

# Construction & Engineering Sector Overview & Investment Opportunities

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# Sector Overview

## Construction & Engineering Landscape

**9.0%** Of GDP

**48%** for construction of highways, bridges and railways

**2500+** ICTAD Registered construction firms



**>LKR 400+** Billion in construction value



**~188,000** people employed



**2500+** companies

Source: Export Development Board, Sri Lanka

## Synopsis:

- According to estimates from the Department of Census and Statistics (DCS), the construction sector grew 2.5% in real terms during the third quarter of 2018, compared to the same period in 2017, with nominal growth at 7.5%. Total government expenditure on infrastructure development declined from LKR354.92bn (\$2.2bn) in 2017 to an estimated LKR250.44bn (\$1.6bn) in 2018.
  - Within the last nine year, the country saw an unprecedented development of high-end residential, commercial space, hotel and resort construction, and infrastructure; recording a growth in the construction sector that was twice as fast as the nation's GDP, which too has increased by just over 7% on an annual average basis during the same period.
  - Despite the never seen before boost, the construction sector of Sri Lanka is yet to slow down, with country's infrastructure requiring a complete revamp and the real estate growth bubble in Colombo not nearing its end, growth prospects for country's construction sector still fly high.
- The government generates the bulk of the construction activities in Sri Lanka, especially in the infrastructure development segment. By the year 2012, the government sector contracts accounted for almost 94% of the total value of contracts issued within the country. While the private sector involvements have clearly increased since then, the state is likely to remain the key player in the construction sector.
  - According to a survey on construction industry carried out in the year 2014, the total value of construction carried out was LKR 397.77 Billion with the construction of roads and railways making the largest contribution of LKR 192.56 Billion, amounting to a whopping 48%. Accordingly, the construction sector contributed over 9% to country's GDP and provided direct employment to an average of 188,877 people by the year 2015 while over 680,000 people were, directly and indirectly, dependent on the construction sector.
  - The country is home to over 2500 registered local construction firms. The Construction Industry Development Authority (CIDA) has categorized these construction companies in Sri Lanka on a scale of 1 to 10 while taking into account the companies financial assets, technical capabilities, and field-specific experience.

# Sector Potential & Growth Opportunities

## Chinese Conglomerates dominating the market

- According to the Ceylon Institute of Builders (CIOB), Chinese firms accounted for approximately 40% of all construction work across Sri Lanka in 2018.
- With estimates suggesting that Chinese market share could grow to 70% in the coming years, the CIOB officially submitted a Cabinet paper in mid-2018 requesting the government make local company participation a requirement for all future construction investments.
- To strengthen the prospects of local firms partnering with Chinese investors, the Chamber of Construction Industry (CCI) signed a memorandum of understanding with China International Contractors Association (CHINCA) in June 2018.
- Under the agreement, CHINCA and the CCI aim to promote private construction ventures between the two nations, in an area that has historically been dominated by government-to-government deals.

## Importing of Building Material Opportunities

Total domestic cement production amounted to 2.82m tonnes in 2017, up from 2.7m tonnes in 2016 and 2.29m tonnes in 2015. Meanwhile, total cement imports reached 5.68m tonnes in 2017, up from 5.3m tonnes in 2016 and 4.09m tonnes in 2015. In a bid to boost cement production, in June 2018 INSEE Cement announced it was to invest a further \$20m in cement production in Sri Lanka.

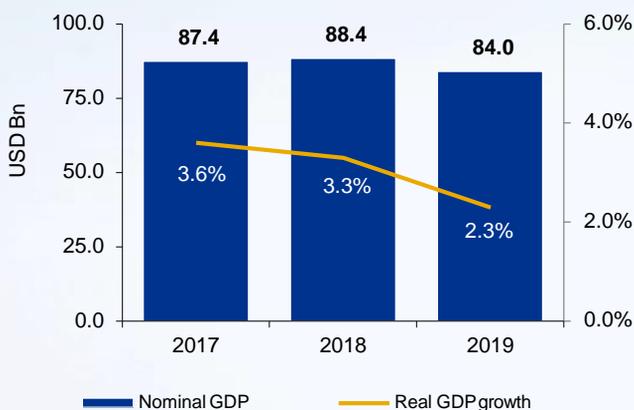
This is on top of the \$200m investment it had already made over the previous two years. Major INSEE projects include the construction of three ready-mixed cement plants in Peliyagoda, Ratmalana and the Colombo suburbs, and the opening of a new \$50m grinding plant in Galle Port.

- In light of the limited availability of raw materials in Sri Lanka, the importation of construction materials represents the largest portion of project spending, accounting for an average of around 30% of total construction costs.
- According to a survey published by property consultancy group Research Intelligence Unit in mid-2018, duties on ceramic tiles, sanitary ware and steel weigh heavily on construction costs. Steel bars and rods are taxed at 89.66%, ceramic tiles at 107.6% and sanitary ware at 72.4%.

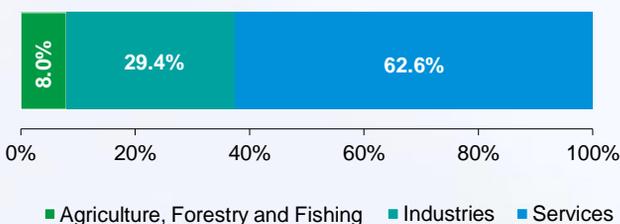
**USD 84.0 Bn**  
GDP (Nominal)-  
2019

**USD 3,852**  
GDP (Nominal)  
per capita -2019

## Gross domestic product



## Sector wise contribution to GDP (2019)



## YoY inflation



Source: CBSL, ADB, Fitch, IMF,

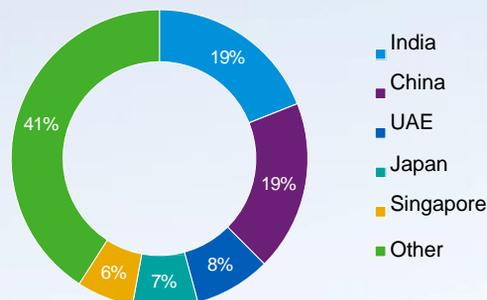
# Foreign Direct Investment Opportunities

## Major Projects & Demand Drivers

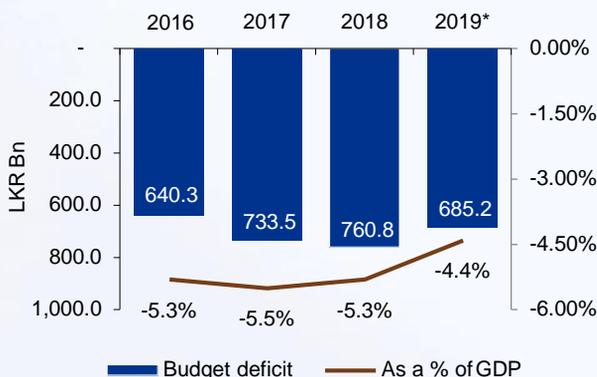
— The construction of affordable housing has served as an important driver of construction activity in recent years. It is expected to face demand-side pressures for the foreseeable future. In addition to affordable housing, major Chinese investments are set to drive sector growth in the coming years, reshaping Colombo into a global city in the process. Port City Colombo aims to attract \$13bn in primary investment to the city. It will serve as the centrepiece, which forecasts 140 big ticket developments will take place over a 15-year period, at an estimated cost of \$40bn.

— Thus, while construction activities experienced a contraction in 2018, the industry is expected to increase its contribution to GDP in 2019, provided that government-initiated construction projects materialise, among them extensions of the Southern Expressway and Outer Circular Highway, and a new terminal at Bandaranaike International Airport.

## Composition of imports -2018



## Fiscal deficit



## Outlook

— From a macro perspective, a number of risks could be highlighted that may influence the progress of construction activity in the near to mid term. Uncertainty in global crude oil prices may result in an increase in domestic energy costs, which would thereby increase the input cost of local industries such as construction. Meanwhile, a fluctuating rupee will continue to weigh heavily on the import of construction materials. While developers will need to mitigate a number of risks, the NPC's new e-GP and OCDS will reduce corruption and promote efficiency across the industry.

— Government infrastructure projects and private sector developments are set to go on transforming the landscape of Sri Lanka. While the industry as a whole has a number of challenges that it needs to overcome, the sector is poised for long-term growth. From an investment standpoint, construction of condominiums and commercial real estate will still be driven by private funding.

— Sri Lanka has a history of progressive lending schemes. In a bid to stimulate FDI into the property segment, the CBSL has allowed foreign firms to access credit on the local market as well as raise foreign currency loans. In addition to promoting FDI, policymakers have tried to ease access to credit for local firms by allowing local companies registered in Sri Lanka to borrow money abroad.

## Structure & Oversight

— Chinese investment and multilateral agencies, including the Asian Development Bank (ADB), the World Bank and the Japan International Cooperation Agency are by far the largest sources of financing for public infrastructure projects.

— In addition to supporting government projects, the ADB and the International Finance Corporation under the World Bank also lend directly to the private sector to finance construction projects by way of equity and long-term debt financing.

— While commercial bank loans are the most widely used credit instrument in the country, industry data suggests that around 70% of private investment is sourced from retained profits, while short-term borrowing, the stock market and the corporate securities market all make an important contribution to the financing of private sector projects.

# Significant Project Pipeline

## Construction of new Expressways:

The proposed new expressways and major road upgrading projects of the Road Development Authority (RDA) are recognized and incorporated in the overall road network of the Western Region Plan in whole or with minor modification and re-alignment. The proposed new expressways/ highways enables more inland connectivity and the expansion of existing expressway network.

- Construction of Ruwanpura Expressway
- Construction of Central Expressway
- Construction of New Kelaniya Bridge and Elevated Road to Colombo Port & Fort Area (CKE extension)
- Construction of Elevated Urban Expressway from New Kelani Bridge to Battaramulla

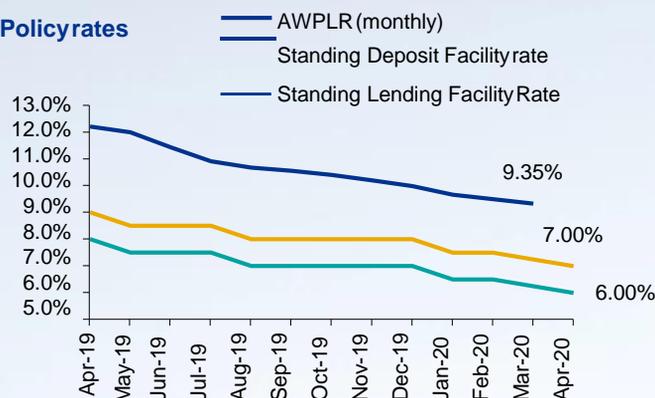
## Expanding the Transport Network

- Railway Electrification and Modernization (Panadura to Polgahawela, Ragama to Negombo, Kelani Vally line)
- New Railway Line - Kottawa to Horana & Kelaniya to Kosgama)
- Rapid Transit System (Either LRT, Monorail or BRT)
- Multi Model Transport Hub ( Fort)

## Water Projects

- Construction of Kelani Ganga Upstream Reservoirs
- Construction of Yatimahana Reservoir in Maha Oya
- Construction of salinity barrier across Kaluganga
- Construction of treatment plant at Kethhena
- Construction of ground reservoirs to enhance water storage facility for Colombo city
- Mirigama industrial city water supply project
- Ingiriya, Handapangoda water supply project
- Kirindiwela water supply project
- Mabima water supply project

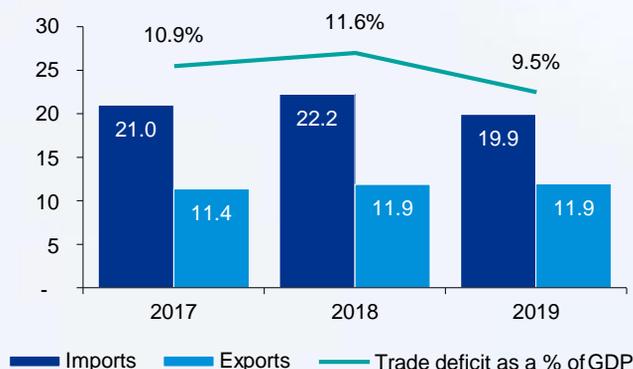
## Policy rates



## LKR per USD



## Trade balance (USDBn)



## Foreign loan commitments

- Sri Lanka has USD 1.0 Bn in ISBs due in October 2020 among a total of USD 4.8 Bn in debt repayments due in the next twelve months.

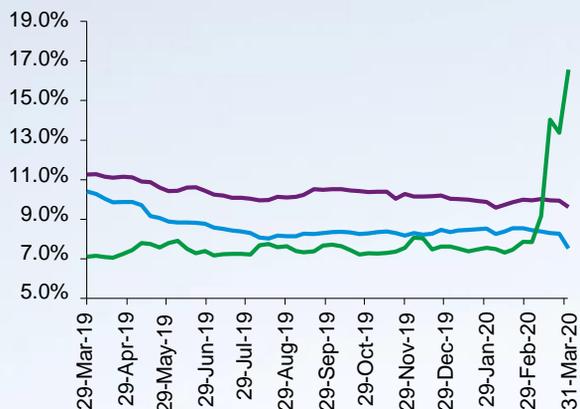
Source: CBSL, ADB, OSAnalysis

# National Procurement Committee

CSE: All share price index



Bond yields — 1YTBill — 10YTBond — 10 year ISB



- Public procurement reform has been a top priority for the government in recent years, and is seen as particularly pressing given current macroeconomic dynamics. As such, improving public financial management, particularly procurement-related government spending within the construction segment, has been highlighted as an essential factor in achieving long-term economic and social development goals.
- In broad terms, public procurement is decentralised in Sri Lanka. In the past Sri Lanka has been criticised for a lack of procurement planning, contract management and transparency. According to the public finance department under the Ministry of Finance, a number of contracts have been awarded in the past without observing the fundamental principles articulated in the government procurement guidelines. As a result, a number of construction-related projects were commissioned without adequate allocation of funds in the annual budget. Furthermore, the lack of a competitive selection procedure has led to a number of irregular contracts being awarded for large-scale infrastructure projects.
- To improve matters, the National Procurement Commission (NPC) was established at the end of 2015. The NPC was tasked with formulating fair, equitable, transparent, competitive and cost-effective procedures and guidelines for the procurement of public goods and services. With the assistance of the US Agency for International Development, the NPC published its first action plan for 2016-18.
- Since then, the NPC has played a pivotal role in all matters related to public procurement. In June 2018 the NPC announced that it was replacing the 2006 procurement guidelines with an Electronic Government Procurement (e-GP) system, which will be followed by an Open Contracting Data Standard (OCDS) that is expected to cut costs by 10% and improve overall public financial management.

# Upcoming Tenders

## Housing, Townships and Waste Management

— OSL Team work with government ministries and departments, local financial institutions and international financial institutions shaping their policies, developing frameworks and helping them to implement PPPs, industry by industry. We reconcile investors' need for profit with the requirements of Government for political and financial transparency. As an independent adviser, we engineer a truly competitive bidding process. And when advising private sector bidders, we help them to develop structures that allow them to access local and international funds.

### Tender Pipeline for Housing Projects:

- Social housing development project (CBD Zone)
- Middle Income Housing Development Project (Fringe Zone)
- Malabe Residential Development (Middle Class and Luxury Housing)
- Social Housing Development Project (Fringe Zone)
- Housing development project -Horana Industrial Zone(Middle Class and Luxury Housing)
- Aero City Housing development Project -Katana and Divlapitiya
- Multi-Story Middle Income Housing Complex at Ragama
- Multi-Story Luxury Housing Complex at Kirimandala Mawatha
- Avissawella residential development project (Middle Class and Luxury Housing)
- Aero city business township development project
- Aero city residential township development project - Divulapitiya
- Centre for Non-Communicable Diseases (Cancer, Kidney, Heart)
- Town Centre Upgrades (Sukithapurawara)

### Tender Pipeline for Environment And Waste Management Projects:

- Solid waste management-Colombo and suburban area
- Integrated solid waste management for Local Authorities
- Implementation of an integrated hazardous waste management facility
- Implementation of clinical waste management facility
- Establishment of electronic waste recycling facility
- Sanitary land fill for the region or district wise
- Waste water collection and disposal system for Negombo township
- Kelaniya-Peliyagoda waste water collection and disposal project
- Sri Jayawardenapura Kotte wastewater collection and disposal project
- Maharagama, Boralesgamuwa wastewater disposal project
- Waste water collection, treatment and disposal system for Ja-Ela/Ekala and Ratmalana / Moratuwa stage-i phase-ii project
- Expansion of pipe borne sewerage coverage for Dehiwala-Mt.Lavinia Municipal Council Area
- Wastewater collection, treatment and disposal system for Gampaha Municipal Council Area
- Wastewater collection, treatment and disposal system for Horana industrial zone
- Wastewater collection, treatment and disposal system for Mirigama industrial zone

# Review of Foreign Investment Policy

## Improved Investor Friendly Investment Environment

### Investment Policy

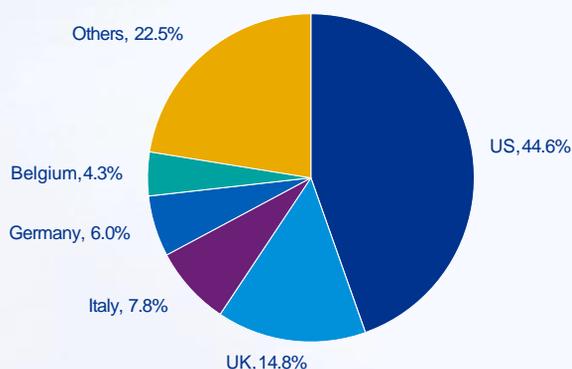
— Government policy encourages private investment in several infrastructure projects such as water supply, waste water disposal, power generation, roads, industrial estates and car parks. The sector is being constantly innovative with services that set or match global trends such as green construction, soil and geo technology has helped place itself higher in the global construction map.

— Most of the local construction firms also claim a considerable stake in constructions and developments in the global arena, especially in the mini hydropower generation sector and hydraulic related constructions. With a stronghold in tropical countries in South Asia, Western Asia, and Africa including Maldives, Bangladesh, Myanmar, Nepal, and Cambodia, Sri Lankan construction companies have also shown expertise in green building and green retrofits.

#### In this context, the key legislations facilitating investments in Sri Lanka are;

- The Board of Investment Law No. 4 of 1978 and its amendments is the principal law applicable to investments in Sri Lanka. This law established the national investment promotion agency, the Board of Investment of Sri Lanka, which is structured to function as the 'Central Facilitation point' for investors and empowered to enter into agreements with investors providing incentives to attract investments.
- Finance ACT No. 12 of 2012 was introduced to promote Sri Lanka as an emerging trading hub and facilitates related specific trading and services activities. Free Ports and Bonded Areas have been set up to create trade related infrastructure to facilitate Sri Lanka's import and export of goods and services with freedom to carry out transactions in convertible foreign currency.

#### Major apparel export destinations (2019)



#### Land Policy to Foreign Investors

- The foreign investors are eligible to lease lands in Sri Lanka to establish their projects. A new land law was promulgated in 2014 which permitted lease of land for foreign investments and outright transfers will only be permitted when the foreign shareholding is less than 50%. The land lease period is subject to a maximum tenure of 99 years. Foreign investors are not liable to pay any lease tax when leasing a land. However condominium properties can be purchased outright with no restrictions on nationality.
- Tax concessions, dedicated government institutions that ensure high quality standards and development controls along with cost effectiveness make export of construction services attractive.

# Why Sri Lanka?

## Sri Lanka – Your next investment destination

### **Political and Economic Stability blended with a Conducive Investment Environment**

#### Key points

— There are many reasons why companies select Sri Lanka as their investment destination. It all starts with positive leadership, policies and peace. Sri Lanka is an open economy and has heavily invested to develop its infrastructure to face the challenge of attracting high performing industries.

#### SARC Region

- Sri Lanka is the most competitive business centre in the South Asian Region and there are compelling good reasons for investors to locate their business entities in Sri Lanka. As an island nation that radiates beyond its size, Sri Lanka is renowned for its strategic location, scenic beauty and harmonious blend of races and cultures.
- The strong macroeconomic environment and supportive government policies, political stability, close links with foreign markets, excellent education and healthcare systems, outstanding infrastructure and mineral resource endowments are few important factors that investors consider when making a decision to invest in Sri Lanka.

#### FTAs & GSP+

- Sri Lanka has preferential market access under the Indo-Lanka FTA and Pakistan-Sri Lanka FTA which allows 100% duty free access for more than 4,200 products for both countries. Further, recently signed Singapore-Sri Lanka FTA will provide more opportunities for investments while regaining EU GSP Plus allows duty free access to the EU Market for over 6,000 products.
- Moreover, Sri Lanka has an admirable quality of life indicated by the standard health care facilities, world-class education system, prestigious hotels/leisure facilities, modern office complexes, luxury residential apartments and banking facilities in the country
- According to the Sri Lanka government's policy framework "Vision 2025" it aims to raise per capita income to USD 5,000 per year, create one million new jobs, increase FDI to USD 5 billion per year, and double exports to USD 20 billion per year. These intermediate targets lay the foundation for Sri Lanka to become an upper-middle income country by 2025.

#### 10 Reasons to Invest in Sri Lanka

1. Strong Economic Growth
2. Unparalleled Strategic Location
3. Improved Investment Environment
4. Educated & Adaptive Workforce
5. Fast Developing Infrastructure
6. Access to Key Markets
7. Quality of Life
8. Natural Resources Endowment
9. Investor Friendly Policy Framework
10. Tax Incentives

# How OSL Can Help?

## Our World Class Team of Experts



### How we can Help

Our team of experts comprise of some of the most renowned names in a wide range of sectors. This provides anyone looking to use our expertise to be able to harness a comprehensive and extensive level of service from us.



### PRO Services

Also, through these experts you will be able to gather in depth understanding of the industries and overcome with ease any specific challenges that may be unique to such industries. We also function as a provider of PRO services through which we aim to build lasting relationships with our partners by providing a world class service to enter and conduct businesses in Sri Lanka and beyond.



### Why choose us

With Opportunity Sri Lanka you will receive the benefit of our experience, professionalism, accountability, our team of experts and the trust we have built and an interconnected partner network throughout the world. We invite you to contact us and explore how we can be of service to you.

## Our Global Footprint



### Our Capability

We consider our expertise on the business sector over the years to be a valuable asset to any potential investor looking for Investment opportunities in Sri Lanka, from foreign direct investments to Investment banking. Our team consists of some of the top experts in the sector who combined, form a complete business consultancy. The difference that investors will find on Opportunity Sri Lanka is that every investment opportunity will include analysis on investment climate of that particular industry, the latest development of the sector, how government policy will affect such industry as well as the take of our team of experts on the risk versus reward aspects on each opportunity listed.



### Our Global Network

Our range of services has the full backing of our local and foreign experts as well as many worldwide partners who work hand in hand with us to tailor and provide a service that is unmatched in quality. We welcome investors who are looking for business opportunities in Sri Lanka, expat Sri Lankans seeking an opportunity to invest in Sri Lanka and entrepreneurs who are looking to fund their ventures. We encourage anyone interested to use this as a portal of information and to reach out to us for any assistance.

# Contact us

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