

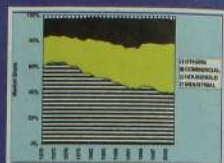
**CCI**  
SRI LANKA

# Bulletin

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Industry with a wide outreach**

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## No Decision to liberalise the Professional services – Hon. Ravi Karunanayake

A delegation from the CCI led by President Deshabandu Surath Wickremasinghe made representation to the Minister of Commerce and Consumer Affairs, Hon Ravi Karunanayake on 21<sup>st</sup> November 2003 at the Ministry of Commerce and Consumer Affairs to bring to the Ministers notice certain issues relating to the Construction Industry. Eng D.D. Wijemanna, Arch. Rukshan Widyalkankara, Prof. Chitra Wedikkara, Eng. Rohan Tudawe, Eng. Tudor Munasinghe, Arch. Lalith de Silva & Mr. Dakshitha Thalagodapitiya comprised the CCI delegation along with the President.

Among the issues discussed were, The liberalization of Professional services on WTO/ FTA, BOI approvals granted for foreign professionals, Private sector participation in development, Deployment of foreign Consultants and Contractors, Continuous cost escalation of construction inputs, Fast tracking procurement in the industry, Restrictions imposed on the import of construction machinery by the recent budget, Support for a Specialised Bank for construction, and the imposition of a Value Added Tax on the industry.

Regarding the W.T.O. and F.T.A. the Hon. Minister assured the delegation that no decision has been made to



The CCI delegation presenting issues relating to the Construction Industry to the Hon. Minister of Commerce and Consumer Affairs at the Ministry Office.

liberalise professional services.

The delegation highlighted that with the influx of foreign Consultants and Contractors usually visiting Sri Lanka, sometime even as tourist, are eliciting the work from their

local counterparts. At a time when the Construction Industry in Sri Lanka is having insufficient work, it is unfair for the BOI and the UDA to offer Sri Lanka funded projects to lesser known foreign Consultancy and Contracting firms, without offering those projects to the local firms on the same terms. The biggest offenders have been the BOI and a few other State Agencies. There was an instance of the BOI commissioning a subsidiary of a Housing Development Board of Singapore, a mediocre firm, to prepare a Western Region plan. This firm has already started canvassing for design assignments of mega projects identified by them even before the plan is completed, making the situation somewhat paradoxical, pointed the CCI delegation.

The delegation stressed the need to formulate policies to ensure that the interest

of the domestic construction sector is safe guarded. If it is imperative to have foreigners, then we must go for the best in the world on a joint venture basis with local collaboration. The Minister assured his fullest cooperation and assistance to further the interest of the Sri Lankan industry and was also of the view that steps such as, the creation of labour intensive projects, lowering of the cost of construction and the simplification of the process of completion of the projects and the achievement of competitive advantage.

Deshabandu Surath Wickremasinghe enlightened the Hon. Minister on the proposal made by the Chamber in drafting a policy paper for 'Fast Tracking Procurement Procedures' in the Construction Industry to ensure optimum utilization of donor funds and early completion of projects. He further stated that the Govt. considered the Chamber proposal of establishing a Private / Public partnership identified as the Central Procurement Authority. The President also pointed out that the Chamber has

undertaken to sponsor the establishment of an Infrastructure Development Bank with the membership of the Chamber and the associated organizations contributing around Rs. 300 million to the equity of the Bank. He also identified the lack of a specialized financial institution to finance, construction and infrastructure development as one of the main causes for the slow growth of the Construction industry. The Hon Minister advised the delegation as to the course of action it should follow in the promotion of the proposal for a Specialized bank to support the Construction Industry.

Among other issues raised by the Chamber delegation was the restriction imposed by the 2004 Budget proposals regarding the import of construction machinery and equipment more than 7 yrs. Old. The effective life time of construction equipment is usually more than 7yrs and therefore sourcing of equipment below 7 yrs. would be difficult, the delegation pointed. The consensus of the Chamber delegation was that, this proposal would warrant higher investment and tying up of funds in such equipment with the resultant increase in the cost of deploying such equipments in the projects. It was emphasized that this proposal was counter productive, particularly in the context of the current budget where 35% of the capital expenditure is focused on construction and related activities.

The delegation also brought to the notice of the Minister that the Value Added Tax at the unified rate of 15% would increase the construction cost and this is at a time when the other construction inputs such as sand, cement and steel are registering cost escalations.

The Minister assured his fullest support to the Chamber and the construction industry at the conclusion of a very educative and a fruitful meeting.



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## Editorial

### 2004 Budget Vis-à-vis the Construction Industry

Sri Lankan economy is expected to record a growth rate in excess of 6% by the end of this year. This is considered to be an achievement from a contraction in the economy growth of 1.4% in the year 2001. However it should be noted that the years 2000 and 1997 also recorded GDP growth rates much in excess of 6%.

The budget proposals have been described by some of the premier Chambers as a "meaningful and realistic plan to take the economy forward". The reduction in the interest rates and inflation are no doubt indicators of sound macro economic administration. There is no doubt that the construction industry is the forerunner to the ambitious development plans with infrastructure development highlighted in the budget proposals as well as in the Regaining Sri Lanka policy initiative.

However the budget proposals have not addressed the cause of the sector notwithstanding the fact that 35% of the capital expenditure, is related to the Construction Industry. The introduction of an 'Economic Service Charge' will prove detrimental to the progress of the Private Contracting Community. Unification of VAT rates will undoubtedly raise the construction cost giving additional burden due of the 5% enhancement. It is also felt that the reduction of the maximum age for importation of used construction machinery from 10 years to 7 years will warrant additional investment for the enhancement of much needed machinery capacities with a corresponding cost hikes. In view of the fact that certain construction equipment over 7 yrs of age is not considered 'old' in the construction circles, this proposal may have to be welcome with some degree of reservation. In this respect it is pertinent to note that imposition of the 10 year restriction was only gazetted in October 2003.

Unprecedented pledges of aid have been given by principal donor governments. Multi lateral agencies have committed funds to undertake accelerated reconstruction of the conflict areas and infrastructure development in the Southern part of the Country.

### Workmen's insurance scheme gaining momentum

The workmen's compensation scheme introduced by the CCI in collaboration with Janashakthi Insurance company is proving to be popular with the Contracting community and the construction input suppliers who generally maintain a large work force in their organisations. What appeals to the large scale employers in this insurance scheme is it's ability to provide a multiplicity of benefits to the workers at a very nominal cost. The present scheme accommodates

Life coverage (death under normal circumstances) of Rs. 300,000

Accidental cover of Rs. 300,000

Critical illness cover also of Rs. 300,000

And a Hospital cash plan of Rs. 300/ per day subject to a ceiling of 50 days

All for a mere annual premium of Rs. 1000/ per worker per annum. Since this premium is for a full year the cost to the employer on a monthly basis is Rs.83/ or on a daily basis it is less than Rs. 3/ per employee. This could be considered a very nominal cost compared to the benefits that accrue to the worker on account of this scheme. As the employers are always conscious of the cost factor this scheme is designed to be attractive to the employers in this respect.

The employers who have already joined this insurance scheme feel that this is a long felt need as construction work is sometimes hazardous requiring the workers to undertake perilous

tasks which they would have undertaken at their own personal risk before. Such situations either demands extraordinary persuasive powers from the employer, often by way of additional payments for such tasks. In spite of such payments the employee remain still exposed to the hazardous nature of the job and the employer will be called upon to bear all the expenses in the event of an eventuality. Therefore this scheme at such modest cost obviates the need on the part of the employer to be attentive to each and every hazardous task involved in a project.

The employers also feel that this scheme may probably reduce the high rate of labour turnover presently prevalent in the construction industry as this would invariably promote worker morale as the scheme covers all employees irrespective of the nature of their job at no extra cost to the workers. This may inculcate a sense of belonging as the worker is covered by this scheme during his term of employment with the present employer.

There is also provision in the scheme to insure different categories of workers in various insurance plans and there are 6 such plans available in this schemes. The different schemes, of course have varying premiums attached to them in proportion to the compensatory amounts relating to those plans. The cost of such plans may be higher compared to the basic plan illustrated above but still as the employer may attach different values to the employees in his organization such multiple plans may offer a choice to the

Transportation, Power, Water and Sanitation remain prioritized areas of activity. Funding Agencies have displayed their displeasure in the deployment of State and Para Statal Agencies to undertake construction contracting. Hence there is an obvious need to expand the manpower capacities of the Private Sector which cause may not be adequately served by the increase in the tax free allowance from Rs.240,000/- to Rs.300,000/-. It must also be noted that with the tax free allowance remaining static in the year 2001, a much larger tax free threshold for personal income tax favouring the professionals and skilled employees of the private sector would have been justified. Further this has to be viewed in terms of the amendments brought in on valuation of certain employee benefits for taxation purposes.

The Corporate Sector is also affected by the economic service charge that has been proposed in the form of an alternative minimum tax which would have further adverse effects on the construction contractors who are already in the red, largely due to state sector honouring its commitments in the breach. It must be noted that nearly a Billion Rupees is due to domestic construction community by the State Sector clients.

Both the smaller scale contractors and suppliers of construction inputs such as sand, bricks etc. fall within the category of an informal sector. Most of them run businesses in partnerships, which will also become liable for payment of an up front tax of 10%. We agree that the present form of taxation has an inherent vulnerability for tax avoidance by partnership incomes being attributed to several partners to reduce the tax liabilities of actual partners despite provisions in the Inland Revenue to reject fictitious partnerships.

However having considered all this, the fact that the Construction Community could expect steady growth in the Industry only with the much awaited resolution of the political crisis and the cohabitation of the two leaders can not be over emphasized.

employer to insure his workers accordingly.

The CCI however, intends to liaise with Janashakthi Insurance co., the executors of this scheme with regard to the implementation of this Insurance scheme and also monitor the administrative aspects with the view of obtaining the best benefits to the construction workers with shortest possible delay, as the sustenance of the scheme will rely heavily on the bona fide administration of the entire scheme.

*The views and opinions expressed in the articles of this bulletin are essentially those of the respective authors and therefore may not necessarily reflect the views of the Chamber-EDITOR*

### Invitation to Professionals and Statutory Agencies in the Industry

The Chamber has provision in the Constitution to admit Construction professionals who have served the country with distinction as Individual Members and Statutory Organizations engaged in Construction as Statutory Organization Members. Eng. M. Chandrasena, Dr. A.N.S. Kulasinghe, Prof. Dayantha Wijesekara, Mr. Ranjan Nadesapillai, and Mr. V.N.C. Gunasekera, have so far joined the Chamber as Individual Members while a very few Statutory Organizations have

so far joined the Chamber. In keeping with the high standards the Chamber hopes to follow in its activities it would be of immense importance to harness the talents of such individuals and organizations to enrich the collective decision making process to render the best possible service to the Industry.

Therefore the Council of the CCI appeals to such Individuals and Organizations to join the Chamber in the interest of the Industry.

Chamber Of  
Construction Industry  
Sri Lanka



### We strive to...

- Be the voice of the Construction Industry
- Provide Management and skills education and training for the construction industry
- Be the promoter of services and business opportunities for the Chamber Members
- Catalize the formation of construction consortia
- Disseminate information for the Chamber Membership
- Facilitate market research and promote foreign collaboration
- Promote Public / Private Partnership for Infrastructure and related projects
- Initiate the pension, health and retirement benefit plan for the construction industry

### Event of the Month

21<sup>ST</sup> NOVEMBER 2003

Meeting with the Minister of Commerce & Consumer Affairs Hon.Ravi Karunanayake at the office of the Ministry of Commerce & Consumer Affairs to discuss problems faced by the Construction Industry regarding the Liberalisation of Consultant and Contractors W.T.O/ F.T.A., Specialised Bank for Construction, Ceiling on import of Construction equipment and other related matters. The CCI was represented by Deshabandu Surath Wickramasinghe, President and Eng. D.D.Wijemanne, Vice President. Arch. Rukshan Widy-alankara, Prof. Chithra Weddikara, Eng. Rohan Tudawe, Eng. Tudor Munasinghe, Arch. Lalith de Silva & Mr. Dakshitha Thalgodapitiya.

**The Chamber will make the following facilities available to the members at a concessionary rate**

(A) The CCI auditorium, air conditioned and fully furnished, (30ft x 15ft).

For the members to have their seminars discussions, meetings or even functions. With a multimedia projector.

(B) The Information Technology Bureau.

For the members to have system analysis and design facilities, data bases, web designing and graphic work.



# Condominium law can now be enforced



Mr. M.M.C. Ferdinando

The Chamber has been paying increasing attention to the Property development and the Housing sector in the recent times, mainly due to the vibrancy and the promise this particular sector has shown and also in view of the fact that the Govt. policy initiative 'Regaining Sri Lanka' projects that by the year 2010, half of Sri Lanka's 20 million population would be living in urban areas. The passage of recent legislation with regard to the Common Amenities Board and the establishment of the Condominium Management Authority could be considered to be of special significance in this direction and therefore the CCI decided to interview Mr. M.M.C. Ferdinando in his capacity as the Additional Secretary to the Ministry of Housing and Estate Infrastructure and also as the Chairman of the newly formed Condominium Management Authority, in order to come to terms with these new developments.

Mr. M.M.C. Ferdinando hails from the deep South of the Island, he had his early education at, Galle, graduating from the Colombo University with an LLB degree Mr. Ferdinando joined the ranks of the SLAS in 1978. He now counts 25 years experience with the Sri Lanka Administrative Service having served in various capacities under successive Governments. Presently Mr. Ferdinando is a Class 1 officer of the SLAS and has been serving since 1999 as the Additional Secretary to the Ministry of Housing and Urban Development (re-classified as Housing & Estate Infrastructure in 2001). Here Mr. Ferdinando clarifies some of the salient issues connected to the Policy Planning and law enforcement in Housing, Urban Development and the recently established Condominium Authority, in a Question and Answer session with CCI editor Mr. Palitha Senanayake.

**Q. Mr. Ferdinando, as a senior official associated with the formulation of Government policy with regard to Housing and connected activities, how do you view the prevailing law on Housing?**

**A.** The formulation of the Housing Policy is done by the Hon. Minister as you know and at the collective responsibility level by the Cabinet of Ministers. I, as the Additional Secretary is only assisting the Secretary and the Hon. Minister with regard to the Policy Planning and the legislation required for the implementation of such policy. As far as the existing law is concerned we consider it to be adequate to facilitate development of the Housing sector, but still there could be

scope for improvement. As you may probably be aware we recently introduced major amendments to the existing law and those are amendments that we drafted based on the issues that confronted the Housing sector during the past few years. In the same way if the Govt. and the Minister feels the need for future amendments to the law, we would certainly be obliged to bring forward such legislation as well. If you mention any specific laws, we could certainly discuss.

**Q. Yes, we will come to that in a while, but before that I would like to know the historical involvement of the existing law and the factors that may have affected such involvement?**

**A.** As far as I could remember the first time the public became seriously interested in the housing law was in 1954 where National housing law came to effect. Then in 1970, 1972, 1973 some more legislation was introduced including, the Apartment ownership law, Rent law, Ceiling on housing property law, Common amenities board law. The policy and the intention at the time was to discourage unscrupulous landlords and to see that every one lives in his own house and to help those who intended putting up houses for their own uses. At the time the Government also expected to assist the private sector to build houses for sale but not for lease or rent. The rent act was supplemented by laws such as the Ceiling on housing property law etc to achieve this end. All 'tenement gardens called the "watta" owned and exploited by a handful of people were vested under the ceiling on housing property law as surplus houses and given to those tenants as a measure to broad base the ownership. Some of these legislation however were meant for a limited purpose.

**Q. Still, don't you think that the 70' legislation had a negative effect on the Housing industry?**

**A.** Of course to a certain extent that legislation did not help increase the housing stock through private sector initiatives and the Govt. of the time took upon itself the responsibility of increasing the housing stock. The landlords who own old tenement type business premises in prime locations in Colombo and other urban areas were unable to develop the land for more efficient utilization, as they could not evict their tenants to demolish old buildings for the purpose of putting up new buildings to provide more accommodation. The landlords were denied of a reasonable income commensurate with the land value. However this position changed with the amending act no 55 of 1980 where by all the residential premises constructed after 1.1.1980 and those let on or after that date and those occupied by the owner on 1.1.1980 and let on or after that date were all taken away from the application of the rent act. This means that there is no restriction whatsoever on tenancy agreements in respect of those premises and the law that applies to them is the common law. With regard to the Ceiling on housing law, the act was repealed in 1988 and there is no such restriction on either on size of a house or ownership since that date. With regard to the Common Amenities Board Law this was established in

1973 by act No 10 of 1973 as an institutional mechanism to deal with issues relating to the provision of common amenities such as Toilets, water taps etc to tenements gardens that were to be vested in the Government under the ceiling on housing property law operative at that time. The Apartment Ownership Law act no 11 of 1973, came in to effect as a new legal principle for the registration of titles relating to condominium units in a building, sub divisions and amalgamation with common elements appurtenant to such building, to enable the separate ownership and disposition of individual title to such condominium units. All these laws were found to be obsolete in today's context, therefore changes were effected to all those laws in 2002 with the view of addressing today's needs. First of such attempts was made by introducing major changes to the rent act. Accordingly the rent act is now applicable only to the following premises.

#### Residential premises.

Constructed prior to 1.1.1980, owned by an individual and or let before 1.1.1980 to an individual

#### Business premises

Owned by an individual and or let to an individual if the annual value, as specified in the assessment made by the respective local authority on 1.1.1968, or where the assessment was made for the first time after 1.1.1968, less than following amounts.

- Colombo MC Rs.6000,
- Other MC Rs. 4000,
- Urban Council Rs. 2000,
- Town in Town Council area Rs.1000,
- For areas other than the above areas if the premises was let on the date of the commencement of the rent act (1.3.1972) or ie it was let on that date but if first let thereafter at a rent less than Rs. 1500 per annum.

This amendment also made provisions to expand eviction procedure whereby it is now permitted to evict a person from a property on the following grounds,

- Arrears of rent
- Unauthorized sub-lettings
- Reasonably required for occupation as a residence for the landlord or his/her family or required for the purpose of trade or employment or vocation or profession or business for the land lord
- Structural alterations without written permission
- Conversion of residential premises into business premises or vice-versa,
- Requirement for development.

Hon. Indika Gunawardene during his tenure of office as the Minister of Housing appointed a committee to go in to the existing rent law and to make recommendations for the purpose of making the rent law more comprehensive and balanced. The findings of this committee and the findings of the Cabinet sub committee headed by Hon Mangala Samaraweera in his capacity as Minister of Urban housing greatly influenced the amendments introduced in 2002.

**Q. In the early eighties when Mr. Premadasa was the Minister of Housing we could remember that the Housing Ministry was a hive of activity with the million houses programme etc.. What**

**happened after that, have his successors lost the momentum?**

**A.** I must say that each Minister has his own style of doing things. During the time of Hon.Premadasa he brought the housing sector as one of the top most priority sector of the governments development efforts. During his tenure as the Minister of Housing he launched one hundred thousand housing programme, one million housing programme and 1.5 million housing programme. The govt. has realized that it is more effective to be a facilitator and a catalyst rather than the provider. So the Govt.'s role now is more of an enabler, facilitator and you would notice that the Budget for the year 2003 allocated Rs 3000 million as housing loans @ 7% interest. This, finally reached the borrower @ 9.5% as the commercial banks too had their servicing charges.

**Q. The Govt. policy initiative Regaining Sri Lanka predicts that by the year 2010 half the Sri Lankan population of 20 million will be living in urban areas. What preparations are we making to provide for these, specially the rapid rate of urbanization expected in the future?**

**A.** I think high rise apartments with the integrated concept should be the answer and the legislation we have passed with regard to Condominium law would be most useful. Yet as far as urbanization goes I consider it as a separate issue altogether and the Govt. has to have a policy on urbanization as well, because the housing policy can only tackle the effects of urbanization. Urbanization activity will depend on factors such as rural poverty, agricultural policy, industrialization, transport system etc.

**Q. As I mentioned before the Chamber has been having a dialogue with a number of property developers during the recent past and they expressed certain reservations about the present laws, specially on the lacunas of provisions to regulate certain areas?**

**A.** If the property developers could make representations on those specific areas we could certainly look in to those but generally laws are formulated for the Housing Industry as a whole and the Property developers in spite of all the encouragement and the ostensible activity, account for only 25% of the Housing Industry. The major share of the house building is done by the individual house builders which is 55% and the Govt. share is about 20%. So we have to keep in mind the individual house builders at all times as they make the biggest contribution. In any case I think most of these problems or lacunas will be addressed the moment the 2002 new legislation begin to take effect such as the Condominium Law.

**Q. Why do certain people feel that the concept of condominium has failed in Sri Lanka?**

**A.** Well, it is not proper for anybody to feel it that way, the problem in Sri Lanka is that most of these apartments they consider to be condominiums are in effect not condominiums in the legal sense. A property has to be registered as a condominium for

the provisions in the condominium law to apply. There are certain requirements that have to be complied with, to register a property as a condominium such as, the registration of the land, the obtaining of the CofC (Certificate of Conformity), Registering the condominium plan etc.. After such registration that land could be alienated from the traditional ownership sense and could be vested with the Condominium law. The trouble with most of these old apartment blocks is that most of them have not been registered with the condominium law and therefore the existing law can not be enforced on them. What applies in this context is the Land Lord / Tenant Law. Under the condominium law there are two types of title, one is the individual title which the apartment holder has for the particular apartment and the other is the common title the apartment holder may enjoy under the terms of the Common amenities board or now the Condominium Management Authority. These common areas are administered by the 'Management Co-operations'. Therefore most of these existing apartments were built to overcome a chronic housing problem without paying enough attention to the condominium law and the problems have cropped up later at the maintenance stage. We have made provision in our latest legislation to accommodate such anomalies also.

**Q. Now, shall we discuss the new legislation in detail?**

**A.** Prior to the present amendments brought to the Apartment Ownership Law the owner or developer can sell their product only after completion of the whole condominium building and registering at the land registry. This has invariably resulted in increase in the unit cost due to high cost of capital. Even the prospective purchasers were not in a position to raise funds from the lending institutions due to non availability of co-lateral until the condominium buildings completed and registered at the land registry. In order to create conducive conditions, statutory environment changes were introduced, those changes are;

- 1) Registration of condominium plan at the early stage of construction on provisional basis at the land registry,
- 2) Registration of partly completed condominium building having two or more completed condominium parcels at the land registry on incremental basis.
- 3) Recognition of titles for provisional condominium parcels of the provisional condominium property upon registration at the land registry.
- 4) Impositions of restrictions on the titles of the land parcels which covers provisional condominium property for the protection of the interests of lending institutions and prospective purchasers.
- 5) Recognition of "agreements for sale" as effective legal instruments to be used as collateral for securing the loans by the individual prospective purchasers and to ease out risk factor of the mortgagee in granting loans.
- 6) Strengthen the capacity of the owners of the condominium parcels corporation known as



# Reliable and Low Cost Power



Dr. Tilak Siyambalapitiya

Summary: The demand growth for electricity is currently at historically low levels of 2.5% per year, a clear indication that the manufacturing industry and the commercial sector is not expanding, while the households cut down on consumption owing to high prices. While significant steps have been taken to restructure the electricity supply industry and introduce some degree of competition, regulation and accountability, the fundamental problems with the industry remain yet to meaningfully resolved: the problem of high costs of production and the problem of poor reliability. To rapidly arrest these two problems, a concentrated action with a sense of urgency should be implemented.

## 1. The Need for Growth and the Market

Sri Lanka's per-capita electricity consumption is 294 kWh (2002) of electricity sold to all customers, including household, industry and commercial use. The per capita electricity use in fast developing countries in the Asian region, exceed 2500 kWh per person. The historic trend in Sri Lanka is an annual growth of about 7% per year, as shown in Figure 1.

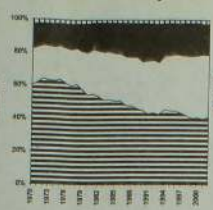
Figure 1- Historic Trend in Electricity Sales



The correlation between GDP growth and electricity demand growth, too has been steady in the past. In all probability, the trend in the demand for electricity will continue well into the future, unless a major structural change occurs in the economy, with a significant shift toward either high energy intensive or less energy intensive economic activity. While potential energy efficiency improvements remain both on the supply-side and the demand-side, it is inevitable that electricity use will have to increase to serve the economic and social development of the country.

The structure of the market for electricity has been gradually changing from an industry-dominated market to a household-dominated structure, as seen in Figure 2. Rural electrification and the absence of a matching growth in industrial and commercial sectors, is the reason for the changing market structure. A household-dominant market causes major financial problems to electricity suppliers when Government requires subsidised electricity to be provided to households.

Figure 2- Market Structure for Electricity Sales



The growing demand requires new capacity to be added to the system. The changing market dominated by household customers requires rational pricing policies to be implemented to minimise undue pressure on industrial and commercial customers to cross-subsidise household customers.

Sri Lanka has been severely lagging behind in making timely decisions on new capacity additions to the generating system to ensure cost effective supply reliability. Delayed decisions often gave rise to generating capacity shortages, which were overcome to a certain extent with emergency purchases and the balance by enforcing blackouts.

## 2. New Generating Capacity Additions

Ceylon Electricity Board (CEB) latest generation expansion plan, as it has done every year for over 15 years, presents the analysis of demand and the capacity additions required to meet the demand. The time-frame for decision-making and construction of each project have been clearly stated.

Table 1- Generation Expansion Requirements

YEAR	HYDRO ADDITIONS	THERMAL ADDITIONS	First Entered the Generation Plan to produce electricity from	Present Delay (Number of years)
2003	-	20 MW ACE Power Horana Diesel Plant	Not in plan	-
2004	70 MW Kakule	163 MW AES Combined Cycle Plant at Kelaniya	1999	5
2005	-	200MW Medium-term Power Plants	Not in plan	-
2006	-	2x150 MW Combined Cycle Plant at Kewalapitiya	2003	3
2007	-	300 MW Coal Steam	1992	15
2008	150 MW Upper Kotmale	-	1990	13
2009	-	300 MW Coal Steam	1994	9
2010	-	300 MW Coal Steam	1996	14
2011	-	300 MW Coal Steam	1999	13
2012	-	300 MW Coal Steam	2002	13
2013	-	300 MW Coal Steam	2004	14
2014	-	300 MW Coal Steam	-	-
2015	-	300 MW Coal Steam	-	-

Source: CEB Long Term Generation Expansion Plan June 2003 and previous plans published by CEB

After years of indecision on specific major power plants and other small power plants, the fuel mix in electricity generation is presently moving fast toward an oil dominant structure. Before examining the future, it is useful to compare the share of each source of fuel in the electricity generating system in the CEB Plan of 10-years ago and today. It is clear that the fuel mix that would have strongly moved toward a cost-optimal, coal dominated structure, has now moved to an oil dominant structure, with an expected maximum contribution of 57.3% in year 2007<sup>1</sup>. If the year 1993 CEB plan was allowed to be implemented, the share of oil in electricity generation would have reached a peak of 27.4% in year 1998, and by now reduced to acceptable levels of about 18.4%. The problem with the electricity generating system of Sri Lanka is therefore, the inability to manage this inevitable transition from a predominantly hydroelectric generating system to a mixed hydro-thermal system. This requires a dominant share of

The author of this article is well known, nationally and internationally, for his contribution to the Power sector. With the country plunging in to frequent blackouts in the recent past and also with the escalation of the cost of power making Sri Lanka one of the developing countries with a comparatively high cost of power Dr. Siyambalapitiya became a fierce critic of the successive Governments for not adhering to the original forecast of the CEB which planned to generate alternative sources of low cost energy, and then creating a situation where it becomes necessary to resort to emergency solutions, costing the consumer and the economy dearly. The situation appears more hopeless when the decisions to deviate from the original thinking was made to placate the vested interest of individual political agendas. Sri Lanka needs more professionals in the caliber of Dr. Siyambalapitiya to champion the cause of their professions with neither fear nor favour in the interest of the country in today's highly politicized social atmosphere.

electricity from coal-fired power plants in the medium-term.

<sup>1</sup>Under average hydrological conditions. If the hydrological conditions are very dry, the oil share in the generation mix will be 69.2%.

Table 2- Comparison of Generation Fuel Mix in Generation Expansion Plans

Year	Share of Each Fuel in the Generation Mix			Generation Plan 2003		
	Hydro	Oil	Coal	Hydro	Oil	Coal
1994	90.2%	9.8%	0.0%	61.4%	38.6%	0.0%
1995	86.6%	13.4%	0.0%	51.5%	48.5%	0.0%
1996	80.4%	19.6%	0.0%	48.2%	51.8%	0.0%
1997	74.4%	25.6%	0.0%	46.9%	53.1%	0.0%
1998	69.2%	30.8%	0.0%	42.7%	57.3%	0.0%
1999	70.9%	29.1%	0.0%	39.7%	60.3%	0.0%
2000	72.6%	27.4%	0.0%	40.2%	59.8%	0.0%
2001	67.2%	32.8%	0.0%	38.7%	61.3%	0.0%
2002	60.0%	39.2%	0.0%	36.5%	63.5%	0.0%
2003	58.2%	41.8%	0.0%	34.3%	65.7%	0.0%
2004	53.4%	46.6%	0.0%	31.1%	68.9%	0.0%
2005	49.6%	50.4%	0.0%	27.9%	72.1%	0.0%
2006	48.2%	51.8%	0.0%	26.5%	73.5%	0.0%
2007	44.4%	55.6%	0.0%	24.3%	75.7%	0.0%
2008	41.4%	58.6%	0.0%	22.1%	77.9%	0.0%
2009	38.3%	61.7%	0.0%	20.0%	80.0%	0.0%
2010	35.6%	64.4%	0.0%	18.0%	82.0%	0.0%
2011	32.7%	67.3%	0.0%	16.1%	83.9%	0.0%
2012	30.3%	69.7%	0.0%	14.3%	85.7%	0.0%
2013	28.2%	71.8%	0.0%	12.7%	87.3%	0.0%
2014	26.2%	73.8%	0.0%	11.3%	88.7%	0.0%
2015	24.3%	75.7%	0.0%	10.0%	90.0%	0.0%

## 3. Impacts of Project Delays

Electricity production cost accounts for the largest share of costs in the supply. In year 2002, generation costs accounted for 59% of accounting costs of CEB (meaning generation, transmission & distribution, depreciation, finance and

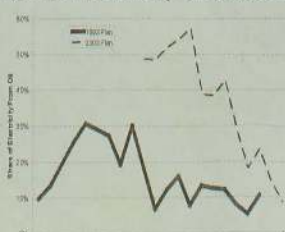
about Rs 7500 million in year 2003. With all the major lower-cost generation projects (such as coal and Upper Kotmale) delayed indefinitely, the fuel bill in year 2003 is estimated to rise to about Rs 16,000 million.

Table 3- Expected Impacts of Project Delays on Fuel Expenses

	If 1993 Plan was Implemented			The current status			
	Fuel Oil	Diesel	Coal	Fuel Oil	Diesel	Naphtha	Coal
Fuel Used (in thousand MT) for Electricity Generation in 2003	178	25.6	705.2	440	138	185	-
Fuel Price (USD/MT)	200	235	47	200	235	205	47
Fuel Cost (million USD)	35.6	6.0	33.1	88.0	32.4	37.9	-
Total Fuel Cost (million USD)	74.8			158.4			
Additional Fuel Cost owing to project delays (million USD)				83.6			
Estimated electricity sales (GWh)				6175			
Direct impact on the electricity price (UScts/kWh)				1.35			

overheads). If operating costs only are considered, generation costs accounted for 81.7% of the total costs. The average cost of generation in year 2002 has been 4.50 Rs/kWh, including the low-cost contribution from hydroelectric power plants. The average cost of thermal generation is estimated to be about Rs 7 per kWh. With approximately Rs 3 per kWh spent for transmission, distribution, depreciation and finance costs, the cost of a kWh of electricity was approximately Rs 7.50. Considering that there are 20% network losses, the selling price of electricity requires to be about Rs 9.30 per kWh. However, the average selling price in year 2002 was only Rs 7.25 per kWh.

Figure 3- The Shifting Share of Oil in Electricity Generation



estimates is the CEB Generation Expansion Plans of 1993 and 2003, under average hydrological conditions. Fuel prices based on USD 23.5 per barrel, but the present prices are substantially higher.

The price impact on electricity sold is a minimum of 1.35 UScts/kWh (1.30 Rs/kWh) without taxes on fuel. The daily loss to the economy is about Rs 22.8 million.

## 4. Sri Lanka Electricity Prices Compared

It is not possible to increase electricity prices to such high levels as it would be required to make CEB, or the electricity supply industry as a whole, to be profitable again. Even with the present average price of 7.70 Rs/kWh, Sri Lanka has a relatively high price compared with other countries in the region. It is necessary for

- electricity supplies to be reliable presently
- electricity prices to be affordable

- electricity supplies to be reliable and prices to be stable in the future

to enable the country to attract new industrial investments and well as to retain and expand existing industries and commercial activities.

Figure 4 shows the average price paid by each "class" of customer. For this comparison, several representative customers were defined, as given in the Table 4.

Table 4- Customer Definitions used for Electricity Price Comparison

Customer Class	Consumption (kWh/Month)	Maximum Demand (kW)
Domestic	Small	30
	Medium	90
	Large	300
Commercial	Small	1,000
	Medium	58,000
	Large	600,000
Industrial	Small	5,000
	Medium	65,000
	Large	270,000
Very Large	1,050,000	2250

Unity power factor is assumed for all customers. Customer classes, their consumption and maximum demand is defined for the purpose of this study. They do not represent any definition by any electricity supplier

As seen in Figure 4, Commercial customers provide a large cross-subsidy to household customers, and industrial customers provide a smaller cross-subsidy. Comparisons were conducted across a number of countries in Asia. Figures 5, 6 and 7 give the results.

Figure 4- Sri Lanka Average Electricity Price for Each Customer Class

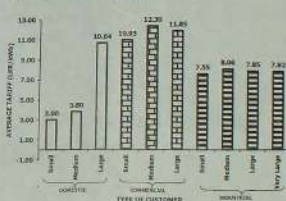


Figure 5- Comparison of Medium Household Tariffs in the Region

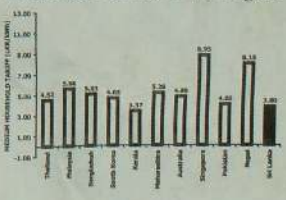
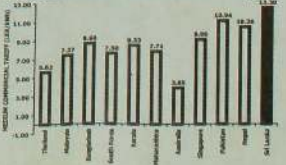
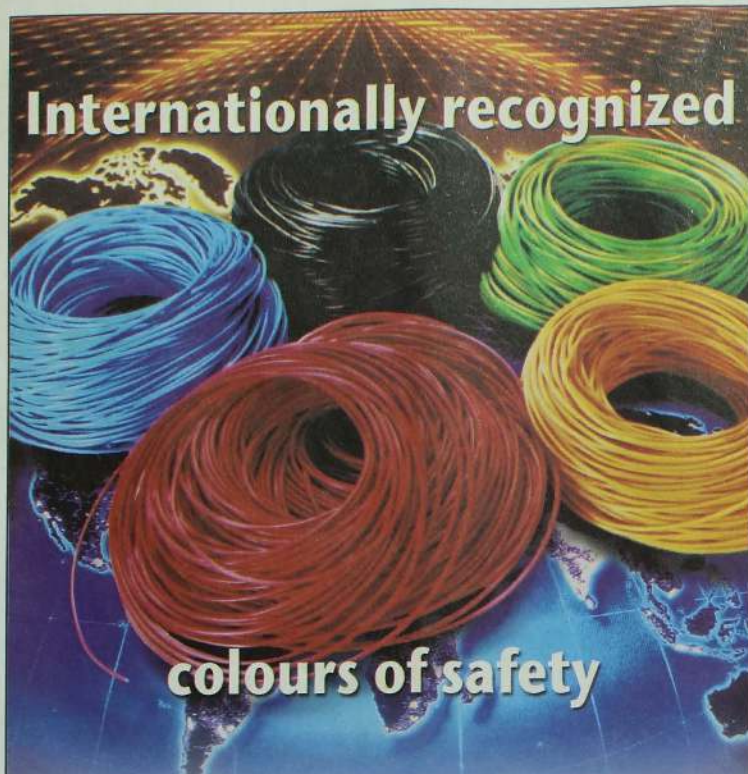


Figure 6- Comparison of Medium Commercial Tariffs in the Region






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# The CECB serves the Industry with a wide outreach

- Mr. Sarath Piyadasa -



Mr. Sarath Piyadasa

The CECB is a founder member of the CCI and the present General Manager of the Bureau Mr. Sarath Piyadasa was chosen to be featured in the November issue of the CCI bulletin in the series of "Personalities that matter in the Construction Industry".

Mr. Sarath Piyadasa graduated from the Faculty of Engineering, Peradeniya University in 1975, specializing in Civil Engineering. He joined State Development & Construction Corporation as a trainee construction engineer at Bowatenne Dam site, designed and constructed by local engineers with limited foreign inputs. In 1976 he joined Central Engineering Consultancy Bureau (CECB) as a designs engineer and was involved in the designs of the Canyon hydropower project. With the commencement of the Accelerated Mahaweli Programme he was assigned to work in the UK offices of Sir William Halcrow & Partners on work connected to the designing of the Kotmale project, followed another one year at Sir Alexander Gibb & Partners on work connected to the designing of the Victoria project. On his return in 1982 he was appointed Deputy Chief Designs Engineer of the Joint Venture Project, Randenigala, and in 1986 was appointed as the Chief Project Engineer / Project Manager of Randenigala and Rantembe projects. After completion of the Accelerated Mahaweli Programme he was associated with the CECB holding the positions of Deputy General Manager and Additional General Manager before he was appointed as the General Manager in 1999. Mr. Piyadasa also obtained his masters degree in construction management, Bachelor of laws and Post graduate Diploma in Development economics. At present he is the Vice President of the Association of Consulting Engineers in Sri Lanka.

In a Question and Answer session with the CCI editor Mr. Palitha Senanayake Mr. Piyadasa clarifies some of the issues in the Construction Industry as they relate to the CECB

**Q. Mr. Piyadasa to start with could we delve in to the historical background of the CECB and its contributions to the National Economy?**

A. CECB was incorporated in 1973 as a public corporation under

*THE Central Engineering Consultancy Bureau is an organization that has rendered yeoman's service to the Engineering profession as well as to the Construction Industry during the last three decades. It's position quantitatively has fluctuated from, the mega multi disciplinary consultant to that of a facilitator depending on the country's level of development activity and qualitatively It's role also has varied from the pinnacle of professional consultancy to the Govt. project dispensation bureau depending again on ones perception of the bureau's activities.*

the State Industrial Corporations Act, to provide engineering consultancy services to water resources and other infrastructure projects, on a commercial basis. During the formative years CECB remained a small organization with limited resources, yet was providing consultancy services for major hydropower projects such as Samanawewa and Canyon. With the commencement of the Accelerated Mahaweli Programme, CECB was entrusted with the crucial task of coordinating the construction of headworks projects viz. Kotmale, Victoria, Randenigala, Rantembe and Maduru Oya. Consequently CECB expanded rapidly to meet this challenge, to become the largest multi-disciplinary consultancy organization in the country.

With the completion of the Accelerated Mahaweli Programme the work load in the mainstream hydropower field diminished and CECB embarked upon a strategy of diversification to other fields such as buildings, roads, water supply, irrigation, port & coastal etc. In 1995 the Order of Incorporation of CECB was amended to permit the formation of joint ventures and companies to undertake engineering and architectural consultancy services. The Order of Incorporation was further amended in 1998 to permit undertaking of "Design-Build" and "Turnkey" type construction and formation of joint ventures and companies to undertake such construction. Two separate Divisions were established to undertake Engineering and Architectural Consultancy and Engineer, Procure, Construct (EPC) type construction. At present CECB has a permanent staff of 680 comprising of 150 engineers and 20 architects in our staff.

During the past 30 years CECB has successfully provided engineering services to numerous projects thereby avoiding the engagement of expensive foreign expertise. Also it has been successful in the introduction of several innovative and low cost indigenous technologies. Another important contribution CECB has made to the national economy is the training of a large number of graduate engineers from other organizations as well, in design and construction.

**Q. What about the present activities of the CECB?**

A. Hydropower has been the traditional strength of CECB and not surprisingly it continues to dominate in this field. After completion of the Kukuleganga hydropower project, engineering

staff is being redeployed to the Upper Kotmale hydropower project. CECB continues the periodic inspection and monitoring of all major dams owned by Mahaweli Authority. The Water Resources Planning Unit is engaged in feasibility, pre-feasibility and environmental studies of several water resources development projects. In the field of transportation, design and construction supervision of Dambulla-Bakamuna Road, design of bridges of Kurundugahahethekma-Matara section of the Southern Highway and supervision of Railway bridge constructions are among our present activities. CECB continues to provide consultancy services to the Ministry of Health and several Provincial Councils including north-east, in the maintenance of existing healthcare facilities and construction of new facilities. Electrical Engineering Unit is involved in the design and construction supervision of several transmission projects in association with foreign consultants. The Major Projects unit of the CECB is handling the construction of high rise office building for the Colombo District Secretariat under a construction management contract.

The EPC Construction Division has just completed the Western Provincial Council Head office building. Some of the ongoing EPC construction works are Postal Secretariat building, Galle District Secretariat building, Maharagama Cancer Hospital OPD building and access road to IT Park in Malabe.

**Q. There are allegations made by Private sector contractors that CECB receives preferential treatment and there is no level playing field**

A. We categorically reject such allegations. Firstly, CECB does not and is also not permitted to engage in the traditional role of a construction contractor. CECB does not function as a contractor in the traditional setting of the triad viz. employer, engineer (architect) and contractor. Secondly, CECB operates only in the EPC (Design-Build / Turnkey) segment of the market, which is a minute fraction of the total construction market. Thirdly, in the EPC segment of the construction market CECB enjoys a near monopoly due to lack of competitors. Therefore the problem is not with the playing field but rather in playing in different types of matches and as for us we don't have enough competitive players to start the match! Fourthly, CECB has the advantage in this niche market owing to availability of in-house architectural and structural design capability and also other

technical services such as building services, surveying, site investigations etc.

Fifthly, CECB does not receive grants, subsidies or financial support in any other form from the state. Also we have never incurred any losses during our period of operation requiring the Govt. to write off such losses. On the other hand CECB pays VAT, Income Tax and in addition 25% of the after tax profit is paid to the Treasury as Deemed Dividend Tax.

Finally, my advice to those who are making such unfounded allegations is to organize themselves to undertake EPC type construction. EPC is proven to be one of the most effective methods of Fast Tracking and if one goes by the worldwide trends it is here to stay. It is better to light a lamp than to curse the darkness!

**Q. How do you explain the present attitude of multilateral funding agencies towards parastatal agencies such as CECB?**

A. If the present negative attitude of multi-lateral funding agencies towards State Sector organizations is prompted purely by ideological reasons, it is grossly unjustifiable. Even in the USA, State Sector organizations such as United States Bureau of Reclamation (USBR) are engaged in commercial activities well beyond their regulatory functions. Such an attitude is justifiable only against State Sector organizations that are propped up by the State and unfairly competing with the Private Sector. In the case of CECB it has not received any grants, subsidies or financial support in any form from the State, other than the initial paid up capital of Rs. 500,000 given at the time of incorporation in 1973. It would be unfair for the funding agencies to measure all the State Organisations by the same yard stick. We have had State Organisations in Sri Lanka who sometimes conducted their business often in par with the best managed private companies. Therefore if the funding agencies are prejudiced against State Organisations I should think it is unfortunate.

**Q. Whow do you see the future of CECB in the Private Sector dominated construction industry?**

A. The future of CECB is assured as long as we consistently deliver high quality, value added services in a timely manner to our clients. There is no other magic formula. In addition we are looking at certain strategies to minimize the friction with Private Sector. For example CECB could focus on large jobs in both

Consultancy and EPC Construction, leaving the small / medium jobs to Private Sector companies. The resulting loss of turnover could be more than compensated by vigorously pursuing overseas markets, particularly in the South-Asian region.

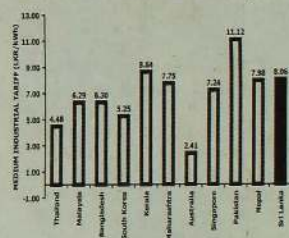
**Q. Should the CECB be re-structured in the current context of a Private Sector dominated economy?**

A. Re-structuring had been a recurrent topic of debate within the CECB, particularly during the past few years. There has been a broad understanding if not a consensus, that certain reforms are imperative for the survival and the improvement of the organization. For instance, motivation of the staff to perform year after year has always been a challenge. As a public sector organization, the management is compelled to operate with, neither the carrot nor the stick. Also the organization has to be leaner and meaner if it is to adapt quickly to rapidly changing external environment.

Contd. from page 5

Reliable and Low...

Figure 7- Comparison of Medium Industrial Tariffs in the Region



- Sri Lanka's household customers pay low rates, but they are not the lowest in the region.
- Sri Lanka's electricity prices are the highest for all classes of commercial customers
- Sri Lanka's prices for industrial customers are high compared with most countries, but not the highest.

## 5. Conclusion

Sri Lanka's electricity prices are high compared with other countries competing to attract more industrial investments and to retain existing investments. The highest costs share of electricity supply is in the generation of electricity. With all generation projects delayed, some of them by decades, the increasing demand has to be supplied with oil-burning power plants. High electricity prices and the uncertainty of future supplies have reduced the growth in demand to historically low levels.

**When can the electricity prices be reduced to competitive levels and supply reliability restored?**

Not until the major projects delayed and neglected and postponed for decades are revived and implemented with a sense of dedication and urgency. Until such time, the customers would have to pay high prices which will continue to increase, while industrial growth will decrease.



# Capacity Building in the Domestic Construction and Consultancy Services of the Road Sector

— M.B.S.Fernando —

## About the Author

**M.B.S.Fernando, M.Sc., C.Eng, MICE, MCIT, FIE(SL) is a Senior Lecturer at the University of Moratuwa. He is a Chartered Engineer having over 40 years of experience in the Road Sector in Sri Lanka and abroad. Mr.Fernando was appointed as Chairman, Road Development Authority on four occasions during 1989 to 2001 by successive Governments. He was responsible for the establishment of RC&DC and was its Chairman for nearly 10 years. As an Engineer, Mr. Fernando held several positions in the road sector, including Director of Works and General Manager of RDA, Managing Director of RC&DC and Executive Engineer and Chief Engineer of the former Department of Highways and Territorial Civil Engineering Organization.**

For more than five decades road works were executed by government establishments. Road administration underwent organizational changes since independence from the PWD to department of highways and then to TCEO and again back to department of highways and then to the present RDA which now administers the A&B class roads (national highways). Responsibility for C&D class roads was transferred to the Provincial Councils in 1990, with the 13<sup>th</sup> Amendment to the Constitution. The road system as a whole gradually deteriorated over the years due to neglect. Road maintenance work was carried out either by direct labour or by small time contractors (RMC). In the early eighties the Government sought assistance from foreign lending institutions for the rehabilitation of the road network. In the late eighties except for about 200 km of trunk roads rehabilitated under World Bank loans the entire road system was in a dilapidated condition.

The deterioration of the road system was not entirely due to inadequacy of funds. Institutional deficiencies too contributed to it. In 1987, the Government decided to separate the function of execution of road works from planning and supervisory functions. RC&DC was formed to execute road works under the supervision of RDA. In order to give flexibility of a private organization, RC&DC was established as a private Company under the Companies Ordinance with all shares except two owned by RDA. In 1988 RC&DC was entrusted with the restoration of the road network and its maintenance. In less than a year RC&DC was able to restore the road network to a satisfactory

condition within the road maintenance budget of RDA and continued to maintain them well thereafter up to 1995 when the Government decided to execute road maintenance work by direct labour. A road user charges study funded under World Bank credit No.2183 CE in 1992 and conducted by an expatriate Consultancy team has commented as follows: *The main criterion used by the RDA in assessing RC&DC's routine maintenance is that the roads should not be potholed. Judged on that basis, the present level of routine maintenance is good. Potholes on A and B class roads are uncommon nowadays* (page 2-7 Chapter 8). Private contractors (RMC) worked as sub contractors to RC&DC. These contractors had to keep their workers employed when there was little maintenance work. RC&DC provided them with construction work undertaken by it for the RDA on sub-contract and assisted them with technical support, equipment and prompt payment for work done. The share of work sub-contracted to private contractors gradually increased from 20% in 1988 to 70% in 1994 whilst work executed by RC&DC direct was reduced to about 30%. This constituted mainly bridge works and major road construction work which was beyond the capacity of most of these small contractors.

As a further step to outsource the balance work and develop the domestic contractors to undertake major construction and rehabilitation work, RC&DC undertook rehabilitation of 53 km of roads in Colombo district through private contractors on Job Order Contracts. 14 grade 1 contractors were nominated by the National Construction Contractors Association to execute 14 road packages as sub-contractors to RC&DC. (This was a project earlier tendered under International Competitive Bidding for Rs.1260M). Most of the contractors executed road works for the first time. RC&DC provided the technical and construction management support to these sub-contractors and the work was supervised by a local private consultancy firm appointed by the RDA. The project was successfully completed one year ahead of schedule at a cost of only Rs.850M. Two more packages were lined up to be offered to these contractors on the same basis to ensure continuity of work, but were never implemented due to re-introduction of the direct labour system by the Government in 1996. Efforts of RC&DC during five years in building the road sector contracting industry were shattered due to this policy change.

Few contractors were able to secure one or two road contracts under ADB funded projects. However, long delay in pre-construction activities and procurement procedures did not allow these contractors to engage in road works continuously. This prevented them from retaining talented and experienced construction managers and technical personnel or skilled operators. They hesitated to



invest in modern road construction equipment. These reasons reflected on the quality of work output and delay of completion and consequential loss of profit to the contractors despite their attempt to maintain high standard of work.

If the programme of work implemented by the RC&DC in 1990 to build the capacity of private contractors to undertake road works was not interrupted, the country would have been blessed with a stable contracting industry in the road sector today. RC&DC would not have expanded with its large labour force, but would have shrunk to a small management company as intended with majority of its workforce finding employment in the private sector with better remunerations. Experienced and qualified young Engineers would have joined the private sector consulting companies to strengthen their consultancy business. Today domestic consultancy firms have to wait till a senior engineer from RDA retires to include his name in their consultancy proposals.

In order to correct a grave mistake done, the Ministry of Highways on 03/04/2001 signed a Memorandum of Understanding (MOU) with the ADB to restore the status quo of RC&DC to recommence the programme by sub-contracting 20 road packages at a cost of Rs.1000M in the year 2002. This is to be increased to Rs.1500M in 2003 and to 2000M in 2004, with the RC&DC reducing its share of work gradually. The first twenty packages were contracted out to 20 contractors in 2003 directly by the RDA without the intermediary management support role of RC&DC. The success of this arrangement is yet to be seen. It appears that there is an invisible hand that prevents the implementation of the MOU.

Ideally, what was agreed in the MOU should have been implemented. The design, contract documentation and construction supervision should also have been entrusted to about ten local consultancy companies. If there aren't sufficient companies, senior engineers of

RDA/RC&DC could have been encouraged to form consultancy companies. Few others could join existing companies to strengthen their hands. It must be remembered that whether the RC&DC does the work or the private sector does it, the requirement of human resources will be the same. If there is a stable construction industry in the private sector that can assure security of employment there is no reason why people should not be attracted to the private sector which could offer remunerations much higher than what they could earn in the government.

The foregoing was highlighted in order to emphasize that RC&DC should have been used as a vehicle to build the private sector contracting and consulting industry. There was no need to de-stabilize RC&DC or close it down with consequences detrimental to the domestic construction industry. There is a dearth of technically competent and experienced engineers, technicians, and skilled craftsman in the private sector to undertake the large volume of work needed to rehabilitate the fast deteriorating road network. The required human resources are found only in the RC&DC and RDA. They must be induced to join the private sector by making the private sector a stable and vibrant industry that could attract this valuable resource base.

If the Government is serious about building the capacity of the domestic contractors, only way to do this is to assure them continuity of work. No amount of specialist advice and re-engineering of road sector institutions can help the construction industry to build the contracting capability of domestic contractors. It is unfortunate that successive Governments have succumbed to ill-considered advice of foreign consultants and implement proposals that will eventually result in the destruction of the country's road network and the construction industry in the road sector.

Another constraint to road development is the unduly long procurement procedures dictated by guidelines of donors that

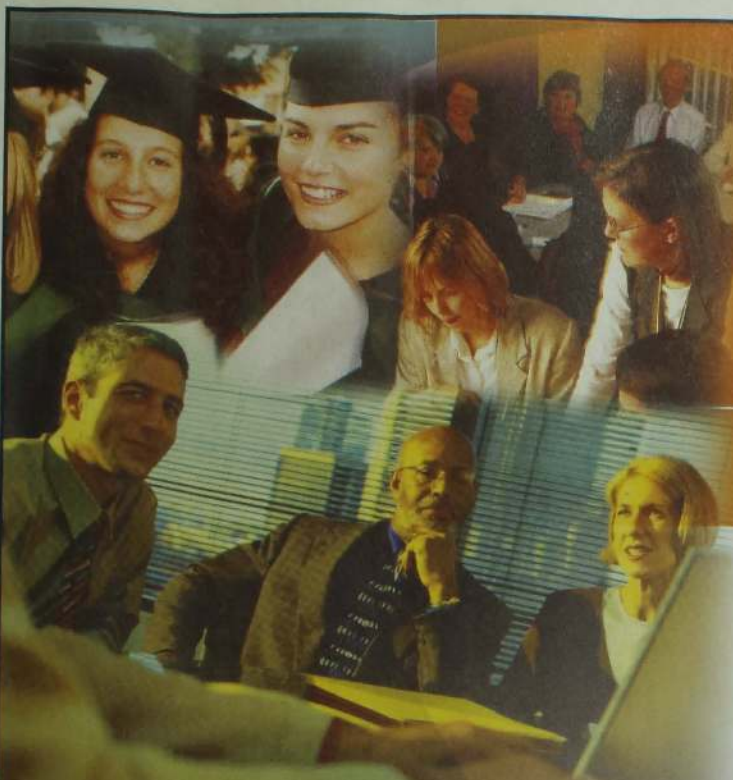
facilitate the dominance of the industry by international contractors and consultants. It takes a minimum of five years from the conception of a road rehabilitation project to awarding of the contract. When the selected contractor moves into the site, the condition of the road has deteriorated beyond what was envisaged at the estimating stage. This results in variations to contract and resulting cost overruns and delays often resulting in revising budgeted estimates. The loan funds are rarely made available to meet increased costs. The consolidated funds are often used by postponing maintenance work, contributing to further deterioration of the road network. Disbursement of foreign funds is at a low level of less than 15% due to these protracted delays in procurement procedures.

The Job Order Contracting (JOC) practiced by RC&DC for over 10 years, is a very practical fast track procedure in procurement of civil engineering works. This is practiced in many countries including United States that contract out road works under JOC up to ten million US Dollars in value. It is suggested that road packages of Rs100 to Rs200 million should be offered to about 20 contractors on Job Order

Contracts at rates approved by a technical committee, continuously for a period of five years on the basis suggested in the MOU of 3/4/2001. Preparation of designs, contract documentation and construction supervision should likewise be entrusted to about 10 domestic consulting companies. To induce experienced personnel from RDA and RC&DC to join the private sector, enhanced retirement gratuity should be offered without delay. The recent budget proposals to permit public officers to retire prematurely with full pay is a step in the right direction.

The fluid state of indecision regarding RC&DC has created an unhealthy atmosphere of insecurity amongst the employees who faithfully contributed to the preservation of the country's road system





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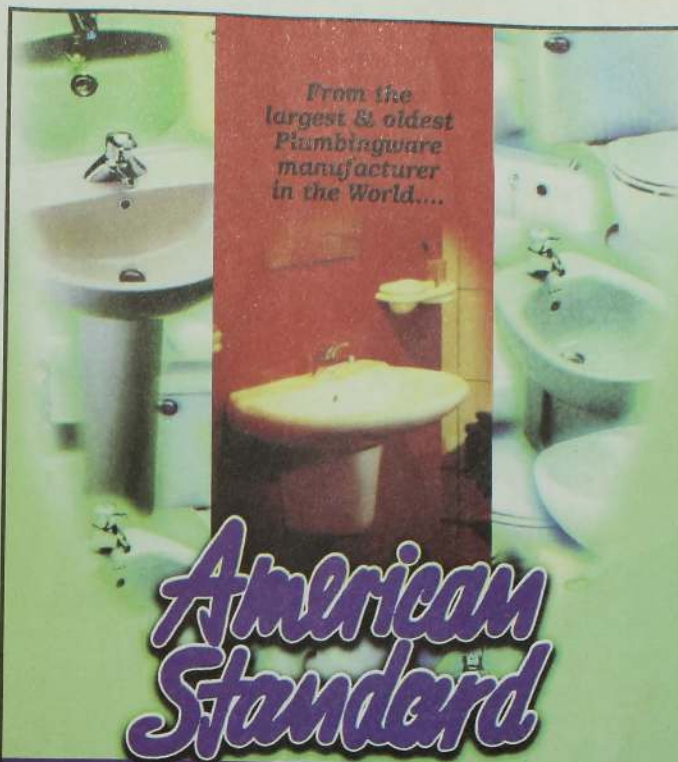
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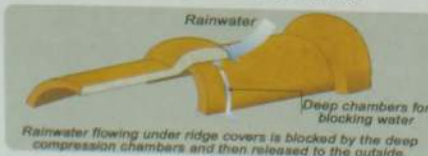
## Colourcon tiles are backed by world class technology



- **Prestigious and modern, perfectly compatible with all housing styles**  
colourcon tiles offer a wide range of styles and colours to suit your taste.

- **Harmonious beauty throughout the entire roof**

colourcon offers a collection of ready - made round ridges to ensure harmonious beauty throughout the entire roof. The collection consists of designs that can fit perfectly to every roof design. In addition, every ridge is designed to help prevent water leakage from the outside.



- **A complete range of roofing materials to suit your taste.**  
In addition to tiles and round ridges, Colourcon offers a variety of other roofing materials and accessories including ridge starter, hip end three way & four way apex tiles, round ridges and eaves filler unit, etc.

- **Excellent designs and high quality production**

### Long-lasting beauty

The wet on wet colour-coating Process, in which pigment mixed with cement are sprayed onto tiles while they are still moist, allows the pigments to perfectly blend with the tiles' surface. As a result, the colour coat has an extra thickness that makes it long-lasting. In addition, tests found no toxic residues in rainwater that passed through colourcon roof tiles.



### Uniform strength

the process used in manufacturing colourcon tiles meet international standards. Strict quality control is applied to all Stages of production, from the selection of raw materials to the end product. The tiles are manufactured with state-of-the-art machinery before undergoing a tough testing on strength and water-resistance property in order to ensure they all meet the standards before being delivered to our valued customers.

### Water-leakage resistance

Every Colourcon tile has a treble weather bar, 3 lateral bars across the underside of the tile nose with deep chambers between the bars, and 2 well-defined deep ribs along side junctions. Those features are designed to prevent water leakage during rains and they have been tested for more than 30 years in the tropical climate of Thailand and other Southeast Asian countries.



## Introducing the New Colourcon Blended Tile Range

### Technical Details

Average Lifespan	80 to 100 years
Coverage	88 Tiles Per 100 sq ft
Diamensions	16 1/2 inch X 13 1/2 inch
Weight	3.9 kg per sq ft
Minimum Slope	17 degrees

Maximum Slope	90 degrees
Reeper spacing	13 1/2 inch interval
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# BUDGET 2004

## OVERVIEW OF KEY PROPOSALS RELATING TO CONSTRUCTION

### DIRECT TAXES

- An Economic Service Charge (ESC) of 1% will be imposed on all entities carrying on any trade, business, profession or vocation with a turnover in excess of Rs. 20 million or total assets in excess of Rs. 10 million and which have been in commercial operation for more than 2 years.

-each entity will be permitted a one time choice of 1% ESC on either turnover or total assets.

-The ESC will be allowed to be set off against the income tax payable for the relevant year up to a maximum limit of full income tax payable. The excess ESC paid shall not be carried forward.

-The minimum ESC payable will be Rs. 100,000 while the maximum will be Rs. 20 million.

- Effective from 1<sup>st</sup> April 2004

- Partnerships will be taxed 10% upfront on the divisible profits and other income. This tax can be set off against the proportionate individual tax liability of each partner up to the maximum limit of the income tax payable, with no carry over provision.

Effective from 1<sup>st</sup> April 2004.

- The tax free allowance will be increased to Rs. 300,000.

Effective from 1<sup>st</sup> April 2004.

- The exemption limit of the terminal benefits will be increased to Rs. 3.5 million

Effective from 1<sup>st</sup> April 2004.

- The present exemption of Rs. 9,000 per month or Rs. 108,000 per year for withholding tax on interest income per deposit will apply to the total interest income from all deposits in any individual bank or financial institution were made by a person or corporate entity.

The threshold on withholding tax will be raised to Rs. 25,000 per month or Rs. 300,000 per year in aggregate from all deposits of individuals whose main source of income is interest.

Effective from 1<sup>st</sup> January 2004

- Withholding tax of 10% will be levied on any annuity or royalty paid by any person or partnership in excess of Rs. 50,000 in any month of Rs. 500,000 in any year.

Withholding tax of 5% will be levied on management fee or similar payment.

Effective from 1<sup>st</sup> April 2004.

### INDIRECT TAXES

- Value Added Tax will be charged at a single unified rate of 15%

Effective from 1<sup>st</sup> April 2004.

### TAXES, DUTIES AND OTHER LEVIES

- The surcharge on custom duty/excise duty will be reduced to 10% from 20%.

Effective from 1<sup>st</sup> January 2004.

### ELIMINATION OF TAX EXEMPTION

- Profit from the sale of shares will be liable to tax at 15%

Effective from 1<sup>st</sup> January 2004

### TAX EXEMPTIONS AND ALLOWANCES

Economic depreciation will be introduced at the following rates.

IT equipment and accessories, including software	-	25% per annum.
Vehicle and furniture	-	20% per annum.
Plant and machinery	-	12 1/2% per annum.
Intangible assets	-	10% per annum
Buildings	-	6 2/3 % per annum.

The current restriction on deduction in management fees will be removed.

10% PAYE Tax will be charged on remuneration, received by chairman, board of directors or non-executive directors, which is not included in the payroll for PAYE Tax purposes.

Valuation of benefits provided to employees will be amended as follows:-

Private use of motor car, jeep or van	-	Rs. 7,500 per annum.
Private use of motor cycles	-	Rs. 2,000 per annum.

The Inland Revenue Act will be amended to remove the use of the term of the "assessable income".

Effective from 1<sup>st</sup> April 2004.

### TAX ADMINISTRATION AND COMPLIANCE

- Tax administration and compliance. Penalty of non-payment of taxes to be charged at a maximum of 10%.

Interest on taxes in default will be levied as follows -

First 12 months 1% per month or part thereof and  
Thereafter at 2% per month or part thereof.

Effective from 1<sup>st</sup> April 2004.

### INCREASING THE SALARIES OF PUBLIC OFFICERS

- Increase in the salaries of public officers.

Government will grant every public officer a monthly increase of 10% of his present salary or Rs. 1,250 whichever is higher.

Effective from 1<sup>st</sup> January 2004.

### TAX SLABS

The tax slabs will also be revised as follows:

Taxable Income Rs.	% Rate	Cumulative Tax Rs.
First 300,000	NIL	NIL
Next 240,000	10	24,000
Next 240,000	20	72,000
Balance	30	

Effective from Year of Assessment 2004/2005

### TAXATION OF TERMINAL BENEFITS

The tax free threshold for taxation of terminal benefits from employment (provident fund contributions, retirement gratuity and compensation for loss of office) will be increased from Rs. 1 million to Rs. 3.5 million.

Effective from Year of Assessment 2004/2005

Proposed	Tax
On the first 3.5 million	0%
On the next Rs. 500,000	5%
On the next Rs. 500,000	10%
Balance	15%

The methodology of calculating 'Retirement Gratuity' for tax purposes is to be reviewed. Currently, retiring gratuity up to a ceiling of (i) Rs. 1.8 million or (ii) the product of average monthly salary for the last 3 years into the number of completed years of service, which ever is higher, qualifies for the lower rates of taxation. The amount in excess is liable to tax at the graduated personal tax rates.

### TAXATION OF REMUNERATION OF DIRECTORS

Chargeability to tax (to be withheld at source) at 10% will arise on;

- any remuneration paid to a Chairman or a Director of the Board of Directors of a Company, which is not included in the payroll for PAYE tax computation purposes.
- Any payment made to a non-executive of a company.

- The 10% tax charged could be set off against the ultimate tax liability of the recipient but it is not refundable.

Effective likely from 1<sup>st</sup> April 2004.

Currently, the definition of 'employee' for PAYE tax purposes in the Inland Revenue Act, includes any director of company and any remuneration received is subject to tax, calculated on the PAYE Tax Tables.

### VALUATION OF EMPLOYEE BENEFITS

Valuation of certain employee benefits have been amended as follows:

	Proposed
Private use of motor car, van, jeep	Rs. 7,500 per month
Private use of motor cycle	Rs. 2,000 per month
Residence to Directors as senior executives	Rs. 120,000 per month

Senior executive is identified as employee drawing a monthly base remuneration in excess of Rs. 50,000.

Effective likely year of assessment 2004/2005



## AMTRAD LIMITED

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855



# SRI LANKA ECONOMY AT A GLANCE FOR THE PAST TEN YEARS

	Note	2003 Provisional	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Budget deficit before grants without privatization (% of GDP)	1	(8.2)	(8.9)	(10.8)	(9.9)	(7.5)	(9.2)	(7.9)	(9.4)	(10.1)	(10.5)	(8.7)	(7.3)
Current account deficit (US \$ million)	2	(336)	(264)	(244)	(1066)	(563)	(226)	(393)	(667)	(788)	(860)	(496)	(306)
Balance of payments deficit/surplus (US \$ million)	3	(375)	(338)	(220)	(522)	(263)	(37)	(163)	(68)	(52)	(240)	(661)	(133)
External assets (US \$ million)	2	2776	2495	2238	2126	2582	2907	3132	2717	2902	2874	2124	1440
External assets (Month of import)	3	3.8	4.9	4.5	3.5	5.2	5.9	6.4	6.0	6.6	7.2	6.4	5.1
Unemployment %	2	8.7	9.1	7.9	7.6	8.9	9.2	10.5	11.3	12.3	12.1	13.8	13.3
GDP at market prices (Rs billion)	5	1742	1585	1407	1258	1106	1018	890	768	668	579	500	425
GDP at Market prices (Rs. \$ billion)	5	18.0	16.4	15.7	16.6	15.7	15.8	15.1	13.9	13.0	11.7	10.4	9.7
Population (million persons)	4	19.7	19.0	18.7	18.5	18.2	17.9	18.5	18.3	18.1	17.9	17.6	17.4
Per Capita GDP at market price (Rs)	5	89531	83382	75133	68102	60741	56760	50292	41940	36869	32414	28365	24435
Per Capita GDP at market price (US\$)	5	925	872	841	899	863	879	853	759	719	656	588	557
GDP growth rate	5	5.5	4.0	(1.5)	6.0	4.3	4.7	6.3	3.8	5.5	5.6	6.9	4.3
Percentage change in inflation (Colombo Consumer Price Index)	5	7.4	9.6	14.2	6.2	4.7	9.4	9.6	15.9	7.7	8.4	11.7	11.4
Interest rate													
- Comm. Bank weighted deposit average rate	2	5.7	7.5	10.8	9.9	9.1	9.2	10.0	12.3	12.4	12.6	13.6	13.8
- Comm. Bank weighted prime lending average rate		9.7	12.2	14.3	21.5	15.9	14.9	15.2	20.2	20.1	18.5	20.4	20.0
Exchange rate Rs/US\$ (Annual average)	5	96.76	96.72	89.36	75.78	70.39	64.59	58.9	55.27	51.25	49.42	48.25	43.83
Capital Market Index													
- All Share Price Index		1083	815	621	448	573	597	702	603	664	987	979	605
- Milanka Price Index/Sensitive Price Index	2	2094	1375	1031	699	938	923	1068	896	991	1439	1442	827

Note: n/a - Not Available

1. Year 2003 figures are based on data upto First Quarter '2003' and have been obtained from the Quarterly Economic Review of the Economic Intelligence Unit of the Ceylon Chamber of Commerce.
2. Year 2003 figures are based on data upto August 2003 and have been obtained from the Selected Economic indicators of the Central Bank of Sri Lanka - Internet Version.
3. Year 2003 figures were obtained from the Economic Research Department, International Finance Division of the Central Bank of Sri Lanka.
4. Year 2003 figures are based on data upto September 2003 and have been obtained from the CIA World Factbook, Global Insight, Economic Intelligence Unit - Internet Version.
5. Year 2003 figures are based on data upto April 2003 and have been obtained from the Selected Economic Indicators of the Central Bank of Sri Lanka.

Cont. from page 04

Management corporation" by empowering the said corporati with powers to administer and manage all common elements, common amenities of the condominium property and to deal with unauthorized constructions.

7) Provision for the supply of common amenities such as water and electricity to individual unit owners and occupiers through the management corporations properly observed by the respective stake holders, and the ancillary powers to administer such services, such as disconnection and recoveries.

to ensure that the above provisions in the apartment ownership (amendment) act are Common Amenities board act was also amended by act No 36 of 2003 by converting the Common Amenities Board as a Condominium Management Authority with powers to oversee the overall management of the condominium buildings in the country.

**Q. What are the important amendments effected to the Common Amenities Board law?**

**A.** Some of the important features to my recollection are;

1) Ensure that all common elements and common amenities of the condominium property or semi condominium property are properly maintained in good order and that periodic repairs are being carried out in order to maintain such property in good and serviceable order.

2) Remove all unauthorized constructions erected or carried out by the respective owners or occupiers of such condominium parcels or by any person, contrary to the registered

condominium plan of the condominium property or registered semi condominium plan of the semi condominium property.

3) Ensure that the management corporations of the condominium property or semi condominium property are properly functioning and to manage and administer the activities of such management corporations.

4) Monitor the progress of the construction of the registered provisional condominium property in order to ensure that the interests of the stake holders are protected, and to intervene where ever necessary to protect such interests. This include the acquisition of such land parcel shown in the registered provisional condominium plan for the purpose of settling the outstanding dues to the mortgagee and to prospective purchasers in the event of default of payment by the property developer to the mortgagee or to the prospective purchaser as per the agreement of sale.

4) Formulate and submit Condominium redevelopment programmes and to call upon property developers to undertake the implementation of such condominium re-development projects ;this will include the acquisition and removal of all condominium buildings which are more than 40 years old or causing nuisance to the neighbors or threat to the environment due to neglect of repairs or maintenance by the owners or management corporations or resolved by the owners to be destroyed or the building is damaged but not totally destroyed and the management corporation or owners have neglected or failed to restore the

damaged portion.

**Q. In addition to above what are the other reforms effected during the recent past to stimulate the growth of the sector?**

**A.** Changes effected to the Housing development finance Corporation act and National Housing Development Authority Act are significant. First is to make the organizations a licensed specialized Bank for Housing. with these changes introduced through the Act No 15 of 2003 HDFC (Bank) will in future engage in banking operation for housing under the direction s of the monetary Board of the Central Bank. So this will enable it to grant more housing loans and other forms of financial assistance for housing purposes more efficiently and effectively. The other change effected was the introduction of amendment to National Housing Development Authority Act. Prior to this amendment all property sold by the NHDA was subjected to the restrictions. No purchasers were allowed to sell those property purchased by them from the NHDA to Third party without the permission of the NHDA until 10 years. Therefore due to this restrictions those property were not considered as marketable property for the Lending intuitions to provide financial assistance to purchasers. This restriction was removed recently by an amendment brought forward to the parliament.

**Q. What are the other changes in the pipe line to be introduced in future?**

**A.** A Bill to amend the Sri Lanka Land Reclamation and Development Corporation Act ,

A Bil to amend the National Water Supply and Drainage Board Act and the Bill to introduce Water Services reforms are the Bills in the pipe line to be introduced immediately. The Sri Lanka Land Reclamation and Development corporation act will be amended to confer enforcement powers on the corporation to prevent or control indiscriminate filling and development that could lead to harmful consequences including pollution and adverse effect on drainage functions such as floods within the areas declared as "low-lying, marshy, waste or swampy areas". Also provisions will be made available to keep the canal reservations free of buildings and physical structures. National Water Supply and Drainage Board act is being amended to remove existing legal impediments which prevent local Authorities, Community Based organizations and private sector being involved in the provisions of water supply and sanitation services.

Water Services Reform Bill for the purpose of bringing the water supply services industry including providing of sanitation services under the regulation of an independent regulator with the objective of protecting and enforcing the rights and interests of consumers and service providers, establishing and carrying out dispute resolution among consumers, service providers, monitoring and enforcing service quality, service level service standards and performance indicators. This will ensure the economic efficiency in tariff settings and bring the consumer needs and concerns to the heart of the decision making process.

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As such ICT proudly takes its part in an international network of excellence, "a world class local business".

Their clients are an image of the dynamic diversity of the Construction Industry islandwide: masons, civil engineers, concrete block makers, domestic contractors, public works managers, international projects managers, high rise builders, infrastructure job handlers and eventually all Sri Lankans.

They employ 120 people and together strive under SLS guidelines to provide both our bags and bulk customers with the highest level of service: "Quality is our strength" under the two registered brand names "Singha" and "Italcementi", Ordinary Portland Cement 42.5 as per SLS 107 (similar to BS 12, JIS 520, ASTM C150 and European Standard 197-1).

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# HOLCIM'S BINDING COMMITMENT TO SRI LANKA

## Vision

Their vision is to provide a foundation for the future of the society they are engaged in.

## Mission

Their mission is to be the world's most respected and attractive company in the industry - creating value for all their stakeholders.

## Leadership built on trust

They are relatively new and yet, well established. They are arguably the most localized cement company in the country, with strength and

reach that is global. Their products have been traditional market-leaders for decades, offering time-tested stability, but that does not impair their ability to be the leader in innovation and flexibility. They are building upon a distinguished past to create exciting possibilities for the future. There are many things that bind all Sri Lankans and one of them is a universally shared preference for the cement that comes from Holcim.

## A firm foundation

For over three decades, they have provided a reliable, uninterrupted supply of cement to the local construction industry - an unmatched record. Their premium brand, Sanstha Cement continues to be the most respected and preferred by consumers. And despite competition created by a wide range of alternatives Holcim Lanka remains the market leader.

## Concrete Assurances

Holcim is the only cement company in the country with a fully integrated and operating manufacturing facility capable of producing cement from local lime stone (the primary source of cement).

Their plants in Puttalam & Galle conform to the highest international standards including the ISO 9002 & SLS 107.

High product standards are guaranteed by a team dedicated to quality assurance - Holcim has the country's most sophisticated systems for the continuous monitoring and measurement of product quality indicators throughout the manufacturing process.

## Their products

Sanstha is the oldest brand of cement in the country, retaining the confidence and trust of consumers

and the construction industry by consistently delivering the highest quality standards.

**Sanstha OPC** (Ordinary Portland Cement) - premium all-purpose cement. Manufactured locally, offers superior product quality and therefore represents excellent value.

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## For Industrial Users

Specially formulated cements for specific construction projects can be supplied on request. Such products include:

Sulphate Resistant Cement  
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## A world of resources

Holcim is a leading global company of the construction industry with a strong market presence in over 70 countries in all continents. The Holcim Group has a combined work force of over 50,000 and supplies more than 100 million tonnes of cement to the world every year.

## Their commitment

At Holcim Lanka they are committed to offer personalized service to all our valued customers. Their service goes beyond a mere supply of a product - advice on tailor made solutions, sharing of international expertise and working as partners with their customers is their philosophy.

## CURTIN UNIVERSITY OF TECHNOLOGY OFFERS

### 'MASTER OF SCIENCE' IN PROJECT MANAGEMENT

M.Sc. Project Management offered at The International College of Business & Technology (ICBT Campus) is a distinct professional discipline, having its own specialized knowledge, Skills, tools and techniques. It involves managing a project from inception to completion and the successful attainment of the project objectives. The Graduate Certificate, Graduate Diploma and Master of Project Management programs afford students the opportunity to gain the understanding, knowledge and skills necessary for the role of Project Manager.

Since Sri Lanka is fast gearing for accelerated expansion & development programs, this qualification will be applicable (Locally & Internationally) to any related project such as Construction, Engineering, Education, Health, Commerce, Agriculture, Information Technology and Research & Development.

Curtin University, a World Leading institution has achieved an international reputation in just three decades for its excellent teaching programs, innovative research and applied professional courses across a multitude of disciplines. Curtin's multi-disciplinary teaching and research programs are developed with a focus on industry needs, to ensure that the graduates' skills meet the needs of prospective employers. As a leading university of technology in Australia, Curtin produces highly sought-after graduates whose employment rates exceed the national average.

With more than 26,000 students studying on campuses world wide, Curtin is the largest and one of the most comprehensive universities in Australia. The School's Architecture, Construction and Planning courses are widely regarded as having one of the region's finest and most comprehensive of educational programs. Over the past decade of changing social

and environmental trends, the School has proven its ability to meet industry's demands with emphasis on cross-cultural outlook, and environmental responsibility.

By providing access to the most technologically advanced courses and internationalized curriculum, the School is able to offer the advantage of a global education and research information system to the local community.

The university has developed an intensive focus within the disciplines of architecture, construction management economics, interior décor and urban and regional planning. The issues of international and contemporary relevance are addressed as necessary irrespective of whether at undergraduate, postgraduate or PhD level.

Curtin University of technology has appointed The International College of Business & Technology Campus (ICBT Campus) as their "Partner Institute" to deliver their prestigious M.Sc. (Project Management) in Sri Lanka.

ICBT Campus situated at Mount Lavinia, is a fully owned subsidiary of Ceylinco Consolidated and is a BOI approved project. The Campus features state-of-the-art lecture rooms with latest teaching aids, computer labs, Internet reference facilities and an extensive up-to-date library on par with the best in the world. The program is of two years part time duration and delivered in its entirety at ICBT Campus Mount Lavinia.

Other Courses introduced by ICBT include, the MBA programs and Sikkim Manipal University' Degree/ Diploma courses in Information Technology, Management and Commerce in Sri Lanka; Bachelor of Science in Information Technology (BSc.IT), Bachelor of Computer Applications (BCA), Bachelor of Commerce in Information Systems (Bcom IS) and Bachelor of Business Administration (BBA).

## Colour Tiles the new trend in roofing

The first concrete roof tiles were produced in Germany in 1844 as a single colour tile. Since then, technology has advanced considerably. Concrete roof tiles have become one of the most used roofing materials in many parts of the world. The tiles are stylish, strong, exact in size, extremely long lasting with high quality colour coatings. In Sri Lanka, Colourcon was the first to manufacture colour roof tiles in a state of the art modern plant with Australian Technology.

Colourcon tiles are made to last and they display strength and beauty. The tiles are virtually maintenance free and avoid repairs for years. Though they appear expensive, they are cost effective when you consider all the aspects of the roofing exercise. Made to withstand extreme weather, once correctly installed Colourcon tiles are impervious to the worst of elements, from the howling wind

to fierce heat and salt spray. The other advantages being, economically priced, low weight, less heat radiation, longevity and damage free delivery.

They offer considerable sound proofing qualities with the choice of colours and textures and manufacture durable form of roofing suitable for the Sri Lankan environment. Colourcon, also manufactures a full range of accessories such as ridge capping, barge, 3 way or 4 way apex, round ridge, hip end and ridge starter.

When compared with alternative materials which are being commonly used and recommended in Sri Lanka like Clay Tiles on Asbestos, Coloured zinc roof sheets, coloured asbestos or imported profile tiles, Colourcon ranks as No 1, being the most economically priced product.

Colourcon conform to Australian standards AS2049-1992. All tiles are meticulously tested for weight, dimension, stability, water absorption and transverse strength. At Colourcon, they provide excellent service and door to door delivery to their customers, so that their customers can enjoy building a perfect roof.

However, the crowning success of their product was their achievement in winning the Sri Lanka Institute of Architect's Prestigious Product Excellence Award in the year 2000 and subsequently, Merit Awards in the year 2002 and 2003.

Colourcon have now established their regional outlets in Kandy, Galle, Kurunegala in addition to their main show room at No. 1, Nawala Road, Nugegoda.

## CCI NEWS

### That aborted Meeting of Members on the 7<sup>th</sup> Nov.2003

In keeping with the tradition of having a meeting of the members in Nov./Dec. every year, the Chamber decided to have a members meeting on the 7th November 2003. The Chamber of Construction Industry was initially formed as an association in Nov. 2001 and the first Annual General Meeting of this association was also held on the 13th December 2002. In keeping with this tradition and also to review the progress of the Chambers last year performance the Council decided to organize a meeting of the members followed by the annual fellowship in November 2003. However since the Chamber was registered as an organization under the Companies Act in March 2003 there was no possibility of calling such a meeting an Annual General Meeting and hence a Meeting of the Members was organized to be held on the 7th November 2003. All arrangements, including the collection of membership contributions, were made by the CCI to hold this meeting at the Colombo Plaza with the Hon. Karu Jayasuriya as the Chief Guest.

The turn of events however proved to be against the Chambers providence as the Parliament was prorogued on the 4th November 2003 and there were certain rumors in circulation with the Prime Ministers arrival due from abroad on the 7th November 2003. Amidst this political uncertainty the Chief Guest to the event was compelled to cancel the confirmation and some of the key members also felt that the political climate on the 7th November was not conducive for the proposed meeting of the members. The Chamber therefore was compelled to postpone the meeting of the members scheduled for the 7th November 2003.

Since this postponement, the Chamber had been obliged to announce an alternative date for this meeting. This issue was brought up at the Council of the Chamber at its last meeting and after careful consideration of matters relating to the members meeting the Council arrived at the following decision.

'Since the Chamber is required under the provisions of the Companies Act, to hold a properly constituted Annual General Meeting within 18 months of the date of incorporation i.e. between March and September 2004 with audited accounts, the Council feels that the idea of having another meeting in December 2003 or January 2004 may appear superfluous. The Council therefore decided to cancel the proposed members meeting and to credit the attendance fees paid by the members to the Annual General Meeting to be held in June 2004 or thereabouts'.

### CCI Insurance scheme for management cadres

In response to numerous requests made by the Council and Corporate members and also encouraged by the success of the workmen's insurance cover introduced by the CCI in August 2003, the Chamber is now formulating the introduction of an insurance scheme for Management cadres in the Construction Industry. At the moment the CCI has drawn up an insurance scheme suitable for management cadres and have invited leading insurance companies to forward competitive bids on the lines of what has been drawn up. No sooner the offers are finalized the Chamber will announce the details of this scheme through this news bulletin with the view of offering suitable protection to the those who are engaged in the management activities of the Construction Industry.



# Projects handled by the Bureau of Infrastructure Investment

## POWER

### Project Name: 300 MW Kerawalapitiya Power Plant

**Profile :** Combined Cycle Power Plant(s) with a total capacity of MW plant is expected to be developed on a BOOT basis. The prospective bidders are given the opportunity to develop one or two 150 MW plants or one 300 MW plant. The fuel option is kept open at the discretion of the bidder. The plant will be located adjacent to the Tank farm presently being constructed by the Ceylon Petroleum Corporation.

A Power Purchase Agreement(s) will be signed with the Ceylon Electricity Board to purchase electricity over a period of 20 yrs where a US\$ denominated "take or pay" tariff is assured. A Fuel Supply Agreement(s) will be available with the Ceylon Petroleum Corporation and an Implementation Agreement(s) will be signed with the Government of Sri Lanka, which will guarantee the undisputed payment obligations of the Ceylon Electricity Board.

The open cycle is expected to be commissioned by May 2006 and the combined cycle by April 2007.

**Current Status:** Six parties have been pre-qualified. RFP has been issued on 22/03/2003. Closing date for submission of Proposals has been extended until 30 January 2004.

**Investment Size:** Approx. US\$200 - 250 mn.

### Project Name: Wind Power Plants

**Profile:** One plant not exceeding a capacity of 30 MW to be developed on a BOO basis either at Hambantota or Puttalam in terms of Generation Expansion Plan of the Ceylon Electricity Board (CEB).

The Power Purchase Agreement and an Implementation Agreement will be made available for a period of 20 yrs. The bidders are expected to secure the necessary extent of land. The plants would be connected to the Hambantota and Puttalam grid substations depending on the location.

**Current Status:** One bid received. Ministry of Power & Energy is seeking to draft a new policy on wind power projects.

**Investment Size:** Approx. US\$30mn.

## WATER

### Project Name: 40 MGD capacity Water Treatment Plant at Kelani Right Bank

**Profile:** Project Proponents who have experience in Investments, Design, Construction, Operation and Maintenance of Water Supply Projects to Invest, Design, Construct and Operate (long term) the proposed 40 MGD (million gallons per day) Water Treatment Plant on the right bank of the Kelani River at Ambatale in the Western Province of Sri Lanka.

**Current Status:** RFP has been issued. Proposals are being evaluated.

**Investment Size:** US\$25 mn.

### Project Name: Mini Hydros

**Profile:** Total of 43 sites on Mahaweli regulated waterways and areas under the control of the Irrigation Department which is expected to generate approx. 50 MW. This would be offered to developers at a Power Purchase Agreement of 10 years and a tariff of Rs.4 per kWh.

**Current Status:** Cabinet approval has been sought to issue the LOI to selected parties. 3 parties have been selected for 4 sites, which would add approx. 19 MW to the grid.

**Investment Size:** Approx. US\$50 mn.

### Project Name: Coal Power

**Profile:** Initial development of a 300 MW Coal Power Plant and associated infrastructure including a coal handling facility, at a site capable of accommodating 900 MW. Technical assistance is being provided by USTDA for the identification of a site and for the preparation of Request for Proposal documents.

**Current Status:** Terms of Reference for the Consultants to undertake this study with the assistance of USTDA has been finalized. Pre-qualification document has been released from the 3rd week of August 2003. The closing date for submission of Pre-qualification documents is 31 December 2003.

**Investment Size:** \$400 - 600 mn.

### Project Name : Medium Scale Hydro Power

**Profile :** Based on the advertisement issued by the ESC to develop hydro's upto 50 MW, EOIs have been received. The PC has been requested to prepare the RFP with the assistance of Consultants.

**Current Status:** Pre-qualification document has been released to parties who responded to the EOI. RFP is being prepared for release to pre-qualified parties.

**Investment Size:** US\$ 100 mn.

## ENVIRONMENT

### Project Name : Establishment of Vehicle Emission Testing Centres

**Profile :** The accreditation of Vehicle Testing Centres for issue of Vehicle Emission Standards has come into effect from 1 June 2003. Accordingly, all classes of vehicles should obtain a Vehicle Emission Certificate from an Accredited Emission Testing Centre prior to the renewal of the Annual Revenue License from 1 January 2004.

**Current Status:** Proposals were called for by the Ministry of Transport, Highways and Civil Aviation in September 2003 through an issue of an RFP. Proposals were received up to 14th November 2003 and are being evaluated by the Project Committee.

**Investment Size:** Minimum of Rs 50 mn

## WASTE MANAGEMENT

### Project Name : Solid Waste Management in the Western Province

**Profile:** As a result of the immense environmental degradation caused by unattended solid waste, the Western Provincial Council has decided to construct a 750tp/d solid waste disposal facility in the Western Province (excluding CMC limits). The solid waste facility will be designed, constructed and operated on a long-term basis (25yrs). It is envisaged that investors will be invited to identify suitable sites, propose the most appropriate technology with due consideration for the environment.

**Current Status:** Expressions of Interest's have been evaluated and 7 parties short listed. The RFP is currently being prepared. The project committee has had discussions with the Local Authorities and the short listed companies to identify their concerns which will be addressed in the RFP

**Investment Size:** Approx. US\$ 25 mn.

### Project Name: Hazardous Waste Integrated Project

**Profile:** Hazardous wastes from various commercial, industrial and institutional sources are having an immense environmental problem in Sri Lankan cities and towns resulting in deteriorating health conditions and quality of life of the residents. It has been projected that by 2005 (at a growth rate of 15%) the amount of hazardous waste is almost 60,000 tons per annum, which is not properly attended to in Sri Lanka.

It is expected that the prospective investor will finance the construction of this plant (using appropriate technology) and takeover the operation of the plant for a period of 20yrs. This will be the first of its kind in Sri Lanka. Thereafter, the facility is expected to be transferred to the Government of Sri Lanka (GOSL).

**Current Status:** The Government initiated negotiations for the proposed Scheduled Waste Treatment System. However, given the lack of up to date information on hazardous waste, negotiations were stalled. The BOI together with the assistance of the CEA called for proposals for a complete study on hazardous waste in Sri Lanka. The selected firm has completed the study and submitted the final report in mid November 2003. Further discussion to be held based on the information provided in this report

**Investment Size:** US\$33.5 mn.

## LAND TRANSPORT

### Project Name: Colombo-Katunayake Expressway

**Profile :** The construction of an expressway from Katunayake to Colombo is a long felt need to provide easy transport between the international airport and the capital city. The expressway with a length of 25km has four lanes and the facility is designed to cater for speeds of up to 110 km/hr. There are five interchanges at New Kelaniya Bridge, Peliyagoda, OCH interconnection, Ja-Ela and Katunayake. Soft ground treatment has been partly completed.

**Current Status:** The BOI and the RDA have engaged PricewaterhouseCoopers (PWC) and Snowy Mountain Engineering Corporation (SMEC) as financial and Technical consultants respectively, to structure the project for private sector investment. They have completed an option study of the project and have finalized pre qualification documents. These will be offered to prospective investors. A Former member of the National Highways Authority of India is assisting the project committee and the BII as a Staff Consultant from the ADB.

**Investment Size:** US\$ 145 mn.

### Project Name: Sri Lanka-India Land Bridge

**Profile:** This project proposes a land-bridge linking the Sri Lankan and Indian cities of Talaimannar and Dhanushkodi respectively. This permanent link will facilitate the effective and efficient movement of both passengers and cargo, resulting in increased economic opportunities for both countries.

A concept report was drafted by the BOI taking in to account the Asian Highway network concept study funded by the Government of Japan, which was executed by Economic and Social Commission for the Asia and the Pacific (ESCAP) in 1992/3. The study proposed to connect major capital cities, important economic and industrial centers and International Container Terminals with a roadway passing through India. The proposed bridge shall connect Talaimannar in Sri Lanka with Ramanathapuram in India opening mutual business and economic development in both India and Sri Lanka.

**Current Status:** Concept report is completed.

During the Hon. Prime Minister's visit to India, it had been mutually agreed with the Central Government of India to do the feasibility studies regarding this project but a lot of resistance has been encountered from the Provincial Government. Until this issue is sorted and a feasibility study has been done this project cannot proceed further even though some large scale developers from China and Hungary having strong connections and backing from the respective Governments

have shown a keen interest regarding this project. We need a very high level of policy commitment regarding this project. Pre-qualification will be called for after receipt of Sri Lankan & Indian Government Policy Clearance and completion of viability studies.

**Investment Size:** To be estimated after viability.

### Project Name: Colombo-Kandy Expressway

**Profile:** The need for expanding the existing transport network in the Colombo - Kandy corridor has become imperative, given the industrial development, which is now taking place in the country and particularly in this corridor. Current conditions along road A1 are far from satisfactory. Travel speeds during daytime and evenings are low. Three hours are normally required to travel 115 km from Colombo to Kandy.

The starting point of the expressway will be the Kadawatha Interchange of the Colombo Outer Circular Highway and the end point will be at Katugastota. Design speeds of the expressway would be over 80 km/h. The road from Kadawatha to Ambepussa will have 4 lanes narrowing to 2 lanes from Ambepussa to Katugastota. The number of proposed interchanges are 13.

**Current Status:** A proposal has been received from the Government of Malaysia carry out the project on a government-to-government basis which the The GoSL has accepted and an MOU has been signed to this effect.

**Investment Size:** US\$ 300 mn.

### Project Name: MRT in the Western Region

**Profile :** The Expressions of Interest (EOI) for a MRT/light rail project for the Western Province were called on 31st March 2003 from prospective developers where the closing date was on 30.06.2003. The proposals were evaluated by the Project Committee (PC) and recommendations are to be forwarded to the Cabinet Appointed Negotiating Committee (CANC) for directions to proceed.

**Current Status:** Evaluation of EOIs in progress. RFP to be drafted

Twelve (12) parties submitted proposals for the development of the MRT / Light Rail system to cover the Western Province. Presently the evaluation of proposals have been completed. Consultants / Consultancy Firms will be called to assist the Project Committee in drafting the Request for Proposal (RFP) documentation for the selection of a developer from the short listed parties.

**Investment Size:** To be estimated after viability.

Cont. page 18



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Contd. from page 17

## SEA TRANSPORT

**Project Name : Development of the New South Port of Colombo**

**Profile:** The development of the New South Port of Colombo is expected to be a phased development, where up to 12 berths would be offered to the private sector on a BOT basis. These berths would be offered for development at blocks of 2 berths. The complete development would add a capacity of 4.8 million TEU's. It would be situated adjacent to the Queen Elizabeth Quay and necessitate a construction of a new breakwater. It is expected to be dredged to a depth of 17-23 m.

The Government has taken a policy decision to expand the Colombo Port Southwards with additional 14 berths having lengths of 400 m with a draft of 17 metres as the existing Port facilities will be saturated in capacity by year 2008/9. Presently a study is being done by M/s. Scott Wilson regarding the Colombo South Port Development. The study includes required Port Legislation, Improving Port Efficiencies, Implementing of ISO 9002, Business Plan, provision of detailed engineering plans, Concession Contract, Environmental Impact Assessment (EIA) Social Analysis etc. Once the study is completed Expressions of Interest will be called to select the Developer /s.

Pre-qualification will be called within 4 months after receipt of the viability study report with Government Policy Clearance.

**Current Status:** Scott Wilson of the UK has been appointed for the design and preparation of the contract documentation. This consultancy is expected to be funded by the Asian Development Bank.

**Investment Value:**

To be estimated after viability.

**Project Name: Hambantota Deep Sea Port**

**Profile:** The Government needs to take a policy decision to develop the second deep Seaport at Hambantota to handle liquid and bulk cargo where Malacca max / super

liners that are unable to touch-down at Colombo Port due to low draft restrictions could be accommodated at Hambantota. A Cabinet Memo had been submitted by the Ministry of Southern Development, for M/s SNC Lavalin to do the feasibility studies with the assistance and funds from the Canadian Government.

**Current Status:** Awaiting instructions from the Government.

The feasibility study was presented to the Ministry of Southern Region Development and the Expression of Interest (EOI) guidelines and the Request for Proposal (RFP) needs to be drafted by Consultants after the appointment of a Project Committee (PC) and a Cabinet Appointed Negotiating Committee (CANC). According to the feasibility report, the first option is to develop the port as an inland port by dredging the Karagamlevaya and opening the sand bank where the draft will be only 12 ft this option will have adverse environmental problems. The second and the third option are to construct a breakwater and have a deep-sea port with a draft of 21 to 26 meters.

Pre-qualification will be called within four months after receipt of Government Policy Clearance and completion of viability studies.

**Investment Size:**

To be estimated after viability.



## AIR TRANSPORT

**Project Name : Proposed Hambantota Airport**

**Profile:** The capacity of the Katunayake International Airport (KIA) will reach its limits by the year 2007 and the time is opportune to initiate the development of a new airport in Sri Lanka. The new airport should be designed and developed to accommodate / cater to the landing facilities of high passenger / cargo volume aircrafts (747-400 type, MD11-30 type, 767-300 type) where KIA is not suitable with the existing facilities, i.e. non availability of a second runway in case of emergencies, the runway length and the aircraft bearing capacity limitations, non availability of advanced ancillary facilities which are needed for the future / latest generation aircrafts.

It has been estimated that the present passenger movements / handling of 3.0 mn. would be more than doubled by the year 2010 and with the existing / available facilities and the condition of the existing runway at KIA cannot accommodate and will not be safe for the landing of future aircrafts. At present 6000 acres has been identified at Hambantota for an International Airport. The development of the site will be phased in two phases and the initial phase is estimated to cost approximately US\$ 250.0 Mn, which will include one modern runway with all latest facilities to accommodate the latest aircrafts, a township with five star hotel accommodation etc.

**Current Status:** Awaiting a policy clearance for the project by GOSL to initiate

the drafting of the Expression of Interest (EOI) guidelines and Request for Proposal (RFP) documentation, appointment of a Project Committee (PC) and a Cabinet Appointed Negotiating Committee (CANC) for private sector development under BOO / BOT basis. Pre-qualification will be called within 4 months after receipt of GOSL Policy Clearance.

**Investment Size:**

To be estimated after viability.

**Project Name : Development of the Bandaranaike International Airport (BIA)**

**Profile:** A Memorandum of Understanding was signed between Canadian Airports Group (consisting of Acres International, Arcon Group Inc. and Airport Advisors International Limited) to carry out a feasibility study to identify a suitable

Public Private Partnership model as well as to identify Capital Investment Plan, Financing Plan, etc.

**Current Status:** The Government has now taken a policy decision to attract international developers / investors for the Development of BIA on a transparent competitive bidding process under a Public Private Partnership to find a suitable investor / developer who would have the capability for the development, management and investment on future expansions & technological up-grading of the BIA. Pre-qualification will be called within 4 months after receipt of Government Policy Clearance and completion of relevant viability studies.

**Investment Size:** Not yet known

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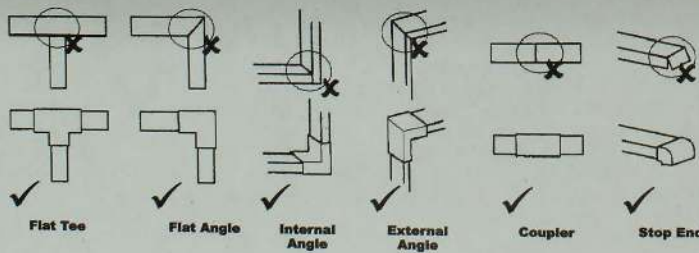
In Sri Lanka Grohe is represented by Charter House International Pvt Ltd, a company committed to provide service excellence with internationally reputed high quality products to the builder hardware industry. Grohe sanitary fittings adorn homes of many leading personalities in Sri Lanka and also a wide spectrum of Hotels, Apartments, clubs and other industries. The major Hotel chain groups which use Grohe fittings in Sri Lanka are, John Keells, Aitken Spence, Conflif, Jetwing, Serendib as well as a host of other established Hotels in Sri Lanka, where the product has proven well over the years. Grohe has also been supplied to several leading hotels in the Maldives.

Thousands of satisfied users of Grohe fittings all over Sri Lanka for the past 27 years are an ample testimony to the quality of Grohe products, its leadership and its acceptance as the market leader. This leading position has lead many other brands to ride on the Grohe name and Image. Products have surfaced with similar sounding names and designs, trying to claim identity to Grohe and thus attempting to confuse the market. This however has not posed a threat to Grohe due to its established market leadership position.

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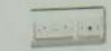


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