one of the main foreign Exchange earning means for the country.

External Construction Services - USD. Mn.



6.2 Top 5 Countries for Construction Import/export

Countries in the Gulf of Oman and the Maldives are the ones that receive services by Sri Lankan Companies. Little or no data is available on this.