

PROTECT & BOOST DOMESTIC CONSTRUCTION



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A. Over View

1. Construction Industry contribute about 8% to GDP & provide employment to 650,000.
2. In recent history Sri Lanka suffered a negative growth only in 2001. For some construction companies present situation is worse than in 2001
3. Outstanding payments to construction sector about Rs. 151 B
4. Crisis situation due to many factors

B. Factors Affecting Domestic Construction

1. Cash flow problems due to delayed payments or non – payment for work done
2. Lack of sufficient work load
3. Unequal competition from foreign companies
4. Lack of transparency in contract awards
5. Large constructions undertaken by parties not competent
6. Delays in preliminary planning clearance and development permit

Factors Affecting Domestic Construction.....

7. Issues on developing multi storeyed apartments & office buildings
8. Lack of grading system for consultancy practices and property developers
9. Reluctance of banks to extend credit facilities
10. Lagging behind in technology
11. Shortage of construction workers
12. Difficulties in supply of local materials.

C. Cash Flow Problems

1. Timely payments very important to construction companies. Low capital high turnover, Highest bankruptcy rate.
2. Some measures announced will ease liquidity. Corporate tax reduction to 14% w.e.f 1st April 2020 advantage from July. VAT no benefits.
3. Introduce a Construction Industry Security of Payments Act or make suitable amendments to Construction Industry Development Act.
Settlement of Interim Payment Certificate should not be considered a contractual dispute but a legal right. Construction Industry Payment & Adjudication Act of Malaysia.

Cash Flow Problems.....

4. Interim Payments Certificate to be issued within 14 days & settlement within 14 days
5. Release retention on reaching the limit against a bank guarantee
Revised Procurement Guideline 5:4:6 states retention “ may” be released.
6. Due to slow down in activities many SME companies are facing tax penalties for not paying the taxes in time. These should be waived as a concession.

D. Lack of sufficient Working load

1. Sri Lanka debt to GDP is 82.9%. But when Government borrowings from banks are considered it is almost 100%. Foreign debt is 41.2%
2. This year foreign debt repayments total is US 6.0 B
3. Little space to borrow further and for capital spending. Must think of alternatives
4. Govt can construct buildings on tri partite arrangement between contractors and banks with Government entering lease agreement for 20 years.

Lack of sufficient Working load.....

5. Power generation projects on BOT or BOO with power purchase agreement. Hindrance is Sec 9 of Sri Lanka Electricity Act, No. 20 of 2009
6. Best example is Vietnam. In 2017 the Govt called RFP to set up large solar power plants with total capacity 850 MW and to purchase power at US Cents 9/KWh. By December 2019 investors established solar plants with total capacity 5000 MW and the Govt was able to reduce purchase price to US Cents 7.

Lack of sufficient Working load.....

7. Even in Sri Lanka there has been a proposal from 2012 to establish a LNG power plant including off loading platform, with investment of US\$ 1.35 B and capacity 1200 MW, to sell power at US Cents 7.
8. Similarly, it is possible to set up Urea factory against purchase agreement to supply the annual requirement of 400,000 MT. The cost difference will be about US\$ 195 per MT.
9. Other countries have developed roads, water supply etc, schemes on similar arrangements.

E. Unequal Competition from Foreign Companies

1. In most countries various measures are taken to safeguard the domestic industry
2. Foreign construction companies are provided many incentives by their Governments to undertake work here including easy bank facilities
3. Some of these companies first undertook foreign funded projects and were allowed duty free import of plant & machinery. Now they use these on locally funded projects

Unequal Competition from Foreign Companies.....

4. In recognition of this unequal competition the election manifesto of President promised to limit all state construction work to local companies
5. But it is proposed that all projects funded locally should be limited to local companies. Foreign funded projects can be allowed to foreign companies but they must form joint ventures with local companies up to 40% of the value of work. CID Act should be amended accordingly.
6. Above is conforming to National Policy Construction adopted.

F. Lack of transparency in contract awards

1. Allegations leveled on several contract awards
2. It is proposed to include a nominee of Chamber in every TEC and PC on contracts over Rs. 150 M, as an observer.
3. Contracts should not be awarded to state corporations without competitive tenders. To recognize the role of these state corporations in training technical professionals, they may be allowed a preference of about 5%
4. Even on foreign funded projects competitive tenders should be called.

G. Large constructions undertaken by parties not competent

1. There are few high rise buildings constructed by parties without the appropriate registrations
2. Sec 38 of CID Act states that every identified construction work shall be carried out by a register contractor according to the procedures & standards prescribed
3. As it appears as a loop hole the above section should be amended to read as a “ contractor with appropriate registration with the Authority”

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Large constructions undertaken by parties not competent.....

4. The Development Permit require certifications for Chartered Architect, Chartered Civil/ Structural Engineer etc but not construction by a contractor with appropriate registration with CIDA. This should be made a requirement.

H. Delays in Planning Approvals

1. Now it take upto 12 months in certain instances to get the planning approvals, especially the Development Permit.
2. In the election manifesto the President has pledged to reduce the item taken for approval of any building to be constructed to a total of 3 weeks.
3. This will even improve on the ease of doing business index to attract investments.

Delays in Planning Approvals.....

4. In Singapore applications for approval of large buildings have to be made online using BIM software, compliance to planning regulations is checked using a special software and clearance is within 1 day
5. In Sri Lanka a similar on line system should be introduced with drawings prepared using “ Revit Architecture” software. Compliance to planning regulation can be checked with a similar software

Delays in Planning Approvals.....

6. As pledged in the *Manifesto*, the approvals needed from different agencies should be coordinated by the authority granting planning approval and given. The developer should not be required to go to different agencies for this.
7. Necessary amendments to the UDA Act or CID Act should be introduced to make this legally compulsory.

I. Issues on Developing Multi Storeyed Apartments & Office Buildings

1. Our banks consider that this sector has reached saturation point whereas we are no where near.
2. Still in Colombo apartments are only 9%. In most major cities in the region it is 30 -50%
3. In recent years a movement away from Colombo City to suburbs is noticed which may cause further traffic congestion
4. Recent VAT removal is a step in right direction

Issues on Developing Multi Storeyed Apartments & Office Buildings.....

5. Apartment mortgages to middle & low income first time buyers at concessionary interest rate of 6% & pay back period of 4 years shall be mooted. Concept of mortgages from “Father to Child”
6. Suitable lands for high rise buildings are scarce and when available very costly. Government should provide lands with 40P & above at concessionary prices to construct middle & low income apartments
7. Use of residential premises for business purposes on roads less than 10 m width should be phased out within 3 years.

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Issues on Developing Multi Storeyed Apartments & Office Buildings.....

8. Banks to be encouraged to lend for middle & low income apartment projects.

J. Lack of Grading System for Consultancy Practices & Property Developers

1. Undoubtedly the grading system introduced for contractors in 1980 has contributed to the development of construction companies
2. A similar grading system if introduced to consultants and property developers should have a positive effect in the long term
3. Such system will facilitate to develop confidence among end users

K. Reluctance of banks to extend bank facilities to construction sector

1. Now banks consider construction as a very risky sector
2. We need to have a development bank to promote capital projects and export of construction services
3. DFCC & NDB which were first setup as development banks later become commercial banks
4. Such specialized bank can contribute to expand export of construction services

L. Lagging behind in technology

1. Still our companies cannot compete with many foreign companies on technology and work capacity
2. Still very few of our professionals are fully competent on BIM.
3. Most projects on FDI's will have contract documents based on BIM
4. We have to develop capacity to new challenges of technology
5. A Construction Record

A CONSTRUCTION RECORD:



57 FLOORS IN 19 DAYS

SMART IS THE NEW SEXY

M. Shortage of Construction Workers

1. Serious shortage of skilled workers
2. School leavers reluctant to join
3. Proposed to recruit 30,000 from Samurdhi families to Volunteer Force or CDF and release to work in companies on project basis

N. Supply of local materials

1. Difficulties in setting up quarries and borrow pits
2. Government to identify suitable locations and protect from new settlements
3. Shortage of sand supply
4. Increase supply of washed & sieved off shore sand

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Thank You !

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