Viability of Consultancy Practices as a Business in Sri Lanka (Draft)

Consultancy Practices as a Business

Professional services to the construction industry are provided by various professionals and predominantly by the Architects, Engineers and Quantity Surveyors in terms of designs, documentation and / or supervision. As the said professionals are involved throughout the projects' life cycle, they are identified as key professionals in the Section 26 (*Qualified Persons*) of the Construction Industry Development Act (CID Act). These professionals are engaged in the construction industry as academics, employees in different organizations or as entrepreneurs.

Professionals who are employed supposed to provide the inputs required by the respective organization based on the; duties assigned, organizational regulations and whim of such organizations while following professional practice ethics and standards.

The word "professional" is often used inappropriately. Professional is a person who has;

- **completed specified formal education of respective discipline,**
- **undergone a structured and prescribed training under professionals,**
- **full membership with voting rights of the relevant and recognized professional institution, and**
- **undertaken social responsibility accordingly in providing his / her service.**

The above will entail much austerity in providing services by a professional than; a technologist, person with vocational qualification or that of an ordinary prudent man, encompassing risk of legal liability of any negligence or mistake in the services provided.

Professionals who are practicing as entrepreneurs can provide their independent services without bound by any organizational officialdom. In that context, they may have comparatively more magnanimity in creativity, making fair documentation, impartial determinations and unbiased management of projects without prejudiced opinions from any organizational will. However, it must be admitted that practically there cannot be veritable independency in doing consultancy business with the respective public and private sector clients, but it may be considered as comparatively less influenced mode of services delivery. **Therefore, such service providers are one of the most important entrepreneurs in a country when it comes to ensuring of public accountability, safety and health.** In Addition to improve the business image of a country for investor confidence and higher doing business ranking in which Sri Lanka is very poor at present.

Further, as their services are provided to overseas clients on Knowledge Process Outsourcing (KPO), by operating in overseas or in other modes, it is an important economic activity of much spoken knowledge-based economy at present.

The main input that the professional service providers require for such service delivery is trained human and intellectual capital. In the international ratings Sri Lanka is rated comparatively high in terms of human capital. However, the capable and educated young persons are difficult to find for these services, as many migrates from the country after their higher education due to various reasons. Refer diagram below.

Economy Profiles

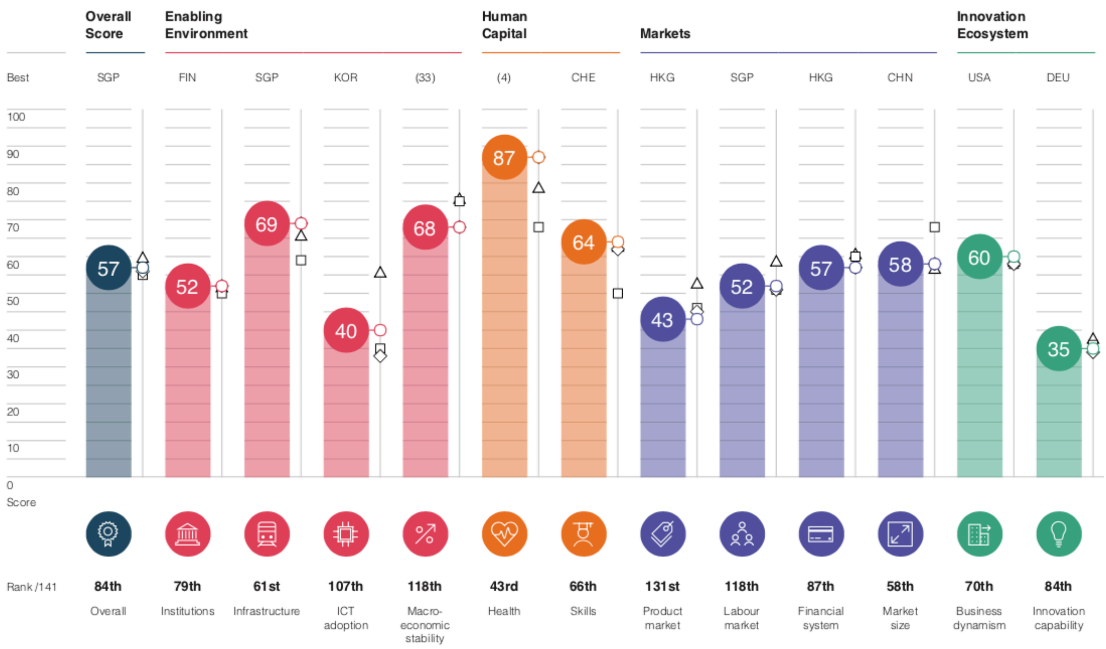
Sri Lanka

84th /141

Global Competitiveness Index 4.0 2019 edition

Rank in 2018 edition: 85th/140

Performance Overview 2019 **Key** ◇ Previous edition △ Upper-middle-income group average □ South Asia average



Selected contextual indicators

Population millions	21.7	GDP (PPP) % world GDP	0.22
GDP per capita US$	4,067.9	5-year average FDI inward flow % GDP	1.3
10-year average annual GDP growth %	4.8		

Social and environmental performance

Environmental footprint gha/capita	0.8	Global Gender Gap Index 0-1 (gender parity)	0.7
Renewable energy consumption share %	52.9	Income Gini 0 (perfect equality) -100 (perfect inequality)	39.8
Unemployment rate %	4.4		

Source – World Economic Forum, Global Competitiveness Report 2019

It must be noted that though we have high quality human capital and intellectual capacity the ICT adoption, Innovation capability and Skills rating are very low. Reason could be not developing the knowledge based economic sectors such as consultancy industry.

The universities, those produce graduates has a demand in other countries, have become institutions producing graduates from tax payers' money, for other countries. Therefore, very limited young personnel are available for professional services. Who are available locally at present are also not having long term prospects in local organizations as they think national policies are not promising for their generation to stay in the country. On the other hand, their readiness on employability to support a business in local industry is also poor, but merely qualified technically to have an employment.

The demand fluctuation of construction sector in shorter cycles circumscribes the ability of establishment of any corporate level or even medium scale professional service providers or companies. **Hence, most of them are very small practices ready to shrink at demand down turn and should be able to expand when demand is high, in an amphibious mode survival. This has negatively impacted the capacity building in the consultancy sector of the construction industry.**

In order to have a good office for a professional practice with required good staff, computer facilities, servers, licensed software, backup power, alternative data communication provisions, document archives, meeting facilities, ISO certification etc. need big investment. That too become a risk in a demand fluctuating economy, which has resulted that most of the professional practices have small offices as very domestic practices in a room or two of rented houses and many are outside city limits.

Labour and tax laws are very strict and do not consider adequately about these difficulties of the entrepreneurship in SME sectors. In the tax system of Sri Lanka, the cars and similar type vehicles' expenditure are not allowable as capital allowance provision but the delivery vehicles. It is obvious that consultants cannot use delivery vehicles for their business and keeping some provision for private use at least a reasonable percentage about 75% should be allowed as capital allowance in tax calculations. The VAT component of such vehicles including repairs and maintenance are disallowable as input VAT. Even the foreign earnings have been subject to taxes. Not only that the currency exchange gain is taxed. The withholding taxes introduced for rents and individuals have finally come as a cost burden on to the entrepreneur as it resulted increase of the building rents and fees of outsourced human resources.

With the recent tax changes some reliefs are observed. However, as the VAT threshold is increased to 300 million per annum the input costs of services will now be increased. The corporate clients who are registered in VAT may not come to SME sector as SME's prices will be inclusive of VAT unless their low overhead costs compensate over the VAT input cost.

In Sri Lanka it would be difficult to find a consultancy company who does over 300 million turnover per year and if there is any they may enjoy a monopolistic situation.

To become a professional, a person supposed to study about four years in universities after getting through heavily competitive advanced level examination and then spend further period for post graduate studies. To obtain membership from a professional institution it will take a further period. Having invested most part of the young age, till around 30 to 35 years of age, for education to be an entrepreneur or professional. Finally, they end up in heinous and labyrinthine local market conditions and are irked as a result.

Engaging in overseas projects or service export as an alternative is not always a lucrative business since software and communication costs are unprecedented and the demand for services export is intermittent. The frequent breakdowns in power and data infrastructure disturbs efficient service delivery as well.

In the other Asian countries, they have managed to develop corporate level professional service companies with good policy initiatives and have managed to enter into international markets.

Singapore has done it with good regulatory mechanism they initiated in due time. Though they have used foreign firms during the development and the growth of local industries have been carefully thought of. The doing business index, paperless trading and other economic indicators published are giving where Sri Lanka is compared to the other countries in the region.

In order to survive in this local market conditions there are two ways as per many practitioners, that is to go into corruption (which is not possible) or migration to another country or industry.

The construction industry contribution to economy has come down in the recent past from around 9% to 6.5% and during this collapse many professionals went out of business.

It is noteworthy that the consultancy services are provided by;

- government institutions / authorities,
- semi government institutions,
- universities with their in-house abilities and subletting arrangements,
- foreign consultants, and
- contractors for design & build projects as well.

The distribution of consultancy services requirements among the above entities shall be made on a more rational basis to have fair share and to ensure level playing field. For an example, universities may do pilot projects with their research outcomes in innovative systems. Further, Design and Build projects should not be promoted to place the foundation stone early or for misappropriation without engaging professionals due to political reasons, but to use such procurement methods for accruing benefits for the public. **Some of the practitioners attached to the semi government and universities are enjoying duty free vehicle permits, regular salary and consultancy is done, at low fees, as an additional income source while private consultants are struggling without any such benefits.**

Large portion of construction industry turnover (about 60%) in Sri Lanka is in roads, highways, water supply and other infrastructure projects. The private consultancy firms of small and medium size are not used for the above sectors but large overseas or repeatedly engaged selected local firms only. It would be beneficial to audit such procurement systems adopted by the respective procuring entities for developing more transparent and conducive system, as development of SME sector is an accepted economic policy and to avoid parochial approaches.

In addition, it is necessary to analyze to what extent that the public is duped with payment of various additional cost claims, expenditure due to delays and disputes and price variations payments of construction projects due to errors in documentation done by such procuring entities.

As per the Department of Census and Statistics as stated in their *"Final Report on Survey of Construction Industries"* for years 2016 / 2017 (Published in May 2019) the total value of contracts awards in building sector, where most private consultants are allowed to involve, is only 40% of total contracts. The competition for this 40% is heterogeneous. The government, semi government, foreign consultants and universities secure considerable part of the consultancy services without a fair competition at present. Hence, what is left for tax paying independent private consultants, who are engaged as proper business entities under such laws, is a meager percentage. There is no published or researched data can be found but it may be as low as 15% of total construction industry turnover that the private consultancy firms are allowed to secure. **The university education is provided to make job creators than job seekers but our policies are in contrary. Who will opt to be an entrepreneur in construction sector consultancy services in this milieu? Either policy makers and so many professional and other institutions in the construction industry are not aware of or neglected to address this fundamental issue.**

End result is that the private sector consultants are left with very limited work and heavy competition. Certain provisions of recently proposed CID Act amendments too are detrimental and discouraging to the professional practices as per some of the consultants. However, it must be admitted that CIDA has initiated many positive moves to improve the construction industry efficiency through regulatory systems.

All the aforementioned negative impacts have already resulted the consultancy industry to go out of the business and in a rapid pace to the extent of closing down many practices.

The available professionals in the country who are good and contributed to the construction industry may also leave the country if this situation is not rectified by the policy makers soon. The young personnel are supposed to get training under professionals, and now it has become an extreme difficulty to find training places for them.

Many researches done by the universities have not noticeably contributed for the innovations required by local industry or to support it but for international journals in achieving academic requirements.

High expectation of knowledge economy theory will not be realized if the policy framework is poor and not conducive. We will continue sending our knowledgeable youth to other countries free of cost from local universities, in the current; entrepreneurship deprived system, unfavorable living conditions for educated youth and corrupt political and social environment.

Conclusion

It may be late but at least now the policy makers and industry stakeholders must collectively find resolutions for the serious issues encountered in this important industry of the economy at the earliest possible time.

The professional institutions and other various organizations related to the construction industry are making a commendable effort for the development of construction industry. However, they may need to deviate from protectionism attitude of respective profession / sector only or from the compartmentalized vision, but should converge to contribute for a synergetic effect, which will invariably instigate a fair share of a vibrant construction industry for all involved and may ensure better future for next generation.

By,

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