

Construction

September 2011

Prepared by



And



ICRA Management Consulting Services Limited

Contacts:

W Don Barnabas,
Managing Director/CEO
ICRA Lanka Limited,
#10-02, East Tower,
World Trade Center,
Colombo 01,
Sri Lanka

Telephone: +94 11 4339907
Mobile: + 94 773417517
Fax: +94 11 2333307
Email: wdbarnabas@icralanka.com
www.icralanka.com

V Sriram
Chief General Manager
ICRA Management Consulting Services Limited
India
Telephone: +91 44 4596 4329
Mobile: +91 98400 88273
Email: sriram.v@imacs.in
www.imacs.in

Disclaimer

This report is a joint initiative of ICRA Lanka and IMAcS. All information contained in this document has been obtained from sources believed by them to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and neither ICRA Lanka nor IMAcS in particular, makes any representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and neither ICRA Lanka nor IMAcS or any other Group ICRA Company shall be liable for any losses incurred by users from any use of this document or its contents in any manner. Opinions expressed in this document are not the opinions of our holding company, ICRA, or ICRA Lanka Limited (ICRA Lanka) and should not be construed as any indication of credit rating or grading of ICRA or ICRA Lanka for any instruments that have been issued or are to be issued by any entity.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
SRI LANKA CONSTRUCTION - SWOT ANALYSIS	3
OVERVIEW OF CONSTRUCTION INDUSTRY IN SRI LANKA	4
ECONOMIC CONTRIBUTION OF CONSTRUCTION INDUSTRY	5
GDP FROM CONSTRUCTION.....	5
CONTRIBUTION TO EMPLOYMENT	6
CONCESSIONS FOR CONSTRUCTION INDUSTRY	7
SCHEMES INITIATED BY GOVERNMENT OF SRI LANKA	8
NATIONAL REGISTRATION AND GRADING SCHEME FOR CONTRACTORS.....	8
INFRASTRUCTURE DEVELOPMENT	9
MAJOR INFRASTRUCTURE PROJECTS.....	9
KEY ISSUES FACED BY PLAYERS	15
ECONOMIC OUTLOOK	16
INVESTMENT ESTIMATES	19
WORLD BANK 'DOING BUSINESS 2011' – SRI LANKA'S POSITION IN THE CONSTRUCTION SECTOR.....	20
REGISTERING A PROPERTY IN SRI LANKA.....	21
OUTLOOK FOR THE CONSTRUCTION INDUSTRY.....	22
ANNEXURE: MAHINA CHINTANA (HOUSING SECTOR).....	24
CURRENT SITUATION AND TRENDS	24
HOUSING NEEDS OF VULNERABLE GROUPS	25
COMPANIES IN CIVIL CONSTRUCTION	30

LIST OF EXHIBITS

Exhibit 1: Construction Industry Growth.....	5
Exhibit 2: Construction - Contribution to GDP	5
Exhibit 3: Share of Construction in Sri Lanka's GDP	6
Exhibit 4: Construction Workers by Area of Expertise	6
Exhibit 5: Persons employed by the Construction Industry	6
Exhibit 6: Demand for Expertise in Construction Industry	7
Exhibit 7: Customs Duty on Construction Raw Materials.....	8
Exhibit 8: Composition of NRMP Investments	10
Exhibit 9: Foreign and Local Currency Components of NRMP	11
Exhibit 10: Water Supply and Drainage projects.....	12
Exhibit 11: Colombo City Landscape	13
Exhibit 12: Key Infrastructure Projects Under Implementation.....	14
Exhibit 13: Summary Economic Data - Sri Lanka Economy	17
Exhibit 14: Estimates for Sri Lanka	18
Exhibit 15: World Bank 'Doing Business 2011' Country Table for Sri Lanka	19
Exhibit 17: Country Rank	20
Exhibit 18: Dealing with Construction Permits.....	20
Exhibit 19: Historical Ranking of Construction Permits.....	21
Exhibit 20: Rank for Ease of Registering a Property	21
Exhibit 21: Historical Ranking of Registering a Property.....	21
Exhibit 22: Steps for Registering a Property in Sri Lanka	22

EXECUTIVE SUMMARY

The Sri Lankan construction industry is on an upward trend, due to the post-conflict scenario in the country. The end of the island's ethnic war in 2009¹ has revived the economic activity and resulted in an infrastructure building boom. Significant reconstruction activities are expected to be undertaken in the North and the East of the country. The other regions of the country are also expected to see significant development activities.

In 2010, Sri Lanka's gross domestic product (GDP) growth was 8 per cent as compared to 3.5 per cent in 2009. In the coming decade, the Sri Lankan Government aims to sustain economic growth rate at over 8 per cent. The construction industry occupies an important position in the Sri Lankan economy as in any developing economy.

Various policies and plans of the Government of Sri Lanka indicate that economic growth acceleration focuses on less developed regions, rural livelihood and infrastructure development. Sri Lanka's construction industry has, historically, been supported mainly by housing, industrial and physical infrastructure. In the next 10 years, some of the key areas, which are expected to generate significant demand for construction, include power, roads, ports, water supply, sanitation, tourism, housing, and reconstruction of post-conflict and tsunami-affected regions.

In the Budget 2011, the Government of Sri Lanka has introduced several schemes targeted at the construction industry. Customs duties for some construction raw materials have been reduced.

Presently, the Sri Lankan construction industry contributes to about 70% of the Gross Domestic Fixed Capital Formation and about 8 per cent to the country's Gross Domestic Product (GDP). Some of the key performance indicators of the industry are as follows:

- The construction industry recorded an annual growth of 9.3 per cent in 2010, compared to a substantially lower growth of 5.6 per cent in 2009.
- The share of construction in Sri Lanka's GDP consistently increased from 6.1 per cent in 2002 to 7.6 per cent at current prices, in 2010 and from 6.0 per cent to 6.8 per cent at constant prices (2002).
- At current prices, the industry contributed LKR 108.3 billion in Q12011 to the GDP with a year-on-year growth rate of 18.8 per cent.
- At constant prices, the contribution was LKR 49.1 billion with a year-on-year growth of 14.3 per cent.
- This growth was mainly driven by the large scale development projects in the country and

¹ In this document, FY means Fiscal year denoting April-March. Thus, FY2011 or 2010-11 means the period April 2010-March 2011. Statement of year, e.g. 2010 and so on, without a prefix FY means calendar year from January-December. Thus, 2010 or CY2010 means period January-December 2010, and so on. Q1FY (year) means quarter April-June; and so on and 1Q (year) means quarter January-March. Thus, Q1FY2011 means April-June 2010, and so on. 1Q2010 means January-March 2010, and so on. H1FY (year) means period April-September, e.g. H1FY2011 means April-September 2010, and so on. 1H (year) means January-June, e.g. 1H2010 means January-June 2010, and so on.

rehabilitation and resettlement programmes in Northern and Eastern provinces.

- Higher construction activity resulted in 12 per cent growth in domestic production of building materials.
- At 562,000, the construction industry contributed 7 per cent to the total employment generated in Sri Lanka in 2009.

The construction sector is likely to grow faster than the broader economy over the next five years. In the power, roads, ports and transportation sectors, there is an investment requirement of LKR 3,226 bn during this period. The projects are expected to be funded both by the Government and foreign development partners. It is estimated that Sri Lanka needs to build 100,000 houses a year, nationwide, until 2020 to cover the housing deficit. The housing and urban development activities are expected to result in an investment requirement of LKR 150 bn.

However, there are challenges to overcome. The industry concerns include high raw-material costs, lack of availability of funds, low supply of high-grade steel, high prices of sand, shortage of skilled workers, delays in land acquisition and frequent changes in regulations, particularly in development control and approval processes.

Sri Lanka's social indicators are among the best in South Asia. The country has achieved near universal literacy. With a poverty level of 7.6 per cent, the country falls in the middle-income range of the International Monetary Fund classification. UNDP's Human Development Report 2010 placed Sri Lanka at 91 in the human development index among 169 countries surveyed.

In 2010, not only did the country's economy recover strongly from the adverse effects of global recession, but also gained significant investors confidence for future economic growth. In addition to old allies such as India, China, Japan, Pakistan, the UK and South Korea, the Sri Lankan Government intends to develop stronger economic ties with other countries such as Iran, Qatar, Turkey, Germany, Norway, Hungary, Portugal, Malaysia, Jamaica, Spain, Kuwait, Serbia, Ukraine, Egypt, Brazil, South Africa, Oman and Singapore.

The foreign direct investment (FDI) inflow in 2009 was US\$600 million. The Government aims to attract US\$1 billion of FDI in 2011. Over 60 per cent of the inflows are in the telecommunications and power sectors. In the coming years, transport and tourism industries are also expected to attract foreign investment. Indirectly, a part of these investments will flow into the country's construction sector.

The post-war reconstruction and rehabilitation efforts and the general economic revival are expected to trigger a construction sector boom in Sri Lanka over the next five years. The construction sector growth is expected to surpass the expected growth in GDP of 8-9% over the next five years.

SRI LANKA CONSTRUCTION - SWOT ANALYSIS

Strengths

- Significant long-term government support for the industry
- Support schemes and incentives for the construction industry provided in Annual Budget, 2011
- Adequate institutional infrastructure
- Over 9 per cent annual growth in 2010. Significant contribution to Gross Domestic Fixed Capital Formation, the country's GDP and employment

Weaknesses

- High cost of construction materials
- Changes in regulations by Urban Development Authority during the progress of construction
- Lack of skilled workers
- High interest rates
- High rate of construction accidents

Opportunities

- Revival of economic activity after end of ethnic conflict in 2009, resulting in infrastructure development focus; Foreign investments are also increasing
- Over US\$ 24.5 billion of projects pipeline for the next six years in areas such as expressways and highways, traffic management, rail transport, water supply, power plants, ports and housing
- Tourism target of 2.5 million foreign tourist arrivals by 2016; demand for hotel rooms to double from the current stock of 23,000.
- Incentives for minimum investment of US\$500,000 in small-scale infrastructure in housing, tourism and water supply: zero income tax for five years, followed by 10% rate for two years and 20% concessional tax thereafter.
- Income tax holidays of 6-15 years for large-scale infrastructure projects such as expressways, highways, airports, and water services with an outlay of US\$12.5-US\$100 million, depending on the scale of investment and a preferential income tax rate of 15%
- Land acquisition facilities for foreign investors; Land available on lease for 35-50 years.

Threats

- High fiscal deficit may constrain infrastructure spending
- Competition from other South Asian nations for foreign capital.
- Migration of Sri Lankan construction workers to neighbouring countries and also the Middle East
- Adverse international publicity if the rehabilitation of the population in the North is delayed

OVERVIEW OF CONSTRUCTION INDUSTRY IN SRI LANKA

Sri Lanka is an island nation with a land area of 65,610 square km (sq.km). In 2010, the country had an estimated population of 20.65 million with an annual growth rate of 1 per cent. The country is located south of India and is surrounded by the Bay of Bengal in the North and Indian Ocean in the South and West.

With the aim of sustaining over 8 per cent GDP growth rate in the next 10 years, the Government of Sri Lanka has laid emphasis on less developed regions, rural livelihood, infrastructure and reconstruction in erstwhile conflict zones as well as tsunami affected areas. Several plans and strategies announced by the Government indicate that the country's construction industry is poised for significant growth because of investments in sectors such as power, roads, ports transportation, housing, tourism and reconstruction.

The Sri Lankan construction industry is expected to grow at a rapid pace in the post-conflict scenario. The end of the island's ethnic conflict in 2009 has revived the economic activity and resulted in a strong focus on infrastructure development. The country's construction industry contributes to about 70 per cent of the Gross Domestic Fixed Capital Formation and about 8 per cent to the country's GDP, with growth since 2003. The industry ranks seventh among the 13 major sectors contributing to the country's GDP.

In 2010, Sri Lanka's construction industry recorded a growth rate of 9.3 per cent as compared to 5.6 per cent in 2009. Its contribution to the GDP was about LKR 423.4 billion, at constant prices. Greater construction activity was also reflected in 12 per cent annual growth of the building material industry.

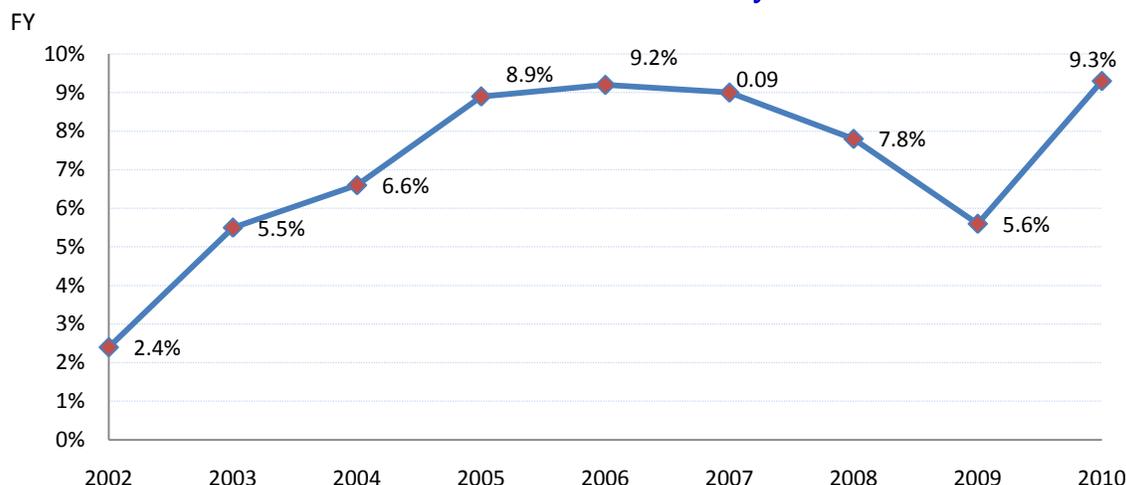
Acceleration of ongoing projects such as for development of power sector including mega projects and road development including expressways, interregional national highways is likely to generate large demand for companies in the construction industry.

In 2010, disbursement of loans increased 39.6 per cent for construction of houses, business premises, other buildings, and property developments.

The key entities that undertake construction work are as follows:

- Registered contractors of the Institute of Construction Training & Development (ICTAD)
- International contractors
- Unregistered informal contractors

Exhibit 1: Construction Industry Growth



Source: Central Bank of Sri Lanka, iMaCS Analysis

ECONOMIC CONTRIBUTION OF CONSTRUCTION INDUSTRY

GDP from Construction

At current prices, Sri Lanka's construction industry contributed LKR 108.3 billion to the country's GDP in Q12011. The year-on-year growth rate was 18.8 per cent. At constant (2002) prices, the contribution in Q12011 was LKR 49.1 billion with a year-on-year growth 14.3 per cent. This growth was, mainly, driven by large scale development projects in the country and, rehabilitation and resettlement programmes in the Northern and Eastern provinces.

On an annual basis, the contribution of Sri Lanka's construction industry to the country's GDP was LKR 423.4 billion at current prices, and LKR 177.9 billion at constant prices. The annual growth was 15.6 per cent at current prices and 9.3 per cent at constant prices.

Exhibit 2: Construction - Contribution to GDP

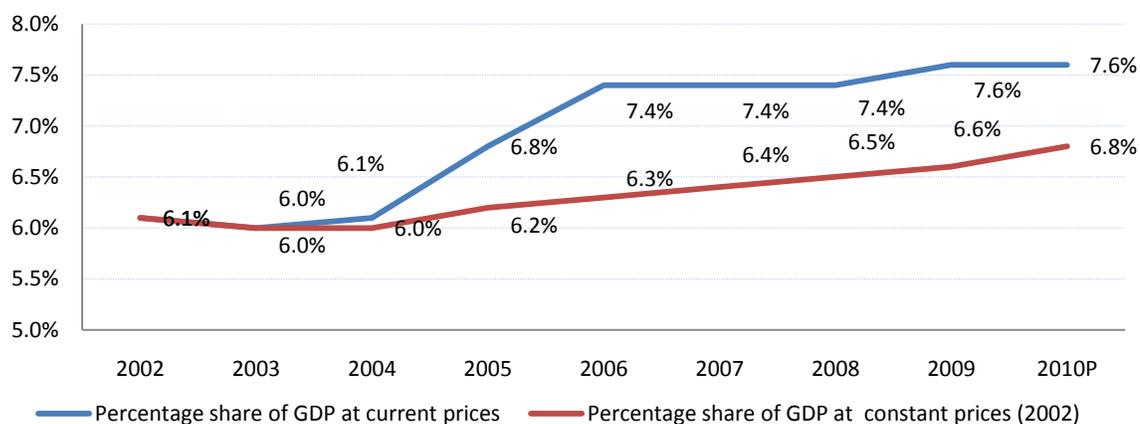
FY	LKR Billion				Growth (%)		
	2007	2008	2009	2010P	2008	2009	2010
At Current Prices	264.1	327.1	366.2	423.4	23.9	12.0	15.6
At Constant (2002) Prices	143.0	154.2	162.8	177.9	7.8	5.6	9.3

P: Provisional

Source: Department of Census and Statistics, Government of Sri Lanka; iMaCS Analysis

Construction has emerged as an important segment in Sri Lanka's economy. At current prices, the share of construction in Sri Lanka's GDP has consistently increased from 6.1 per cent in 2002 to 7.6 per cent in 2010. The corresponding change at constant prices was from 6.0 per cent in 2002 to 6.8 per cent in 2010.

Exhibit 3: Share of Construction in Sri Lanka's GDP

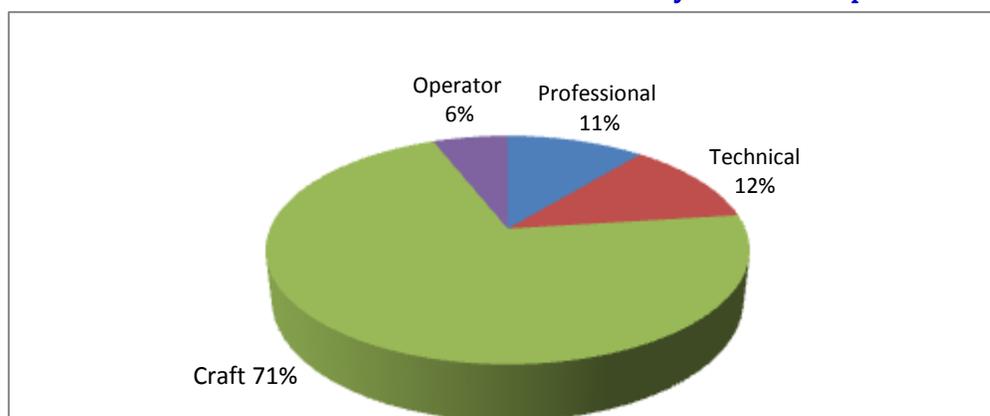


P: Provisional; Source: Department of Census and Statistics, Government of Sri Lanka

Contribution to Employment

Construction industry contributes 7 per cent to the total. As of 2009, the direct employment in the construction industry was 562,000 persons. This included four categories of employees: professional, technical, crafts, and machine operators. Almost 97 per cent of total persons employed were males with 75 per cent falling in the 25-45 age-group. 52 per cent were with experience of less than five years.

Exhibit 4: Construction Workers by Area of Expertise



In Sri Lanka, employment in the construction industry has experienced an increase of 40 per cent during the years 2005 to 2009 as compared to 15.3 per cent increase in total employment.

Exhibit 5: Persons employed by the Construction Industry

Year	2005	2006	2007	2008	2009
No. of persons	417,000	527,000	542,000	590,000	562,000

Source: Department of Census and Statistics, Government of Sri Lanka; iMaCS Analysis

The demand for most trades and grades witnessed a marginal slump in 2009, but has since recovered.

Exhibit 6: Demand for Expertise in Construction Industry

Occupation	2007	2008	2009	2010
Technical grades	54,228	56,118	57,511	59,604
Crafts and related	402,156	416,176	426,506	437,575
Machine operators and mechanics	482,271	499,084	511,472	524,746
Total	938,655	971,378	995,489	1,021,925

Source: Vocational Education Training Plan, Tertiary and Vocational Education Commission; iMaCS Analysis

CONCESSIONS FOR CONSTRUCTION INDUSTRY

In the Annual Budget, 2011, the Government introduced several schemes targeted at the construction industry. The key schemes and incentives are as follows:

- ❑ Income tax on construction industry reduced from 15 per cent to 12 per cent
- ❑ Commitment to develop one million housing units during the next six years starting from 2011
- ❑ The 'Gama Neguma' initiative, 'Jana Sevana' initiative, provincial councils, and other regional development initiatives to target 80,000 new housing units for low income rural and estate households each year, over the next six years starting from 2011
- ❑ Allocating LKR 1 billion for a three-year rehabilitation initiative of housing schemes such as 'Maligawatta' and 'Serpentine'
- ❑ The National Housing Development Authority (NHDA) to provide planning and technical assistance for low-income households to build and improve quality housing
- ❑ State banking facilities and internally generated income of NHDA to be used to promote low-income housing
- ❑ A Construction Technology Park to be established to popularise technical skills and low-cost housing technology
- ❑ Training skills for construction as well and research and development to bring down the cost of construction, to be treated as an allowed expenditure against income tax
- ❑ Encouraging foreign contractors to establish working partnerships with local construction companies
- ❑ Allocation of LKR 500 million for speedy completion of housing schemes already initiated.
- ❑ Allocation of LKR 109 billion for continued expansion of the road sector and LKR 20 billion for the provincial road development initiative
- ❑ Additional allocation of LKR 250 million for speedy construction of a cultural centre for the South Asian Association for Regional Cooperation (SAARC).
- ❑ Government agencies exempted from the Construction Guarantee Fund Levy (CGFL) to reduce cost of public investments; CGFL has been imposed from January 1, 2005 annually, on every construction contract enforced in Sri Lanka.
- ❑ Customs duties for a few construction raw materials have been reduced.

Exhibit 7: Customs Duty on Construction Raw Materials

Material	HS Code	Earlier customs duty	Revised customs duty
Granite with flat/even surface	680223	30%	5%
Other marble travertine and alabaster	68029110	30%	5%
Forged bars and rods	72141090	30%	15%
Rectangular bars and rods	72149110	30%	15%
Sections of iron or non-alloy steel	721621	30%	10%
Other polymers of styrene	390390	Nil	5%
Polymers of vinyl acetate	390521	15%	5%

Source: Budget Speech, 2011

The Budget has also abolished the Construction Industry Guarantee Fund Levy (CIGFL) to encourage development projects.

Schemes Initiated by Government of Sri Lanka

- ❑ **Jana Sevana Scheme:** Under the rural development programme, the scheme aims to provide homes for all citizens by 2012. The target includes building 25 houses in each village with an overall target of building 15,000 houses. Each family will be entitled to draw a housing loan of up to LKR 100,000 to meet this requirement. NHDA is the implementing agency.
- ❑ **Jathika Saviya (Gama Neguma):** This programme is intended to revitalise backward villages. Under this programme, the projects for a village are selected by a planning committee. Every family in the village identified is a member of the committee and 80 per cent of the members must agree so that a project can be undertaken for development.

National Registration and Grading Scheme for Contractors

In the past, various client organisations had been registering contractors using different criteria. To avoid anomalies and to maintain uniformity, the Government of Sri Lanka decided to register contractors, centrally. In 1989, the Central Registration scheme was started by **The Institute for Construction Training and Development (ICTAD)**. It was revised in 1993, 1995 and 2008.

Registration and grading is a screening process for assessing capabilities of prospective contractors to determine their ability to undertake different types and sizes of projects without reference to any specific contract. Registration and grading is done by evaluating a contractor on his financial capability, the technical ability, plant and equipment and relevant experience.

The contractors were classified under 10 grades (M1-M10). This grading system was revised in 2008 and a new grading scale (C1-C10) was introduced. The existing scheme (M1-M10) functioned for a period of two years in parallel with the revised scheme (C1-C10). There are over 2,000 construction contractors registered with ICTAD.

Purpose and benefits of Registration Scheme

- ❑ Grading system offers client organisations the benefit of selecting the right contractor for a project.
- ❑ Registration scheme does not replace the pre-qualification requirements for major contracts.
- ❑ Grading system motivates the contractor for self development and upgrading but preventing bids for projects beyond the contractors' capabilities.
- ❑ It ensures that contractors have the ability to complete projects within the set times, cost and quality targets.

Registration Scheme for Small Scale Contractors and Entrepreneurs (C11)

ICTAD has introduced a new promotional registration scheme for small-scale contractors. This grade is called C-11 and has a financial threshold for project size at of LKR 500,000.

INFRASTRUCTURE DEVELOPMENT

According to the Mahinda Chintana Vision, the 10-year Development Framework for the period, 2006-2016, Sri Lanka's strategy for infrastructure development includes public sector investment through direct budgetary allocation or foreign-donor support. Programmes have been designed to channel investments through 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 of focus.

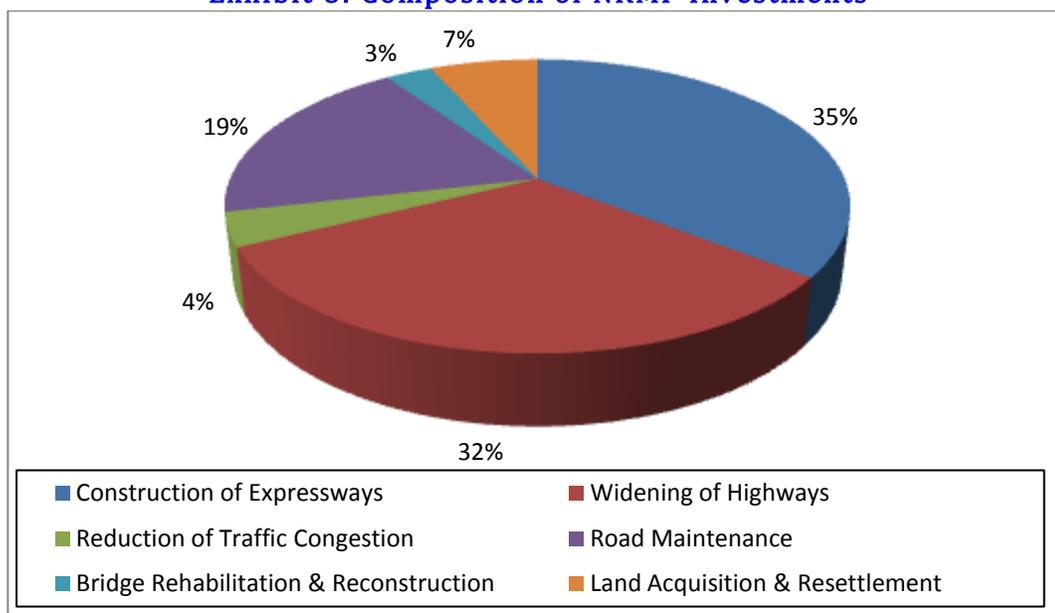
Creation of a separate Ministry for Construction, in 2007, has enabled focussed policy development for the industry. A new Parliamentary Act is being proposed to transform ICTAD into 'Construction Development Authority', giving it much wider powers and coverage to govern the construction industry.

Major Infrastructure Projects

Road Sector

The National Road Master Plan (NRMP), 2007-2017, prepared by the Ministry of Highways and the Road Development Authority, focuses on six complementary components for comprehensive development of the road sector:

Exhibit 8: Composition of NRMP Investments



1. **Construction of Expressways and Highways:** This component accounts for 36 per cent in the NRMP investment involving six major projects with a length of 594 km at an estimated cost of LKR 238.3 billion. The investment is spread over the entire program period of the NRMP.
2. **Widening of Highways:** The most significant component in terms of geographical coverage and connectivity of people is the widening of highways under the NRMP. The component includes 141 individual projects and involves a total of 4,900 km targeted to be multi-laned. The total cost of the widening component is estimated at LKR 215 billion, which makes it the second largest component in the NRMP (32 per cent).
3. **Reduction of Traffic Congestion:** The focus of this component is to ensure smoother flow of traffic and reduce accidents across 112 locations in towns and cities. With an outlay of LKR 25.1 billion, this component includes new flyovers, improvement of junctions, new signaling systems and new by-passes.
4. **Road Maintenance and Rehabilitation:** The plan also covers the maintenance and rehabilitation of 732 km of road length covering 130 sections. The estimated spending on this component over the next 10 years is LKR 127.3 billion.
5. **Bridge Rehabilitation and Reconstruction:** At a total cost of LKR 19.4 billion, this component is to be funded by a variety of donor agencies. The focus is on completing on-going programmes in the area of rehabilitation and reconstruction of about 171 bridges.
6. **Land Acquisition and Resettlement:** The plan also incorporates the important component of land acquisition and resettlement. Based on past experience the plan estimates the requirement of funds at 7% of the total investments.

The break-up of the overall investment under various components is as follows:

Exhibit 9: Foreign and Local Currency Components of NRMP

COMPONENT	In LKR billion		
	FX Component	Local Component	Total
Construction of Expressways	162.0	76.2	238.3
Widening of Highways	142.0	73.1	215.1
Reduction of Traffic Congestion	20.1	5.0	25.1
Road Maintenance	70.0	57.3	127.3
Bridge Rehabilitation & Reconstruction	11.6	7.8	19.4
Land Acquisition & Resettlement	0	44.7	44.7
TOTAL COST	405.7	264.2	669.9

The major road improvement projects are listed in the Annexure

Railways

Over the years, the share of Sri Lankan railways, both in the passenger and freight segments have fallen and reached levels of 10% and 5% respectively. The allocation for the railways has been reducing over the years while that for the road sector has been increasing. This has resulted in better road facilities, which has in-turn lead to better roads and increased road traffic. The railways are in need of comprehensive reforms with increased focus on customer needs and commercial orientation. Some of the projects that are under implementation are:

- Upgrading Colombo Matara Railway Line
- Matara - Kataragama Railway Line Extension
- Kurenegala - Dambulla - Habarana New Railway Line
- Eastern Railway Line Rehabilitation
- Development and extension of Kelani valley Railway Line

Ports and Airports

The development of port facilities is another key positive for the construction sector. Sri Lanka is strategically located in the sea route to the South East and Far East. There are six major ports located at Colombo, Hambantota, Galle, Trincomalee, Kankasanthurai and Olivil. It is proposed to increase the cargo handling capacity of these ports to a total of 4.5 million tonnes per annum over the next few years. The expected investment (public and private) is estimated to be over LKR 150 bn during 2011-13 and this is expected to increase to over LKR 650 bn during 2017-20.

Similarly, the airport sector is also expected to attract significant investment in the existing airports and the new international airport at Mattala. The investment over the next 10 years on airport projects is estimated at over LKR 300 bn by the public sector and LKR 400 bn by the private sector.

Water Supply and Sanitation

The water supply and drainage functions are carried out by the National Water Supply & Drainage Board (NWSB) which functions under the Ministry of Water Supply & Drainage. Nearly 80% of the population has access to safe drinking water of which 30% is through piped water supply systems. A number of projects are under implementation to increase the coverage of water supply and drainage systems. The capital budget outlay for the year 2011 amounted to LKR 29,099 million.

Exhibit 10: Water Supply and Drainage projects

Type of Project	LKR Million
Small & Medium Projects	1,800
Foreign Funded Water Supply Projects	22,353
Tsunami affected areas rebuilding projects	1,596
Foreign Funded Sewerage Projects	3,350
Total	29,099

Colombo City Development

Like all other developing countries, Sri Lanka is also witnessing rapid urbanisation. The urban population is predominantly concentrated around Colombo. The government plans to improve a few more first order cities in order to reduce the pressure on Colombo and also redevelop Colombo in a manner that the land use pattern of the city is in line with providing a high quality living environment for the people. A complete change in the Colombo landscape is being envisioned for the future.

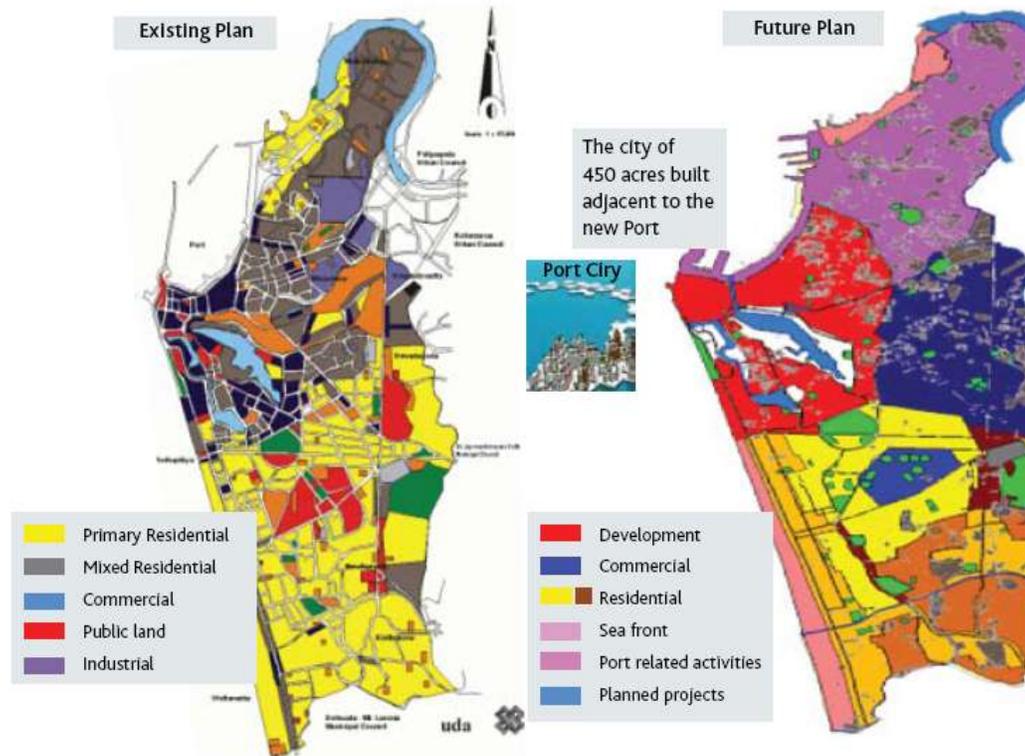
The programme of the Urban Settlement and Development Authority envisages development of 40,000 apartments for Shanty dwellers and 20,000 luxury and semi-luxury apartments in the underserved areas. These projects are estimated to release nearly 350 acres of land for commercial and mixed use development. A number of projects have been initiated to achieve the changes envisaged. Some of the key developmental programmes are:

- Centre Point Development,
- Beira Lake Land Development,
- Charmers Granaries Project,
- Transwork Square Project, and
- Panchikwatte Triangle Development

The Panchikwatte Triangle development, undertaken with private participation is one of the largest regeneration projects in Colombo. In the first phase, it envisages a construction of 1704 apartments and 362 shops to relocate families living in substandard houses. Estimated to cost LKR 45.50 billion, the project aims to release over 20 acres of prime land for new developments which is estimated to attract LKR 740 billion by way of fresh investment.

The Metro Colombo Integrated Urban Development Project is World Bank funded project to improve planning and delivery of urban infrastructure in the Metro Colombo Region. Estimated to cost LKR 16.65 billion, the project will focus on reducing the occurrence of floods in the region, implement medium and small scale infrastructure projects and enhance the institutional capacity of local authorities in the region.

Exhibit 11: Colombo City Landscape



Source: Mahina Chintana Vision for the Future - 2010

Hambantota City Development

Among the other First Order cities being developed in Sri Lanka, Hambantota is well on its way to becoming a metropolitan city. The southern port city is being developed as an industrial and logistics hub. A new airport, sea-port, administrative complex and international convention centre are under construction. The city has also bid to host the Commonwealth Games in the year 2018. The government of Sri Lanka in its bid to the Commonwealth Games Federation has pledged a spending of over LKR 5700 billion on sports and other infrastructure. Should Hambantota win the bid to host the 2018 Commonwealth Games, it will spur significant spending in the construction segment both from the Government and the private sector.

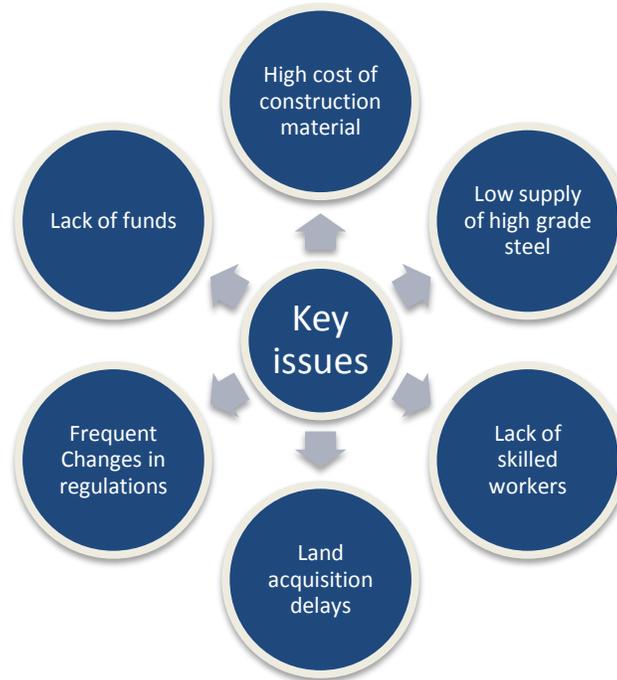
Some of the key infrastructure projects under implementation are as follows:

Exhibit 12: Key Infrastructure Projects Under Implementation

Project	Details
Magam-Ruhunupura Port	World's largest inland sea port being planned at Hambantota in Southern Province to provide berthing facilities to 44 ships at a given time and to handle 20 million Twenty-foot Equivalent Units (TEUs) per year with 11 km of berths
Botanical Garden in Dry Zone	Hambantota botanical garden is being developed at a 300 acre site at Mirijjawila. It is significant as the first ever dry zone botanical garden in Sri Lanka and also expected to promote ecotourism in the region
Magam-Ruhunupura International Airport	This will be established as an alternative international airport with the aim of contributing to the development of commerce and trade industry, tourism and communication at a significant level in the region
Administration Complex and International Convention Centre	A four storied administrative complex is being constructed to provide office space for most of the Central, Provincial and Local Government institutions, which are presently located in private buildings in a scattered manner around Colombo. An International Convention Centre is also being constructed with a seating capacity for 1,500
Kalpitiya Integrated Tourism Development Project	15,000 direct jobs - Exclusive tourism resorts with 5,000 hotel rooms
Killinochchi Industrial Estate;	To uplift the living standards of unemployed youth and low income people in the Killinochchi district and encourage them to enter into small and medium scale industries
Industrial estates, Buttala, Pallekele and Nalanda	A new industrial estate is being developed at Buttala and is targetted at quality timber production. Industrial estates at Pallekele (22 factory units) and Nalanda and Ulapane industrial estates (50 factory units)
Construction of administrative office at Mankulam	A new administrative complex is coming up at Mankulam
Hospital infrastructure	Establishment of a five storied ward complex at the Sirimavo Bandaranaike Children's Hospital, (Peradeniya), Construction of 150 beds hospital at Hatton -Dikoya health services in hospitals at Matale
Sports complex at Nuwara Eliya	Construction of the Nuwara Eliya Sports Complex

Source: Mahinda Chintana Vision for the future, 2010

KEY ISSUES FACED BY PLAYERS



- ❑ **High cost of construction material** - Prices of construction material have recorded a continuous increase over the last five years. However, with the burst of the global commodity price bubble and general slowdown in the economic activity, prices have stabilised in recent times. Therefore, the construction sector could be expected to benefit from stabilised price levels in the short term.

The availability and price of sand is also a cause for concern. As of June 2011, the price of a cube of sand was over LKR 10,000. A severe dearth of sand for construction prevails in some areas. The price of a cube of river sand can be sold up to LKR 15,000 in certain instances. The heavy rain and the swelling of waterways have made sand mining difficult and prices to escalate. According to the Sri Lanka Geological Survey and Mines Bureau, the increase of water level of River Mahaweli and other major waterways have brought sand mining to a standstill.

- ❑ **Lack of availability of funds** - Poor availability of funds remains a serious concern for the industry. According to several industry experts, the important reason for a majority of the contractors to remain below the boundaries of C1 to C3 grades (which precludes them from taking up higher value projects) is poor access to sources of funding. This is because many of the large-scale construction projects are Government initiated and contractors often face delays in receiving payments from such projects. As a result, the sub contractors and other entities face financial difficulties, which adversely impacts suppliers of materials and ability to scale up. Payment concerns needs to be addressed by arranging specialised financial assistance schemes aimed at development of the industry.

- ❑ **Low supply of high grade steel** - Currently, the Sri Lankan construction industry is in a serious crisis because of lack of availability of good quality steel. Further, undesirable practices such as cartelisation by some players have also contributed to artificial shortages and price increase. A large number of steel manufacturers use scrap metal with billets to manufacture iron rods.

- ❑ **Lack of skilled workers** - Less than 5 per cent of the workers in Sri Lanka have been systematically trained and carry certificates that are indicative of their skill. High demand for professionals in many countries and low level of salaries in Sri Lanka has resulted in a flight of skills. If the construction sector aspires to grow at the rate of 9 per cent in coming years, it would require a million skilled workers. According to the Ministry of Construction, Engineering Services, Housing and Common Amenities, the number of skilled construction workers in Sri Lanka is 300,000. It is imperative on part of the Government and the industry to join hands and initiate a skill development programme.

- ❑ **Delays in land acquisition** - A number of projects have been delayed on account of delays in acquisition of land and issues of resettlement and rehabilitation. Given the large number of infrastructure projects proposed, it is necessary to have system of acquisition of land for development projects in a manner that takes care of the interests of various stakeholders.

- Frequent changes in regulations** - Changes in regulations, even after providing the necessary approvals, have caused a lot of hardships to developers and is a serious concern. Further, overlapping controls by multiple authorities have also impacted project progress. Streamlining regulations and integrating the approval process would be welcome step.

ECONOMIC OUTLOOK

Sri Lanka's recent economic growth and long-term growth prospects have been boosted substantially by the ending of the civil war, and real GDP growth accelerated from 3.5 percent in 2009 to 8 percent in 2010 driven by higher growth in all the three sub segments—agriculture, industry, and services. Continued benefits from the end of the long-running civil conflict in 2009, such as improved business and tourist confidence plus more land available to agriculture, as well as the global return to growth, have underpinned the strong performance.

Exhibit 13: Summary Economic Data - Sri Lanka Economy

	Values			Growth (percent)		
	2008	2009	2010	2008	2009	2010
Aggregates at Current Prices (LKR Billion)						
GNP	4,305.7	4,779.5	5,530.5	21.6	11.0	15.7
GDP	4,410.7	4,835.3	5,602.3	23.2	9.6	15.9
Agriculture	590.1	613.7	716.9	41.1	4.0	16.8
Industry	1,295.5	1,434.7	1,649.1	21.0	10.7	14.9
Services	2,525.1	2,786.9	3,236.3	20.8	10.4	16.1
Aggregates at Constant (2002) Prices (LKR Billion)						
GNP	2,309.2	2,420.9	2,611.5	4.6	4.8	7.9
GDP	2,365.5	2,449.2	2,645.4	6.0	3.5	8.0
Agriculture	285.9	295.1	315.6	7.5	3.2	7.0
Industry	672.8	701.1	760.2	5.9	4.2	8.4
Services	1,406.8	1,452.9	1,569.6	5.6	3.3	8.0
Per Capita GDP						
Current Prices (LKR)	218,167	236,445	271,259	22.0	8.4	14.7
Current Prices (US\$)	2,014	2,057	2,399	23.3	2.1	16.6
Constant (2002) Prices (LKR)	117,006	119,766	128,089	4.9	2.4	6.9
Per Capita GNP						
Current Prices (LKR)	212,972	233,716	267,780	20.4	9.7	14.6
Current Prices (US\$)	1,966	2,033	2,368	21.7	3.4	16.5
Constant (2002) Prices (LKR)	114,219	118,384	126,447	3.5	3.6	6.8
Selected Components in Current Prices (LKR Billion)						
Private final consumption expenditure	3,085.3	3,116.2	3,684.7	28.4	1.0	18.2
General government consumption expenditure	713.8	851.6	872.6	30.6	19.3	2.5
Gross domestic fixed capital formation	1,115.3	1,147.4	1,452.0	26.1	2.9	26.5
Exports of goods and non-factor services	1,095.7	813.9	937.7	5.2	-25.7	15.2
Imports of goods and non-factor services	1,699.3	1,172.6	1,528.2	20.2	-31.0	30.3
Annual average price change (percent)	16.3	5.9	7.3			
Exchange Rate (US\$)	108	115	113	-1.1	6.1	-1.6
Population (million)	20.2	20.5	20.7	1.0	1.2	1.0

Recent estimates by the International Monetary Fund (IMF) forecast real GDP to grow at 6.5 percent in 2011, followed by annual average growth of 6.5 percent from 2012 to 2015. The agricultural sector will be supported by increased cultivation in the formerly war-torn northern and eastern provinces, although floods could impact output in 2011. The recovery in consumer and business confidence will also spur economic activity. Continued and planned infrastructure- and tourism-related building will support construction growth, while services, especially hotels and restaurants, will perform well, catering to the likely prolongation of the tourist boom. Rising global food and oil prices and a shortfall in domestic supply of agricultural produce due to the flooding could result in higher inflation. Private consumption growth will be the main driver of economic expansion, fuelled by rising incomes and remittances from expatriate Sri Lankans. Investment will be supported by reconstruction efforts in the north and east; public spending on

infrastructure (long neglected during the civil war); business investment, as companies seek to capture market share amid rapid economic growth; and rising property investment.

Exhibit 14: Estimates for Sri Lanka

Subject	Units	Scale	2009	2010	2011	2012
Current account balance	US\$	Billions	-0.2	-1.8	-2.4	-2.9
Current account balance	Percent of GDP		-0.5	-3.5	-4.1	-4.5
General government revenue	National currency	Billions	701	812	964	1,165
General government revenue	Percent of GDP		14.5	14.5	14.9	15.9
General government total expenditure	National currency	Billions	1,202	1,275	1,420	1,557
General government total expenditure	Percent of GDP		24.9	22.7	21.9	21.2
Population	Persons	Millions	20.24	20.40	20.54	20.68
GDP, current prices	National currency	Billions	4,825	5,616	6,470	7,343
GDP, constant prices	National currency	Billions	2,455	2,680	2,866	3,052
GDP, constant prices	Percent change		3.8	9.1	7.0	6.5
GDP, current prices	US\$	Billions	41.98	49.68	58.00	64.05
GDP per capita, current prices	US\$	Units	2,074	2,435	2,824	3,097
GDP per capita, current prices	National currency	Units	238.4	275.3	315.0	355.1
GDP per capita, constant prices	National currency	Units	121.3	131.4	139.5	147.6
Gross national savings	Percent of GDP		24.8	22.3	23.3	23.9
Investment	Percent of GDP		25.3	26.6	27.2	28.0
Inflation, average consumer prices	Percent change		3.4	5.9	7.9	6.2
Import volume of goods and services	Percent change		-7.0	24.0	7.7	10.1
Import volume of goods	Percent change		-7.0	24.0	7.7	10.1
Export volume of goods and services	Percent change		-18.3	17.5	8.6	7.5
Export volume of goods	Percent change		-18.3	17.5	8.6	7.5

Several negative scenarios exist for the economy, including renewed conflict arising from ethnic tensions. On the investment front, several areas need to improve to secure an investment climate conducive to large-scale private investments. The 10-year development plan, the Mahinda Chintana, emphasises the need to improve the business environment more widely. The World Bank's Doing Business 2011 report ranks Sri Lanka at 102 out of 183 economies, suggesting the need to eliminate red tape. It also includes recommendations for strengthening institutions, building human resources capacity, and simplifying procedures. However, it ranks 3rd in South Asia, behind Pakistan and Maldives. Overall, while Sri Lanka ranks 34th in 'ease of doing business' and 43rd in closing a business; it places amongst the bottom in 'dealing with construction permits', 'registering property', and 'paying taxes'. Sri Lanka also ranks at 137th in 'enforcing contracts'.

Exhibit 15: World Bank 'Doing Business 2011' Country Table for Sri Lanka

SRI LANKA		South Asia	GNI per capita (US\$)	1,990	
Ease of doing business (rank)	102	Lower Middle Income	Population (m)	20.3	
Starting a business(rank)	34	Getting Credit (rank)	72	Trading across borders	72
Procedures (number)	4	Strength of legal rights index(0-10)	4	Documents to export (number)	8
Time (days)	35	Depth of credit information index(0-6)	5	Time to export (days)	21
Cost (% of income per Capita)	5.4	Public registry coverage (5 of adults)	0	Cost to export (US\$ per container)	715
Minimum capital (% of income per Capita)	0	Private bureau coverage (% of adults)	18.6	Documents to import (number)	6
				Time to import (days)	19
				Cost to import(US\$ per container)	745
Dealing with construction permits (rank)	169	Protecting investors (rank)	74		
Procedures (number)	22	Extent of disclosure index (0-10)	4	Enforcing contracts (rank)	137
Time (days)	214	Extent of director liability index (0-10)	5	Procedures (number)	40
Cost (% of income per capita)	1,335.2	Ease of Shareholder suits index(0-10)	7	Time (days)	1,318
		Strength of investor protection index (0-10)	5.3	Cost (% of Claim)	22.8
Registering property (rank)	155			Closing a business (rank)	43
Procedures (number)	8	Paying taxes	166	Time (years)	1.7
Time (days)	83	Payments (number per year)	62	Cost (% of estate)	5
Cost (% of property value)	5.1	Time (hours per year)	256	Recovery rate (cents on the dollar)	47
		Total Tax rate (% of profit)	64.7		

INVESTMENT ESTIMATES

Attractive incentives and a conducive policy environment are being created to attract FDI in Sri Lanka, and in particular in the construction sector. Development Control Regulations and approval procedures are also being streamlined and made more efficient.

The post-conflict environment presents significant opportunities for investment in Sri Lanka. By 2015, it is estimated that the total expenditure on urban development and housing would be over LKR 150 billion. Of this, 32 per cent is expected to be financed by the Government of Sri Lanka, with the balance 68 per cent to be contributed by private sector.

In order to achieve the expected industry sector growth rate, the proposed projects over the period 2011-2020 reflects a significant allocation towards the development of roads and transportation and power and energy sectors. The projects are to be funded both by Government and foreign development partners.

Investment in infrastructure and its maintenance is estimated at LKR 3,226 billion over the next 10 years (2011-2020) representing a ten-fold increase over the last ten year period. Similarly investment in irrigation projects is estimated at LKR 277.50 billion.

World Bank 'Doing Business 2011' – Sri Lanka's position in the construction sector

The following ranks were given to Sri Lanka in The World Bank 'Doing Business 2011' report for various parameters:

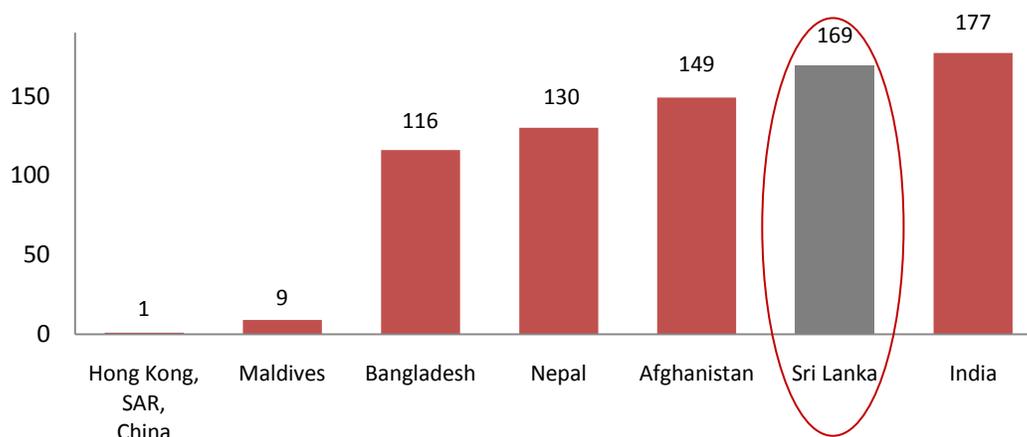
- ❑ Dealing with construction permits - Rank 169
- ❑ Registering property - Rank 155
- ❑ Enforcing contracts - Rank 137

Exhibit 16: Country Rank

	Dealing with Construction Permit	Registering Property
Procedures (No.)	22	8
Time (days)	214	83
Cost	1,335.2 (cost % of income per capita)	5.1 (cost % of property value)

Sri Lanka has been ranked 169th while dealing with construction permits.

Exhibit 17: Dealing with Construction Permits



While the rank of Sri Lanka is in line with other countries in South Asia, it is an issue of concern that the overall rank of doing business has slipped by two notches in 2011 as compared to 2010. Similarly, Sri Lanka is ranked low in 'ease of a registering property' and has also slipped in rankings. Significant improvements to procedures governing commencement business and registration need to be made.

Exhibit 18: Historical Ranking of Construction Permits

Dealing with Construction Permits data	Doing Business 2008	Doing Business 2009	Doing Business 2010	Doing Business 2011
Rank	-	-	167	169
Procedures (No.)	22	21	22	22
Time (days)	214	214	214	214

Source: World Bank "Doing Business, 2011"

Exhibit 19: Rank for Ease of Registering a Property

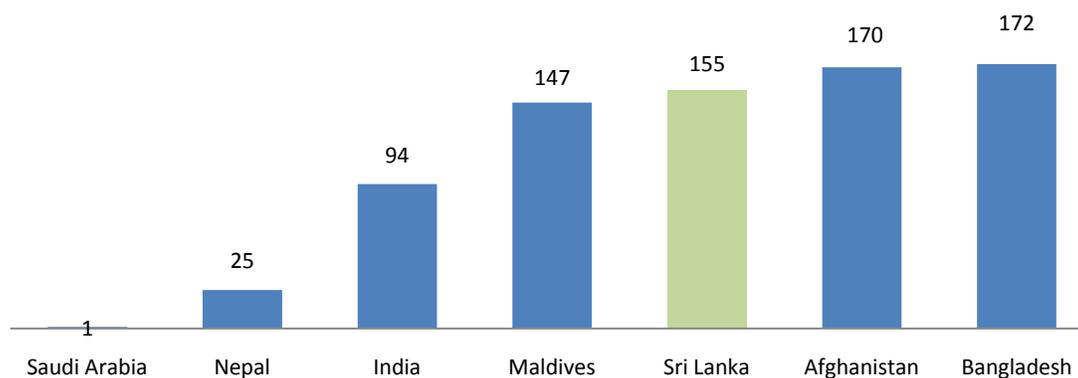


Exhibit 20: Historical Ranking of Registering a Property

Registering Property data	Doing Business 2008	Doing Business 2009	Doing Business 2010	Doing Business 2011
Rank	-	-	151	155
Procedures (Number)	8	8	8	8
Time (days)	83	83	83	83
Cost (% of income per capita)	5.1	5.1	5.1	5.1

Source: World Bank - Doing Business 2011 – Sri Lanka

Registering a Property in Sri Lanka

It requires eight procedures, takes 83 days, and costs 5.11 per cent of property value to register a property in Sri Lanka.

Exhibit 21: Steps for Registering a Property in Sri Lanka

Procedure	Time to Complete	Cost to Complete
A title search must be carried out at the relevant land registry	3 to 7 days (simultaneous with procedure 2 and 3)	LKR 1,000
Seller needs to obtain a group of documents from the municipality	21 days (simultaneous with procedures 1 and 3)	LKR 500
Obtain an updated survey plan of the property	14 days (simultaneous with procedures 1 and 2)	About 0.1% of property value
Transfer deed is signed in buyer's favour	2 days	1% of purchase price (lawyer's fees) + LKR 500 additional cost
Payment of stamp duty at a nominated bank	1 day	Stamp duty payable as follows:- 3% on the first LKR 100,000; 4% on the balance
Deed is sent for registration to the relevant land registry	30 to 42 days	No cost
Name of the buyer must be registered at the Municipality and the certificate of ownership is obtained	21 days	LKR 200
Notary hands over to the owner all the deeds and documents pertaining to the property	1 day	No cost

Source: World Bank - Doing Business 2011 – Sri Lanka

OUTLOOK FOR THE CONSTRUCTION INDUSTRY

- The post-war reconstruction and rehabilitation efforts and the general economic revival are expected to trigger a construction sector boom in Sri Lanka over the next five years. The construction sector growth is expected to surpass the expected growth in GDP of 8-9 per cent over the next five years.
- It is expected that the value of construction projects awarded to local contractors (including subcontracts) will increase annually by approximately 50-60 per cent over the next three years.
- In addition to contractors, main suppliers to the construction industry such as cement, cable, PVC pipes, and tile manufacturers are expected to benefit from the revival in the sector.
- According to the Ministry of Finance and Planning, over LKR 700 billion worth of construction-related projects have been planned by the Government between 2010 and 2012.
- Based on the National Physical Planning Policy, the 'National Physical Plan' will aim at achieving the objective of the five hub network – navigation, aviation, trade and commerce, energy and knowledge – under the action plan laid out in the 'Mahinda Chintana, The Vision for future by Government of Sri Lanka'.
- In the proposed construction and development scenario, developing the road and railway network takes precedence. The Government is now seriously looking at improving the railway network in addition to roads.
- Sri Lanka is to get two new airports in Mattala and Hingurankgoda after the revamping of the Katunayake airport.
- Major construction projects in 2010 include the Hambantota Port, Southern Expressway, expansion of Colombo Port, developing other expressways, Cricket stadium for the World

Cup, and refurbishment of the road network.

- Scheduled construction projects include several in the tourism sector - Kalpitiya Tourist Zone (US\$175 million), Passikudah Tourist Zone (US\$12 billion), Kuchchaveli Tourist Zone, Arugam Bay Beach, Pinnawela Zoological Garden, and development of Galle Port and domestic airports.
- Sri Lanka's bid to host the Commonwealth Games in 2018 in Hambantota, if successful will provide a significant push to the Sri Lankan construction industry.

Historically, Sri Lanka has suffered from overlapping authorities and excessive regulation from multiple government agencies, and past projects stalled by litigation despite having government approvals. Investment approval procedure will need to be accelerated, and speedy approval and procedures will have to be ensured to accelerate the implementation of proposals and reduce start-up times.

The Government of Sri Lanka has started a comprehensive process to address legal and bureaucratic barriers to investment and the high cost of doing business in Sri Lanka. Increased transparency and improved governance could also bolster market confidence and lead to higher investment.

ANNEXURE: MAHINA CHINTANA (HOUSING SECTOR)

While achieving high growth rates in the production sectors of the economy, which is vital, government also gives high priority to improving the living conditions of the people of the country. A decent house is the base for a prosperous family, which ensures household stability, strengthens social fabric and ultimately enables people to make their full contribution towards development of the country. In this context, the housing policy of the government aims at ensuring affordable access to decent housing facilities for everyone, and thereby raising the quality of life of all citizens.

Besides its basic function of providing shelter, the housing sector is also a key driver of the economy. A house is the repository for a significant portion of household-level savings. Housing, particularly the construction of new housing, is a major generator of employment. The housing sector also underpins key local industries such as building materials production, machinery and equipment, as well as a range of services.

The world-over, the health of a country's housing sector is considered a good proxy for the health of a country's economy and the wellbeing of its people.

Current Situation and Trends

According to the National Housing Development Authority, in 2007, total housing stock was 4.3 million. Of which, 77% was permanent and 23% was semi-permanent. The distribution of permanent and semi-permanent structures varies widely from urban to rural areas.

While definitions of rural and urban are a subject of ongoing debate, it is clear that the majority of Sri Lanka's population still live in rural areas or villages. Trends suggest, however, that this is rapidly changing. The country is projected to have a mostly urban population by 2020. This trend towards urbanisation is compounded with the growth of Sri Lanka's population, which is projected to be around 22 million by 2020.

Improvements and expansion of housing stock are required in both rural and urban areas. Considering population growth and the need to replace housing of semi-permanent and temporary construction and meet supply shortfalls, it is estimated that Sri Lanka needs to build 100,000 houses a year, nationwide, until 2020 to fill the gap and achieve the target of ensuring housing for all.

Expansion and improvements in the housing stock, combined with infrastructure improvements, in rural areas are expected to lessen pressure for people to migrate to urban areas. In urban areas, housing improvements/expansions are expected to improve the quality and affordability of housing available, and to fill pent-up demand and enable sustainable growth.

In all areas, expansion of housing will be done in a sustainable manner—keeping in mind and ensuring resilience to the emerging challenges posed by changing climatic conditions, as well as ensuring minimal burden on the delicate environmental systems that sustain us

Housing Needs of Vulnerable Groups

Improving the housing conditions of vulnerable groups is a key priority of the Government. The transformation and substantial improvement of underserved settlements in urban areas, in Colombo and in other cities, are to be given special attention. The government will seek innovative ways to achieve this target in collaboration with the private sector.

Meeting the housing needs and upgrading the living conditions of other vulnerable communities such as plantation workers and coastal fishing communities are also critical. These will also be given careful and prioritised attention.

By 2020, every family of the country will have decent, comfortable housing with required common amenities in culturally vibrant, environmentally sustainable and economically productive human settlements.

Strategies for Housing Sector

- ❑ **Changing Role of the Government**—The Government’s role in housing sector will continue its ongoing shift from that of a developer and financier to that of a regulator and facilitator. Strategic housing investments may still be made by the state, particularly to target vulnerable populations and to address urgent needs. However, the preferred options for housing development will be through active engagement of the private sector. Public-private-partnerships as well as increased FDI in the housing sector will be promoted. Research and development of cost-effective construction methods will also be encouraged. Overall, the government will focus on creating a conducive environment for rapid and robust development of Sri Lanka’s housing markets nationwide.
- ❑ **Improve and Expand Settlement Planning**—The rapidly developing and urbanising Sri Lanka requires well planned settlements. The government aims to ensure that Sri Lanka’s fast-expanding settlements grow in a systematic and sustainable manner through improved urban and regional planning. Careful attention will be given to the context-specific needs of each area, such as population densities, lifestyles and livelihoods, environmental conditions, and socio-economic factors. The impacts of climate change, such as the expected increases in floods, droughts and landslides will also be considered and planned for.
- ❑ **Diversified Housing Options**—The provision of Sri Lankan family with more choices and options of housing to meet their lifestyles and needs is critical. Housing of varied types at varied prices – ranging from city apartments to rural single family homes – will be developed to meet wide ranging needs and affordability levels. Initiatives to stimulate more dynamic housing markets and better quality housing at the middle and lower-income segments will be promoted. Concessionary financing for housing will be made available to middle and low income groups. Government housing institutions will pioneer the initiatives to develop social housing options and stimulate private sector investment too.

- ❑ **Better Coordination among Agencies**—Coordination of the various agencies that service settlements will be improved. These include water supply, sanitation, transportation, utilities and healthcare, etc. Local Authorities will also be empowered and encouraged to increase efficiencies in the housing and related sectors.
- ❑ **Housing Quality to Match improving Lifestyles**—Incomes in Sri Lanka are rising, and with it the demand for better quality housing is also increasing. The quality of housing and construction will be improved in line with modern standards and concepts from the viewpoint of safety, comfort, energy savings, and climate and disaster resilience. Modular housing technologies and densification strategies will be pursued, particularly in the urban areas, to maximise land utilisation and to reduce unit cost. Regular repair and rehabilitation programmes for existing housing schemes will also be introduced, in collaboration with the private sector.
- ❑ **Strengthen the Rental Housing Market**—Sri Lanka has a short supply of quality affordable rental housing. The pent up demand for rental housing will rise with increased urbanisation, incomes, and population growth and mobility. The Government will address the impediments to the growth of rental housing markets by providing targeted incentives for low- and middle-market rental housing developers, and by creating a regulatory regime that balances the need to protect the rights and interests of both tenants and developers/owners equally.

Activity Output Matrix: Housing Sector

Policy direction	2013	2016	2020
Direct intervention of government in settlement development	Provision of land plots to low income families to construct their own houses in rural and estate sectors	Facilitating individuals and private developers in residential development by improving capital structure of home lending institutions and releasing state lands in competitive price	Government will facilitate and create conducive environment to private sector property developers to meet the entire housing requirements. By providing required infrastructure and institutional supports
	Implementing comprehensive housing development programmes in rural and estate sectors, based on self-help strategies characterised by provision of cash grant, concessionary loans and in kind assistance	Completing the relocation of underserved settlers and released the land for commercial and residential property development	Encouraging private and state housing financing institutors to introduce new housing financing products
	Government involvement in the construction public servants' housing schemes		
Facilitation of individual and private developers in residential development	Promoting low cost housing technologies in rural and semi urban housing development	Implementing public servant and private sector employee housing scheme with the participation of private developers and home lending banks	Government becomes strong regulator which will regulate housing finance, quality and standard of apartments by introducing suitable legal instruments
Changing government role from developer and financier to regulator and facilitator in housing development and home	Revamping government housing schemes and facilitating establishment of housing management committees Facilitating private property developers to construct residential apartments by relocating dwellers in underserved settlers	Introducing and developing specialized housing financing products to meet the housing requirements of middle income families	
		Ensuring every expatriate family to own their houses by introducing special loan schemes with the assistance of state and private banks.	
	Outcomes Completing housing Reconstruction programmes in the conflict affected areas	Outcomes Completing resettlement and underserved settlers	Outcomes Completing construction of 300,000 units throughout the island
Completing construction of 300,000 units throughout the island			Complete construction of 300,000 units throughout the island

Key Development Projects in Progress

Domain	Project	Activities	Investment
Port	Colombo South Harbour	Construction of; <ul style="list-style-type: none"> • A new harbour basin area of 285 hectares with 570m wide approach channel • A new major breakwater and small breakwater • A new marine operations centre • Three container terminals 	Domestic: 19,800 million Foreign: Rs. 33,000 million (ADB) Private: Rs. 33,000 million
	Port of Hambantota	Construction of; <ul style="list-style-type: none"> • A breakwater with 1000m length • Two berths and an approach channel • Harbour basin and dredged up to 16m 	Domestic: Rs. 8,442 million Foreign: Rs.33,770 million (EXIM Bank of China)
	Port of Oluvil	Construction of; <ul style="list-style-type: none"> • Two breakwaters- 550m length and 755m length • Dredging 8m of the harbour basin to accommodate 5000 • DWT vessels in the first phase and 16,000 DWT vessels in the second phase. 	Domestic: Rs. 1,238 million Foreign: Rs. 4,950 million (Netherlands)
	Port of Galle	Construction of; <ul style="list-style-type: none"> • A multi-purpose terminal and a breakwater • Channel and harbour basin dredging • Procurement of equipment and navigational aids 	Domestic: Rs. 3,382 million Foreign: Rs. 13,530 million (JICA)
	Kankesanthuri Harbour (KKS)	<ul style="list-style-type: none"> • Repair the main breakwater and existing structure in the harbour • Remove the three sunken vessels laying close to the KKS Port 	Domestic: Rs. 20 million Foreign: Rs. 80 million
Aviation	Bandaranaike International Airport	Phase II/stage II construction of: <ul style="list-style-type: none"> • New passenger terminal building • Aircraft parking apron • Road and multi-level car parking • Air navigation systems • Power supply system • Water supply system • Sewage treatment system 	Domestic: Rs. 4,528 million Foreign: Rs. 25,656 million
	Mattala International Airport	Construction of: <ul style="list-style-type: none"> • 4km runway • Airport parking apron • Taxiway connecting to the runway and apron • Terminal building, cargo storage, fuel farm and fire • services building 	Domestic: Rs. 18,984 million Foreign: Rs. 4,746 million (EXIM Bank of China)

Domain	Project	Activities	Investment
Railway	Northern Railway Line:	<ul style="list-style-type: none"> Laying of track Formation of embankment, construction of six railway stations, two sub stations Rebuilding a major bridge, ten minor bridges Installation of a signalling system 	Omanthai to Pallai: Domestic: Rs. 4,181 million Foreign: Rs. 16,724 million (India)
	Omanthai to Pallai (90 km) and Pallai to Kankesanthurai (72 km)		Pallai to Kankesanthurai: Domestic: Rs. 5,537 million Foreign: Rs. 22,148 million (India)
	Medawachchiya to Madu (43km) and	<ul style="list-style-type: none"> De-mining of the trace Laying of track with UIC 60kg rails, welded, with concrete sleepers and elastic fastenings Installation of a signalling system 	Madawachchiya to Madu: Domestic: Rs. 1,831 million Foreign: Rs. 7,322 million (India)
	Madu to Thalaimannar (65km)		Madu to Thalaimannar: Domestic: Rs. 3,390 million Foreign: Rs. 13,560 million (India)

Major Road Projects Under Implementation

Sector	From	Section	To	Length (Km)
Peradeniya -Badulla- Chenkalady				
	Badulla Rest House Junction		PB (UVA/EP)	78.8
Peradeniya - Badulla -Chenkalady	PB (UVA/East)		Chenkalady	72.0
Avissawella Hatton Nuwaraeliy	Hatton		Nuwaraeliya	44.0
Puttalam – Trincomalee	Anuradhapura		Mihintala	10.5
Puttalam – Trincomalee	Mihintala		Trincomalee	90.6
Matara – Akuressa	Matara		Godagama	4.0
Kandy-Mahiyangana-Padiyatalawa	Mahiyangana		Padiyatalawa	29.1
Badulla - Karametiya - Andaulpotha	Badulla Rest House Junction		Andaulpotha	47.9
Batramulla – Pannipitiya	Thalawathugoda		Pannipitiya	3.32
Colombo – Horana	Pamankada bridge		Horana	27.0
Elpitiya - Awittawa -Lewwanduwa	Elpitiya		Lewwanduwa	27.2
Hanwella - Pugoda - Wake -Urapola	Hanwella		Urapola	24.4
Hikkaduwa - Nilhena -Baddegama	Hikkaduwa		Nayapamulla	12.8
Horana - Anguruwatota -Aluthgama	Southern Expressway		Aluthgama	10.4
Karadupone – Rambukkana	Karadupone		Rambukkana	8.9
Katukurunda – Neboda	Katukurunda		Nagoda	2.7
Kurunegala - Narammala -Madampe	Kurunegala		Narammala	20.0
Moratuwa – Piliyandala	Kospelena Junction		Pilyandala	2.5
Pasyala – Attanagalla	Pasyala		Attanagalla	6.8
Rathmalana-Mirihana	Bailey Bridge		Mirihana	2.1
Thalgodapitiya – Yatawatta-Dombawela	Thalgodapitiya		Dombawela	26.4
Thoppu-Madampe	Thoppu		Madampe	26.7
Veyangoda-Ruwanwella	Veyangoda Level Crossing		Nittambuwa	4.3
Veyangoda-Ruwanwella	Urapola		Ruwanwella	20.0
Weliweriya-Kiridiwela	Weliweriya		Kiridiwela	12.9
Total				615.3

Source: Ministry of Highways and Road Development, Government of Sri Lanka

Project Development Companies

Overseas Realty (Ceylon) PLC

Overseas Realty (Ceylon) PLC (ORCL) was incorporated in Sri Lanka in 1980 to undertake the principal activities of investment in properties, property development, trading and management. Shing Kwan Group, a Singapore based real estate firm, holds approximately 93% of the existing issued share capital of the Company. ORCL's first real estate development project in Sri Lanka was the World Trade Center, Colombo (WTC). The WTC comprises two office towers of 39 floors each, providing approximately 750,000 sq.ft. of commercial and retail space. Completed in 1996 at a cost of US\$130 million and located on a prime site on the sea front in the heart of Colombo's Central Business District (CBD), the building is an integrated business complex comparable with the world's best buildings. It is designed to provide modern infrastructure, facilities, and services for international business activities.

ORCL is currently developing Havelock City in Colombo through its subsidiary Mireka Capital Land (Pvt) Limited. This is amongst the largest mixed use real estate project in Sri Lanka as well as South Asia. On completion, Havelock City will have 1,080 apartments, retail and commercial facilities and entertainment, all under one roof. The first two towers had cost about US\$25 million. ORCL will start Phase 3 of its Havelock City Project (HCP) early next year to be completed within three years. This will encompass three towers, with an additional 405 residential units.

CT Holdings PLC

C T Holdings PLC was founded in 1928 and is based in Colombo, Sri Lanka. The company was formerly known as Ceylon Theatres PLC and changed its name to C T Holdings PLC in November 2010. C T Holdings PLC is engaged in the businesses of food and beverage, real estate, ceramics and tiles, plantations, entertainment, packaging, and financial services. Its Real Estate segment owns and operates the 'Majestic City' shopping and entertainment mall, and develops and sells or rents residential condominiums, as well as engages in the commercial development business. This segment also operates a hotel under the Bandarawela name.

CT Holdings has recently raised Rs. 2.67 billion (in Sri Lankan Rs.) through private placement and a rights issue. The funds will be used for the Group's real estate and leisure projects. C T Holdings PLC revenues increased from Rs. 38.54 billion in FY2010 to Rs. 47.04 billion in FY2011.

Empire and CT Garden Piliyandala are amongst a few of the residential projects that will be managed by CT Property Management Company Ltd, which is a subsidiary of Ceylon Theatres Ltd. GS Tower in Kotahena is another project which is a commercial cum residential complex to be built by CT Property Management Company Ltd.

John Keells Holdings PLC

John Keells Holdings PLC is the largest listed conglomerate on the Colombo Stock Exchange in terms of market capitalisation. The group manages the largest number of hotel rooms in Sri Lanka, and also owns as the largest private-sector-owned transportation business in the country.

It is engaged in other business including tea broking, stock broking, banking, real estate, manufacturing of food and beverages, supermarkets, and provision of port and marine fuel services.

The property group owns a significant land bank in prime areas of Colombo and the rest of the country, and is one of the largest private sector proprietors of real estate in Sri Lanka. It is the controlling shareholder of Asian Hotels and Properties PLC, the owners and promoters of 'Crescat City' which houses the five star hotel 'Cinnamon Grand'. A few other famous properties built and owned by the group include: an up-market shopping mall, The Crescat Boulevard; a 30-storey luxury apartment complex, The Monarch; and a 35-storey luxury apartment complex, The Emperor, and the Angsana City Club & Spa. The Property Development arm concentrates primarily on development and sale of residential apartments. The operations of the Crescat Boulevard and the management of the office sites within the city are controlled by the Property Management arm of the group. The Property Group has launched a new condominium project 'On Three 20', which is a 3-tower residential apartment complex of 37 storeys and consists of 475 apartments in the heart of Colombo. The total area owned and managed by the group as commercial office space in the City of Colombo is approximately 275,000 sq. ft. with a mix of inter-companies and external tenants. The offices are located within the Central Business District of Colombo.

Companies in Civil Construction

International Construction Consortium (Pvt) Ltd (ICC)

ICC is a leading general contractor in Sri Lanka. Established in 1980, ICC operates in the property development, industrial and commercial buildings and infrastructure development segments. IN addition to construction activities ICC also produces Ready Mix Concrete, pre-stressed and pre-cast concrete products, asphalt products, which helps in improving the overall quality and efficiency of its construction projects. In order to have enhanced focus on the housing sector, ICC has promoted a subsidiary ICC Housing (Pvt) Limited which focuses on housing development projects. ICC has also carried out projects successfully in Doha, Qatar and Maldives.

Maga Engineering

Founded in 1984, Maga Engineering has grown to become one of Sri Lanka's leading construction company having completed 250 projects in both Sri Lanka and abroad ranging from buildings, roads and bridges to water supply and marine work. The company is ISO 14001-2004 and OHSAS 18001-2007 certified. Maga Engineering is the first construction company to be recognised as a Business Superbrand (by Superbrands Lanka) and has won a variety of awards for excellence in construction and Corporate Accountability.

MTD Walkers Plc

MTD Walkers is Sri Lanka's only listed pure infrastructure development company. It is at present majority owned by Kapila Heavy Equipments PLC and its ultimate Malaysian parent, MTD Capital, but plans are under way to dilute the parent and increase the free float. MTD Walkers is building toll roads on a build-own-operate basis, and is the largest piling contractor in Sri Lanka.

RN Constructions (Pvt) Limited

A specialist in turnkey projects, RN constructions has completed over 150 projects in the last 8 years covering factory buildings, warehouses, commercial complexes including supermarkets and cinema halls and housing projects. With a turnover of nearly LKR 1 billion and over 250 employees the RN group is one of the fastest growing construction companies in Sri Lanka.

Sanken Lanka (Private) Limited

With over 30 years of experience Sanken Lanka has executed projects across a wide cross section of segments such as hotels, commercial building, warehouses, schools, hospitals, roads and bridges and other infrastructure projects. The company has also executed projects in Maldives and Seychelles. An ISO 9001:2008 certified company, Sanken Lanka has completed over 200 projects in Sri Lanka and overseas including the 41 storey Empire City Twin Tower Complex, the tallest building in Sri Lanka.

Sathuta Builders Private Ltd.

Sathuta Builders was formed in the late 1970's as a general construction contractor for executing construction works of buildings, roads, irrigation canals, and structures in the Sri Lanka's largest multipurpose project 'Mahaweli Development Project.'

The group consists of the following independent operating companies:

- Sathuta Builders (Pvt) Ltd : Construction activities
- Sathuta Ready-Mix (Pvt) Ltd : Manufacturing and supply of ready-mixed concrete
- Sathuta International (Pvt) Ltd : Exporting Sri Lankan floricultural, horticultural, agricultural products, and Importing construction related machinery and equipment

The company has completed 45 projects till date and eight projects are in progress.

State Development and Construction Corporation (SD&CC)

SD&CC was established in 1971 as a state organisation to undertake heavy civil engineering construction works. Various major engineering projects in the fields of construction such as bridges, roads, highways, dams, irrigation deterrent schemes, hydro power tunnels and power houses, water supply and treatment works and multi storied buildings have been completed by SD&CC.

State Engineering Corporation of Sri Lanka (SEC)

The corporation was established in 1962 and provides architectural and engineering services. SEC is the only government construction organisation certified with ISO 9001:2008. The corporation is engaged in the following activities:

- Engineering design
- Construction
- Manufacturing
- Fabrication
- Project Management
- Information Management

The court complex at Kandy, Pellekele Cricket Stadium, Kalutara Stupa, Head Office of Sri Lanka Customs, and upgradation of the Premadasa Cricket Stadium are some of the projects undertaken by SEC.

Some of the other leading contractors in Sri Lanka include:

1. Access Engineering Ltd
2. CML-MTD Construction Ltd
3. Daya Constructions (Pvt) Ltd
4. Euroville Engineers and Constructors (Pvt) Ltd
5. Hovael Construction (Pvt) Ltd
6. Industrial Engineering Enterprises Company Private Ltd (IEECOL)
7. Isuru Engineering (Pvt) Ltd
8. KDA Weerasinghe & Company (Pvt) Ltd
9. KD Ebert & Sons Holdings (Pvt) Ltd
10. Link Engineering (Pvt) Ltd
11. Nawaloka Construction Company (Pvt) Ltd
12. NEM Constructions Private Ltd
13. Orient Construction Company
14. PND Constructions (Pvt) Ltd
15. SMA Construction
16. Sierra Construction (Pvt) Ltd
17. Squire Mech Engineering (Pvt) Ltd
18. Tudawe Brothers (Pvt) Ltd
19. V V Karunarathe and Company

Intellectual Property Rights

The Intellectual Property Rights of this document vest entirely with ICRA Lanka Limited (ICRA Lanka) and ICRA Management Consulting Services Limited (IMaCS). None of the information contained herein may be copied, otherwise reproduced, repackaged, further transmitted, disseminated, redistributed, or resold, or stored for subsequent use for any purpose, in whole or in part, in any form or manner or by means whatsoever, by any entity without prior written permission of IMaCS or ICRA Lanka. Media may, however, quote from this publication with due acknowledgement to IMaCS and ICRA Lanka.