

Private Sector Investment in the Construction Industry

Contribution of the BOI towards Infrastructure Development

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The Board of Investment of Sri Lanka (BOI), the principal foreign investment approving agency has made a substantial contribution towards Sri Lanka's economic and social development. Since its establishment in 1978, the BOI has played a key role in attracting both Foreign Direct Investment (FDI) and Private domestic investment. This in turn has promoted growth in industrial exports, generated new employment opportunities and facilitated infrastructure development - thereby adding a new dimension to economic growth in the country.

This paper highlights the progress of the infrastructure projects implemented by the private sector under the BOI during the 4½ -year period from January 1996 to April 2000 with reference to the following sub-sectors in particular:-

- | | |
|---------------------------------------|----------------------|
| (a) Housing | (b) Office complexes |
| (c) Hotels & Recreation Centres | (d) Hospitals and |
| (e) Warehousing and Storage Complexes | |

Infrastructure Development & Construction Industry

The development of infrastructure facilities is considered to be an essential pre-requisite to accelerate economic growth in all sectors of the economy such as agriculture, industry, trade and services. The term "Infrastructure" can be sub-divided into two broad categories, based on its contribution towards the economy i.e.

(1) economic infrastructure and (2) social infrastructure.

The two broad categories of infrastructure can be further classified into sub-sectors as illustrated in Figure 1.

The "Construction" process is regarded as a key economic activity in the implementation of any infrastructure development project. The construction industry is therefore an integral sector of

the national economy and accounts for a significant component of a nation's Gross Domestic Product (GDP) and Domestic Capital Formation. Furthermore, the construction industry is an important generator of employment opportunities in both the organized and informal sectors of the economy. In 1999, the construction industry accounted for 7.6% of Sri Lanka's GDP (Figure 2), 42.3% of Gross Domestic Capital Formation and 5.3% of the total labour force. The linkages of the construction industry with the rest of the economy arises mainly from its dependence on inputs from the engineering industries and building materials sector, as well as its interdependence on transport and distribution and the financial services sector. This phenomenon underlines the vital role played by the construction industry in economic development.

Public Expenditure on Infrastructure Development

The Government of Sri Lanka has accorded high priority to the development of economic & social infrastructure facilities in the urban & rural sectors. The sustained activity in the construction industry resulting in an annual growth rate of 5.1% during the period 1995 to 1999 (Figure 3) is the combined outcome of higher levels of public investment on physical infrastructure development and increased levels of private sector participation in industrial and commercial property development.

An ambitious infrastructure development programme covering electricity, ports, telecommunications, roads, water supply & sanitation schemes

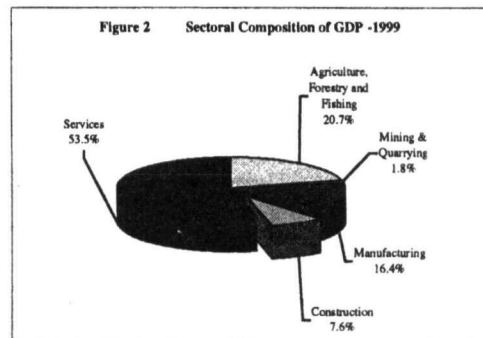
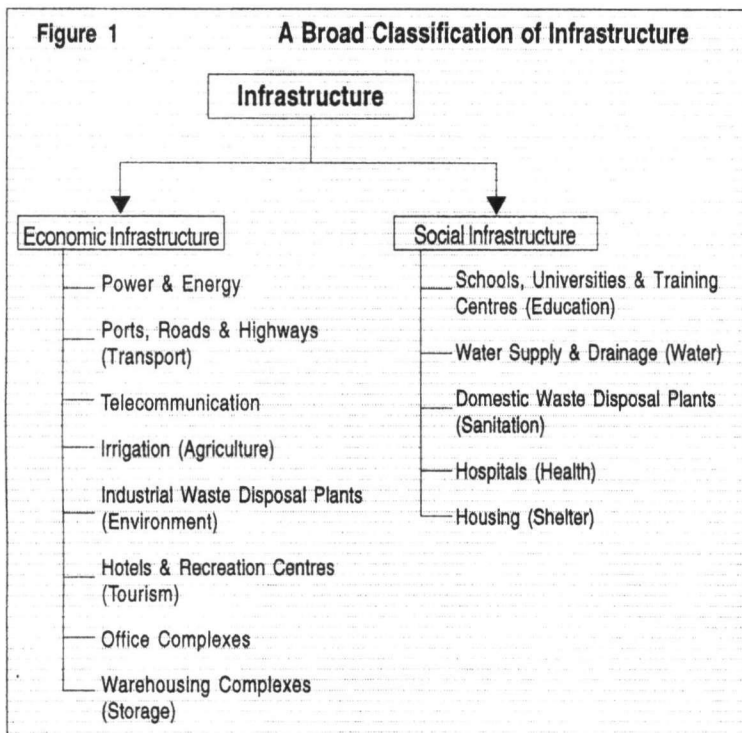


Table 1 Minimum Investment to Qualify for BOI Incentives by Type of Construction Category

Construction Category	Minimum Investment (Rs. Mn.)
Housing	50
Shops & Office Complexes	125
Hotels & Recreation Centres	10
Hospitals	75
Warehousing Complexes	125
Power Generation	50
Other Infrastructure Projects	125

Source: Board of Investment of Sri Lanka

and urban development has been formulated by the government to accelerate the process of economic development on a sustainable basis. A summary of the major infrastructure projects included in the programme is given in Annex 1. These projects will be financed through public expenditure. The projects listed in Annex 1 include; 2- power projects, 3- port development projects, 3-telecommunication projects, 3- water supply projects, 3-Housing projects, 3-Education projects, 3-Health projects and 4- major Highways. The construction industry is estimated to grow at a rate of 8% (annually) during the years 2000 and 2001 according to the Public Investment Programme (1999-2001) published by the Ministry of Finance & Planning.

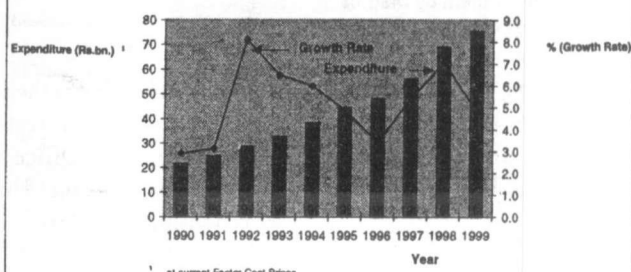
Infrastructure Projects Implemented under the BOI Law

In recognition of the urgent need for large-scale capital investment in the construction industry and in keeping with the government's infrastructure development programme, the BOI has placed a major emphasis to promote infrastructure development projects by attracting FDI and Private Domestic Investment.

In 1995, in a concentrated effort to further stimulate investments into specific targeted sectors, a series of new and attractive incentive regimes were introduced by the BOI. The main focus of the three-pronged investment strategy can be summarized as follows:-

- establishment of industrial townships/parks encompassing an integrated network
- promotional thrust for targeting specific sectors in which Sri Lanka

enjoys a distinct comparative advantage and attracting large-scale investments into the infrastructure sector.

Figure 3 Contribution of Construction Industry to GNP & Growth rate of Construction Industry (1990-1999)**Table 2 Selected Large-Scale Infrastructure Projects - Implemented under the BOI Law (January 1996 to April 2000)**

Project	Activity	Country of Investment	Total Anticipated Investment (Rs. mn.)
Port			
South Asia Gateway Terminals (SAGT)	Expansion and modernization of Queen Elizabeth Quay	Australia/UK/Sri Lanka	15,360
Power			
Colombo Power	Barge Mounted Power Plant	Japan	4,860
Asia Power	51 MW Diesel Power Generation Plant	Germany	3,286
Lakdhanavi	Diesel Power Generation Plant	Norway/Sri Lanka	600
Telecommunications			
Lanka Bell	Wireless Local Loop Telecom Network	Singapore/UK/Sri Lanka	6,750
Sunel	Wireless Local Loop Telecom Network	Sweden/Sri Lanka	5,170
MTN Networks	Cellular Mobile Telephone Network	Malaysia	4,200
Lanka Cellular Services	Cellular Mobile Telephone Network	Hong Kong	2,520
Housing & Office Complexes			
Sihma Development	Modern Office Complex	Sri Lanka	3,950
Ceylenco Developers	Housing Complex	Sri Lanka	1,600
Housing & Construction Lanka	Housing Complex	India	1,530
Ceylenco Homes International	Residential Apartments	Sri Lanka	1,100
Lincoln Property Holdings	100- Luxury Apartments	UK	605
Premier Pacific International	Mixed Development Complex	UK, Sri Lanka	580
2000 Plaza	Condominium Complex	USA, Sri Lanka	515
Hotels & Entertainment Complexes			
Millennium Development	Recreational Park	Australia, Sri Lanka	1,600
Spa City Ltd.	Recreational Centre	Sri Lanka	780
Union Resorts	100-Roomed Tourist Hotel	Sri Lanka	515
Hospitals			
Lanka Hospital Corp. (Apollo)	Multi - Speciality Hospital	India, Sri Lanka	2,410
Oasis Hospital	Teaching Hospital	Sri Lanka	560
Warehousing / Storage Complexes			
Shell Terminal Lanka	L.P Gas Storage Complex	Netherlands	3,300
Asian container Terminals	Warehousing Complex	Sri Lanka	570

Source : Board of Investment of Sri Lanka

Table 3

Housing Projects: No. of Projects & Investment by District
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	No. of Projects	Investment (Rs.Mn.)
Colombo	17	10,004
Gampaha	3	1,768
Kalutara	2	1,711
Nuwara Eliya	1	230
Total	23	13,663

Source: Board of Investment of Sri Lanka

Accordingly, the BOI extended its incentive package (Annex 2) to facilitate private investment, both local and foreign, into infrastructure development projects covering housing, office complexes, tourism (hotels, recreation centres), hospitals, warehousing complexes, power, telecom and other small & large-scale infrastructure development projects.

The incentives granted for infrastructure projects under the BOI Law include full tax holidays, concessionary tax benefits and duty free import of capital goods. The magnitude of the incentive package offered to infrastructure projects depends on the minimum investment and the construction category (Table 1).

The total estimated investment of the infrastructure projects, implemented by the BOI since 1996 is around Rs.100bn. It is significant to note that, around 40% of the total FDI inflows into Sri Lanka since 1996 have been channeled into infrastructure development projects.

Large-scale Infrastructure Projects

Large-scale infrastructure projects are generally encouraged in sectors such as telecommunications, power generation, ports, highways, and housing.

A list of some selected large-scale infrastructure projects (investment of over Rs. 500 mn.) implemented under the BOI during the period January 1996 to April 2000 is given in Table 2. These projects include; 1-Port development project, 3-Power projects, 4-Telecom projects, 7-Housing

schemes & office complexes, 3-Hotels & recreation centres and 2-Warehousing and storage complexes.

Construction Projects

This section highlights the performance of the construction projects with reference to Housing, Office complexes, Hotels & Recreation, Hospitals and Warehousing complexes.

Housing

Housing construction is an important economic activity and a critical element in social uplift. It has been assigned a prominent place in the list of priorities drawn up by the government. Official estimates indicate that the growing demand for housing in Sri Lanka will result in a shortage of 500,000 units by the year 2005 - with around 2/3 of the shortage being in urban areas.

During the period January 1996 to April 2000, 23 BOI approved housing projects were implemented in the districts of Colombo (17), Gampaha (3), Kalutara (2) and Nuwara Eliya (1) with an estimated investment of over Rs.13,600 mn. (Table 3). This has resulted in a sharp increase in the number of new residential buildings with the entry of both foreign and local property developers.

The completed housing projects have added more than 2,000 new housing units to the country's housing stock. These projects are located in the Colombo, Kandy and Kalutara districts.

Table 5

Hotels & Recreation Centres: No. of Projects & Investment by District
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	No. of Projects	Investment (Rs.Mn.)
Colombo	11	3353
Gampaha	3	109
Kalutara	6	98
Kandy	2	109
N' Eliya	1	28
Galle	5	170
Hambantota	5	136
Ratnapura	1	200
Kurunegala	1	54
Puttalam	1	16
Total	35	4,275

Source: Board of Investment of Sri Lanka

Table 4

Office Complexes: No. of Projects & Investment by District
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	No. of Projects	Investment (Rs.Mn.)
Colombo	11	8,020
Kandy	1	3,548
Total	12	11,568

Source: Board of Investment of Sri Lanka

Several major housing projects are under construction in the Colombo, Gampaha, Kalutara, Kandy and Nuwara Eliya districts. These projects are implemented by enterprises such as Ceylinco Developers, Ceylinco Homes, Housing and Construction Lanka, Lincoln Property Holdings and 2000 Plaza Ltd.

The Rs.1.6 bn. "Millennium City" housing project launched by Ceylinco Developers Ltd., at Aturugiriya received BOI status in late 1998. It is sponsored by a consortium of investors including Ceylinco Securities & Financial Services Ltd., DFCC Bank and the National Development Bank. This landmark project, approved under BOI's large-scale construction projects, highlights the active involvement of the private sector in urban development.

The Government Strategy & 25 - BOI Housing Project

The new housing strategy pursued by the government constitutes of two basic elements-

- public sector investment to provide the "basic infrastructure" to facilitate construction of compact residential townships in urban areas.
- promote private investment in "Housing Construction" for the middle and upper middle income families.

The 25 BOI Housing Project Programme, introduced in the year 2000 Budget envisages the private sector to establish 25 housing projects in urban districts. Each

Table 6

Hospitals: No. of Projects & Investment by District

(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	No. of Projects	Investment (Rs.Mn.)
Colombo	4	3,441
Kandy	1	100
Total	5	3,541

Source: Board of Investment of Sri Lanka

project would consist of 300 housing units, and construction should be completed within a period of 3 years. Under this programme, the government will provide (through the BOI) state land on concessional terms and common infrastructure up to the periphery of the site. The additional incentives offered to private investors in the housing sector highlights the BOI's firm commitment to expand the nation's housing stock.

Office Complexes

The period under review also witnessed a surge in construction activity in the non-residential building sector. Growth in economic activity led to a corresponding increase in the demand for purpose-built, quality office space and services in prime locations. In addition, the growing need for extensive, multiple retailing outlets strengthened the demand for shopping complexes. The favourable economic climate, together with the fiscal incentives and other concessions extended by the BOI made the commercial property development market an attractive investment proposition to specialist property development companies in particular.

During the period under review, 12 property development companies have implemented multi-storied office/shopping/apartment complexes in core areas of urban centres in the Colombo and Kandy districts. The total investment in these projects amounted to around Rs.11,600 mn. (Table 4).

The 23-storied office building (Headquarters of the Hatton National Bank)

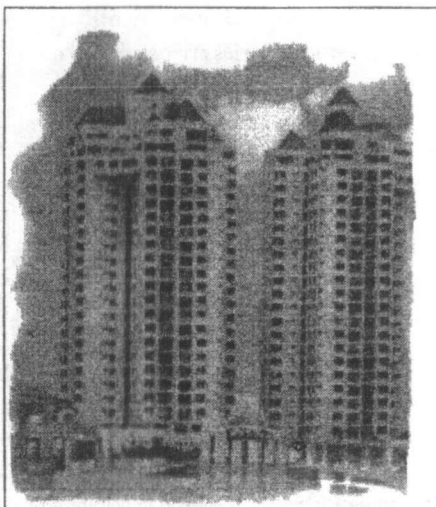
financed by Sithma Development (Pvt.) Ltd., had received approval under the Flagship category. This landmark project has a sizeable investment of Rs.3,950mn.

Hotels and Recreation Centres

Tourism, the fourth highest foreign exchange earner in Sri Lanka & an industry that figures prominently in the country's development strategy, has been accorded priority status in the government's national development programme. The BOI, recognizing the country's potential as a prime tourist destination, has identified tourism, recreation and leisure projects as a priority

participation; either 100% foreign owned or joint ventures set up with local partners. Eleven projects are already in commercial operation in prime tourist destinations in the districts of Colombo (3), Galle (1), Kandy (1), Kalutara (3), Puttalam (1), Gampaha (1) and Hambantota (1). This includes; 2-Recreational centres, 2-Entertainment parks, 1-Theme park, 1-Ayurvedic health resort and 5-Tourist hotels.

The successful implementation of BOI approved projects in the tourism industry has enabled it to offer a diverse range of activities to the different segments of the leisure market.



Construction of housing is a popular investment under Private Sector. One such Complex.

area for promoting both foreign and local investment.

Since 1996, a total of 35 BOI approved projects have been implemented in the tourism sector (Table 5). This underlines the positive response of the investor community to the opportunities in the tourism and leisure related sector. The value of investment committed by the projects implemented amounted to Rs.4,275mn. bringing the total value of investment (cum.) in the sector under the aegis of the BOI to Rs.13,650mn.

The tourism sector has attracted foreign investors predominantly from Asian and European countries. For instance, out of the 35 projects implemented during the period under review, over 50% of the projects (18) have foreign equity par-

The 24 projects under construction are located in Colombo (7), Kalutara (6), Nuwara Eliya (3), Galle (2), Hambantota (2) Ratnapura (2), Kandy (1) and Kurunegala (1). These projects include hotels, recreational/cultural centres, a bowling centre, a water sports centre and an amusement park.

The new hotels under construction will make a valuable contribution in stepping up room capacity to accommodate the targeted one million tourist arrivals in the year 2002. The establishment of sports and recreational facilities such as water sports, bowling alleys, amusement parks, health and nature resorts and theme parks will further enhance the ability of the industry to cater to the demand of the growing leisure market.

Table 7

Warehousing Complexes: No. of Projects & Investment by District

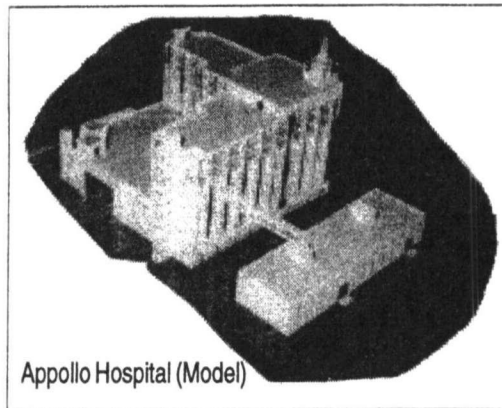
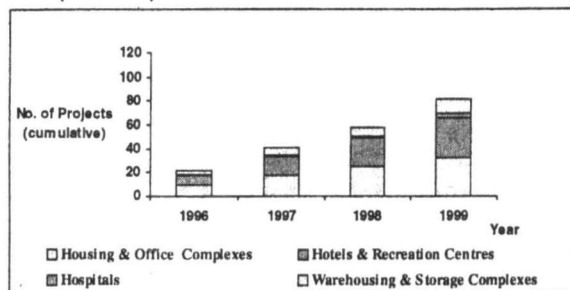
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	No. of Projects	Investment (Rs.Mn.)
Colombo	2	722
Gampaha	11	4,991*
Total	13	5,713

Source: Board of Investment of Sri Lanka

* Includes 4 cold room plants constructed in Peliyagoda, Nittambuwa, Dambulla and Anuradhapura under a Project implemented by Cool Masters (Pvt) Ltd.

Figure 4 Growth in Construction Projects Commencing Construction under the BOI by construction category (1996-1999)



Hospitals

The resource constraints faced by the government have underlined the need for direct private sector participation in the development of infrastructure facilities in the Health Sector. To meet its goal of providing quality health care facilities to all sections of the population, the government has focused attention on developing private sector health services in parallel with those of the public sector. In this context, the incentives extended for the construction and operation of hospitals by the BOI has paved the way for the private sector to play an increasingly important role in expanding the country's health care delivery system.

The construction and operation of two tier hospitals approved under section 17 of the BOI Law are en-

titled to a 10-year tax holiday. Additional incentives in the form of duty free imports of capital goods are extended during the project construction period. Accordingly, the import of machinery, medical and surgical instruments, apparatus and accessories are permitted on a duty free basis.

Since 1996, five hospital projects with a total investment of over Rs. 3,540mn. have received BOI approval, (Table 6) of which three are under construction and two in commercial operation. The hospitals under construction include: -

- (i) The Lanka Hospital Corporation (Pvt.) Ltd (Apollo Hospital)
- (ii) Asiri Medical Services Ltd. (Expansion)
- (iii) Suwasevana Cardiac Hospital (Pvt.) Ltd.

The projects under construction have an estimated cumulative investment of nearly Rs. 2,860mn. These hospitals are to be set up in the city of Colombo (2) and Kandy (1) with modern healthcare facilities.

Apollo Hospital

The Lanka Hospital Corporation (Pvt.) Ltd., is one of the large-scale projects approved by the BOI in the health sector. This is a joint venture between Apollo Hospitals of India and the International Finance Corporation (IFC), National Development Bank, Insurance Corporation of Sri Lanka and several other local investors. The ultra-modern, multi-speciality hospital, a Rs. 2,409mn. venture offering state-of-the-art technology will be fully equipped to offer a range of diagnostic and therapeutic health care

Table 8

Construction Projects: No. of Projects & Estimated Investment by District
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

District	Construction Category									
	Housing/Office Complexes		Hotels & Entertainment Complexes		Hospitals		Warehousing Complexes		Total	
	No. of Projects	Investment (Rs.Mn.)	No. of Projects	Investment (Rs.Mn.)	No. of Projects	Investment (Rs.Mn.)	No. of Projects	Investment (Rs.Mn.)	No. of Projects	Investment (Rs.Mn.)
Colombo	28	18,927	11	3,353	4	3,441	2	722	45	26,443
Gampaha	3	638	3	109	-	-	11	4,991	17	5,738
Kalutara	2	1,888	5	98	-	-	-	-	7	1,986
Kandy	1	3,548	2	109	1	100	-	-	4	3,757
N'Eliya	1	230	1	28	-	-	-	-	2	258
Galle	-	-	5	170	-	-	-	-	5	170
Hambantota	-	-	5	136	-	-	-	-	5	136
Ratnapura	-	-	1	200	-	-	-	-	1	200
Kurunegala	-	-	1	54	-	-	-	-	1	54
Puttalam	-	-	1	18	-	-	-	-	1	18
Total	35	25,231	35	4,275	5	3,541	13	5,713	88	38,760

Source: Board of Investment of Sri Lanka

Table 9

Construction Projects: No. of Projects & Investment by Type of Ownership
(Implemented under Sec. 17 of the BOI Law from January 1996 to April 2000)

Construction Category	Type of Ownership							
	100% Local		Joint Venture		100% Foreign		Total	
	No. of Projects	Total Inv. (Rs.Mn.)	No. of Projects	Total Inv. (Rs.Mn.)	No. of Projects	Total Inv. (Rs.Mn.)	No. of Projects	Total Inv. (Rs.Mn.)
Housing/Office Complexes	19	15,566	8	2,336	8	7,329	35	25,231
Hotels & Entertainment Complexes	17	1,980	9	2,000	9	295	35	4,275
Hospitals	4	1,132	1	2,409	-	-	5	3,541
Warehousing Complexes	11	2,313	1	100	1	3,300	13	5,713
Total	51	20,991	19	6,845	18	10,924	88	38,760

(d) Warehousing & Storage Complexes 14% (11 projects)

Geographical Distribution

The districtwise distribution of the 88 construction projects implemented from January 1996 to April 2000 is given in Table 8. These projects have been constructed in 10 districts. The highest number of projects is located in the Colombo district (45) followed by Gampaha (17), Kalutara (7), Galle (5), Hambantota (5), Kandy (4), Nuwara Eliya (2) and one each in Ratnapura, Kurunegala and Puttalam. It is significant to note that hotels & recreation centres have been constructed in all the above 10 districts compared to housing and office complexes (5 districts), hospitals (2 districts) and warehousing complexes (2 districts).

facilities. The 350-bed, multi-speciality hospital which commenced construction in December 1999 is scheduled for completion in June 2001.

Oasis Hospital (Pvt.) Ltd

This is a wholly Sri Lankan owned, BOI approved venture, commissioned in February, 2000. The total investment in this 200 bed teaching hospital is Rs. 562mn. The 8-storied hospital covering an area of 10,000 sq.ft. located in the city of Colombo, marks a significant development in the private healthcare sector.

Warehousing and Storage Complexes

Warehousing and storage complexes are important components of industrial infrastructure in facilitating an efficient storage and distribution network. This sector has registered a significant growth during the past five years. This reflects its direct link to the growth in other sectors of the economy, such as manufacturing and trade.

Thirteen BOI approved projects have been implemented during January 1996 to April 2000 with an investment of over Rs. 5,700mn. (Table 7). This has led to a notable expansion in essential facilities which include; construction and operation of warehousing

complexes, container terminals, cold room plants and large-scale LP gas storage complexes. All these enterprises are sited in Colombo and the suburbs to the north of the city (Gampaha district)

A prominent feature in Sri Lanka's construction industry during the period January 1996 to April 2000 has been the implementation of 88 projects under the BOI in 5-sub-sectors namely; (a) Housing (b) Office Complexes (c) Hotels and Entertainment Complexes (d) Hospitals and (e) Warehousing and Storage Complexes. A complete list of the construction projects implemented during the period under review is given in Annex 3.

Growth in Number of Projects

The annual growth in construction projects by different sub-sectors is given in Figure 4. All the sub-sectors have shown a significant growth during the last 4 year period. Out of the total number of 88 projects implemented during the period under review, the percentage share of projects under each sub-sector (as at end April 2000) is as follows:

- (a) Housing & Office Complexes 40% (35 projects)
- (b) Hotels & Recreation Centres 40% (35 projects)
- (c) Hospitals 6% (5 projects) and

Share of Foreign Equity Participation

The type of ownership of the 88 projects implemented during the period under review is given in Table 9. A sizeable investment of nearly Rs. 40 bn. has been committed in the construction industry by the private sector, of which the share of foreign equity participation (100% foreign owned or joint ventures) accounts for 46%. The share of foreign equity participation classified by construction category is as follows:

- (a) Housing & Office Complexes 38%
- (b) Hotels & Recreation Centres 54%
- (c) Hospitals 68%
- (d) Warehousing & Storage Complexes 60%

Out of the total estimated investment of Rs.38.7bn. channeled into the construction industry; the housing & office complexes account for the highest share of 65% followed by warehousing & storage complexes (15%), hotels & entertainment complexes (11%) and hospitals (9%). This indicates the emergence of the property development sector viz. construction of housing and office complexes as the single largest sub-sector in terms of the quantum of investment. ■