

ASIA CONSTRUCT

23rd Asia Construct Conference

SRI LANKA – COUNTRY REPORT

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1. Executive Summary

The Construction Industry plays a major role in national economy development contributing more than 8% to the Gross Domestic product (GDP).

According to Trading Economics, the contribution to Sri Lanka's GDP from the country's construction industry in the fourth quarter of 2016 achieved a record all time high of Rs. 200,970 Million (US dollars 1640). This was almost a threefold improvement from what it contributed just six years ago back in 2010. In fact, even its proportional contribution to Sri Lanka's gross domestic product saw a year over year increase, from just 6.6% contribution in 2009 to 8.7% in 2013 and an impressive 9.6% in 2014. In addition to that, the country's construction industry has also seen acceleration since 2011 due to the addition of new airports, harbours, expressways and numerous real estate development projects.

According to the stock brokering firm, First Capital Equities, the industry saw a slowdown back in 2015, when the newly elected government halted a number of previously initiated high profile construction projects such as the Colombo Port City and the Lotus Tower. These were expected to add a considerable number of apartments and condominiums as well as commercial properties to the Sri Lanka's property market.

Finally, in the second quarter of 2017, the industry has reported a growth of 9.3% when compared to last year. As such, it is clear that the construction industry of the Pearl of the Indian Ocean is booming. Nevertheless, after environmental reviews, the projects were given the green light with the Lotus Tower projected to be completed first, by March 2018.

The government has recognized the role of the construction industry in the development process and as a result it is reviewing its policy on construction due to the challenges it is facing such as

- a) continuity of work at all levels.
- b) foreign participation denying opportunities for the domestic participants.
- c) inadequate capacities of major stake holders and its partners.
- d) financial risks.
- e) non-transfer of technology.
- f) receipt and discrimination of information and data.
- g) environmental issues.
- h) inadequate partnering.

Currently the construction industry is served by around 3000 Construction Industry Development Authority (CIDA) registered contractors and around 150 consultancy/design organisations belonging to the state and private sector. Several mechanisms are in place to promote investment and private sector participants. The following institutions provide an appreciable role to the construction industry.

- a) Construction Industry Development Authority (CIDA) as facilitator / promoter / coordinator / regulator.
- b) Sri Lanka Standard Institution (SLSI) is developing and promoting standards and quality.
- c) Construction Guarantee Fund (CGF) is furnishing bonds and guarantees on concessionary terms.
- d) National Construction Association of Sri Lanka (NCASL) and other professional bodies help in bringing reforms.

2. Macro-Economic Review

2.1 Overview of the National Economy

A long term development programme covering 2006 to 2016 has been prepared within the broad policy framework and this new approach integrates the positive attributes of market economic policies with the domestic aspirations by providing necessary support to domestic enterprises and encouraging foreign investments,. The formulation of the programme has undergone an intensive consultative process involving sectorial Ministries and other relevant agencies. The programme underlies a ten year macro-economic framework with an 8 per cent GDP growth target for first six years and a higher target of 9-10 percent growth thereafter. Within the macroeconomic parameters the programme includes ten-year policy framework for various sectors of the economy covering sector visions, issues challenges, and strategies.

Sri Lanka's population is expected to increase from 2005 of 19.7 MN to about 23MN. The labour force will reach a level of about 10.9 MN. The unemployment rate has already declined to around 7 percent. There could be some tightening of the labour market conditions with the possible increased demand for labour with the ongoing expansion of the world economy, aging population in many countries including Sri Lanka, and expected expansion of domestic economy. However, the need to ensure that gain made in employment is sustained and the new entrants to the labour force, projected to be around 2.8 MN, are well prepared to be gainfully employed and their productivity levels raised has to be realised.

Another major challenge will be eradicating poverty, affecting about 23 percent of the country's population. Sri Lanka's economic growth in the past three decades had been moderate and lagged behind the growth rates achieved by the dynamic emerging economies in East Asia. In addition, there has been a perpetuation of income disparities, both among income earners and geographic regions. It is clear that in the past the economic growth has largely bypassed the rural areas and concentrated in the Western Province, which now contributes a 51 percent to the national GDP (2004). In the case of income groups, the disparity appears to be even wider. Therefore, Sri Lanka needs a considerable catch-up in growth rate not only to secure its place in the regions/region as a newly emerging economy, but also to ensure that the country's economy is capable of providing better livelihood for all citizens, including those who are in abject poverty.

2.2 Main Economic Indicator

GDP From Construction in Sri Lanka decreased to 164173 LKR Million in the first quarter of 2018 from 190375 LKR Million in the fourth quarter of 2017. GDP From Construction in Sri Lanka averaged 137032.09 LKR Million from 2010 until 2018, reaching an all time high of 190375 LKR Million in the fourth quarter of 2017 and a record low of 77176 LKR Million in the second quarter of 2010.

Sri Lanka GDP	Last	Previous	Highest	Lowest	Unit
GDP Growth Rate	1.40	3.70	16.10	0.50	percent [+]
GDP Annual Growth Rate	3.20	3.54	16.12	0.50	percent [+]
GDP	87.17	81.79	87.17	1.41	USD Billion [+]
GDP Constant Prices	2223856.00	2632150.00	2632150.00	1414948.00	LKR Million [+]
Gross National Product	12928685.00	11506217.00	12928685.00	4115.00	LKR Million [+]
Gross Fixed Capital Formation	3502123.90	3263242.60	3502123.90	357.00	LKR Million [+]
GDP per capita	3842.30	3768.70	3842.30	585.90	USD [+]
GDP per capita PPP	11669.10	11445.50	11669.10	3612.30	USD [+]
GDP From Agriculture	154906.00	178265.00	178265.00	124301.00	LKR Million [+]
GDP From Construction	164173.00	190375.00	190375.00	77176.00	LKR Million [+]
GDP From Manufacturing	690910.00	638801.00	691150.00	270409.00	LKR Million [+]
GDP From Mining	59172.00	68137.00	68137.00	29585.00	LKR Million [+]
GdpFrom Public Administration	95951.00	124181.00	130705.00	82170.00	LKR Million [+]
GDP From Services	1269230.00	1405361.00	1405361.00	793066.00	LKR Million [+]
GDP From Transport	222731.00	303752.00	303752.00	135720.00	LKR Million [+]

3. Overview of the Construction Industry

3.1 Construction Project's Awarded/ Investment

According to the stock brokering firm, First Capital Equities, the industry saw a slowdown back in 2015, when the newly elected government halted a number of previously initiated high profile construction projects such as the Colombo Port City and the Lotus Tower. These were expected to add a considerable number of apartments and condominiums as well as commercial properties to the Sri Lanka's property market. The country's construction industry has also seen acceleration since 2011 due to the addition of new airports, harbours, expressways and numerous real estate development projects.

In order to meet the challenges due to economic slowdown the government of Sri Lanka and its organization along with the private sector has resorted to various policies and strategies. Government continues to adopt liberalized policies and a free market system. Government has given precedence for the infrastructure development to meet the development needs of the country while focusing attention on housing needs of low and middle-income dwellers. Nevertheless, after environmental reviews, the projects were given the green light with the Lotus Tower projected to be completed first, by March 2018. Furthermore, the industry will be further stimulated by infrastructure projects such as Construction of Central Expressway – Section II –Package A or the Rehabilitation Improvements to Peradeniya – Badulla-Chenkaladi Road. The latter especially will continue boosting the industry through such upcoming projects such as the Shangri La mixed-use development, the Phase 2 of the Havelock City, the ITC Colombo One Hotel &Residences, Keells Waterfront Project. Few others to mention, would be the Capitol TwinPeaks, scheduled to be ready for occupation by end-2020, as well as Capital Heights by Access Engineering PLC commencing its construction on the 18th September 2017.

Government continues to encourage private sector investment in developing commercial infrastructure facilities such as port services, electricity and telecommunication projects, selected highways and industrial towns on BOO/BOT basis.

The investment policy allows for:

- a) total foreign ownership in virtually all areas of the economy.
- b) safety of investments guaranteed by the constitution.
- c) equal treatment for foreign and local investors under the general laws of the country

The Board of Investment promotes private investment by providing alternative incentives and intensified promotional activities. The law empowers the Board of Investment (BOI) to grant special packages of incentives to enterprises, which meet BOI criteria. The incentive package includes tax and other fiscal concessions. Where projects are on bilateral aid and tenders may be restricted to contractors of the aid giving countries. Sri Lankan contractors would be permitted to bid in collaboration with foreign construction contractors or construction management organizations from the aid giving countries.

3.2 Construction Companies Registered

Registration and Grading of Construction Contractors according to their ability and field of speciality in order to make sure that the contractors do not, undertake jobs beyond their capabilities.

The details of CIDA grading system are appended below:

(i) Grading System for main contractors:

Grade	Financial Limit (X) (Rs. Million)	Field of Specialisation
CS 2	$X > 3000$	Buildings Highways
CS 1	$3000 \geq X > 1500$	Bridges
C 1	$1500 \geq X > 600$	Water supply and Sewerage
C 2	$600 \geq X > 300$	Irrigation and Drainage Canals
C 3	$300 \geq X > 150$	Dredging and Reclamation
C 4	$150 \geq X > 50$	Storm Water disposal and Land Drainage
C 5	$50 \geq X > 25$	Maritime Construction
C 6	$25 \geq X > 10$	Heavy Construction (Areas to be Specified)
C 7	$10 \geq X > 05$	
C 8	$05 \geq X > 02$	
C 9	$02 \geq X$	

Source of Information – CIDA

(ii) Grading system for electrical and mechanical services:

Grade	Financial Limits (Rs. Million)
EM1	$X \geq 50$
EM2	$50 \geq X > 25$
EM3	$25 \geq X > 10$
EM4	$10 \geq X > 02$
EM5	$02 \geq X$

Specialities

Mechanical Ventilation and Air Conditioning (MVAC)
Refrigeration (RF)
Electrical Installations (Low Tension) (EE-LT)
Plumbing & Drainage (PD)
Elevators, Escalators & Travellators (EET)
Generators (Gen)
Electrical Installation (High Tension) (EE-HT)
Extra Low Voltage Installations (Data, Telecommunication and Security Systems) (ELV)
Fire Detection, Protection & Suppression (FDPS)
Medical gas Systems (MG)
LP Gas Systems (LPG)
Heavy Steel Fabrications (HSF)

(iii) Grading system for Finishing Trades

Specialities

Grade	Financial Limits (Rs. Millions)
SP1	$X \geq 50$
SP2	$50 \geq X > 25$
SP3	$25 \geq X > 10$
SP4	$10 \geq X > 02$
SP5	$02 \geq X$

Floor, Wall & Ceiling Finishes (FW&C)
Carpentry & Joinery (Crap)
Light metal work (ME)
Soft Landscaping (LA)
Furniture, Fittings & Equipment (FF&E)
Aluminium & Finishes (A&F)
Water Proofing (WP)
Swimming Pools (SP) (Industrial & Domestic)
Soil Nailing & Stabilization (SN)

3.3 Construction Professional Registered

In Sri Lanka, architects and engineers are registered with their respective statutory bodies. Under these rules, a person registers in the Association shall, in the exercise of his/her profession, observe and be guided by the provisions of the Code of Professional conduct. This code also imposes an obligation on professionals to exercise a reasonable standard of skill and diligence expected and accepted by the profession. As such, the professional Associations have made it a requirement for professionals to participate in CPD before the association can accept their renewal of registration. Among the engineers the professional conduct of registered engineers to ensure there is no breach of professional ethics or code. Professional bodies will need to educate, examine, and sustain high standards of professional conduct and ethics among its members and through its members, to serve the industry stakeholders

The industry will need to place greater emphasis on self-regulation among contractors and consultants in ensuring ethical practice and continuous improvement. Contractors and consultants must ensure that standards of behaviour embody the highest ethical principles. This requires the creation of a code of ethics. A self-regulatory approach among these associations and professional bodies is to ensure the adherence to the code of ethics by its members. NCASL will need to ensure that its members adhere to the code of ethics for contractors and make it a requirement for its members to participate in CPD programmes.

The Construction Industry Development (CID) Act Imposed and Construction Industry Development Authority to be reengineered as an effective regulatory arm for the construction sector. According to the Provision of CID Act No 33 of 2014 the Authority formulated Ethical and Social Responsibility Standards and required rules and regulations related to the Construction Industry and to be revised time to time with respect to technological, economics and social trends propagating locally as well as globally.

3.4 Construction Personnel and labour Registered

Construction Industry is the mirror image of National Development of a country and its Productivity is a crucial factor to be analyzed for National Planning scenarios. Size of the **Construction Workforce** reflects the capability and capacity of the National Construction Industry. The Sri Lankan construction industry can promote the use of skilled labour by adopting following approaches to human resource development;

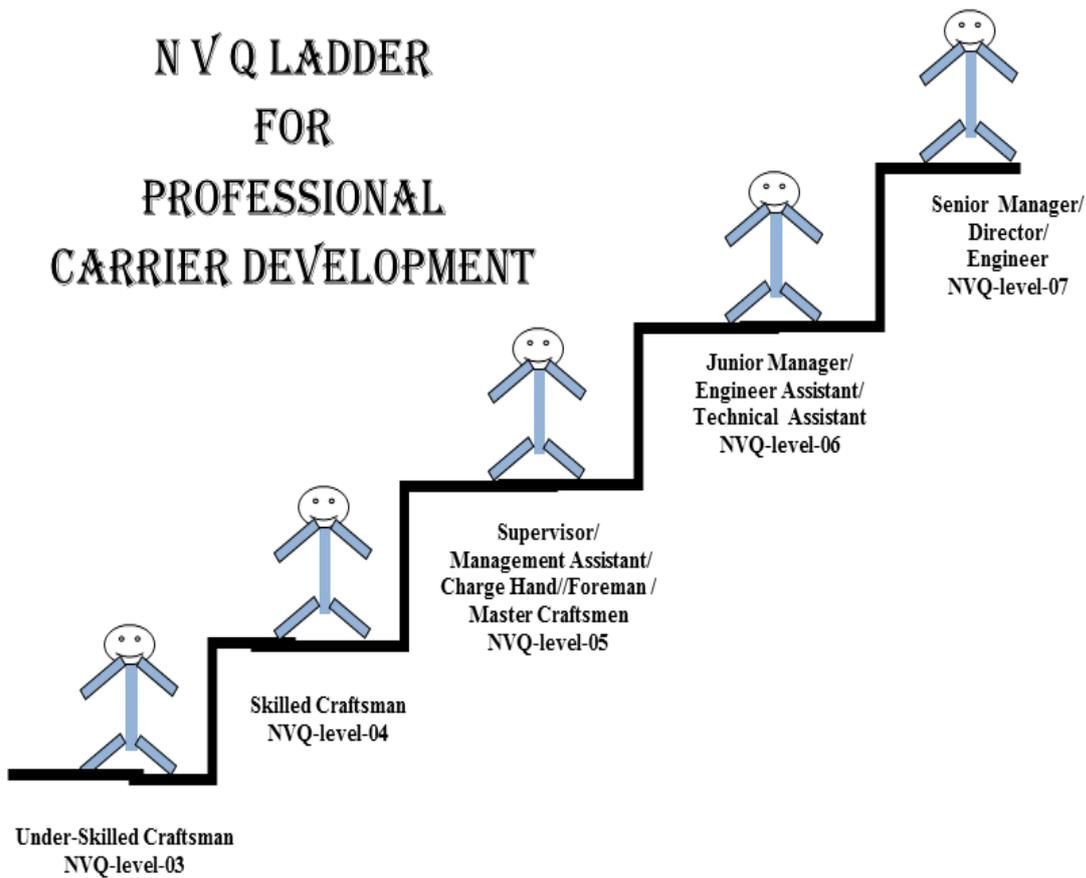
- Assessment of the human capital need,
- Initiate skill development, training and education,
- Encourage continuous skill development programmes.

Craftsmen are moreover only daily paid and not entitled for any bonus, allowances, insurance, EPF or a pension under any scheme of regularity. Thus, most of the craftsmen are used haphazardly by the employers on their own. Therefore neither professional interest nor job attitude could be developed in them. Besides that no social safeguard is built up because future of such tradesmen with their families is risky and always at uncertainty.

TVEC in association with the Skills Development Project (SDP) funded by the Asian Development Bank (ADB), introduced the national certification system for the TVET sector of Sri Lanka, which is called the National Vocational Qualification (NVQ) framework with effect from January 2005. The prime objective of NVQ framework is to facilitate the manpower skill development in the industry.

Profession of the craft level trades has to be recognized through prior learning (RPL category of NVQ certification) to award an accepted certification to prove their skills and field expertise. The government & statutory bodies such as Tertiary and Vocational Education Commission (TVEC), CIDA, and National Apprentice & Industrial Training Authority (NAITA) are actively engaged in identifying skills, assessing competencies and awarding NVQ certificates for the craft level trades. The carrier ladder for their professional development has already been established and a separate university too has been established but as yet we don't observe a satisfactory crowd of tradesmen of RPL category to use the NVQ ladder.

NVQ LADDER FOR PROFESSIONAL CARRIER DEVELOPMENT



The Construction Industry Development Act has been enacted, making several progressive steps in order to overcome the above challenges, giving proper recognition and enhancing the image of Construction Craftsmen by appreciating the important services they render in developing and uplifting the quality of construction works. One of the provisions of the Act is to issue them an Identity Card referred to as Craft Identity Card with an Identification Number, specific category, and grade of such Identity Card holder. That Construction Industry Development Authority should register the Construction Craftsmen practicing in the Construction Industry and establish long-term insurance with pension benefits, to those who are not entitled to any other form of retirement benefits under any other law, using the allocations from the Construction Industry Development Fund.

3.5 Construction Productivity

Planning and productivity are the two key attributes for the enhancement and development in the construction industry. Careful planning ranging from macro level to micro levels helps to a greater extent towards achieving productivity. Although there is adequate macro level planning sufficient planning is lacking towards micro levels.

In Sri Lanka, very limited work has been done to study the construction productivity in respect of labour and plant. It has been identified the disruption factors such as lack of continuity and information are the main causes of loss of productivity in construction projects in Sri Lanka.

In general, labour productivity depends on the following factors;

- a) quality, size and composition of labour force
- b) motivation of labour force
- c) degree of mechanization
- d) continuity of work as affected by
 - supply of materials
 - performance of other contracts or sub-contracts
 - availability and adequacy of technical information
 - varieties
- e) completion of the projects
- f) required quality of finished works
- g) methods of construction
- h) type of contract
- i) quality and number of managers
- j) weather conditions

The main factors that are applicable to Sri Lanka are quality and motivation of the labour force, supply of materials, required quality of finished work, quality of managers and weather conditions.

Sri Lanka has a highly skilled labour force. Their availability for the local construction industry is very limited due to heightened overseas demand particularly by the Middle-East countries coupled with reluctance of the youth to enter the industry. This too, has had a negative impact on quality and productivity in the local industry.

The productivity concept in construction industry is directly coupled with the quality and economy. Presently, training and awareness programmes are used for productivity improvements in the industry.

3.6 Construction Cost

The construction industry of a country will play an important role in the economic growth of that country being an industry that is large, dynamic and complex. This is true for a country like Sri Lanka as well. In the construction sector, a project will be considered as a success if it has met the goals and objectives stated in its project plan and if it has attained the expected technical performance by completing the work on schedule within the budgetary allocations provided. Among all project parameters, cost has become the most important, being the prime factor contributing to the success of a project. Most of the construction projects in Sri Lanka incur cost overruns. Therefore, the ability to minimize the cost of a project could determine its profitability and even the very survival of the company undertaking the project.

The construction industry of a country is a major contributor to the economic growth of that country. Construction involves engineering projects, building new structures and renovations to existing buildings that involve additions, alterations, or maintenance and repairs. The success of any project would depend on how it achieves its goals and objectives in its project plan and also its expected technical performance by completing the work on schedule within the budgetary allocations provided. However, out of all the project parameters relating to time, cost and quality, project cost has become the most important parameter since it is the prime factor that contributes to the success of a project. Cost management is all about achieving value for money and it involves overall planning, co-ordination, control and reporting of all cost related aspects of a project from its initiation to its maintenance. Cost analysis is the process of analyzing and recording the cost data of projects once the relevant information has been received. This cost analysis has to be prepared soon after the bids have been received considering a number of reasons such as the currency of the cost information, familiarity with the project etc. Most of the construction projects in Sri Lanka, especially building construction projects, suffer from cost overruns which have been identified as one of the major contributory factors for project terminations. The root cause of cost overruns is poor cost planning and cost management during the pre-contract stage. Nine out of ten projects (90%) in the construction industry in Sri Lanka have been affected by cost overruns, and 20% of building projects among them have been affected by cost overruns beyond 30% their contract sums.

According to the analysis of the different views of the experts, the construction industry in Sri Lanka does not still have proper documentation such as Bills of Quantities (BOQS),

Frameworks for Cost Plans etc., for construction related works. Each consultancy firm uses its own formats for their work. Thus, it is essential to identify the suitability of the current system to provide an acceptable cost plan and to propose a suitable framework for the cost plan. As identified in the analysis, in Sri Lanka, the elements in the BOQ and the cost plan are different. Generally, the cost plan is based on elements like sub-structure, frame and roof but the BOQ has so many trades within each element and those trades are not covered in the cost plan under the respective elements, as the local construction industry does not have standard formats for the required documents. This is despite the fact that the construction industry in Sri Lanka is a major contributor to the growth of the country's economy. The cost overrun is a vital reason for the termination of a project. Thus, in order to avoid such unnecessary terminations, the construction industry in Sri Lanka needs to improve its cost planning practices.

The next most common drawback is the absence of a standard system. In Sri Lanka, there is still no proper database available. As experts verified, each consultancy firm has its own database and follows its own system/formats. This database has to be in a safe place in the absence of a central database provided by the government. In other countries, the same system is followed by all firms using a central database in which all required data is available.

The Government of Sri Lanka can provide published cost data within particular time interval by using a centralized database. This information can be made available to all stakeholders by providing them with easy access to the database. Since it is published by the local government bodies, the reliability of the cost data would be high and that data could be used as references. It is required especially for infrastructure projects like roads, dams, bridges, railway projects etc., for which cost data would be difficult to obtain and maintain. However, the data published will be only typical data as they will indicate the market values only approximately.

The inability to carry out operations effectively and the extended process of obtaining approvals are some of the main challenges that hinder the current construction segment. For example, in an article published on Mirror Business, that Shangri La had to face some administrative delays due to being the first mixed development.

Furthermore, another on-going difficulty is the industry's lack of skilled labour, which is causing massive delays for various projects. One of the reasons for this are the increasing employment rates and that inspirational workers are seeking higher salaries. In addition to that, construction workers are also faced with many health hazards at work.

The industry is also facing a challenge in obtaining adequate main construction elements like sand, metal and cement. As a result continuously providing high quality results is being questioned. The need to use alternate substitutes with the support of technology is essential in order to cater the prevailing construction boom. The growing demand for sustainability is also one of the main impediments the industry is facing right now.

Recognition for Quality achievements - CIDA Award for Construction Excellence

The construction industry plays a vital role in the national development efforts of Sri Lanka and the part played by construction contractors is very important. CIDA Award for Construction Excellence recognises outstanding performance in construction management and organizational skills, technical expertise and appropriate technology in achieving excellence in construction projects.

The Annual CIDA award for Construction Excellence symbolises its commitment towards the promotion of quality and professionalism in the construction industry in Sri Lanka. CIDA's mission is to develop the domestic construction industry. The objective is to encourage contractors to achieve quality and efficiency in the construction industry by encouraging innovative approaches in technology and timely completion of projects to acceptable standards and costs.

The building projects are assessed according to residential and non-residential buildings and according to the following three financial categories:

Category 1 – above Rs. 1000 million

Category 2 – between Rs. 500 million & 1000 million

Category 3 – between Rs. 100 million & 500 million

The other mechanisms in place to promote quality of construction are:-

Promotion of ISO Quality systems and recognition of stakeholders adhering to ISO Quality Systems.

Preparation of guidelines for registration of selected material manufactures and suppliers.

Development and review of publications for the construction industry.

Sri Lanka Standards Institution too promotes the standards and quality of construction and has the following schemes in operation.

1. Product certification
2. System certification
3. National quality award
4. Import inspection
5. Development and review of standards

3.7 Construction Prices

Construction material prices & Labour rates							
Material Type	Unit	Prices /Rates(Rs)					
		2013	2014	2015	2016	2017	2018
Cement	50 KG	920.6	920.6	873.8	883.65	897.65	915
Sand	cube	11225	11470	12265	13980	15930	17100
Metal	cube	7068	7204	7240	7460	7635	7925
Bricks	1000No	9275	9630	10470	12980	14000	14480
(Hand cut)							
Steel	kg	146	146	146	146	157	168
Asbestos Sheets-10'	each	1965	2043	2043	2072	2086	2086
Timber Gr:1-3"x4"	Lf	273.3	274.95	274.95	276	288	295
Aluminum Door	sqf	3750	3750	3825	3910	4040	4200
Calicut Tile-Gr-1	1000No	40810	41340	43680	48330	54670	59840
Skilled Labour	day	1210	1266	1328	1381	1422	1438
Semi Skilled Labour	day	1190	1265	1319	1368	1376	1376
Unskilled Labour	day	917	924	978	1019	1077	1101

3.8 Import and Export of Construction Services

The government is continuing with an active policy of economic liberalization. There are no restrictions for foreign participation on domestic international competitive bidding. This policy has several impacts for the development of the domestic construction services since:

1. Foreign participants have almost unlimited resources comparable to domestic participants.
2. The conditions lay down by the donor agencies favour foreign participation.
3. Foreign participation has no significant yield of technology transfer.

Though foreign companies are allowed to bid for projects on local competitive bidding, the construction volume is structured relatively small, in order to protect the domestic construction services. Therefore, foreign competition is minimized.

Sri Lanka is an active members of the SAARC Construction Industry Council. (SCIC) and has the following regional agenda for action as strategies towards cooperation in the Asian Construction Market.

- 1) WTO/GATS related issues-Washington Accord for Engineers Mobility and ASEAN Accord for workers' mobility.
- 2) Disaster management plans and formation of a work cell.
- 3) Human Resource Development in construction industry-Workers /Contractors/Supervisors training, harmonization of contents in SAARC nations, initiating a dialogue with WTO Secretariat, Placing bilateral/multilateral accords, among and within SAARC Nations.
- 4) Drawing up of the guidelines for trade in Construction Materials / Equipment / L.E. Goods / services etc. and requesting SAARC Secretariat to push these for implementation with all governments of SAARC Nations.
- 5) Drawing up to the guidelines for a preferential treatment for the Join Ventures / Collaborations / Associations from amongst the organization of SAARC nation origin, for award of the construction/consultancy contracts in multilaterally funded contracts, being executed in SAARC nations. Simultaneously press the Government of SAARC nations, through SAARC Secretariat for insisting on introducing such clauses in the loan agreements, being signed by them.
- 6) To prepare a SAARC CIC, database containing all relevant data/details, which should be used for substantiating such claims, and also to the used by the business entities to prepare their business plans and to facilitate information flow. (This could be a used charge-based service)

- 7) Construction Financing, Insurance and help in accordance of industry status to various National Construction Sectors (Those, who have not been able to get it so far)
- 8) Development of Risk Identification, profiling and products for the construction industry.

4Construction Industry Outlook

The developers should plan long term, as the current growth of Sri Lanka's construction sector should continue for the next 15 to 20 years. Despite of the current challenges, the Sri Lankan construction sector will continue to boom with the increase of affordable housing, major residential and commercial projects. In 2016 September, First Capital Equities claimed that the Construction & Building Material Sector on the Colombo's Stock Exchange is expected to have a 46% average return (annualized 29%) over an 18-month period. This is well above the expected market return.

The end of the three-decade long armed conflict in Sri Lanka in the year 2009, has given a boost to the country's then growing construction industry. As the country rushed to make up for the 30 years of neglect and ruin, construction industry became one of the major beneficiaries of country's rapid economic development.

Within the last nine year, the country saw an unprecedented development of high-end residential, commercial space, hotel and resort construction, and infrastructure; recording a growth in the construction sector that was twice as fast as the nation's GDP, which too has increased by just over 7% on an annual average basis during the same period.

The much awaited budget speech for 2017 delivered on many fronts particularly revenue measures, tax administrative reforms with an aim to improve overall business sentiment. The shift that we saw with most new revenue proposals was that it is targeted at improving the direct tax contribution towards revenue. Unlike last year, some of the key revenue proposals have a greater chance of being implemented, such as the corporate tax revisions and the revisions of withholding tax.

We did see some repetition from the 2016 budget, in particular on proposals that were not implemented. For example, the proposal on creating a new SME board on the CSE, development of REITs, establishment of an EXIM bank and the listing of non-strategic stakes owned by the Government were repetitions from last year's budget. Though they were repetitions, there was a message of consistency in terms of taking it forward into 2017.

This budget should not dent overall business sentiment on a macro level basis though certain industries will be affected. While that may be the case in budget 2017, there are many factors to drive investment forward such as the 100% capital allowance granted on fixed investment in fixed assets (not less than USD3Mn with not less than 250 in employment) in the Uva and Eastern provinces with it going up towards 200% if the above investment was done in the Northern Province. There were other concessions provided to exporters while landmark investments of over USD100Mn would be provided with special incentive packages and specific tax concessions.

The budget is a step in the right direction in terms of medium term vision for the economy. There were several steps taken to improve Sri Lanka's ranking in the Doing Business Indicators such as the proposal to keep open the Registrar of Companies for operations on all 7 days of the week and working towards reducing the time it takes to register a business from 10 days to 4 days. There was also a proposal to establish a national Business Registry and the office of the Trade Prosecutor to improve the rankings.

The deficit targets are very much in line with the IMF programme and that will be key in terms of meeting their expectations as part of the program. Tax revenue is expected to grow 27.2% in 2017 when compared with expected revenue in 2016. This will be realistic if most of the revenue proposals are implemented and we see the positive impact from the full implementation of RAMIS (Revenue Administration Management Information System).

The Sri Lankan economy is expected to continue on a high growth path benefitting from improved infrastructure facilities and favourable macroeconomic fundamentals. Encouraging the private sector to reap the benefits of the government's investments in infrastructure and facilitating them to expand productive capacity would be vital. Maintaining consistent policies and a conducive environment will attract higher foreign direct investment (FDI) for infrastructure development helping to bridge the gap between the current domestic resources and investment required.