

## An Overview of Construction Market of Sri Lanka

Sandeepen Saha<sup>1,\*</sup>, Dipak Paul<sup>2</sup>

### Abstract

*This article provides an overview of the construction market in Sri Lanka, with a focus on the Colombo region. It discusses the strengths, weaknesses, opportunities, and constraints of the construction market in the country. The main drivers of the construction sector are identified, including urbanization and infrastructure development. The article explores the ease of embarking on international construction projects within the Colombo region, noting that while the Sri Lankan government encourages foreign investment, the local construction industry may not always welcome foreign companies. China and India are recognized as key players in the Sri Lankan construction sector. The ease of embarking on international construction projects within the Colombo region is explored. It is noted that while the Sri Lankan government allows foreign investment in infrastructure projects, the local construction industry is not always receptive to foreign construction companies. China and India are identified as key players in the Sri Lankan construction sector, with China playing a major role in funding and building major projects in the country. The main drivers of the construction sector are highlighted, such as urbanization and the government's plans for the development of new cities. The importance of infrastructure development and improving energy supply is emphasized as key drivers for economic growth. The article also highlights the key operational and commercial challenges faced by companies seeking to undertake international construction projects in the region, including political and legal issues, cultural differences, technical limitations, managerial challenges, economic constraints, environmental concerns, social factors, and corruption. The conclusion emphasizes the need for project managers to understand the local environment, remain flexible, and address the challenges associated with international construction projects in Sri Lanka. It also underscores the importance of foreign investment in the construction sector for the region's economic development.*

**Keywords:** Sri Lanka, construction industry, skilled labor, regional corporation, construction materials.

### \*Author for Correspondence

Sandeepen Saha  
E-mail: [sandeepan.saha\\_gkcem@jisgroup.org](mailto:sandeepan.saha_gkcem@jisgroup.org)

<sup>1</sup>Assistant Professor, Department of Civil Engineering, Greater Kolkata College of Engineering and Management, Baruipur, West Bengal, India.

<sup>2</sup>Student, Department of Civil Engineering, Greater Kolkata College of Engineering and Management, Baruipur, West Bengal, India

Received Date: June 23, 2023

Accepted Date: June 26, 2023

Published Date: July 10, 2023

**Citation:** Sandeepen Saha, Dipak Paul. An Overview of Construction Market of Sri Lanka. International Journal of Rural and Regional Development. 2023; 1(1): 58–64p.

### INTRODUCTION

“The South Asian Association for Regional Cooperation (SAARC) was adopted in 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to accelerate the process of economic and social development in Member States” [1]. Sri Lanka has been one of the important countries in the SAARC region in terms of construction market. In this article, we will discuss the construction market within Sri Lanka, explaining the main drivers for construction output, conduciveness of embarking on international construction projects and an

outline of key operational and commercial challenges for a hypothetical company seeking to embark on international construction projects within this region.

### DEMOGRAPHICS OF SRI LANKA

Sri Lanka is an Island and situated within Indian Ocean and separated by 28 kilometers of ocean from India in the direction of south eastern coast. And the country measures 435 kilo meters from North to south and 224 kilo meters from east to west which covers the total area of 65,610 square kilo maters. Colombo is the capital of the country, having the most industrial sectors [2]. Sri Lanka's population of about 20 million and the net population growth is about 0.7. ([https://en.wikipedia.org/wiki/Demographics\\_of\\_Sri\\_Lanka](https://en.wikipedia.org/wiki/Demographics_of_Sri_Lanka)).

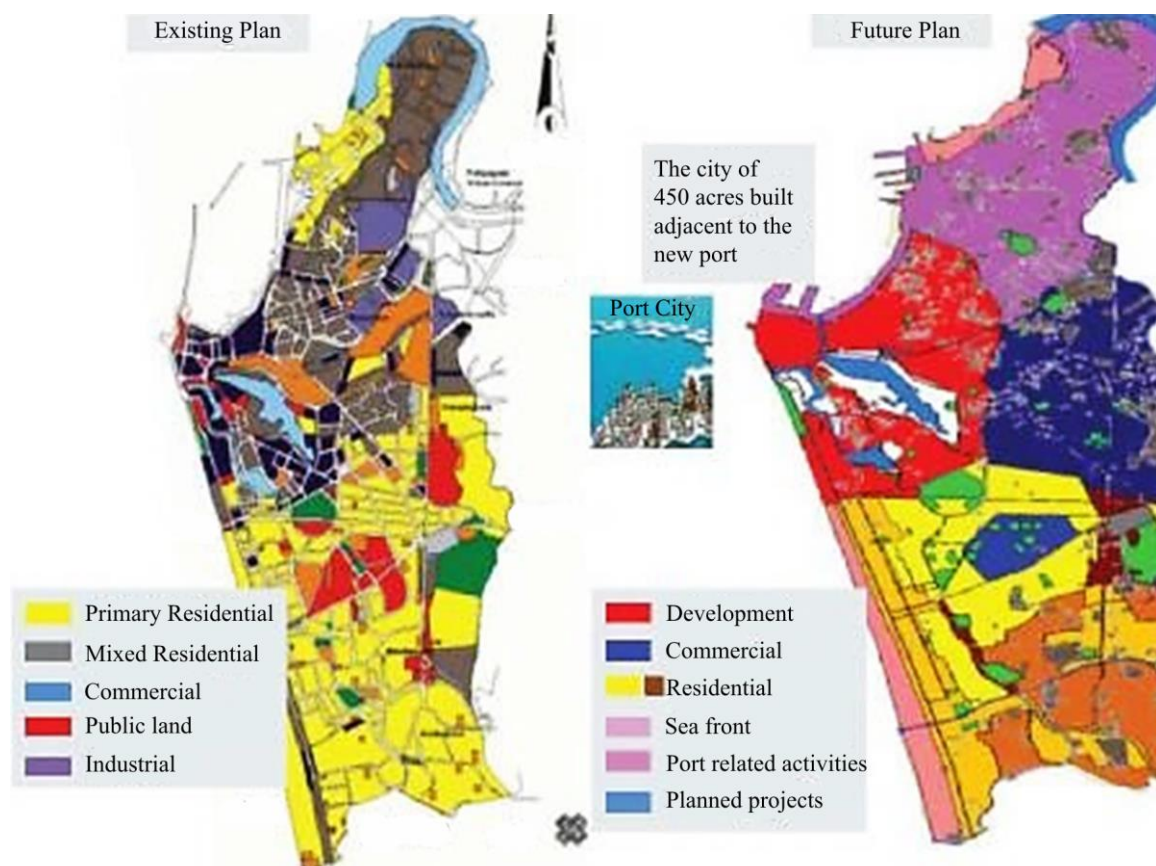
According to 2012 census (Sri Lanka), population of Sinhalese is about 74.9% of the population and are mostly living around south-west and central parts of the country. And the Tamils are the largest minority at 11.2% of the population. Other minorities living in Sri Lanka as residents are Moors, Indian Tamils, and Burghers.

### Chosen Region

Chosen Region: Colombo City

### Colombo City's Landscape

According to Steradian Capital Investments (Figure 1), the total area of Colombo region is 37 sq. km or 3,729 ha. And the city has 6 ha of bare plus 84 ha of land densely used [3]. The assumption is the figures shown here may lesser as higher demand.



**Figure 1.** Landscape of City of Colombo, Sri Lanka.

*Source: Mahina Chintana vision for the future-2010*

## **DESCRIPTION OF SRI LANKAN CONSTRUCTION MARKET**

This section analyze the conditions of the construction market of Sri Lanka. The construction market of the country has its strengths, weaknesses, opportunities of increase the construction business and the constrains.

The strengths of the construction market can be major long-term support from Sri Lankan government for the industry such as support schemes and incentives provided in annual budget for the construction industry. And there are enough institutional infrastructures.

There are opportunities of increase in foreign investments, which includes infrastructure developments. And availability of lands leases to promote foreign investments, which is for the period from 30 years to 50 years.

ICRA industry report says over US\$ 24.5 billion of projects being allocated for the near future. This is for the projects include infrastructure and housing. Great opportunities for demand of hotels and motels as increased in tourist arrival to the country.

On the other hand, there are weaknesses which affects the construction sector in the country include;

- Construction materials remain high cost.
- And higher opportunities of amendments in regulations which enforce by urban development.
- Authority even during the period of construction. Furthermore, problem in hiring right skilled workers as insufficiency.
- High interest rates can cause less barrowing opportunity.
- Construction fatalities are in higher rate.

And the constrains to run the construction industry in the country include the following:

- Infrastructure spending may be limited due to major short fall in economic condition of the country.
- Opportunities of major competition from other South Asian countries for foreign capital.
- Migration of construction workers to neighboring countries and also the Middle East.

According to ICRA report [4], Registered contractors (The Institute of Construction Training & Development), Contractors from Overseas and Informal contractors (Not registered contractors) are the bodies carry out construction works in Sri Lanka.

### **Main Drivers of Construction Sector**

As Colombo is the capital of the country, urban population is mainly concentrated in this region. Therefore, the urbanization become very fast increasing as other counties.

The government of the country introduce [5] plans for development of few more first order cities in order to reduce the pressure on Colombo. In conjunction to this, redevelopment of the city being plan to carry out a land use pattern of the city, which is to provide a high-quality living environment. Estimated space to conduct the commercial and mixed-use developments projects are approximately three hundred and fifty acres.

There are a number of projects that have been initiated to achieve the predicted changes and redevelopments, which are as follows:

- Panchikwatte Triangle Development
- Charmers Granaries Project,

- Centre Point Development,
- Transwork Square Project, and
- Beira Lake Land Development,

It is strongly accepted infrastructure is one of the key drivers for the economic growth of the island which include Colombo Capital [6]. When we consider the policy framework of Colombo, it has a vision of having the internationally accepted high quality transport facilities. And the government has an ambition of improve the quality after the civil war being an end. Other key driver can be improving the energy supply to the city.

### **How Easy is it to Embark on International Construction Projects within Colombo Region**

The local construction industry not well come the foreign construction companies. Sri Lankan government gives the confident private sector investment in infrastructure projects permits huge investment from overseas construction private sectors. But Sri Lankan local construction industries feel it is harmful to them if the government give large numbers of permits to the foreign investors. Therefore, local industry is not very pleased with this action of the government. The joint venture for a foreign construction company with Sri Lankan local industry possibly questionable.

And the Key players of Sri Lankan construction sector are China and India. China is playing a major role of the funding and building of the major projects in Sri Lanka which include the selected region for the research [7]. And China is one of the major players in the country which includes Colombo city in many sectors and is becoming a time-tested friend of Sri Lanka.

According to Investment Climate Statement, involvement of Chinese construction companies is rising upward. The Chinese companies build much of Sri Lanka's ongoing and the near future infrastructure by introducing Chinese loan financing methods. And they do bypass the government tender process. The report further says Sri Lanka's corporate sectors foreign investors play tiny to no role in these projects.

In 2013, China has offered new loans for infrastructure projects which approximately worth of couple of billion dollars to the Island [8]. And the funding is either sponsored or loaned from Chinese government and non-government sectors. And these developments have added improvement in economic growth of the country.

Even though India and Sri Lanka were major trading partners in the history, currently decline of some of trades between India and Sri Lanka is likely to continue in 2013. As China become Sri Lanka's largest foreign investor and lender. China offered approximately 54% of the total foreign loans in 2009 to Sri Lanka and remains a very good relationship so far. Government realized the Chinese currency allows using for global transactions as well. At the same time, Indian's rupees do not popular like China's currency. However, India keeps on be the largest trading partner and one of the largest donors and investors.

Other challenge is there are number of foreign construction companies running the business within Colombo region. Sanken Construction Ltd., Which is a Japan Company, its operations from 1977 and the company changed its ownership in 2003 [9]. International Construction Consortium Ltd. this company was established in 1980. The company engaged in general contracts and has seven main divisions which are project development, infrastructure development, building construction division water supply and sanitarian division, roads and bridge construction division, property development and international division. Sierra Construction Ltd is one of the leading general engineering contracting Company in Sri Lanka. The company was established in 1981 mainly deals with country's infrastructure projects for the past 33 years.

## **Key Operational and Commercial Challenges**

### ***Political***

According to Sri Lankan Investment climate statement, there are continual changes in politics and governments but the country is opened for foreign investments. Government of Sri Lanka allows foreign ownership in most sectors. The government ownership is eighty percentage of the total land. Foreign investors are allowed to do purchase from private selling people but the problem is government enforce one hundred percentage tax on to the sellers. Therefore, the buying price of land can be double for a foreigner in Sri Lanka and which may limit the foreign property developer to operate in the country

### ***Legal***

#### ***Ongoing Delays in Land Possession***

Colombo municipality area and metropolitan region are facing shortage of land which leads for increase in land prices. The problem leads to the exchange of low-lying soggy spaces for residential and infrastructure development uses in this region of the country. Therefore, there are considerable number of projects being delayed on account of delays in possession of land and problems in resettlement and rehabilitation. Implementation of an adequate system to avoid these delays is recommended.

#### ***Changes in Regulations and Interruption***

Too many interruptions due to frequent changes of regulations by various government authorities in the middle of the construction process can occur. This hazard leads for financial losses, time delays, and redo the tasks to the private stake holders involve in the process.

### ***Cultural***

It is more vital to understand the cultural issues specially run the construction business by a foreign company. As in this business, there can several organizations involve on each project; hence, cultural issues become part of problems.

Each stake holders have their own objectives, ethics, technology, uniqueness of culture and their own client, and so forth. Therefore, these problems to be fundable and make the possible solutions prior to any contract agreements. The solutions should able to allow the integration of the construction process within the context of this Island's criteria.

### ***Technical***

#### ***Increase Cost of Construction Material***

Continuous increase in Costs of Construction materials and price of river sand (river sand is mainly used for construction in the country) in the past 5 years. The situation may end to stable condition for a short term, as economic activity become slowly down due to the burst of global commodity price being bubble up.

#### ***Lack in Supply of High-grade Steel***

Sri Lankan construction Industry is currently facing not enough supply of adequate quality steel product. This is due to hazards in making the local market price in higher level from manufacturers.

#### ***Short of Skilled Workers***

Sri Lankan Skilled construction workers are flying to overseas. This causes lack of skilled workers in the country [10]. IMACS Research & Analytics [1] says low salary rates compared with foreign countries and demand for construction professionals in overseas are the main consequences for short of skill workers in Sri Lanka. The report further says that country need one million skilled workers but only 30,000 numbers are available.

---

### **Managerial**

There can be number of issues to be solved which includes:

- Handling the cultural issues, foreign investors especially construction companies can face multi-cultural issues when dealing with larger size project in Sri Lanka. The problem may determine the success of project and relationship within the staff and employers.
- Sustainable management of the country's resources and meet the resource management act of Sri Lanka has to be another vital part of the construction process.
- There are problems in regards to environmental issues due to lack of managerial experiences, handling the legal and administration in handling projects for a foreign investor in this country.

### **Economical**

One of the major issues is not enough funds for allocation of the construction industry's private contractors in Sri Lanka. Many of the big construction projects are belonging to Government control and looks like public private partnership procurement system. And this causes contractors being facing delays in receiving payments and less accessibility of funding resources from projects.

### **Environmental**

The environmental issues can be more critical in Sri Lanka. The country faces high risks in flooding, land degradation and rapidly losing the green spaces. And country suffering from air pollution and waste management problems due to fast developments on infrastructures specially within Colombo region as it the most populated and industrialized place in the country.

### **Social**

There are expected constrains such as lack of communications as English language is the second language for labors and the local stake holders. By introducing get together such as family events, barbeques sports, and any social sponsors could improve the communications and confident among the stakeholders, staff, and labors.

### **Corruption**

- Generally, Sri Lanka has laws and regulations to stop corruptions but enforcement procedures are very week and not steady.
- Sri Lankan Investment climate statement says United States firms identified corruption as a constraint on foreign investment in the country. The reference further revealed, the problem can happen in two different situations. Mostly, corruptions happen for larger project investments and during the engagement of public procurement contracts.
- The corruption can be a limitation for foreign investment but should not be a major constrain to run the business.

### **Physical**

Another important issue in Sri Lanka is the volume of physical resources. The physical resources to be required to meet the excess for infrastructural, commercial and housing needs. According to ICRA industry report, major issues relevant to the physical resources being raised, which include construction workers are migrating to neighboring countries and to Middle East countries due to higher wages, costs of construction materials become very higher, unsatisfactory of the materials quality specially construction steel products to satisfy the requirements.

### **CONCLUSION**

The history of international development projects is fraught with plenty of challenged projects. Thus, the project manager of an international company looking to establish in a new realm, must realize the local environment of development projects, remain flexible, and be proficient enough to

review the nature of associated problems and their undesirable effects on the success of the project, and deal with these promptly. International projects located in emerging countries, such as India, Pakistan and Sri Lanka have to deal with a lack of satisfactory resources, technical and managerial skills, and low productivity. Therefore, project design standards, specifications, and construction approaches must be cautiously selected so that they will be suitable to the native financial, human, and material resources required during both the execution phase of the project and its consequent management. Over the years, Sri Lanka has opened their doors to foreign investment. However, these countries haven't been succeeded in receiving significant and reliable foreign investment entries. And the Foreign investment inflows these countries have received have not been exploited properly to increase the economic growth. The region selected of SAARC (South Asian Association for Regional Cooperation), has as part of its charter, policies which aim to endorse welfare economics, shared self-reliance among the countries of South Asia, and hastening of sociocultural development in the region. Clearly in order to uphold these ideals the development and growth of the construction sector are important to the economic development of this region.

## REFERENCES

1. ICRA Lanka, ICRA Management Consulting Services Limited. (2011). IT/ITES. [Online] Available at <https://docplayer.net/26504547-Imacs-research-analytics-it-ites-industry-report-on-sri-lanka-september-prepared-by-and.html> [Accessed on July 2023]
2. Steradian Capital Investments. (2023). [Online] Financial1000.com. Available at <https://www.financial1000.com/LK/Colombo/279015172231544/Steradian-Capital-Investments> [Accessed on July 2023]
3. McGill University. (2011). Minimum Cost Housing Group. [Online] Available from: <https://www.mcgill.ca/mchg/pastproject/edible-landscape/colombo/info>
4. Kumar K. (2014). Asia weekly: constructing a long-lasting partnership. [Online] [https://www.ips.lk/images/docs/news/ips\\_media\\_pdf/2014/Jan%20-%20March/14%20Feb%2014ChinaDaily%20Asia.pdf](https://www.ips.lk/images/docs/news/ips_media_pdf/2014/Jan%20-%20March/14%20Feb%2014ChinaDaily%20Asia.pdf) [Accessed on July 2023]
5. Manohran N. (2013). China and its peripheries: Beijing and India–Sri Lanka relations. [Online] Available at <https://www.jstor.org/stable/resrep09013> [Accessed on July 2023]
6. Wikipedia Contributors. (2023). Sri Lanka. [Online] Wikipedia. Available at [https://en.wikipedia.org/wiki/Sri\\_Lanka](https://en.wikipedia.org/wiki/Sri_Lanka) [Accessed on July 2023]
7. Bureau of Economic and Business Affairs. (2012). 2012 Investment Climate Statement–Sri Lanka [Online] Available at <https://2009-2017.state.gov/e/eb/rls/othr/ics/2012/191238.htm> [Accessed on July 2023]
8. Bureau of Economic and Business Affairs. (2013). Investment Climate Statements 2013. Available at <https://2009-2017.state.gov/e/eb/rls/othr/ics/2013/> [Accessed on July 2023]
9. Steradiancap. (2023). Back extension CrossFit exercise: definition and how to do it properly. [Online] Steradiancap.com. Available at <https://steradiancap.com/index.html>
10. Rataj S. (2013). Investment climate in India. [Online] Available at <https://ideas.repec.org/p/pes/wpaper/2013no19.html> [Accessed on July 2023].