CRISIS FACING THE LOCAL CONSTRUCTION INDUSTRY TODAY

(This article embodies the substance of discussions amongst representatives of leading local contractors from both the public sector and the private sector who were called in for meetings of the Specialist Study Group on Construction Industry of the Development Committee.)

The crucial importance of the construction industry in a sustained development effort in a developing country, is too well known to need any elaboration. Although construction is not an end in itself, it is the means for the achievement of the desired end which is the development of new production capacities in the economy. In the process of such development, there are many spin-off benefits when a strong local construction industry is established.

In the recent past, there has been an unprecedented level of activity in the productive sectors of the economy, agriculture and industry, as well as in the service sectors where infrastructure facilities from highways to telecommunications, and services like health and education have been improved. The construction industry has been busy with this new development work. However, the local construction industry is by no means satisfied that it has had a fair share of the vast volume of work that has been done in the new development programs launched after 1977, in particular in the Accelerated Mahaweli program, the Greater Colombo Economic Commission, and in the Housing sector.

Allocation of work in the various sectors and sub-sectors, has come in for criticism by members of the local construction industry. By and large the complaint among both private contractors and public sector construction organisations has been that foreign contractors have been having a whale of a time, while the local construction industry has been languishing like a Cinderella in her scullery.

In discussion at meetings held in this Institution, it has been pointed out that these foreign contractors have had the advantage over local contractors at every stage from pre-qualification to execution of a contract. At pre-qualification stage, even though the work to be done may be broken down into smaller packages, to suit local contractors, the funding agencies seem to prefer to aggregate the work into large contractors that immediately place foreign contractors at an advantage, especially when heavy construction equipment is necessary.

Even if local contractors succeed in being pre-qualified, they have to face further disadvantages vis-a-vis their foreign competitors at the next stage which is the preparation and submission of tenders. Local Banks do not afford the necessary support for the tenderers to the same extent that foreign Banks support their own tenderers, by provision of tender bonds. Local banks tend to ask for security for such bonds, and charge a higher rate of interest from the local contractors, than foreign banks do from foreign contractors. Finally, after award of a contract, local contractors have to face the last financial hurdle of providing performance bonds, for which too, the local banks are known to ask for security, and charge higher rates of commission, compared to foreign banks that support foreign contractors.

Despite all these disadvantages, some local contractors have been able to win some comparatively large contracts, and do some impressive work, but they have never been assured of continuity of work to be able to build up their construction capabilities, except by sub-contracting to foreign prime contractors. This has further aggravated the subordinate position of the local construction industry, and strengthened the foreign contractors, who could undertake large contracts with the confidence that they could sub-contract to competent local contractors, who would execute the work for a fraction of the price at which they won the award.

It has been mentioned at discussions that were held with representatives of local contractors, that some other developing countries have taken very definite steps to help build up local construction capacity, rather than yield easily to the pressures of foreign contractors and foreign lending institutions that are alleged to sometimes lay down terms favourable to their own contractors. It was said that support for the local contractors must start at the level of negotiation of foreign loans from the World Bank, the Asian Development Bank, and even bi-lateral credits from individual countries. The latter is known to be more difficult on account of the pressures brought to bear on the lending countries by their own construction industries. This is a kind of psychological war, at which the foreign countries are adept. It begins with the use of the term 'donor' countries, even when the negotiation is a straight-forward loan negotiation, and the blanket term 'Aid' is used to prop up the psychological advantage. Despite this, it is necessary for the local negotiators to stand up for the local construction industry when foreign loans are being negotiated, and when foreign financed contracts are being awarded. **Standing up for the local construction industry means seeing to the fine print in the contract agreements, so that the local contractors are not going to be at a disadvantage. This pre-supposes that the men who negotiate these loans are knowledgeable and able, and willing to stand up to the blandishments and other tactics of their counterparts across the negotiation table.** Alas, how often has it been remarked that such men are conspicuous by their absence on the Sri Lanka side, especially when the negotiation is held in some far-away place like Washington or Manila.

At the policy level, it has also been mentioned that other countries have decided to give a margin of preference for local contractors over foreign contractors, bidding for the same job, and that the World Bank has in fact agreed to a 7½% preference for local contractors. This means that other things being equal, a local contractor whose bid is no more than up to 7½% higher than a foreign contractor will be awarded the contract. We have recently heard of an example of this in the award of a contract perhaps for the first time in this country. This is a precedent that has to be used more often in the future.

One of the reasons (or excuses?) often given for the vast amount of work given to foreign contractors, sometimes on the basis of negotiations to which local contractors are privy, is that only foreign contractors could undertake to complete that quantum of work in the short time available. This has been mentioned often especially in regard to heavy construction work undertaken under the Accelerated Mahaweli Development program. Unfortunately, it is all too common for Sri Lanka people to exaggerate the achievements of any current regime, in what has been described as the 'Nissanka Malla tradition', and to forget any achievements of an earlier era. It is certainly true, and nobody should dispute the fact that all the heavy construction work undertaken on the Mahaweli headworks together far exceed the capacity of the local construction industry such as it was at the time the Accelerated Mahaweli program was launched, and that foreign contractors had necessarily to come in, (together with foreign funding) for the implementation of the program. **But what is at issue is that despite the vast amount of work to be done, in a comparatively short time, local contractors have been finding it increasingly difficult to 'get in on the ball game'.** Many of them have had to cut their prices to the bone and undertake sub-contracts to prime contractors, who were all foreign contractors, or even be reduced to hiring out their heavy construction equipment to these foreign contractors. Thus the foreign contractors had a further gain from the disadvantages facing local contractors.

Another erroneous conclusion that has arisen from this situation is that local contractors could never have undertaken to construct any of the headworks, under the accelerated Mahaweli program, namely, Victoria, Kotmale, Randenigala or Maduru Oya, in the time available for the foreign contractors.

As a matter of fact, construction of Maduru Oya, headworks had been given to local contractors, when, purely on account of funding problems, foreign assistance was sought, and when Canada responded with 'Canadian Aid', local people pulled out and the work was restarted by the Canadians. That is why a rock-fill dam was built at Maduru Oya and not an earth dam.

Anyone who has doubts about the ability of Sri Lanka contractors to undertake such a contract as the construction of Kotmale, or Randenigala headworks should be told about the construction of Uda Walawe headworks in the sixties, about 20 years ago. Apart from two reservoir power-plants with a total installed capacity of 10 megawatts, and a gated spillway with the largest radial gates ever installed in this country up to that time, there was a total of about 90,000 cubic yards of concrete and about 5½ million cubic yards of rolled earth filled in the dam, to be placed during the construction period of about 3 years. The river closure alone involved placement of about a million cubic yards of earth fill in less than three months, and this was successfully achieved when a total of about 700,000 cubic yards had been placed in just 80 days, at an average of about 9260 cubic yards a day. All this work was done by Sri Lanka personnel, although the prime contractor was a foreign firm. The historic river closure which still remains one of the great achievements in the history of earthmoving in modern Sri Lanka's construction history, was a joint effort. The River Valleys Development Board undetook this work at the request of the then Minister, the late Mr. C.P. de Silva, with support from them sub-contractor for civil works, Ceylon Development Engineering Co. Ltd.

Ceylon Development Engineering Co. Ltd. also had the privilege of undertaking the construction work on Maskeliya Stage II project with an installed capacity of 100 MW completed in 1972, the largest construction contract undertaken by a local organisation in this country.

In the context of earthmoving and jungle clearing with heavy equipment, it should also be mentioned that the Gal Oya Development Board, the GODB sometimes called the Good Old Dam Builders, was set up in 1950 or thereabouts when the Gal Oya headworks was built by American contractors. The GODB took over the old equipment used by the contractors, and more importantly, the operations personnel who were all Sri Lankans (then Ceylonese) who had been trained on the job by the American contractors. In time the GODB was transformed into the River Valleys Development Board, which ofcourse exists to this day. The old Gal Oya Board, and later the RVDB in its prime, did a vast amount of heavy construction work, in Gal Oya valley itself, at Walawe, and in other parts of the island. At one time a Heavy Construction Division was set up within the RVDB by the late Mr. R. Kahawita bold and far-seeing engineer who headed the RVDB at the time. Alas, the Heavy Construction Division was later to be disbanded on the 'advice' of a 'foreign' consultant, who was in fact a Sri Lankan turned foreign by naturalisation. Still later, the old idea of doing outside contracts was re-introduced with the setting up of an Outside Contracts Unit within the RVDB, but the continuity of building up the construction capacity was broken, and the morale of the operations staff also given a jolt.

That example of the stop and start method of 'building' up construction capacity in the RVDB has been repeated a number of times over in the more recent past. The State Engineering Corporation under Dr. A.N.S. Kulasinghe was the first local organisation in either the private or public sector to set up a Research and Development Division. This Corporation which did pioneering work in the development of research-based construction techniques, especially in the use of prestressed concrete, was battered and bruised with every political change in the country. And it was not the politicians but the technocrats and the bureaucrats who played havoc with the continuity of the local build up in the SEC from time to time, in the vain pursuit of power for themselves.

The Bridges Division of the old Public Works Department under Mr. M. Chandrasena was a landmark in the public sector in the fifties and sixties. It won encomiums even from visiting World Bank officials, for its efficiency and competitiveness in its specialised field, a rare achievement indeed. Later, when the T.C.E.O. was set up after 1970, by amalgamating various existing departments, or parts of departments, the Bridges Branch of the Highways Department - the PWD had been split up like the amoeba into the Highways and Building departments - the Bridges branch was used as the germ of a new construction corporation, the State Development and Construction Corporation. In this instance at least the truth of the old adage was proven - a rose by any other name will smell as sweet - and the S.D. & C.C. did continue the outstanding work for which the Bridges branch had been rightly famous. But today, the S.D. & C.C. also faces the same type of problems that face the rest of the construction industry in Sri Lanka. It is faced with unequal competition from foreign contractors. One example that has been mentioned in this context, is the new Kalutara bridge. In this case, although the S.D. & C.C. was in close competition for this tender it could not win preference over a foreign competitor. It has been pointed out that if some of the advantages available to local contractors in other developing countries such as the 7½% preference, was available here, the foreign competitor would probably have been kept out. Such a decision to apply a preference, infact of 10%, in favour of local contractors was made by the Cabinet of Ministers a couple of years ago but has not been implemented except for the single instance mentioned earlier in this article.

The local construction industry must be assisted by government even at this late stage, to recoup from the many grievous blows it has received in the recent past. What is required is not protection of the type that had been given in the past to local manufacturing industries, which resulted in the setting up of the now well-known seeni-bola industries. Rather, what is required is support at the higher policy making level to counter the unequal terms favourable to foreign contractors that has been disrupting the build up of a viable local construction industry.

It is not too late for government to take steps in this direction. It will be specially prudent in the present context of our dwindling foreign exchange resources.

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