Cost Overruns of Foreign Funded Highway Projects in Sri Lanka

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When an infrastructure development project is planned, an accurate estimation is critical. As a result of failing the fulfillment of expected accuracy, the cost overrun of the projects would result. The cost overrun is defined as a difference between the initial project estimate at the planning stage and the accounted project cost at the time of project completion. However, cost overrun is one of the major negative consequences that may influence to the economy of a developing country, like Sri Lanka. In order to fill the aforesaid financial gap, the necessity of pumping additional funds through the consolidated fund by the GOSL would be arisen.

Out of the significant impacts of which caused by cost overruns in foreign funded projects are delay in completion and curtailment of original scope of work. But both adverse impacts are restricted by the conditions and policies of funding agencies. It is the normal practice that influencing to complete the project up to the agreed scope under the specified standards by the funding agencies. Due to the fact that the highway projects would make greater impacts not only to the development of infrastructure but also to the higher cost overruns, it was decided to limit the analysis only for the highway projects.
The overlooked main factors that cause to turn the project into track of the cost overrun path are;

- Increase quantities
- Price Changes

However, there can have many factors that have supported above mentioned main factors. The objective of this research is to

- To study what is cost overrun?
- To identify factors behind cost overruns in Sri Lankan projects
- To identify main risk factors & risk management

The research would address the gap of knowledge of why highway projects overrun their cost. In addition to that, a method for minimizing cost overruns or identify cost overruns in advance will be proposed.

In this research, twenty numbers of cost overrun highway projects completed within resent years and funded by different agencies were collected and analyzed. What are the main causes for cost overrun, how is a BoQ item correlate to each other item and what is relationship of cost overruns with project period or delay will be studied.

This research highlights the significance of understanding proper risk allocation between contractual parties in Sri Lankan road projects by changing percentage of contingency component. It aims at assisting Sri Lankan road contractors and employers to

a) Identify the risk sources inherent in road projects,
b) Understand their risk responsibilities,
c) Improve their risk handling strategies so that they would optimize the scarce resources
d) Enhance the socio-economic value of Sri Lankan road projects.

Constructions are rich with many difficulties and had made less attempt for risk analysis allows us to at least make an attempt to identify these risky projects and attaching some financial contingent value to recover the same. The project budget then becomes a more realistic representation to the client to afford it.

Cost contingency is included within a budget to represent the total financial commitment for a project client and the quantum of such contingency is of critical importance to the projects. It is a normal practice that, maintaining 10% contingency for total cost overrun factors. But this thesis will prove that, it is incorrect and different allowances should be maintained. In this regards, the relationships are defined and they will be recommended to adopt.

Key words: *Highway Construction, Project Budgeting, Inflation*

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