

Clearing Bottlenecks



Address by Surath Wickramasinghe, President of the Chamber of Construction Industry (CCI) Sri Lanka.

Over the past few years my reviews of the construction industry have been very gloomy. However, this year, I am pleased to mention that remedies to some of the problems we faced are getting resolved slowly. My address today will be more oriented towards what the industry can do for Sri Lanka, if the “bottlenecks” are cleared.

Before getting into that subject, we must urge the Ministers present here today to extend their support for the optimum utilisation of the domestic construction industry in locally and foreign loan funded projects. In this connection, we have addressed a letter to the Secretary, Finance and Planning to facilitate the inclusion of a substantial part of the work for the domestic consultants and contractors, when negotiating for loans and grants. We trust the Hon Ministers will also follow up on this matter.

We have also drawn the attention of the Secretary, Ministry of Finance and Planning regarding the establishment of an Infrastructure Development Fund in Sri Lanka. Our Chamber has progressed in identifying IDFC Limited India to assist us. IDFC was responsible for setting up a similar fund in India which has helped to transform the infrastructure in mega cities in India. This information has been conveyed to the Secretary and we are awaiting a response from him.

At a recent meeting, with the Secretary, Ministry of Defence, we advised the Secretary that the CCI membership consists of a vast resource of talented and visionary multi-disciplinary professional expertise who are at present available to assist the UDA and other allied agencies to remedy the prevailing problems in the city of Colombo, example, flooding, squatting, slum clearance, etc.

We further mentioned that at no cost to the UDA, if the UDA could outsource the preparation of Integrated Master Plans of the different towns and cities in Sri Lanka to the CCI, our membership will be able to assist the UDA. This work will be coordinated by CCI and implemented through a Public-Private Partnership or a similar arrangement with the UDA providing the land, planning brief and monitoring.

When the master plans are accepted by the UDA, the payment to our members could be obtained from the different developers/donors implementing projects in the different sectors. For example, banks, offices, commercial development, etc.

This concept could fast track development nationally while generating employment opportunities not only for the construction industry but also for the public in different parts of the country.

In response to our request, the Secretary, Ministry of Defence under whom the Urban Development Authority is at present, offered the Chamber membership to design and construct around 3,000 housing units to re-locate persons living in tenements occupying prime land. He mentioned that the unit cost per apartment of 500 sq ft, should not exceed to two and a half million rupees. This challenge was accepted by our Chamber membership and they have now prepared six prototypes for multi-storey housing in different locations. The financing of the project is to be from UDA debentures and from bank loans. The liberated lands will be sold at market rates.

Now that the internal conflict is over, and a stable Government is in office, the stock exchange is very buoyant, tourism is on an up, and Sri Lanka is on the threshold of launching a huge development boom with a positive interest from foreign investors and developers, I would like to ask the question, are we ready? I would say No. Since there are inconsistencies between “rapid economic development goals” and “the policy framework to achieve same”. Therefore, immediate action should be taken by the Government to give confidence and a commitment to the private sector and create an investor friendly environment.

I will now highlight some of the deterrents for development:

In several areas in the city of Colombo, land has been identified as potential development sites. However, this does not help, since the developers/investors have to go round in circles trying to find information but no one agency is able to answer the questions that arise.

Consequently, in frustration, the developers/investors either leave Sri Lanka or are forced to canvas support for assistance from various political and official sources to

get their projects approved for implementation. This process may take around one or two years.

This system must change, if rapid development is anticipated by the Government and I have said it before, it is necessary to appoint an Inter Ministerial Committee represented by key ministers from the project approval ministries to approve potential sites for development of specific projects by taking the necessary decisions.

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Thereafter, urban designs for at least two or three or more of these selected sites should be carried out with the infrastructure services provided by the Government up to the respective sites. The sites could then be advertised for sale/lease/auction, and prospective developers/investors will then be able to select their choice of site and commence work on their projects based on the guidelines given in the urban design. The Singapore model is very similar.

With the prevailing system, whether it is a BOI or UDA initiated project, the protocol involved takes time. Fees have to be paid to the BOI and processing charges for the design/plans to the UDA. If it is a mega project, the fee proportionately increases. For example if the processing charges amount to two and a half million rupees, the applicant would assume that the payment will cover the cost of all the approvals and the approvals would be obtained by the UDA. However, it does not happen that way.

The applicant is expected to obtain approvals independently from all the allied agencies such as Fire Department, Land Reclamation, CEB, NWS and DB, Airport and Aviation, Environmental Authority. In addition, for projects which are not categorised Low Cost Residential, a service charge of one percent of the construction cost has to be paid to the UDA. This type of multiple levies by the Government is definitely another deterrent for investors.

The Presidential Security is imposing height restrictions to proposed buildings depriving the developer of optimising on land utilisation, even on land where high rise development is permitted. They are not convinced that even if windows are not facing strategic locations like the Parliament, President's House, and similar locations that construction should be permitted. Even now, after the internal conflict has ended the Presidential Security must relax some of their requirements immediately, if not, this deterrent for development will continue.

The recent announcement by the Central Bank that "no tax incentives in the future for foreign investors", this in my opinion is very untimely. We, in the construction industry are marketing projects on the basis that BOI concessions will be provided for foreign investment. The main attraction to invest in Sri Lanka is due to tax concessions. If not, developers specially from India will not come to Sri Lanka, since they have enough work in their own country. The Central Bank must therefore hold on the withdrawal of these incentives, for at least two years until the infrastructure in the country gets better and until the construction industry completes a few projects. If not, this will be another huge deterrent for foreign investment.

Finally, I wish to request our Hon Ministers present here today who are friends of the construction industry to use your influence with the Government to clear the "bottlenecks" so that the development boom could truly be a success.

Highlight

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