



## The 22nd Asia Construct Conference

# SRI LANKA COUNTRY REPORT

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Korea



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### **Construction Industry Development Authority (CIDA)**

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## Contents

1.0	Executive Summary.....	1
2.0	Macro Economic Review and out look.....	1
2.1	Over view of National Economy.....	1
2.2	Main Economic Indicators.....	2
3.0	Overview of the Construction Industry.....	3
3.1	Construction Investment.....	3
3.2	Construction Companies.....	4
3.3	Employers and Construction labour.....	9
4.0	Productivity.....	11
4.1	Value added per employer.....	11
5.1	Construction Materials.....	13
5.2	Construction Industry salaries and wages.....	16
6.0	Import and Export of Construction Services.....	17

## 1.0 Executive Summary

Construction Industry is growing at a very rapid pace witnessing a growth rate of 16.3 at the end of first quarter of 2017. The Construction Industry also play a major and decisive role in the national economy contributing 1/10<sup>th</sup> of the gross domestic product. The Construction Industry with its forward and backward linkages stimulates many economic activities at local, regional and national level adding value to national economy augmenting the economic growth. This massive emerging growth of the Construction Industry can be attributed to the major development drive initiated by the present coalition Government. Large scale construction projects such as Colombo international financial city, extension of southern expressway, phase III of Colombo outer circular highway project and emerging condominium apartments, largely contributed to the expansion in the construction activities. New apartment complexes are emerging in the Colombo metropolis, changing the skyline, recording substantial growth in the condominium development sector witnessed by the 24.5% growth in the year 2016. The credits granted by the licensed commercial banks also reflects the fact that private sector investments in construction have increased significantly, recording a growth rate of 26.9% in year 2016.

## 2.0 Macro Economic Review and out look

### 2.1 Over view of National Economy

Sri Lanka Economy under the visionary leadership of the new government which came into power in the early part of 2015 , introduced some revolutionary policy measures, in order to accelerate economic development in the country. As a result of the introduction of new policy drives, Sri Lanka economy showed early signs of stabilization during the year 2016. Unfavorable weather conditions, a sluggish global economic recovery, caused the economy to grow at a slower rate of 4.4% in 2016, in real terms in comparison 4.8% growth recorded in the previous year. Increased investments expenditure especially in the construction sector has very positively contributed to the economic growth in year 2016.

One of the main strategies that government has proposed to accelerate the economic growth is to attract foreign direct investment creating a very conducive policy and regulatory environment for the encouragement of foreign direct investment. Although government has given very high emphasis in attracting foreign direct investment, the outcome has not been very positive, resulting in slower economic growth. In the domestic front of large scale government infrastructure projects and increased private sector investments in condominium development largely supported the economic growth. The new government has requested the private sector to be the major investment partners in the economic growth of the country. Many policy measures and tax concessions have been granted to the private sector companies encouraging them to have more investments in industrial and service sectors, to spur the economic growth creating more employment opportunities for the youth.

## 2.2 Main Economic Indicators

### Value addition by the Construction Sector to GDP

	2012	2013	2014	2015	2016
<b>GDP and Components</b>					
<b>GDP at real Price</b>	3,047,277	3,266,041	3,506,664	3,705,563	9,012,026 (base year 2010)
<b>GDP at current market prize</b>	7,578,554	8,674,230	9,784,673	10,659,563	11,838,975
<b>Real GDP Growth (%)</b>	6.3	7.2	7.4	5.7	4.4 (base year 2010)
<b>Agriculture, Forestry, and Fishery</b>	833,477	933,635	964,766	1,079,755	890,659
<b>Mining</b>	152,113	183,934	214,235	236,567	315,067
<b>Manufacturing</b>	1,354,897	1,536,090	1,728,286	1,914,050	1,837,179
<b>Services</b>	4,356,837	4,925,166	5,511,568	6,043,596	6,743,346
<b>Construction</b>	712,272	894,683	1,150,010	1,215,350	932,260
<b>Source: National Accounts of Sri Lanka 2015/2016</b>					
<b>Demographic Indicator</b>					
<b>Population ('000 persons)</b>	20,425	20,585	20,771	20,966	21,203

Population growth rate (%)	1.0	0.8	0.9	0.9	1.1
Total labor force ('000 persons)	7,798	8,034	8,049	8,214	8,311
Labor force growth rate	52.5	53.7	53.2	53.8	53.8
Unemployment rate (%)	4.0	4.4	4.3	4.7	4.4
Inflation rate (%)	7.53	6.94	3.29	0.93	3.75

*Source : Central Bank Annual Report 2016*

Financial Indicators					
Interbank interest rate	9.83	7.66	6.21	6.40	8.42
Short-term interest rate	10.10	9.37	6.20	6.20	8.17
Long-term interest rate	13.21	11.78	7.33	7.57	10.46
Exchange rate against US\$	127.60	129.11	130.56	135.94	145.60

*Source : Central Bank*

### 3.0 Overview of the Construction Industry

#### 3.1 Construction Investment

The investment by the private sector for residential activities showed a rapid increase as most of the private sector developers have largely invested in building condominiums due to the very high demand for them in Colombo Metropolitan and suburbs. Due to the very high land value and scarcity of lands in the Colombo Metropolis, the vertical development in the form of high rise residential towers has been emerging like mushrooms, changing the sky line of Colombo Metropolis.

Public sector investment in infrastructure activities such as road projects, water supply, scheme, ports and airports have created more works for the construction companies.

## 3) -1 Breakdown of the Construction Investment\*\*\*

Type of Investment	2012	2013	2014	2015	2016	2017 (forecast)
Private Residential	15,109	17,602	17,913	23,745	28,342	33,841
Private Non-Residential (including Civil Work)	64,368	74,988	84,390	111,868	133,526	159,430
Public (Residential & Non- Residential)	245,394 1,045,443	285,879 1,217,922	290,935 1,370,638	385,659 1,816,896	460,323 2,168,648	549,625 2,589,366
Repair & Maintenance (Private & Public)	30,054	35,013	38,685	51,102	61,210	73,086
<b>Total</b>	<b>1,400,368</b>	<b>1,631,404</b>	<b>1,802,561</b>	<b>2,389,270</b>	<b>2,852,049</b>	<b>3,405,348</b>

*Source – National Accounts of Sri Lanka 2015/2016 Survey of Construction Industries Final Report 2013/2015*

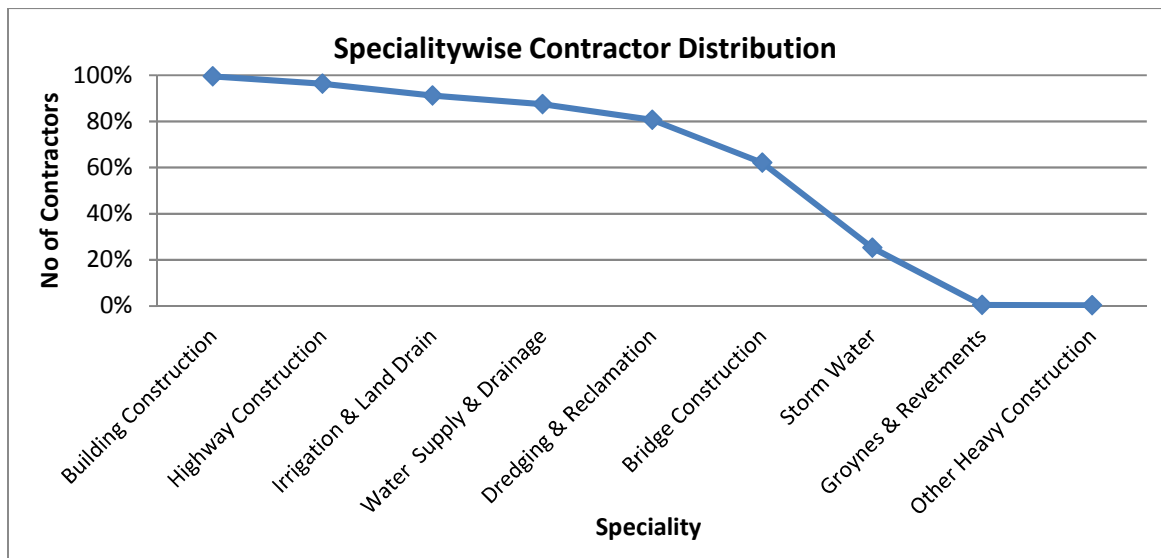
## 3.2 Construction Companies

Construction Industry Development Authority, register categorize and grade the construction companies practicing in Sri Lanka evaluating their technical and financial capacities.

The construction registration system presently being implemented has 09 categories and 12 grades. 4868 contractors practicing construction work are presently registered with CIDA and a high percentage of contractors fall into the categories of building construction, highway construction, irrigation and land drain and water supply & drainage.

Speciality vs No of Contractors - 2017 (August)		
Speciality	No of Contractors in 2017	% per Total Contractors
Building Construction	4840	99.42%
Highway Construction	4688	96.30%
Irrigation & Land Drain	4439	91.19%
Water Supply & Drainage	4254	87.39%
Dredging & Reclamation	3928	80.69%
Bridge Construction	3022	62.08%
Storm Water	1227	25.21%
Groynes & Revetments	23	0.47%
Other Heavy Construction	14	0.29%
<b>Total Contractors</b>	<b>4868</b>	

Source: Construction Industry Development Authority (CIDA)



Source: Construction Industry Development Authority (CIDA)

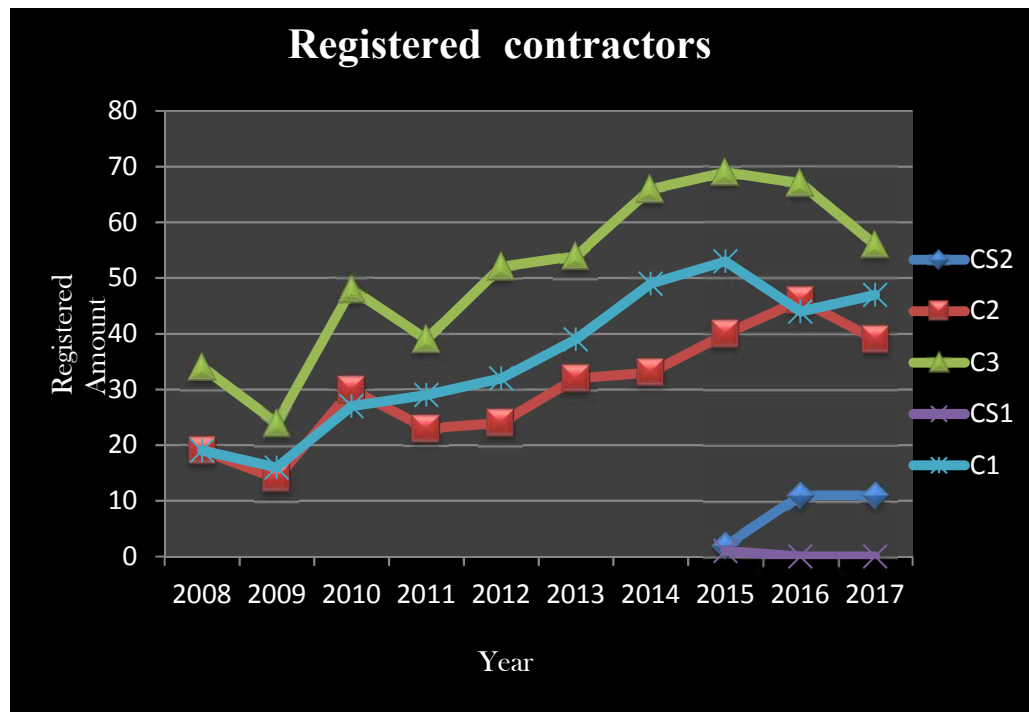
Although there are 4867 contractors registered with CIDA, the majority of them fall into the category of small and medium scale contractors.

When the bids are called for mega projects, only very few contractors are eligible to bid as there are only 11 contractors who have the technical and the financial capacity to bid for a project having an estimated value of over Rs. 3 billion.

**Registered Contractors**

	CS2	CS1	C1	C2	C3	C4	C5	C6	C7	C8	C9	Total	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	C11	C10
2008			19	19	34	71	81	157	545	151	71	1148	2	4	13	27	48	93	381	54	52	11	0	20
2009			16	14	24	55	116	182	784	303	96	1590	0	1	5	11	21	46	113	17	20	1	864	41
2010			27	30	48	103	173	293	1162	492	126	2454											259	51
2011			29	23	39	92	165	256	1151	446	114	2315												53
2012			32	24	52	101	183	271	1229	415	104	2411												41
2013			39	32	54	116	187	326	1180	310	84	2328												20
2014			49	33	66	146	217	477	1305	317	79	2689												62
2015	2	1	53	40	69	153	219	485	1239	316	74	2651												13
2016	11	0	44	46	67	180	228	541	1890	724	643	4374												0
2017	11	0	47	39	56	210	249	501	2202	963	589	4867												1

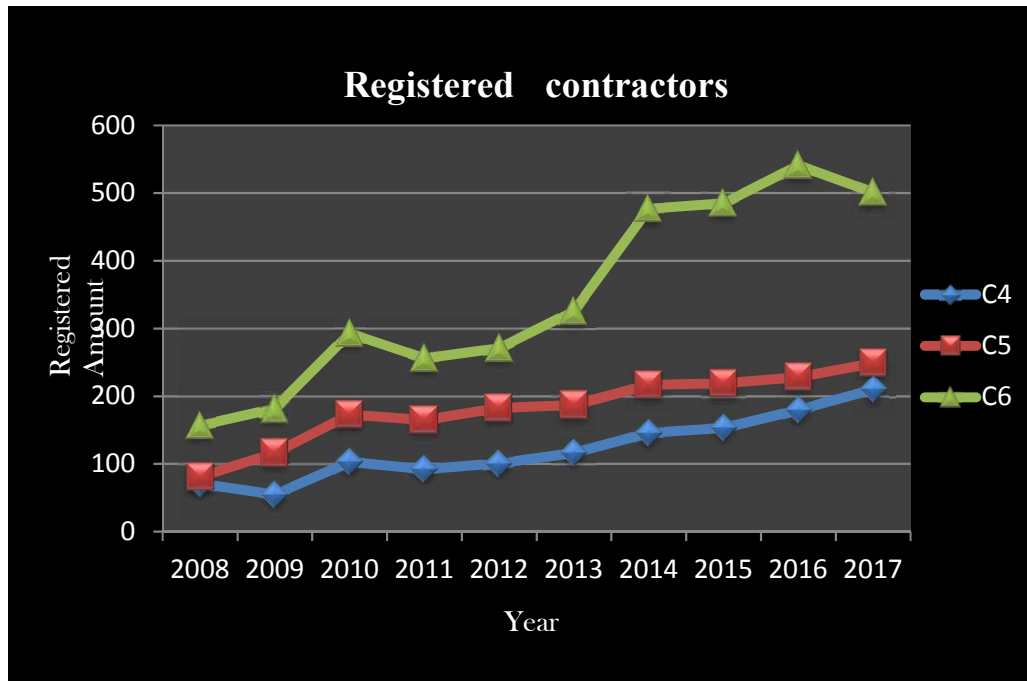
Source: Construction Industry Development Authority (CIDA)



Source: Construction Industry Development Authority (CIDA)

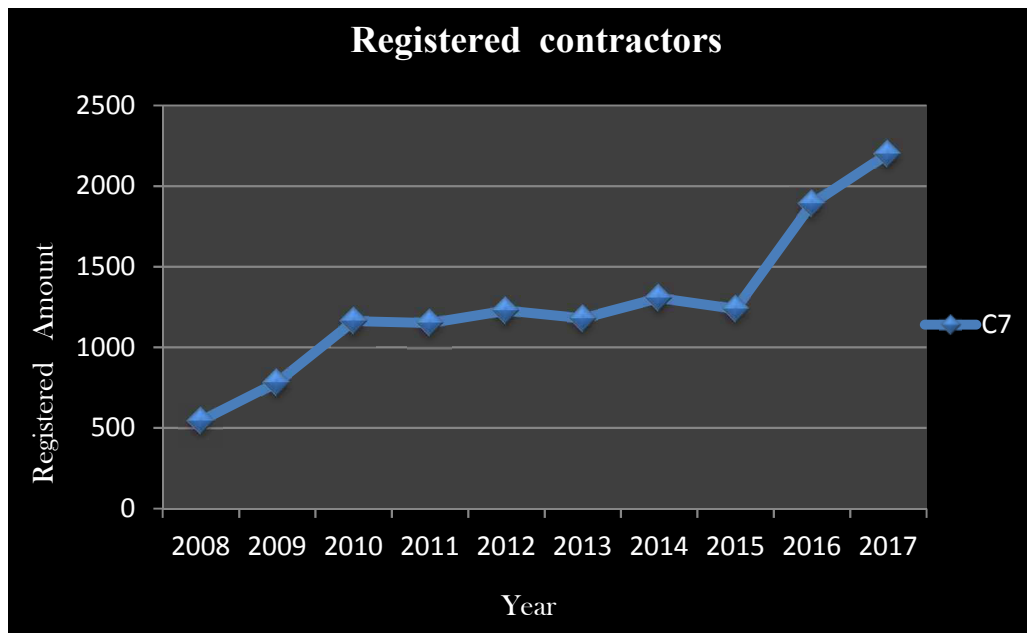


**Constructors registered in the categories of C4, C5 and C6**



Source: Construction Industry Development Authority (CIDA)

**Contractors registered in category C7 more than half of the contractors registered fall in to this category**



Most of the mega and complex construction projects are presently being carried out by the foreign contractors where local contractors play a role of a sub contractor.

At present, government is mulling to make the joint ventures mandatory for the foreign contractors in order to ensure that local contractors will get an opportunity to be partners leading to the capacity building of local contractors, making them to be competitive in international market.

Construction Industry Development Authority recently introduced a program called Continuous Competency Development (CCD), the major objective of which is to build the capacity of the small and medium contractors enabling them to upgrade their technical capacities leading to the elevation of their grading.

Construction Industry Development Authority is in the process of introducing a new regulation for the registration of foreign contractors practicing in Sri Lanka under the provisions of the Construction Industry Development Act No. 33 of 2014.

The foreign contractors will be given a temporary registration on project basis, evaluating their technical and financial capacities.

### 3.2.1 Distribution of contractors by employment size

CATEGORY	Minimum no of Employees (Technical)			Total No of Contractors	% Distribution	No of Employees (Assumed)
	Professional Staff	Supervisory Staff	Total			
CS2	22	44	66	11	0.23%	3000
CS1	17	22	39	0	0.00%	2000
C1	8	14	22	47	0.97%	1400
C2	5	9	14	39	0.80%	400
C3	4	7	11	56	1.15%	300
C4	2	5	7	210	4.31%	200
C5	1	2	3	249	5.12%	125
C6	1	2	3	501	10.29%	40
C7	1	1	2	2202	45.23%	30
C8	0	1	1	963	19.78%	10
C9	0	1	1	589	12.10%	5
C10	0	1	1	1	0.02%	3
<b>Total</b>				<b>4868</b>	<b>100.00%</b>	

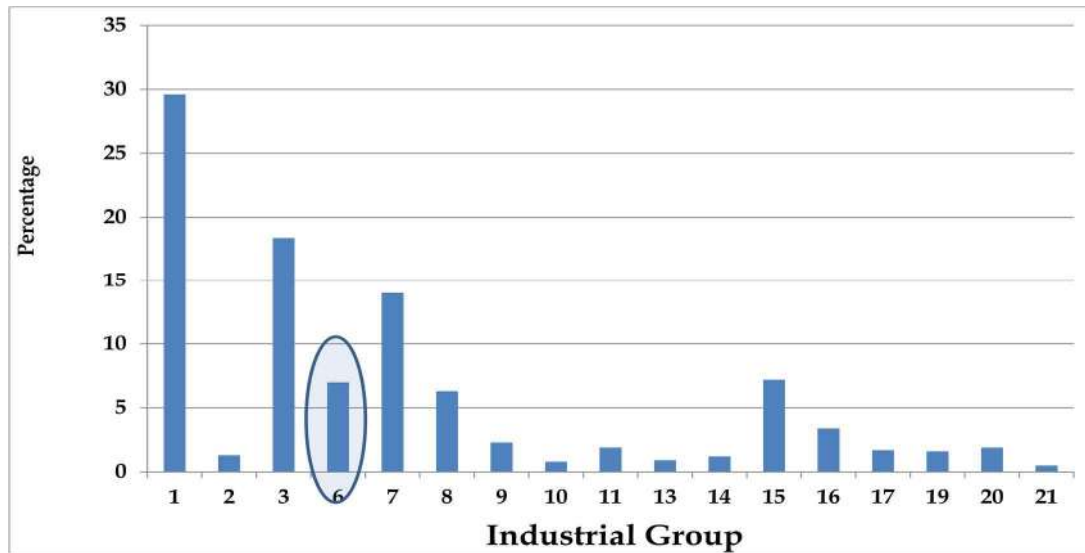
Range of Employees	No of Companies
Less than 5	1
5 to 49	4255
50 to 199	249
200 to 299	210
300 to 399	56
400 ++	97
<b>Total</b>	<b>4868</b>

### 3.3 Employers and Construction labour

The total of employed population of the country is 8.5million out of which 591,000 are employed in the construction sector representing 7% of the total labour force.

Indus. Group No	Industrial Group	1st half 2015
1	Agriculture, forestry and fishing (A)	2,472
2	Minning & quarrying (B)	59
3	Manufacturing ( C )	1,553
6	Construction, Electricity, gas, steam and air conditioning supply, Water supply, sewerage, waste management and remediation activities ( D, E, F )	591
7	Wholesale and retail, repair of motor vehicles and motor cycles (G)	1,112
8	Transportation and storage (H)	524
9	Accommodation and food services activities (I)	206
10	Information and communication (J)	63
11	Financial and insurance activities (K)	165
13	Professional, scientific and technical activities (M)	67
14	Administrative and support service activities (N)	133
15	Public administration and defense compulsory social security (O)	684
16	Education (P)	343
17	Human health and social work activities (Q)	140
19	Other service activities (S)	158
20	Activities of households as employers ; undifferentiated goods and services - producing activities of households for own use (T)	206
21	other (Real estate activities (L) + Arts, entertainment and recreation ( R ) + Activities of extra teritorial organizations & bodies (U)	75
	<b>All groups</b>	<b>8551</b>

**More than 7% of the total work force serves the construction Industry**



Source : Labour force survey, Dept. of Census and Statistics

### 3.1 Number of Construction workers by job type

Occupation	2010
<b>A. Technical Grades</b>	
1. Civil Work Supervisors	16,248
2. Technical Officers	22,119
3. Foremen	5,515
4. Electrical Technicians	5,337
5. Mechanical Fixers	7,235
6. Draftsmen	1,364
7. Landscapers	1,186
<b>Sub Total</b>	<b>59,004</b>
<b>B. Crafts &amp; Related</b>	
8. Masons	185,247
9. Carpenters	91,912
10. Plumbers and Pipe Fixers	15,733
11. Electricians	31,008
12. Bar Benders and Steel Fixers	13,741
13. Painters	14,987
14. Tile Layers	14,987

15. Scaffold Fixers	5,871
16. Plasterers	65,883
17. Concrete Workers	63,095
18. Shuttering Workers	356
19. Aluminum Workers	1,008
<b>Sub Total</b>	<b>503,829</b>
<b>C. Machine Operators &amp; Mechanics</b>	
20. Heavy Machine Operators	11,919
21. Light Machine Operators	6,582
22. Mechanics	9,666
<b>Sub Total</b>	<b>28,168</b>
<b>Total</b>	<b>591,000</b>

## 4.0 Productivity

### 4.1 Value added per employer

Labour productivity is measured by gross value added (GVA) (in 2010 prices) per hour worked has increased marginally by 0.2% to Rs. 463.20 per hour in the first three quarters of 2016 from 462.09 per hour in the same period of 2015.

Labour Productivity by Major Economic Sectors			
	2015 (Q1 – Q3)	2015 (a)	2016 (Q1-Q3) (b)
<b>Gross Value Added at Constant (2010) Prices, Rs.mn</b>	<b>5,788,916</b>	<b>7,817,394</b>	<b>6,019,368</b>
Agriculture	492,389	676,899	479,119
Industry	1,691,830	2,259,223	1,790,468
Services	3,604,698	4,881,273	3,749,781
	<b>462.09</b>	<b>425.52</b>	<b>463.20</b>
<b>Labour Productivity, Rs. per Hour Worked (b)</b>	163.38	158.76	173.70
Agriculture	518.05	470.34	503.27
Industry	576.91	524.64	561.41
Services			

(a) Revised  
(b) Provisional

Sources: Department of Census and Statistics  
Central Bank of Sri Lanka

The labour productivity in the Agricultural Sector is the lowest when compared to the productivity of the industry and services sector.

The construction sector labour productivity can be further improved by adopting innovative technologies which will fast track the construction processes adding more value to the national economy.

The mismatch between the available skills and type of skills required in the industrial sector also acts as barrier for improving productivity.

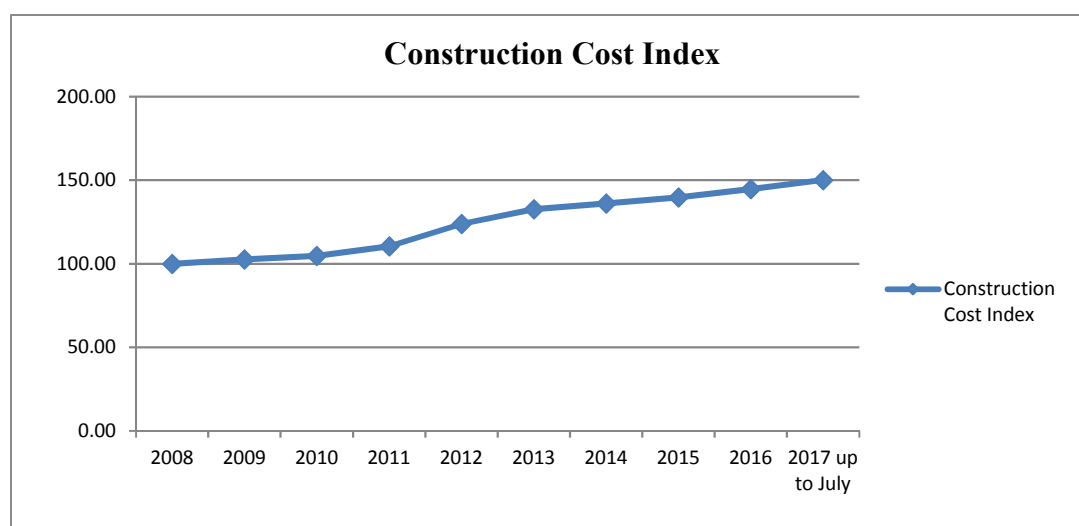
## 5.0 Construction Cost

The construction cost in Sri Lanka is one of the highest in the South Asian Region. The construction cost indices compiled by the Construction Industry Development Authority clearly reflect that construction cost is increasing at a rapid pace.

The rapid increase in the construction activities specially in post war environment, creates a very high demand for labour and materials causing materials and labour prices to escalate mainly due to the inadequacy of supply to meet the market need.

### *Construction Cost*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 up to July
Construction Cost Index	100.00	102.59	104.76	110.38	123.86	132.75	136.02	139.69	144.66	150.15

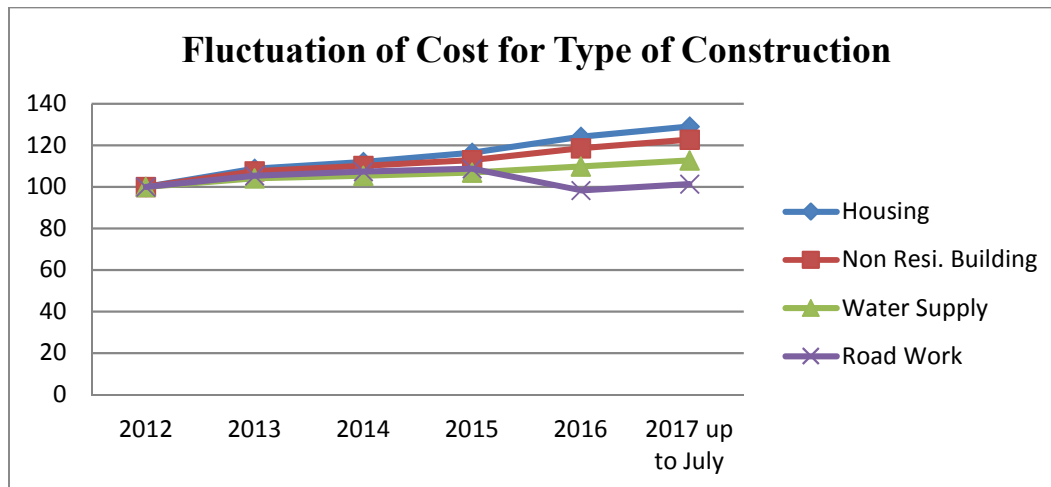


Source: Construction Industry Development Authority (CIDA)

### Fluctuation of Cost for Type of Construction

Category	2012	2013	2014	2015	2016	2017 up to July
Housing	100	108.69	111.99	116.44	124.15	129.11
Non Resi. Building	100	107.47	110.20	112.97	118.64	122.73
Water Supply	100	104.10	105.42	106.98	109.79	112.77
Road Work	100	105.31	107.39	108.75	98.34	101.41

Source: Construction Industry Development Authority (CIDA)



## 5.1 Construction Materials

The indices compiled by the Construction Industry Development Authority in relation to the fluctuation of prices of materials, reflects that prices of material are increasing year by year.

The price of sand has sky rocketed during the last two years resulting in the rapid increase of construction cost.

Imposing of strict regulations in river sand mining due to environmental concerns is the major cause for the rapid escalation of sand prices and many construction projects are

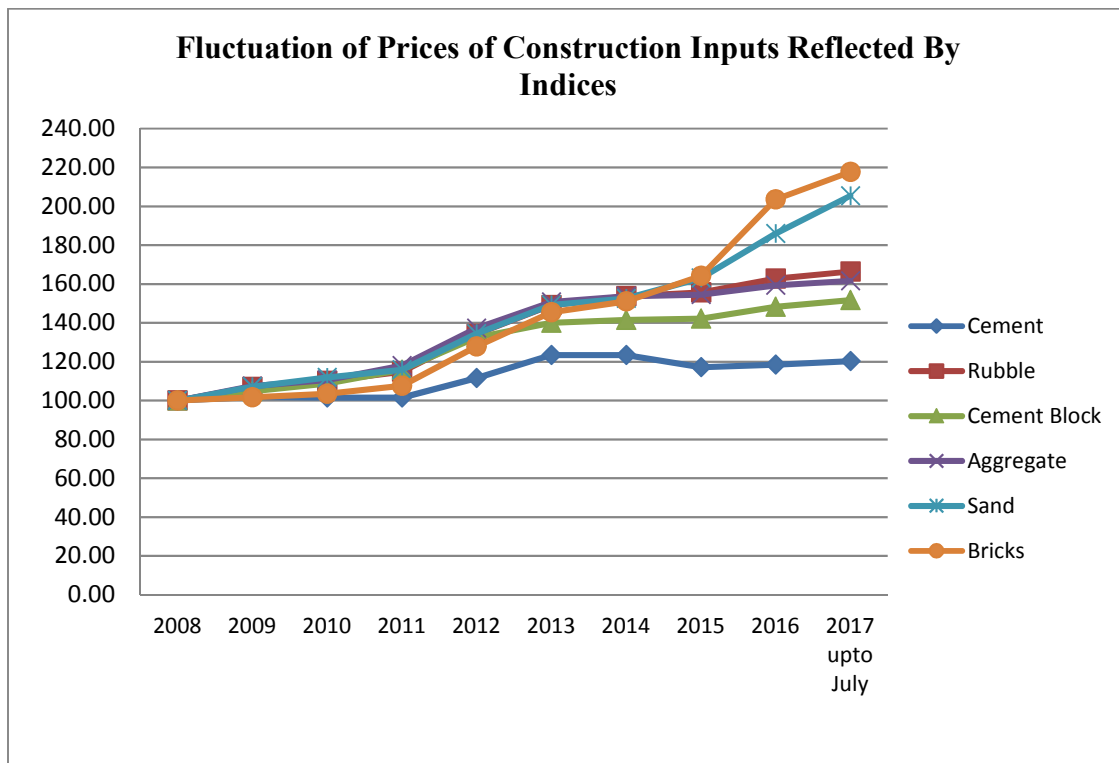
held up due to the shortage and increased price of sand, requiring an alternative for river sand.

The offshore sand and manufactured sand have been introduced as alternatives to river sand. But use of these alternatives has not become very popular as it is difficult to change the mindset of the people.

### **Fluctuation of Prices of Construction Inputs Reflected by Indices**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 upto July
<b>Cement</b>	100.00	101.82	101.55	101.55	111.50	123.42	123.42	117.14	118.46	120.33
<b>Rubble</b>	100.00	107.02	110.16	114.81	134.28	149.12	153.69	155.71	162.78	166.42
<b>Cement Block</b>	100.00	104.76	108.73	115.83	132.48	140.03	141.51	142.23	148.33	151.69
<b>Aggregate</b>	100.00	107.38	110.52	118.04	137.19	150.79	153.69	154.49	159.22	161.65
<b>Sand</b>	100.00	107.14	111.86	115.87	134.42	149.29	152.58	163.13	185.98	205.45
<b>Bricks</b>	100.00	101.67	103.54	107.58	127.78	145.47	151.08	164.28	203.57	217.71

Source: Construction Industry Development Authority (CIDA)

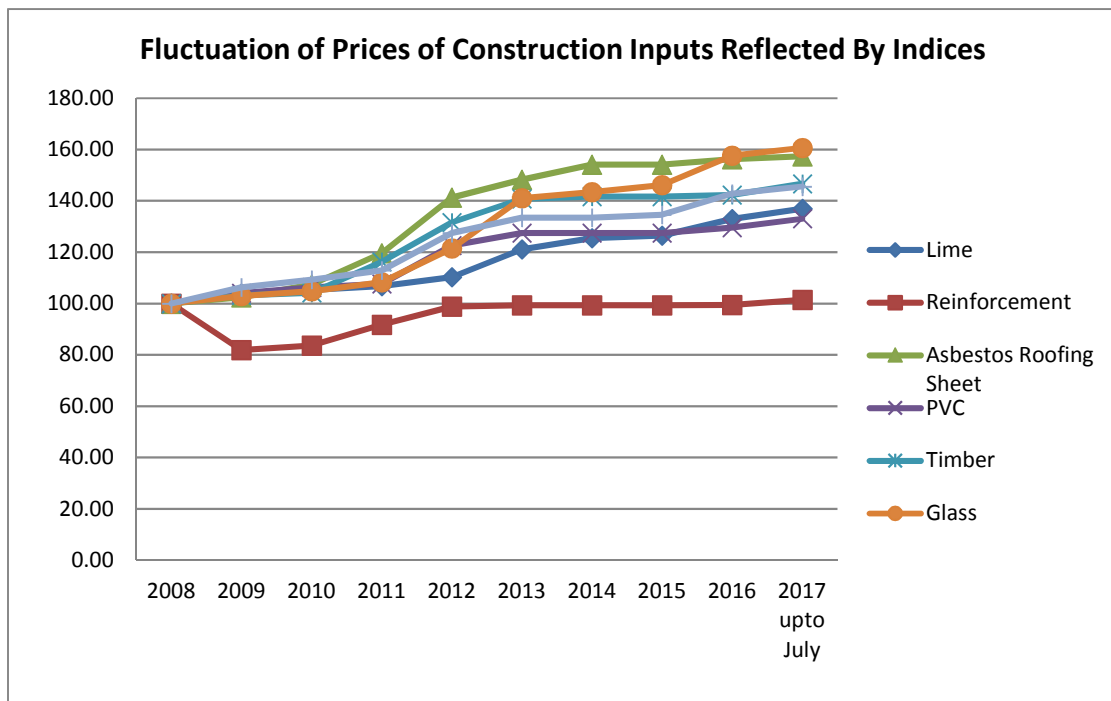


Source: Construction Industry Development Authority (CIDA)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 upto July
<b>Lime</b>	100.00	103.94	105.36	106.85	110.35	121.10	125.48	126.52	132.96	136.92
<b>Reinforcement</b>	100.00	81.90	83.66	91.68	98.89	99.33	99.33	99.33	99.40	101.47
<b>Asbestos Roofing Sheet</b>	100.00	102.46	107.47	119.68	141.31	148.25	154.16	154.16	156.30	157.37
<b>PVC</b>	100.00	104.05	106.36	107.70	122.57	127.52	127.52	127.52	129.64	133.02
<b>Timber</b>	100.00	103.18	104.13	116.26	131.61	140.84	141.69	141.69	142.24	146.70
<b>Glass</b>	100.00	102.90	104.81	108.23	121.45	141.09	143.45	146.21	157.55	160.63
<b>Wall Paint</b>	100.00	106.31	109.32	112.96	127.53	133.40	133.40	134.57	142.77	145.57

Source: Construction Industry Development Authority (CIDA)



Source: Construction Industry Development Authority (CIDA)

## 5.2 Construction Industry salaries and wages

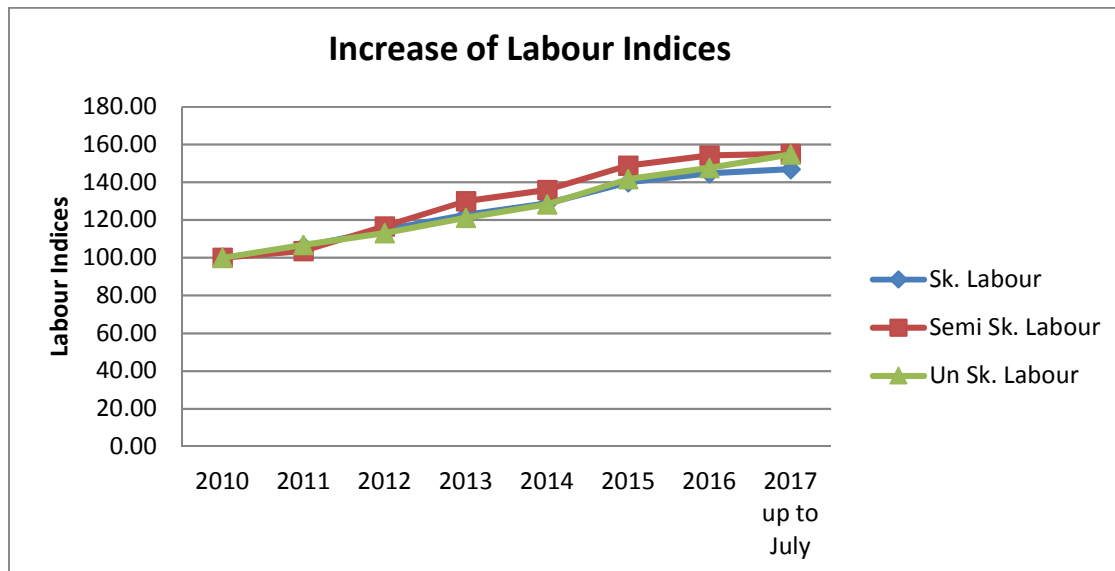
Construction Industry is rapidly booming due to the hive of construction activities requiring highly skilled manpower for the ongoing construction projects.

The shortage of labour not meeting the demand, results in rapid increase of salaries and wages in the Construction Industry as reflected by the labour indices compiled by the Construction Industry Development Authority.

### *Increase of Labour Indices*

<b>Category</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 up to July</b>
Sk. Labour	100.00	106.08	114.80	122.71	128.81	140.06	144.86	146.99
Semi Sk. Labour	100.00	103.61	116.65	130.02	136.00	148.84	154.28	155.11
Un Sk. Labour	100.00	106.85	113.14	121.31	128.29	141.83	147.74	154.74

Source: Construction Industry Development Authority (CIDA)



Source: Construction Industry Development Authority (CIDA)

**Prices of Labour**

Category	2010	2011	2012	2013	2014	2015	2016	2017 up to July	Unit
Sk. Labour	911.00	966.35	1045.82	1117.92	1234.00	1352.00	1382.00	1419.00	Day
Semi Sk. Labour	858.00	888.99	1000.83	1115.55	1215.00	1342.00	1370.00	1376.00	Day
Un Sk. Labour	678.00	724.45	767.12	822.51	893.00	998.00	1018.00	1057.00	Day

Source: Construction Industry Development Authority (CIDA)

The Sri Lankan craftsmen going abroad for overseas jobs has come down drastically as they can earn better wages in the local Construction Industry due to very high demand for skilled labour prevailing at present.

The contractors handling the major projects advocate the government that they should be allowed to import labour. Therefore, it is evident that the trend of the skilled workers going abroad has now been reversed.

## 6.0 Import and Export of Construction Services

The Sri Lankan government has recently introduced many revolutionary policy measures to encourage the local contractors going overseas. The exporting of construction services has been identified as a highly potential area for increasing the export earnings which is badly needed for the economic sustainability.

The skilled craftsmen going overseas for better income had been one of the major sources for foreign income generation. But the declining trend in craftsmen going abroad is due to the offering of very high salaries in the local market due to the increasing demand.

The following construction services for which the country has the expertise have been identified as the potential areas for generating export income.

1. Green construction
2. Soil and geo technology

3. Mini hydropower
4. Low cost housing

The import expenditure on building materials increased by 16 percent to US\$ 1569 Million in 2016.

The import expenditure on all sub categories of building materials, except insulated wires and cables increased substantially. Import of cement, articles of iron and steel, ceramic products and wood product were the largest contributors for the growth in import expenditure on building materials.