



THE 20TH ASIA CONSTRUCT CONFERENCE

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SRI LANKA COUNTRY REPORT



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1.0 Executive summary

Sri Lanka has recorded a very impressive GDP growth rate of over 6% for the third consecutive year in year 2013 reflecting the expansion of national economy.

The construction sector continued to witness a remarkable growth rate of over 14% in the year 2013 reflecting the continuing growth momentum in the construction sector. This enhanced emerging growth in the construction sector was underpinned by the massive public sector investment on highways, Rail Roads and transport sector development projects such as phase two of the Southern Express Way, the Colombo-Katunayaka Express Way, the Colombo outer circular Highway project and Northern Railway Project as well as port and air port development projects.

The building sector which is the major sub sector of the construction sector continued to expand witnessing a positive trend with the construction of mega hotel projects, condominium and housing projects. The private sector participation in the housing development was reflected by the 9.1 percent growth in the loans and advances provided to private sector developers by the commercial banks. The Government also has made a committed effort to housing development in the rural areas by launching the Janasewana Housing programme.

The consumption of raw materials has also increased significantly due to the increased volume of construction activities. Growth in the consumption of raw materials was reflected by the movement of the import volume index of building materials which grew by 11.9 percent in the year 2013.

The employment in the construction industry in Sri Lanka has expanded witnessing a growth rate of 4.11% during the year 2013 due to increased volume of work. Labour wages also continued to rise with the increasing demand for skilled labour

With the price increase of raw materials and labour in the industry, the cost of construction rose by 7.2% as indicated by the growth in the cost of construction index compiled by the Institute for Construction Training and Development (ICTAD).

2.0 Macro Economic Review and Outlook

2.1 Overview of National Economy

The economy rebounded to high growth trajectory expanding by 7.3 per cent in 2013 compared to 6.3 per cent growth recorded in 2012. This growth is significant as it was achieved in the context of challenging domestic and external economic environment.

The stable macro economic conditions provided in the country with relatively low inflation and interest rates together with the stable exchange rate imparted positively in the growth. Launching of major infrastructure projects by the government in the post war scenario was also contributed positively to the expansion of economic activities.

The slower pace of economic recovery of advanced economies improved negatively during the first half of the year 2013. The recovering of economic down turn in the 2nd half of the year 2013 contributed positively for the growth of economy as Sri Lankan economy depends to the greater extent on the exports of value added products to the European Market.

2.2 Macro Economic Indicator

	2009	2010	2011	2012	2013
GDP and Components					
GDP at real prices (2002) (Rs. Billion)	2,449	2,645	2,863	3,045	3,266
GDP at current market Prices (Rs. Billion)	4,835	5,604	6,544	7,578	8,673
GDP Growth at constant 2002 prices	3.5	8.0	8.2	6.3	7.3
Agriculture , Forestry and Fishing					
% Growth constant 2002 prices	3.2	7.0	1.4	5.2	4.7
Manufacturing Sector					
% Growth	3.3	7.3	7.9	5.2	7.5
Service Sector					
%Growth	3.3	8.0	8.6	4.6	6.4
Construction Sector					
% Growth	5.6	9.3	14.2	21.6	14.4

Demographic indicators					
	2009	2010	2011	2012	2013
Population (000' persons)	20,450	20,653	20,868	20,328	20,483
Total Labour Force (000' persons)	8,074	8,108	8,555	8,454	8,802
Labour force growth rate %	-0.11	0.42	5.51	-1.18	4.11
Unemployment rate	5.7	4.9	4.0	3.9	4.3

Financial Indicators					
	2009	2010	2011	2012	2013
Short term investment rates (Commercial Bank average weighted prime lending rate)	11.12	9.27	10.49	14.29	9.96
Changes in consumer price index (2002 -100)	4.8	6.9	4.9	9.2	4.7
Changes against US\$ in Rupees	114	113	110	128	130

Source of information : Dept. of Census & Statistics / Central Bank of Sri Lanka

3.0 Overview of the construction industry

Sustaining the high growth momentum recorded in the previous year, the construction sub sector recorded an impressive growth of 14.4% in the year 2013.

The sub sector has become a major value additor to national GDP contributing 8.7% in the year 2013.

This remarkable growth reflects the increased volume of construction activities due to the massive development drive launched by the Government giving highest priority to the mega infrastructure development projects, after the eradication of the three decade long conflict.

Public sector construction projects, particularly in the areas of infrastructure development projects such as road development, power projects, port and airport development and housing development projects, provided the substantial impetus to the growth in the sector.

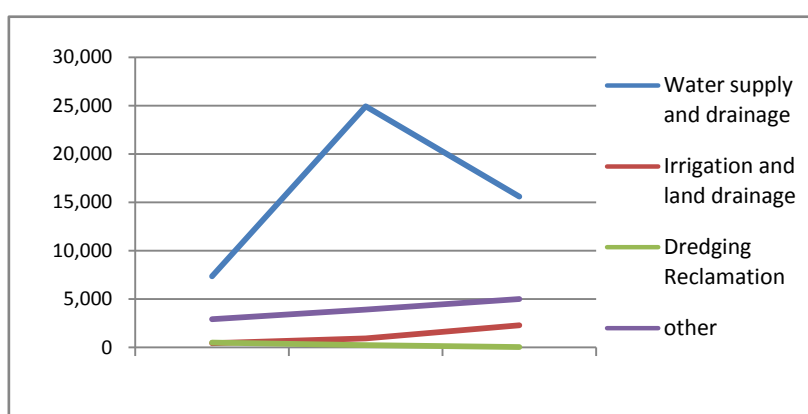
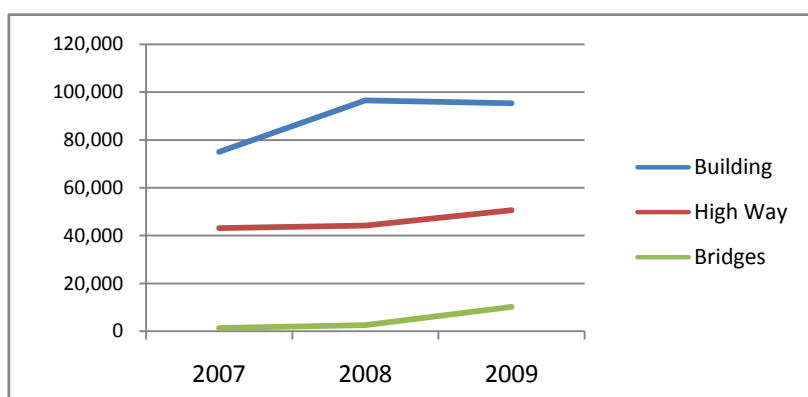
The government has made a significant move for the development and upliftment of the construction industry by introducing the new Act viz “Construction Industry Development Act” which has been approved by the Parliament in September 2014. This Act has made provisions for the establishment of a National Advisory Council on Construction, a Construction Industry Development Fund, well being of the industry related professionals, manufactures, suppliers, contractors and craftsmen and some other policy and progressive measures to ensure the continuous and sustainable development of the industry.

The Institute for Construction Training and Development, which is currently functioning as the apex body in the construction industry, will be transformed in to a “Construction Industry Development Authority” with wider authority and mandate empowering it to play a massive role in the industry giving the required policy directives ensuring the setting of very high standards.

3.1 Construction Investment

The growth can be observed in all the subsectors of construction.

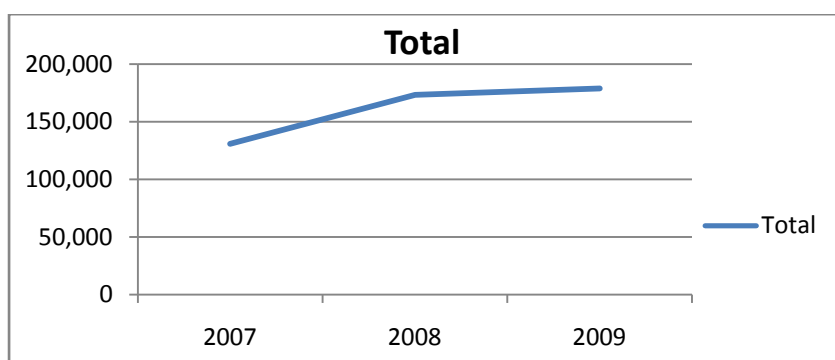
Value of work done by type of construction Rs. M at current prices



Type of Construction	Volume of work done Rs. Mn.		
	2007	2008	2009
Building	74,969	96,548	95,300
High Way	43,126	44,186	50,600
Bridges	1,376	2,596	10,120
Water supply and drainage	7,352	24,924	15,600
Irrigation and land drainage	445	938	2,290
Dredging Reclamation	495	246	40
other	2,927	3,923	5,000
Total	130,694	173,368	178,950

Source : Dept. of Census and Statistics

Total of all sections Rs. M



3.2 Construction Investment Plan

According to the Department of National Planning, the Government of Sri Lanka aims to increase the per capita income to US\$ 4,000 by 2016 by means of achieving an 8% annual growth rate in Gross Domestic Product (GDP). This will create a higher buying power in the population and ability to pay user charges for construction services. The industry sector is expected to achieve a growth rate of 8 – 9%. The ten year development plan of the government envisages channeling more than 55% of the total investment to infrastructure development and urban development.

Sectors	2007 – 2009	200 – 2012	2013 – 2016	2007 - 20016
Housing	12,606	22,116	39,494	74,216
Infrastructure				
- Roads and Bridges	25,754	38,000	40,000	103,754
- Power	9,300	25,000	40,000	74,300
- Water Supply and Sanitation	25,211	10,000	8,000	43,211
- Others (Ports and Railway)	7,450	11,500	20,000	38,950
Total	80,321	106,616	147,494	334,431

Source : A Ten year horizon development frame work – 2006 - 2016

3.3 Registration of Construction Companies

ICTAD, which is the apex body in construction industry, plays the vital role of registration of construction contractors evaluating their financial and technical capabilities.

ICTAD registration is mandated for undertaking of construction work of the state funded projects.

Current registration of ICTAD is around 2500 contracting organizations, primarily consisting of private sector entities, while only handful of contracting organizations are owned by the state.

Grade	Financial Limit (Rs. Million)	Field of Speciality
C1	$X \geq 600$	<ul style="list-style-type: none"> • Building Construction • Highways • Bridge • Water Supply & Drainage • Irrigation & Land Drainage • Dredging & Reclamation • Storm Water Drainage • Groynes & Revetments & Reclamation
C2	$600 \geq X > 300$	
C3	$300 \geq X > 150$	
C4	$150 \geq X > 50$	
C5	$50 \geq X > 25$	
C6	$25 \geq X > 10$	
C7	$10 \geq X > 05$	
C8	$05 \geq X > 02$	
C9	$02 \geq X$	
C10	$01 \geq X$	

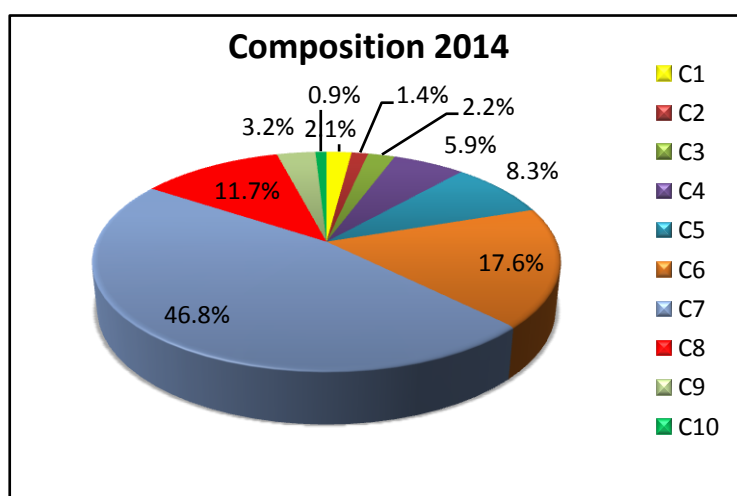
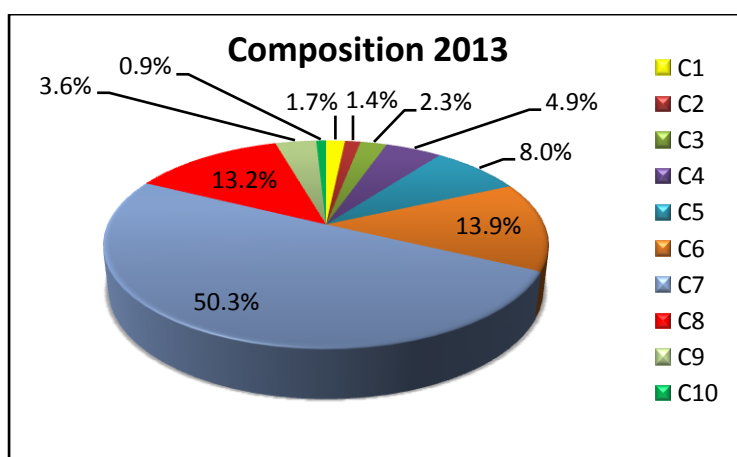
3.3.1 Number of registered Contractors according to their grading

Year	Grade										Total
	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	
2008	29	32	51	117	211	324	1507	647	200	81	3199
2009	29	32	50	116	210	323	1467	606	185	74	3092
2010	27	30	48	103	173	293	1162	492	126	51	2505
2013	39	32	54	116	187	326	1180	310	84	20	2348
2014	50	33	54	144	201	426	1137	283	77	22	2427

Source : Institute for Construction Training and Development (ICTAD)

Although there has been a substantial growth in the turnover of the construction industry, a marginal drop in the number of registered contractors can be observed. The reasons for the marginal drop can be attributed to the fact that bulk of the major projects are handled by foreign contractors brought by donor agencies.

3.3.2 Composition of registered construction contractors



Source : Institute for Construction Training and Development (ICTAD)

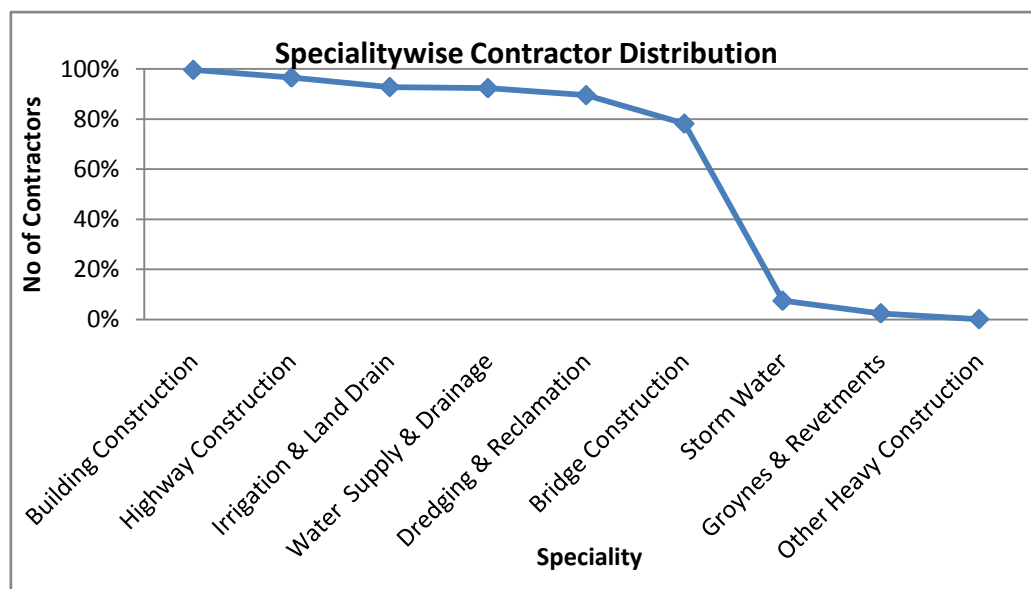
It is evident that majority of registered contractors fall into the category of small and medium scale.

3.3.3 Speciality vs No of Contractors - 2014

Speciality	No of Contractors in 2014	% per Total Contractors
Building Construction	2555	99.57%
Highway Construction	2477	96.53%
Irrigation & Land Drain	2379	92.71%
Water Supply & Drainage	2368	92.28%
Dredging & Reclamation	2296	89.48%

Bridge Construction	2004	78.10%
Storm Water	190	7.40%
Groynes & Revetments	61	2.38%
Other Heavy Construction	1	0.04%
Total Contractors	2566	

Source : Institute for Construction Training and Development (ICTAD)



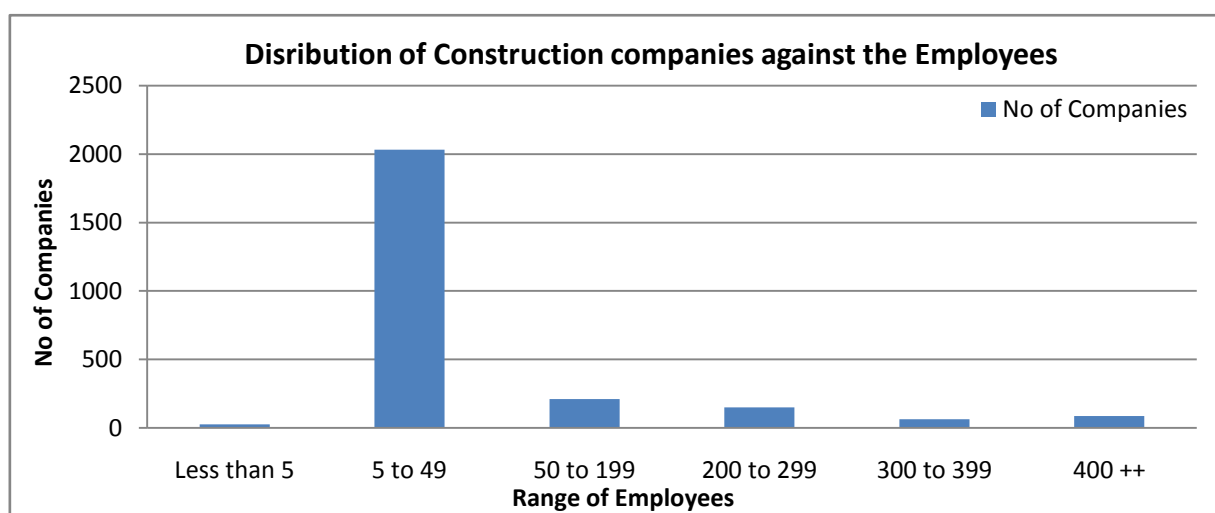
3.3.4 Percentage Distribution of Contractors by Employment size

CATEGORY	Minimum no of Employees (Technical)			Total No. of Contractors	% Distribution	No of Employees (Assumed)
	Professional Staff	Supervisory Staff	Total			
C1	8	14	22	50	1.95%	1400
C2	5	9	14	36	1.40%	400
C3	4	7	11	63	2.46%	300
C4	2	5	7	149	5.81%	200
C5	1	2	3	210	8.18%	125
C6	1	2	3	449	17.50%	40
C7	1	1	2	1212	47.23%	30
C8	0	1	1	291	11.34%	10
C9	0	1	1	81	3.16%	5
C10	0	1	1	25	0.97%	3
Total				2566	100.00%	

Source : Institute for Construction Training and Development (ICTAD)

Range of Employees	No of Companies
Less than 5	25
5 to 49	2033
50 to 199	210
200 to 299	149
300 to 399	63
400 ++	86
Total	2566

Source : Institute for Construction Training and Development (ICTAD)



Source : Institute for Construction Training and Development (ICTAD)

4.0 Employees and construction Labour

4.1 Breakdown of employees in terms of occupation

The current employment in the construction sector is 624,135 persons, which consists of mainly four categories. The survey conducted revealed that about 11% of the total employees was in the professional grade, 12% in the technical grade, 71% in the crafts grade and 6% in the operator grade.

It is also reported that 97% of total employment of the industry constitute males of whom 75% fall within the age group of 25-35 years and 52% has a work experience of less than 5 years. These figures prove that work force of the construction industry is relatively young males and has to be trained for improving the productivity of the industry.

4.2 Current employment

Construction sector has provided employment for over 7% of the total employed population which amounts to 624,135. The labour force in the construction sector has recorded a growth of 1.2% in the year 2012 compared to the previous year.

The rate of employment in the construction sector as a percentage of overall labour force during the last five years is given below.

Industrial Group	2008	2009	2010	2011	2012
Construction sector	7.4	7.3	7.0	6.9	8.1

Source of Information – Labour Market Bulletin, Volume 02/11 – December 2012

4.3 Demand for occupations in the construction industry

The construction sector is expanding and booming witnessing a massive emerging growth. The demand for labour and material needs to be constantly supplied, in order to sustain this unprecedented growth rate.

Annual demand for construction craftsmen from 2011- 2016 can be predicted as given below.

Occupation	2013	2014	2015	2016
Masons	4,763	5,001	5,251	5,514
Carpenters	2,363	2,481	2,605	2,735
Plumbers & Pipe Fitters	762	800	840	882
Electricians	707	742	779	818
Bar Bender & Steel Fixers	361	379	397	417
Painters	399	419	440	462
Tile Layers	399	419	440	462
Scaffold Fixers	180	189	198	208
Plasterers	1,347	1,415	1,485	1,560
Concrete Workers	1,936	2,033	2,134	2,241
Shuttering Workers	11	12	12	13
Aluminum Workers	31	32	34	36
Total	13,258	13,920	14,616	15,347

Source : Tertiary and Vocational Education Training - TVET PLAN

5.0 Productivity

5.1 Productivity of the Sri Lankan Construction Industry

In order to ensure proper economic benefits, it is required to increase the productivity for the construction sector.

Factors seriously impairing Construction productivity are related to project conditions, design and procurement construction management, government policy and training of industry personnel. Also such factors as weather variation, material shortage, lack of experienced design and project management personnel, many scope changes during construction, slow approvals and issues of permits also impair construction industry.

Continuous application of the traditional practices has prevented and delayed the use of technology innovations and created a stagnant environment.

The ICTAD as national body has made it compulsory that all the contractors falling in to the category of C1 to C3 should have the ISO 9001 - 2008 and all the contractors have now fulfilled this mandatory requirement. The adherent to the international accepted processes improve the productivity of contractors making them globally competitive. The increased use of new technologies and IT based new tools for managing the process have also led to the increasing of productivity of the construction industry.

5.2 Construction Labour productivity

Labour productivity which is measured as output per employed person increased in year 2013. Overall labour productivity increased by 3.4 percent reaching Rs. 388,005 per person in 2013.

Labour productivity of construction sector

	2012	2013
GDP at content (2002) prices Rs. Mn. Construction	247,091	282,742
Labour productivity Rs. 000' per employed person	401	480.8

Source of Information – Central Bank -Annual Report 2013

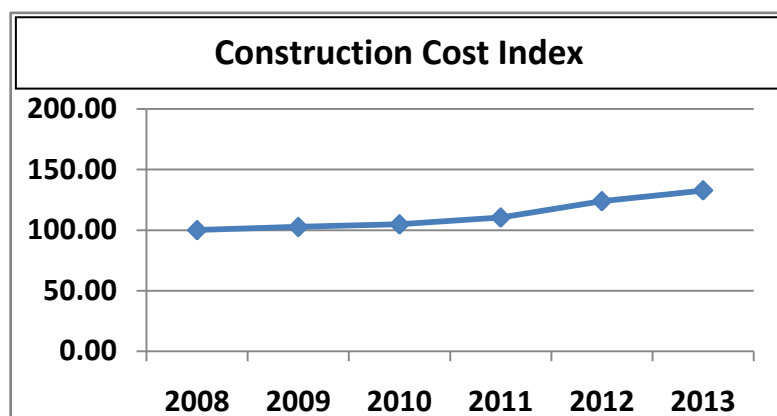
The highest contribution to the overall productivity come from the industrial sector, reaching 6.6% increase in the year 2013. The construction sub sector has recorded a improved labour productivity, witnessing an increase of 19% percent in the year 2013.

Improving productivity in all sectors of the economy is imperative to achieve sustainable economic growth. Programmes on research and education on new and innovative technologies have also played a vital role in promoting productivity in the sector.

Handling of major infrastructure development projects by foreign contractors has also made a positive impact on the labour productivity, due to the transferring of knowledge to the local counterparts.

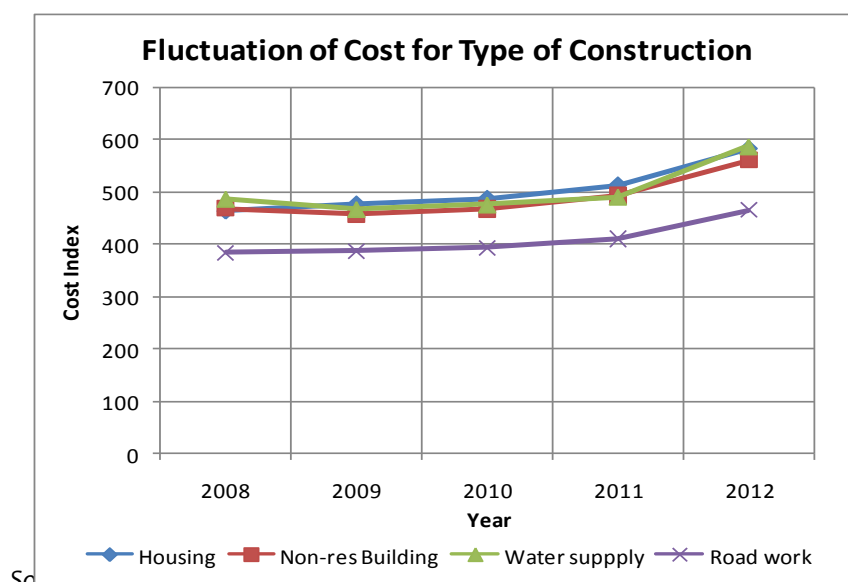
6.0 Construction cost

The cost of construction is going up continuously. This is evident in the construction cost index compiled by the ICTAD. The unit cost has been escalating due to price increase in major construction materials, labour, machinery and fuel.



Source : Institute for Construction Training and Development (ICTAD)

	2008	2009	2010	2011	2012	2013
Construction Cost Index	100.00	102.59	104.76	110.38	123.86	132.75



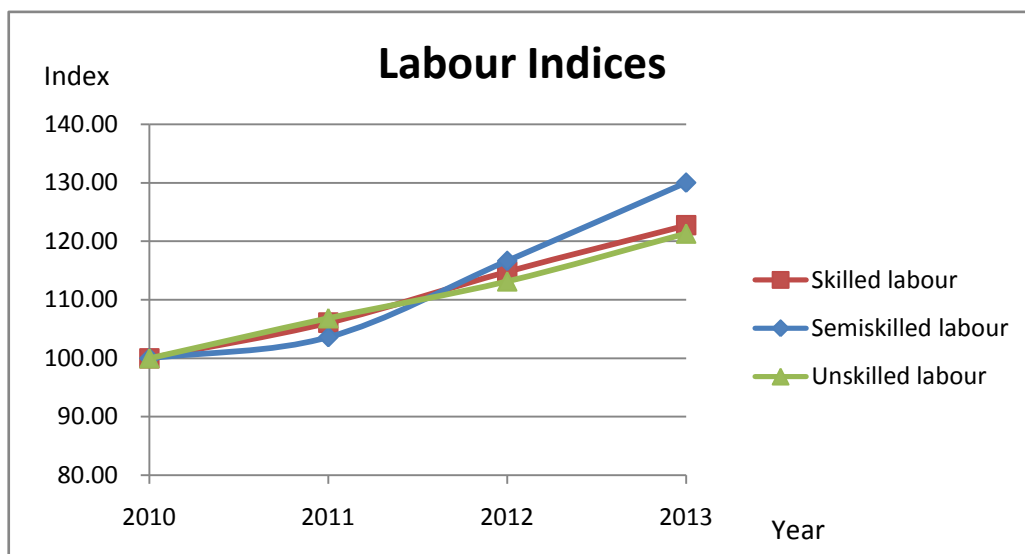
6.1 Labour wages

Daily wages of the construction sector employees increased by an average rate of 10.2% during the year 2013. Daily wages for carpenters and masons in the construction sector increased by 8.0% and 8.1% respectively compared to an increase of 12.4% and 11.9% respectively in 2012. The increase was partly attributed to the continued demand for workers in the construction sector and contraction of labour supply to some extent in this sector due to migration of skilled craftsmen for foreign employment.

The number of employed persons increased in the year 2013 on account of increased employment.

Labour Wages					
	Average Price				
Labour category	2010	2011	2012	2013	unit
Skilled labour	911.00	966.35	1,045.82	1,117.92	Day
Semiskilled labour	858.00	888.99	1,000.83	1,115.55	Day
Unskilled labour	678.00	724.45	767.12	822.51	Day

Labour category	Indices		
	Skilled labour	Semiskilled labour	Unskilled labour
2010	100.00	100.00	100.00
2011	106.08	103.61	106.85
2012	114.80	116.65	113.14
2013	122.71	130.02	121.31

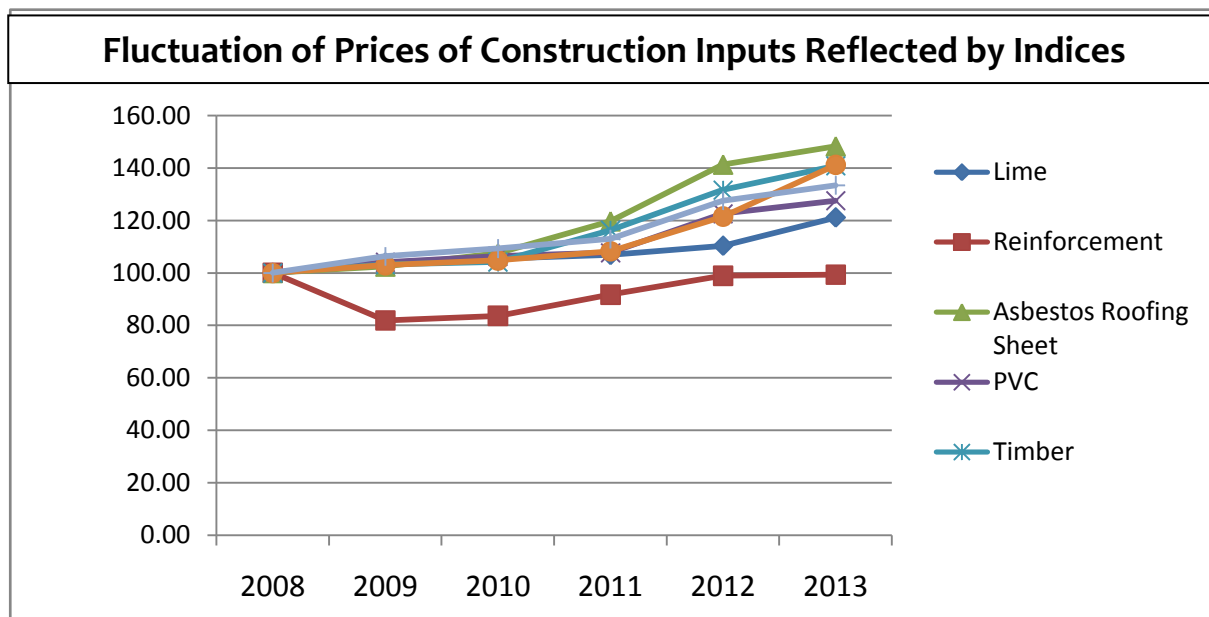


Source : Institute for Construction Training and Development (ICTAD)

6.2 Construction material prices and indices

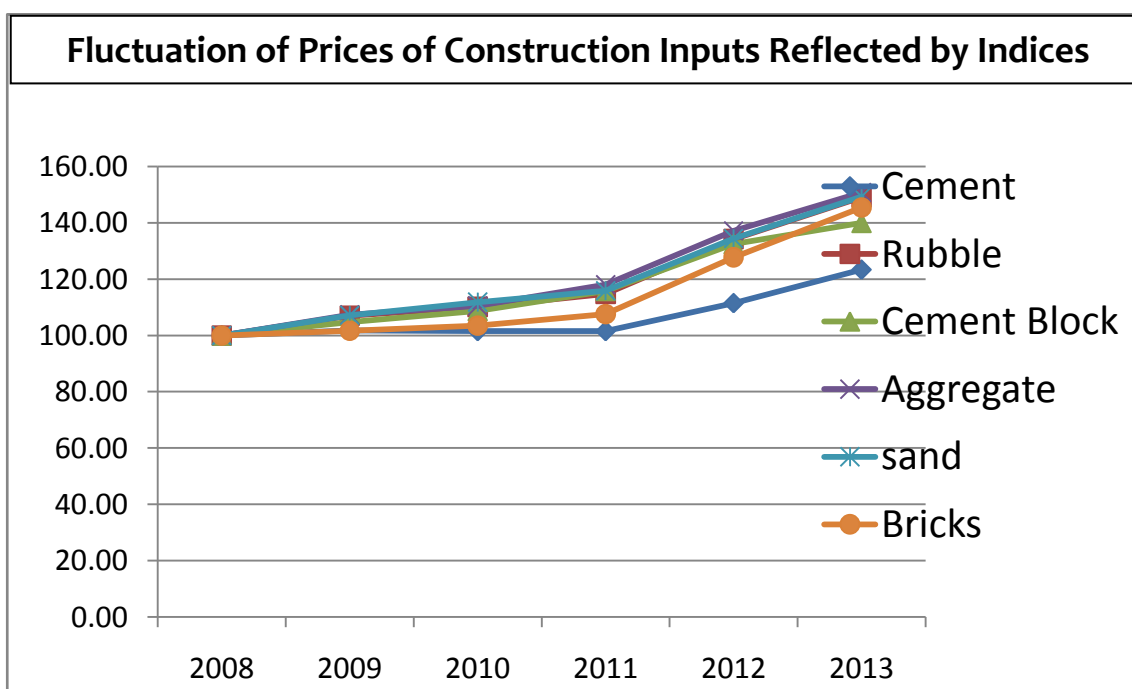
Material price indices compiled by the ICTAD reflect that the material prices have increased at a moderate pace from the year 2008 to 2011. But with the launching of massive development drive by the Government in the post war environment, the material prices have gone up dramatically due to the robust increased demand. Central Bank Report also shows the higher importation of materials in the last three years. The higher importation of materials can be attributed to the fact that local material producers were unable to cope-up with the sudden increase in demand.

Material	2008	2009	2010	2011	2012	2013
Lime	100.00	103.94	105.36	106.85	110.35	121.10
Reinforcement	100.00	81.90	83.66	91.68	98.89	99.33
Asbestos Roofing Sheet	100.00	102.46	107.47	119.68	141.31	148.25
PVC	100.00	104.05	106.36	107.70	122.57	127.52
Timber	100.00	103.18	104.13	116.26	131.61	140.84
Glass	100.00	102.90	104.81	108.23	121.45	141.09
Wall Paint	100.00	106.31	109.32	112.96	127.53	133.40



Source : Institute for Construction Training and Development (ICTAD)

Material	2008	2009	2010	2011	2012	2013
Cement	100.00	101.82	101.55	101.55	111.51	123.42
Rubble	100.00	107.02	110.16	114.81	134.28	149.12
Cement Block	100.00	104.76	108.73	115.83	132.48	140.03
Aggregate	100.00	107.38	110.52	118.04	137.19	150.79
Sand	100.00	107.14	111.86	115.87	134.42	149.29
Bricks	100.00	101.67	103.54	107.58	127.78	145.47



Source : Institute for Construction Training and Development (ICTAD)

7.0 Export and import of construction services

The most of the large infrastructure development projects were carried out under the foreign funding and most of those foreign funded projects were handled by the foreign contractors offering sub contracts to the local contractors.

An indicative representation of the construction output by large projects of over Rs. 50 Million, executed using both local and foreign funding, is given below.

Year	Foreign Funded	Govt. Funded	Total Estimated Cost of all Projects (Rs. Bn)
2009	865	1818	6,938
2010	824	1880	7,248.
2011	785	1949	7,892
2012	548	1513	6,143

Source : Dept. of Project Management and Monitoring – Ministry of Finance 2012

There is a heavy demand for local construction craftsmen in overseas market and number of opportunities available and number of departures of craftsmen for foreign employment are given below.

Occupation	2010		2011		2012	
	V	D	V	D	V	D
Bar Bender	197	124	108	10	217	95
Building Carpenter	626	166	1690	344	740	227
Carpenter –Joiner	4896	1349	1688	373	69	13
Carpenter Shuttering	1570	362	1447	171	701	75
Building Electrician	221	39	452	208	270	65
Plumber	-	-	621	70		
Mason-General	7564	2333	5211	1013	3173	602
Mason-Tile Fixer	1625	683	835	328	419	73
Scaffolder	231	18	487	16	200	61
Painter-Building	238	42	145	51	187	101
Total	17,168	5,116	12,599	2,585	5976	1312

Source : Sri Lanka Bureau of Foreign Employment - 2013