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INFLUENCE OF BOI APPROVALS ON COST AND TIME ASPECT OF APARTMENT CONSTRUCTION IN SRI LANKA

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ABSTRACT

This study investigates the influence of the Board of Investment (BOI) approval process on the cost and time aspects of apartment construction projects in Sri Lanka. The research aims to identify the specific challenges and factors associated with BOI approvals that impact project timelines and budgets. Utilising semi-structured interviews and a questionnaire survey, the study gathers insights from industry experts and practitioners, revealing that the BOI approval process varies with project types and involves diverse requirements such as UDA, SLTDA, and environmental approvals. Despite recent BOI initiatives to expedite approvals, delays persist, often leading to the expiration of BOI concessions and subsequent cost increases. A comprehensive framework was developed to summarise these findings, highlighting the critical cost and time-related factors at different project stages. The implications for industry practitioners include better preparation for BOI-related challenges, while academia and policymakers can use these insights to enhance understanding and refine regulatory processes. Limitations include a limited sample size and a focus on qualitative data. Future research could expand the scope and incorporate quantitative methods to validate and extend these findings.

Keywords: *Apartment Projects; Board of Investment (BOI); Construction Delays; Cost Overruns; Foreign Direct Investment (FDI).*

1. INTRODUCTION

Urbanisation has significantly impacted land availability, particularly in urban areas, leading to a growing scarcity of developable land (Gallage et al., 2022). This scarcity has driven increased interest among developers and investors in apartment projects, which offer a viable solution to the limited land resources. Apartment constructions not only optimise land use yet meet the rising demand for housing in densely populated cities (Mensah, 2014). The Board of Investment (BOI) in Sri Lanka plays a crucial role in facilitating these projects by providing various concessions, including tax reductions, to attract both local and foreign investments (Board of Investment of Sri Lanka, 2024). These incentives make apartment projects more appealing compared to other types of construction projects, as they help lower overall costs and enhance profitability (Jayasekara, 2014).

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However, despite the benefits, the BOI approval process is often associated with high levels of bureaucracy. This can lead to delays in construction, as the process involves extensive documentation and approval stages, such as investment and engineering approvals, CUSDEC documentation, and more (Board of Investment of Sri Lanka, 2024). While these procedures are meant to ensure compliance and quality, they can also pose significant challenges, particularly in terms of time and cost overruns (Siraj & Fayek, 2019).

Notably, there is a gap in existing research regarding the specific impacts of the BOI's bureaucratic procedures on construction projects. While previous studies have highlighted the challenges posed by political aspects, inflation, and a lack of new technologies on foreign direct investment (Botric & Skuflic, 2006; Eryigit & Shafaq, 2021), none have specifically focused on the BOI's procedural effects on construction timelines and costs. This study aims to fill this gap by investigating the influence of BOI approvals on the cost and time aspects of apartment construction in Sri Lanka. By identifying the challenges posed by the BOI process, the research seeks to develop a framework to identify benefits offered to the investors and reveal the challenges associated with the BOI's bureaucratic procedures.

2. LITERATURE REVIEW

2.1 BOARD OF INVESTMENT, SRI LANKA

The construction industry is one of the major industries that refers to all types of activities connected to assembling and renovating immobile structures and facilities (Nam & Tatum, 1997). According to Ibrahim et al. (2010), the construction industry plays a massive role in converting the needs of people into physical projects by transforming their objectives into reality. Three major trends can be identified with the recent developments in the construction industry of the Asian region, namely, increment of vertical integration in the packaging of construction projects, larger private sector involvement in the infrastructure projects and increase of foreign participation in local constructions (Raftery et al., 1998). One of the strategies that developing countries can follow to boost the economic growth of the country is to attract foreign direct investment to the country (Mondal, 2003).

BOI of Sri Lanka is the department that gives supplementary help not only to foreign investors but also to local investors who contribute towards the economy of the country in a number of ways. BOI provides TAX and non-TAX incentives to local and foreign investors to motivate them to invest in the relevant industries (LawPlus Ltd, 2021). The Board of Investment of Sri Lanka is one of the leading investment promotion agencies in Asia since its primary function is to do investment Promotion (Board of Investment of Sri Lanka, 2024). The Sri Lankan government is keen on offering a favourable investment environment by allowing employers to import materials and machinery for a duty-free mechanism, fast-track the BOI approval process for the investors, and further offering tax concessions (Board of Investment of Sri Lanka, 2024).

2.2 CHALLENGES FOR APARTMENT CONSTRUCTION PROJECTS IN SRI LANKA

Apartments are units of multi-owned properties where different individuals own various units, sharing common areas such as pools, lifts, and gyms (Anthonisz & Perry, 2015). In

Sri Lanka, the Urban Development Authority (2001) projected that an additional 800,000 homes will be needed in the next 40-50 years, on top of the existing one million homes. However, apartment construction presents more challenges compared to other building types (Gavit et al., 2015). The complexity of the apartment construction process is fraught with significant uncertainties (Lee et al., 2012). According to Iqbal et al. (2015), these issues can arise due to funding problems, regulatory changes, weather conditions, payment delays, construction-related accidents, and design defects. Most apartment projects in Sri Lanka face time overruns and exceed expected budgets. Fraser and Silva (2016) noted that factors such as required design changes by the consultant or client, adverse weather conditions, accidents, and material price fluctuations contribute to these time and cost overruns.

Additionally, due to its unique nature, construction hazards pose significant challenges to the apartment construction industry. Given that apartment construction projects in Sri Lanka take several years to complete, one major uncertainty is the risk of exchange rate fluctuations, where the value of Sri Lanka's currency changes relative to other countries or economic zones (Board of Investment of Sri Lanka, 2024). Musarat et al. (2020) identified various factors affecting material cost deviations, including supply and demand, raw material costs, labour costs, import duties, and exchange rates. Furthermore, the procurement of construction projects faces global challenges (Ayopo et al., 2019), which are particularly relevant for apartment construction in Sri Lanka.

3. METHODOLOGY

The primary purpose of this research is to assess the impact of BOI approvals on the cost and timeline of apartment construction projects in Sri Lanka. A mixed-methods approach was chosen to achieve this, combining qualitative and quantitative research techniques. This approach is advantageous because it leverages the strengths of both qualitative and quantitative methods, compensating for their individual limitations (Creswell & Clark, 2018).

The research design incorporated semi-structured interviews and a questionnaire survey. Semi-structured interviews were selected due to their flexibility and ability to elicit detailed insights into complex processes, such as the BOI approval's effects on construction projects (Bryman, 2016). These interviews provided a platform for participants to discuss incentives, challenges, and strategies related to BOI incentives in detail. The questionnaire survey complemented the qualitative data by allowing for the collection of quantitative data from a larger sample, thus enhancing the generalisability of the findings (Kumar, 2014).

For data analysis, the study employed manual content analysis for the qualitative data obtained from the interviews. Content analysis is an effective method for systematically examining communication content, allowing for extracting meaningful patterns and themes from the text (Elo & Kyngäs, 2008; Neuendorf, 2017). This technique helped identify key issues and challenges associated with BOI procedures, as reported by participants.

The quantitative data from the questionnaire survey were analysed using the Relative Importance Index (RII) method. RII is useful for ranking the significance of various factors and systematically prioritising issues based on their perceived impact on project

cost and time. Respondents rated these factors, enabling the research to quantify their relative importance and focus on the most critical areas affecting project outcomes.

By integrating qualitative insights with quantitative data, this mixed-method approach provides a comprehensive understanding of the BOI approval process's influence on apartment construction projects in Sri Lanka, helping to identify key challenges and potential solutions.

4. FINDINGS AND ANALYSIS

4.1 INTERVIEW FINDINGS

The purpose of conducting semi-structured interviews in this research was to address a gap in the literature, which generally lacks specific insights into construction-related issues associated with the BOI approval process. While the literature review highlighted general challenges, it did not delve into the practical issues stakeholders face in apartment construction projects. Many professionals are involved in these projects, but most have limited experience. Since not all projects receive BOI concessions, professionals with over ten years of experience handling BOI-approved projects are scarce. Therefore, the interviews were specifically conducted with Quantity Surveyors and BOI officers with at least a decade of experience with BOI projects. Quantity Surveyors were chosen for their extensive involvement in the documentation related to BOI procedures, while BOI officers provided insights into the overall approval process. This targeted approach ensured that the research captured nuanced, expert perspectives on the challenges and incentives associated with the BOI approval process, thus informing the subsequent phases of data collection and analysis. Table 1 below provides a summary of the interviewees.

Table 1: Details of respondents

Interviewee	Designation	Type of Organization	Experience Related to Construction	Experience Related to BOI Projects
R1	Ch. QS	Contractor	29 years	12 years
R2	Ch. QS	Consultant	10 years	10 years
R3	Ch.QS	Contractor	14 years	10 years
R4	QS	Contractor	19 years	12 years
R5	Ch.QS	Contractor	33 years	13 years
R6	BOI Officer	BOI	14 years	24 years
R7	BOI Officer	BOI	11 years	21 years

4.2 BOI APPROVAL PROCESS AND MATERIAL IMPORTATION PROCEDURES FOR CONSTRUCTION PROJECTS

The interview findings revealed that obtaining BOI approval for construction projects involves specific applications, such as the Investment and Site applications, which vary based on the project type, including infrastructure, agriculture factories, apartments, hotel buildings, and educational buildings. R6 and R7 noted that these applications cover details including project location, minimum investment, duration for investment, and site specifics. Additionally, required approvals, such as those from the Urban Development

Authority (UDA), Sri Lanka Tourism Development Authority (SLTDA) for hotel projects, and environmental clearances, differ depending on the project's nature.

The respondents highlighted that the BOI process for importing material quantities remains consistent, regardless of whether materials are imported all at once or in multiple lots. However, R2 emphasised that importing in smaller batches can lead to additional time and costs due to the need for repeated documentation. R7 confirmed that after the Engineering Department of the BOI approves the total quantity requirement, this approval is sent to the Inland Revenue Department. If materials are imported in batches, separate approvals are issued for each lot.

4.3 SPECIAL BENEFITS OF OBTAINING BOI CONCESSION FOR APARTMENT CONSTRUCTION PROJECTS

The semi-structured interviews revealed specific benefits of obtaining BOI concessions, particularly relevant to apartment construction projects. R1 and R2 noted that BOI-approved projects enjoy an accelerated approval process, which is crucial for apartment construction, where timely approvals can significantly impact project timelines. For instance, faster bank approvals for Letter of Credit (LC) facilitate the procurement of essential materials and machinery, expediting the construction process. Additionally, the quick clearance procedures for imported materials and machinery are particularly beneficial in ensuring that construction progresses without unnecessary delays.

R4 highlighted that BOI projects are supported by well-prepared documentation, which minimises disputes related to documentation errors. This is especially important in apartment construction, where complex documentation involving various stakeholders is often required. According to R6, the availability of BOI lands for lease or rent can provide strategic locations for apartment projects, enhancing their market appeal.

R7 emphasised that the benefits offered by BOI can vary depending on the country's economic situation, with more concessions provided during economic downturns to encourage investment. This flexibility can benefit apartment developers seeking cost-effective opportunities during challenging economic periods. Additionally, BOI provides visa facilities for foreign employees, which is beneficial in apartment construction projects requiring specialised skills not available locally. However, R7 noted that the BOI's 2:1 ratio of local to foreign labour may not always be feasible due to skill shortages, making the visa facilities particularly valuable in such cases.

4.4 INFLUENCE OF BOI PROCEDURE AND STAKEHOLDER INVOLVEMENT IN CONSTRUCTION PROJECTS

In the planning stage, the BOI procedure significantly influences project progress. According to BOI officers R6 and R7, after submitting essential documents such as the Investment application, Site application, Preliminary planning clearance, Project proposal, and Investor profile, a fixed application fee of approximately 275 USD is required. An acknowledgment letter is issued, and the approval letter, which details the concessions and conditions, is typically provided within 60 days. However, R6 noted that delays can occur if additional requirements such as site inspections or environmental approvals are necessary. The key stakeholders in this stage include the Investment Department, which appraises the project; the Engineering Department, which assesses

site suitability; the Environment Department, which addresses environmental concerns; and the Legal Department, which ensures compliance with standards.

During the construction stage, the BOI's role is crucial in approving materials, particularly those on a negative list. R6 highlighted that additional documentation is required for materials on this list to prove that local alternatives are insufficient, which can delay the approval process. R2, R3, and R4 discussed how stakeholders, including the Contractor, Employer or Employer's Representative, Consultant Quantity Surveyor, and various BOI departments, collaborate to prepare and verify the necessary approvals, clear materials, and manage transportation logistics. Delays can arise from complex documentation, detailed calculations, or staff shortages, especially during challenging periods such as a pandemic, as pointed out by R5.

In the handover stage, the Monitoring Department ensures compliance with BOI conditions. R6 and R7 explained that this involves verifying material usage, adherence to investment commitments, and the proper completion of project documentation. The Monitoring Department may continue to follow up after completion, and if conditions are not met, the employer might be required to pay duties on duty-free materials. R2 emphasised that stakeholders at this stage ensure that all final documentation aligns with BOI requirements, facilitating a smooth project conclusion.

4.5 QUESTIONNAIRE FINDINGS

Survey methods are essential for gathering data from respondents representing the target population using close-ended questions. This research used a questionnaire to rank factors identified in the literature and semi-structured interviews. The questionnaire included three sections: respondent background information, factors affecting time and cost in different project stages, and challenges related to BOI regulations. It was distributed among 50 Sri Lankan construction industry professionals, with 38 responses received. The data were analysed using the Relative Importance Index (RII) to address the study's primary objective. Figure 1 below summarises the respondents who participated in the questionnaire survey.

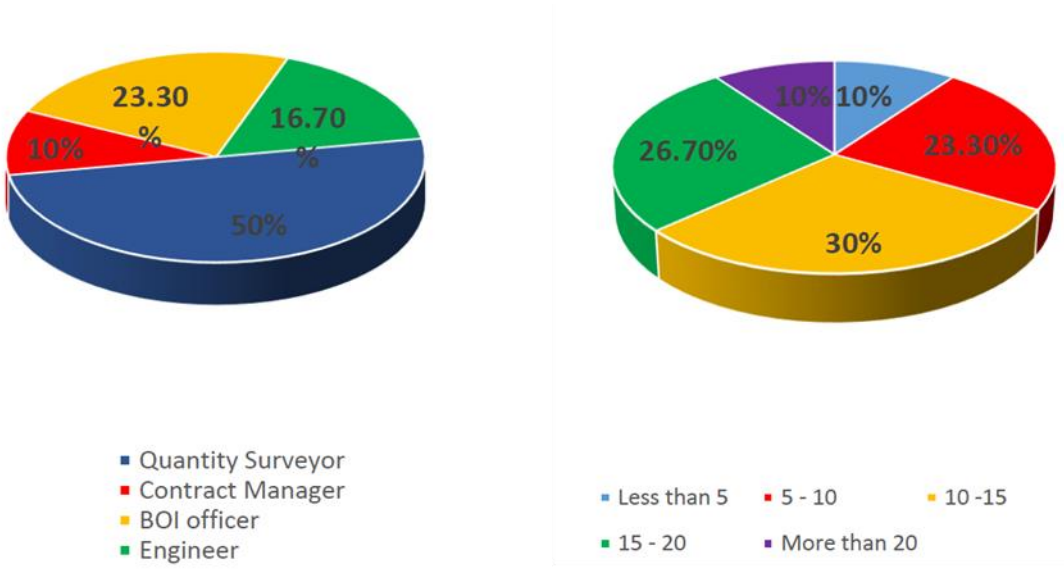

Figure 1: Summary of questionnaire survey participants

4.5.1 Factors Affecting Project Time Across Different Stages

The questionnaire survey revealed several key factors influencing project timelines at various stages in Sri Lankan construction projects under the BOI process. The impact of these factors was measured using the Relative Importance Index (RII) based on industry expert responses. A summary of the findings is provided in Table 2.

Table 2: Factors affecting time management of apartment construction projects

No	Affecting factor	RII	Rank
1	**During Pre-Construction Stage**		
1.1	Delays occurred in obtaining UDA approval	0.840	1
1.2	Lack of technical people within the BOI	0.707	2
1.3	Delays occurred in obtaining investment application	0.700	3
1.4	Delays occurred in obtaining site approval from BOI	0.687	4
1.5	Delays occurred in obtaining environment approval from BOI	0.667	5
1.6	Delays occurred in obtaining the site application	0.667	5
1.7	Lack of awareness of the BOI guidelines and documentation	0.660	7
1.8	Delays occurred in obtaining preliminary planning clearance	0.647	8
1.9	Complexity of the approval procedure	0.573	9
1.10	Staff shortage in BOI	0.453	10
2	**During Construction Stage**		
2.1	Variations to the material type after those materials are importing	0.953	1
2.2	Getting confirmation documents (From local suppliers) for negative listed materials	0.907	2
2.3	Getting approval for negative listed material	0.887	3
2.4	Lack of dollar reserves	0.873	4
2.5	Investment approval delays	0.867	5
2.6	Applying incorrect quantities to the documents	0.793	6
2.7	Engineering approval delays	0.720	7
2.8	Lack of awareness of the BOI guidelines and documentation	0.673	8
2.9	CUSDEC delays	0.667	9
2.10	Complexity of the procedure	0.647	10
2.11	Huge calculation requirement for the document approvals	0.633	11
2.12	Additional re-checking of the documents by Employer and BOI	0.560	12
2.13	Complexity of the drawings	0.480	13
2.14	Staff shortage in BOI	0.473	14

During the pre-construction stage, the primary factors affecting project time included the requirement for additional staff to register the project under BOI, initial one-time payments, and costs associated with BOI applications. Among these, the need for additional staff emerged as the most significant, with an RII of 0.6867, indicating its substantial impact on project timelines compared to projects without BOI concessions. The initial one-time payment for BOI and the costs for BOI applications followed, with RII values of 0.6067 and 0.5533, respectively. Additionally, obtaining UDA approval was

highlighted as a critical factor, also scoring 0.5533 in RII, indicating its importance in the pre-construction phase.

In the construction stage, the survey identified several critical factors impacting project timelines. The most significant was "Variations to the material type after those materials are imported," which had the highest RII of 0.9533. This was closely followed by challenges related to obtaining confirmation documents from local suppliers for negative-listed materials, which had an RII of 0.9067. Getting approval for these materials also posted significant delays, with an RII of 0.8867. The lack of dollar reserves and investment approval delays were additional major concerns, scoring 0.8733 and 0.8667 in RII, respectively. These issues reflect the complexities of navigating BOI regulations and their impact on the construction timeline.

Other notable factors included applying incorrect quantities to documents (RII 0.7933), engineering approval delays (RII 0.7200), and a general lack of awareness about BOI guidelines and documentation (RII 0.6733). These factors contributed to delays in project execution and highlighted areas where better training and more accurate documentation could mitigate time overruns. The factors such as additional re-checking of documents by employers and BOI (RII 0.5600), complexity of drawings (RII 0.4800), and staff shortages within BOI (RII 0.4733) were identified as less impactful but still noteworthy. These issues often led to delays in final approvals and project closure.

4.5.2 Factors Affecting Project Cost at Different Stages

The questionnaire survey revealed several factors impacting the cost of projects under the BOI process in Sri Lankan construction projects. These factors were identified at different stages of the project, including pre-construction, construction, and handover, with their impact measured using the Relative Importance Index (RII). Table 3 outlines the RII values of each factor that was identified.

Table 3: Factors affecting cost management of apartment construction projects

No	Affecting factor	RII	Rank
1	**During Pre-Construction Stage**		
1.1	Additional staff requirements for registering the project	0.687	1
1.2	Initial one-time payment for the BOI	0.607	2
1.3	Cost for the BOI application	0.553	3
1.4	Obtaining the UDA approval	0.553	3
2	**During Construction Stage**		
2.1	Requirement of storage facilities	0.940	1
2.2	Have to purchase the materials locally due to the dollar issue	0.920	2
2.3	Double handling, if the materials received earlier	0.920	2
2.4	Delays due to the BOI process increase material price	0.893	4
2.5	Cost for preliminaries will increase due to delays	0.867	5
2.6	Additional charge by the clearing agent	0.673	6
2.7	Annual BOI charge	0.673	6
2.8	Charge for the CUSDEC document	0.560	8
2.9	Cost for the investment and engineering applications	0.513	9

No	Affecting factor	RII	Rank
3	**Handover Stage**		
3.1	Custom duty payment due to non-compliance	0.847	1
3.2	Tax for the unused goods or re-export the goods	0.840	2

During the pre-construction stage, four major factors were identified as affecting project costs. The most significant was the "Additional staff requirement for registering the project under BOI," which had an RII of 0.6867. This indicates a substantial cost impact, particularly compared to projects without BOI concessions. The "Initial one-time payment for the BOI" followed, with an RII of 0.6067, highlighting its considerable financial burden on projects. The costs associated with the "BOI application" and "Obtaining UDA approval" were also significant, both with an RII of 0.5533, indicating their role in increasing project costs at this stage.

In the construction stage, nine factors were identified as influencing project costs. The most critical factor was the "Requirement of storage facilities if the materials are received early," with a high RII of 0.9400. This reflects the need for additional infrastructure to accommodate early deliveries, leading to increased costs. The need to "Purchase materials locally due to the Dollar issue" and "Double handling, if the materials are received earlier" were significant, both with an RII of 0.9200. These issues are closely related to financial constraints and logistical challenges, leading to higher costs. "Delays due to the BOI process" causing "Material price increases" was another significant factor, with an RII of 0.8933, indicating the financial impact of procedural delays. Additionally, "Cost for preliminaries will increase due to delays" had an RII of 0.8667, highlighting how time overruns can lead to higher costs. Other factors such as "Additional charge by the clearing agent," "Annual BOI charge," and costs associated with "CUSDEC documents and engineering applications" were also noted, though with relatively lower RII values.

At the handover stage, two factors were identified as significantly impacting costs. The most critical was the need to "Pay custom duty since the conditions of the contract with BOI were not fulfilled," which had an RII of 0.8467. This indicates substantial costs incurred due to non-compliance with BOI contract conditions. The requirement to "Pay tax for unused goods or re-export the goods" was another significant cost factor, with an RII of 0.8400, highlighting the financial implications of handling unused materials at the project's conclusion.

Drawing on the findings from both interviews and questionnaire surveys with industry experts, the framework given below in Figure 2 identifies key issues at the pre-construction, construction, and handover stages, highlighting their impact on project delays and cost overruns. This comprehensive framework aims to provide project managers and stakeholders with a structured approach to anticipate, evaluate, and mitigate these challenges, thereby enhancing project efficiency and cost-effectiveness. By integrating these insights, the framework serves as a practical tool to improve project outcomes and ensure compliance with BOI regulations.

Criteria to be a BOI project	Pre-construction stage		Construction stage		Handover stage	
	Incentives/benefits		Incentives/benefits		Incentives/benefits	
- Solutions for the unemployment - Affect to the economic growth of the country - Approved under Section 17 of BOI Law - minimum investment threshold of USD 3 Mn or upwards - Approved under Section 16 of BOI Law - minimum investment requirement is USD 250,000	- BOI lands can be obtain for the construction. - BOI also involve with getting UDA approvals.		- TAX concessions - The approval procedure will accelerate (Letter of credit, CUSDEC) - Disputes caused by the improper documentation will be minimized - Provide visa facility to export foreign employees - Allow to export heavy machineries which are not locally available - Material clearing is easy with the BOI process		- ·Employer can complete the project lower cost - Customer can buy the apartments at lower cost than the projects without BOI concessions - Can sell the apartment units for a competitive price in the market.	
Regulations/ acts	**Challenges**		**Challenges**		**Challenges**	
- The Inland Revenue Act No. 24 of 2017 - Companies Act No. 7 of 2007 - BOI Act No. 4 of 1978 as amended and its Regulations - Exchange Control Act No. 24 of 1953 and its Regulations - Strategic Development Projects Act No. 14 of 2008 as amended - Finance Act No. 12 of 2012 Part (iv) as amended (Hub Operation Regulations) - The Customs Ordinance (Chapter 235) - The Merchant Shipping Act, No. 52 of 1971	- UDA approvals get delay - Additional staff requirement for registering the project under BOI - Pandemic situations		- Variation in imported material type under BOI concessions. - Difficulty obtaining confirmation documents from local suppliers for restricted materials. - Delays in obtaining investment applications. - Need for storage facilities if materials arrive early. - Compulsion to purchase materials locally due to dollar issues. - Potential material price increases due to BOI process delays. - Risk of BOI concession period ending before project completion. - Impacts of pandemic situations. - High documentation requirements for BOI registration. - Strict limitations on wastage: no wastage for countable items, 10% allowance for measured items.		- Had to pay the custom duty since the conditions of contract with BOI not fulfilled. - Has to pay the tax for the unused goo or re-export the goods	

Figure 2: Framework

5. CONCLUSIONS

The research aimed to investigate the influence of the BOI approval process on the cost and time aspects of apartment construction projects in Sri Lanka. This study set out to identify the challenges and factors associated with BOI approvals that impact project timelines and budgets. The research successfully met its objectives through semi-structured interviews and a questionnaire survey by gathering insights from industry experts and practitioners.

Key findings revealed that the BOI approval process varies with project types, contrary to the uniform approach suggested in existing literature. Interviewees highlighted that, requirements such as UDA approvals, SLTDA approvals, and environmental clearances differ across projects. Additionally, despite recent BOI initiatives to streamline approvals, delays persist due to issues including contractor inefficiencies, material quality concerns, and project complexity. These delays can result in the expiration of BOI concessions, increasing project costs.

The questionnaire survey further identified critical cost-related factors at different project stages, such as additional staffing for BOI registration and unexpected material cost fluctuations. These findings were integrated into a comprehensive framework, summarising the key challenges and their impact on project cost and time.

The implications of these findings are significant for industry practitioners, academia, and policymakers. For practitioners, understanding the nuances of the BOI process can help mitigate delays and cost overruns. Academia can use these insights to further explore the complexities of regulatory impacts on construction projects. Policymakers, particularly those involved with the BOI, can leverage these findings to refine approval processes, ensuring they are efficient and supportive of project success.

However, the study has limitations, including a limited sample size and a focus on qualitative data, which may introduce bias. The findings are also specific to Sri Lanka and may not be generalisable to other contexts. Future research could expand the sample size, incorporate more comprehensive quantitative methods, and explore comparative studies across regions to validate and broaden the understanding of the BOI approval process's impact. Additionally, examining the long-term effects of BOI approvals and other influencing factors including market dynamics and technological advancements would provide a more comprehensive perspective.

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