



Ministry of Roads and Highways

Cabinet Memorandum

CM No.: / 2020

Implementation of Construction of Proposed Expressway Network in Sri Lanka

1.0 Background

The Government has planned to construct following Expressway Network in addition to the existing network comprising Southern Expressway from Kottawa to Mattala and Hambantota, Outer Circular Highway from Kottawa to Kerawalapitiya and ColomoboKatunayake Expressway from Peliyagoda to Katunayaka.

- (i) Central Expressway from Kadawatha to Dambulla with a branch from Pothuhera to Galagedara as a connection to Kandy.
- (ii) Ruwanpura Expressway from Kahathuduwa to Pelmadulla via Rathnapura.
- (iii) Eastern Expressway from Mattala to Pothuvil via Thanamalvila, Wellawaya Monaragala and Siyabalanduwa.

2.0 Description

2.1 Central Expressway Project (CEP)

- 2.1.1 The Central Expressway connecting Kadawatha to Dambulla via Kurunegala and a branch of Central Expressway starting from Pothuhera connects to Galagedara as a connection to Kandy. For implementation purpose the Central Expressway is divided in to four Sections as given in Table 1 below;

Section	From	To	Length(km)	Remarks
Section 1	Kadawatha	Mirigama	37.09	
Section 2	Mirigama	Kurunegala	39.29	
Section 3	Pothuhera	Galagedara	32.50	Connection to Kandy
Section 4	Kurunegala	Dambulla	58.70	

Table 1

2.1.2 Section 1 – From Kadawatha to Mirigama (CEP I)

- 2.1.2.1 Two contracts were awarded to M/s Metallurgical Corporation of China Ltd (MCC) for the construction of Section 1 of CEP on May 2015. Two separate contract agreements were also signed between the Road Development Authority (RDA) and MCC for the construction of civil works of section I of Central Expressway, namely as package 1 and 2. The Contract Package 1 is for section from Kadawatha to Kosinna (0.50 km to 4.54 km) and the Contract Package 2 is for Section from Kosinna to Meerigama (4.54 km to 37.09 km) on 20.06.2016 and 04.08.2015 respectively after obtaining approvals from the Cabinet of Ministers.

2.1.2.2 Agreements for the above mentioned two contract packages were signed pending signing of loan agreements between the Government of Sri Lanka and the EXIM Bank of China. Therefore, a condition that the contract will stand terminated in the event the loan agreement is not signed within a period of one year was included in each of the contract agreements. The Contractor was allowed to commence mobilization and preliminary works until loan is secured. RDA is bound to pay the cost of initial expenditure incurred by the Contractor if the loan agreement is not signed.

2.1.2.3 As there was a delay in signing the loan agreements, RDA and MCC have mutually agreed and signed amendments to the above two contract agreements thereby extending the validity of contracts for Section 1 up to 2017.12.17 and Section 2 up to 2018.01.25 initially. Subsequently, these agreements were extended further to avoid termination.

2.1.2.4 Approval of the Cabinet of Ministers was granted at its meetings held on 12th June 2018, 02nd January 2019 and 19th March 2019 to enter into a Loan Agreement between the Government of Sri Lanka and the Export-Import Bank of China (EXIM Bank of China) to obtain a loan of US\$ 989,448,556.31 under the Preferential Buyer Credit (PBC) to finance Section I of the Central Expressway Project from Kadawatha to Meerigama. Accordingly, the loan agreement between the Government of Sri Lanka and the EXIM Bank of China was signed on 22 March 2019.

2.1.3 Section 2 - from Mirigama to Kurunegala (CEP-II)

2.1.3.1 The construction of this section is being implemented by four (04) local construction consortiums which include 15 local Contractors with funding from the National Budget and from several local banks, such as Bank of Ceylon (BOC), Sampath Bank, Development Finance Corporation of Ceylon Bank (DFCC), National Savings Bank (NSB) and Peoples Bank. The Civil works Contract cost of CEP-II is Rs.137.98 Bn and Consultancy Contract which is also being provided by local consultancy firms at a cost of Rs.3.093 Bn. The land acquisition cost is approximately Rs.8 Bn. Now the physical progress of the CEP-II is around 80% and the total expenditure as of today is Rs.96.682 Bn and expected to be completed in August 2020. Furthermore, Rs.40 Bn is required to complete this Section on time. Accordingly, the Cabinet of Ministers at its meeting held on 05.02.2020 has granted approval to RDA to issue a bond(s) or debentures up to a maximum of Rs.70 Bn to finance the CEP-I and CEP-II. Now RDA in consultation with the Ministry of Finance, Economy and Policy Development is looking for raising funds through bond(s) or debentures. However, if there is any deficiency, RDA may approach to Local Banks to cover balance funds from Local Banks. Complete of CEP-II is possible if adequate finance is provided on time.

2.1.4 Section 3 – from Pothuhara to Galagedara (CEP-III)

2.1.4.1 Conditional letter of acceptance has been issued for this Contract to M/s Taisei Corporation Ltd of Japan for the construction of this section on 04.05.2018 after getting necessary approval from the Cabinet of Ministers. On the understanding that Mitsubishi UFJ Financial Group (MUFG) of Japan providing a loan of JPY 100 billion for CEP-III.

- 2.1.4.2 Since 2015, negotiations are being continued between MUFG, NEXI and GOSL to finalize the proposed JPY 100 Bn NEXI covered financing facility for CEP-III. However The External Resources Department (ERD) and Attorney General's (AG) Department were unable to conclude the negotiations yet due to several clauses which may have an impact on fund disbursement of the three-year implementation schedule of the project while exposing the GOSL for additional financial risks.
- 2.1.4.3 The escalated price of the contract during the lengthy negotiations has to be borne by the government as the financier was unable to come to an amicable settlement on the disputed clauses which are connected with the disbursement of loan.
- 2.1.4.4 The cost of insurance policy of the facility is approx.USD 88 Mn, and expected to be borne by the GOSL. The policy is governed by the laws and regulation of Japan and if the policy is fully or partially withdrawn by NEXI, the facility will be discontinued and the GOSL is required to pay back the disbursed amount of the loan and continue the project by its own.
- 2.1.4.5 The AG's Department has not cleared the clauses related to the anticorruption of the loan agreement as such clauses are not compatible with the laws of Sri Lanka. Either an action of an individual of contractor or GOSL side, the financing party has kept the right to declare an event of default and eventually to call for mandatory prepayment of the entire facility.
- 2.1.4.6 Since the Consultant (Katahira& Engineers International Pvt. Ltd of Japan) has not extended the bid validity period beyond 04/01/2019, it is required to select consultancy services through a new bidding process
- 2.1.4.7 In the meantime, following construction firms have shown interests to implement this Section with different financing sources as given below.
- i. Ms. Roughton International Limited of UK with funding to cover entire cost from UK Export Financing and with a preliminary proposal. They proposed entrusting an entire Construction work to local construction companies. But later they offered this facility for Section 4 instead of Section 3 as described in below.
 - ii. M/s China Chemical Engineering Second Construction Corporation (CCESCC) with the aiming of financing from HSBC, but no assured financing or a term sheet has been forwarded.
 - iii. M/s China National Aero Technology International Corporation (AVIC-ENG) with the aiming of financing from China Development Bank. AVIC-ENG has assured financing with a letter from CDB and financial terms are provided in their letter.
 - iv. M/s Beijing Urban construction Group Co., Ltd (BUCG) with the aiming of financing from China Exim Bank. But no assured financing or a term sheet has been forwarded.

2.1.5 Section 4 – from Kurunegalato Dambulla (CEP-IV)

- 2.1.5.1 Cabinet of Ministers has awarded a Contract to M/s Gazhouba Group International Engineering Co., Ltd of China for the Construction of this Section at a cost of Rs.161,609,966,593 (Excluding VAT) on 24.12.2016. So far no action has been taken to provide financing source for the Contract implementation. So far funding is not assured.
- 2.1.5.2 In the meantime following construction firms have shown interests to implement this section, indicating financing sources as given below.

- i. Ms. Roughton International Limited of UK with funding from UK Export Financing and with a preliminary proposal. Construction will be entrusted to local construction companies. They propose to entrust entire construction works to local construction companies.
 - ii. M/s China Chemical Engineering Second Construction Corporation (CCESCC) with the aiming of funding from HSBC, but no assured financing or a term sheet has been forwarded.
 - iii. M/s China National Aero Technology International Corporation (AVIC-ENG) with aiming of funding from China Exim Bank, but no assured financing or a term sheet has been forwarded.
- 2.1.5.3 The information given in Para 2.1.3 above shows that the completion of Section 2 of the Expressway (CEP-II) will be completed by August 2020. But the completion of Section 1 would be forecasted in 2023. If action has been taken to implement Section 3 and Section 4 in 2020 the completion of whole Central Expressway linking northern and central part of the island would not be completed even in late 2023 or early 2024.

2.2 Ruwanpura Expressway Project (REP)

- 2.2.1 The Ruwanpura Expressway Project from Kahathuduwa to Pelmadulla via Rathnapura (0 – 73.9 km) has been divided into three (03) Sections for implementation purposes as given in Table 2 below;

Section	From	To	Length(km)
Section 1	Kahathuduwa	Ingiriya	26.3
Section 2	Ingiriya	Rathnapura	26.2
Section 3	Rathnapura	Pelmadulla	21.4
Total Length			73.9

Table 2

- 2.2.2 Cabinet of Minister met on 26.07.2016 decided to divide the whole expressway into four sections and allocate each sections to different Contractors as shown in Table 3 below and proposed to invite proposals from them for the implementation of the Project. But there was no certainty of funding availability for any sections.

Section	From	To	Proposed Name of the Contractor
Section A	Kahathuduwa	Ingiriya	China National Technical Import & Export Corporation (CNTIC)
Section B	Ingiriya	Kahengama	China National Aero-Technology International Engineering Corporation (CATIC-ENG)
Section C	Kahengama	Dela	Hunan Construction Engineering Group Corporation (HCEGC)
Section D	Dela	Pelmadulla	China Harbour Engineering Company Ltd. (CHEC)

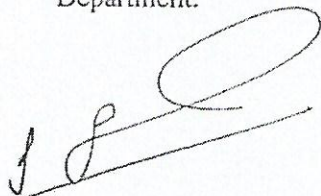
Table 3

- 2.2.3 Accordingly, Request for Proposal (RFP) has been invited from CNTIC on 01.11.2018 and evaluated by Cabinet Appointed Project Committee (CAPC). The decision of CAPC is due in a week's time.
- 2.2.4 But no action has been taken to invite RFP for other Sections.

- 2.3 Eastern Expressway Project (EEP)**
- 2.3.1** The Eastern Expressway Project starting from Mattala Air Port connects Pothuvil via Wellawaya and Siyabalanduwa. Preliminary trace has been identified and feasibility study requires to be undertaken. It is also necessary to secure funding for feasibility, preliminary and detailed designs and construction.
- 3.0 Justification**
- 3.1 Central Expressway Project (CEP)**
- 3.1.1** Therefore, I propose to take immediate action for the following proposal to expedite the construction of the Central Expressway.
- 3.1.1.1 Section 1 – CEP-I**
To pay Rs.31,767,144,391.60 to M/s Metallurgical Corporation of China Ltd as an advance payment using domestic or foreign financing sources to commence work of CEP-I.
- 3.1.1.2 Section 2 – CEP II**
To provide required balance funding of Rs.40 billion through local banks for the construction of CEP-II anticipating completion by August 2020.
- 3.1.1.3 Section 3 – CEP-III**
- (i) Cancel the contract negotiation including the Conditional Letter of acceptance with M/s Taisei Corporation Ltd and cancel the financial negotiation with MUFG/NEXI Japan.
 - (ii) Invite Expressions of Interest (EOI) from perspective contractors who can provide 100% financing cover to expected contract price in which financing terms are acceptable to the Government of Sri Lanka.
- 3.1.1.4 Section 4 – CEP IV**
- (i) Cancel the award of the Contract to M/s Gazhouba Group International Engineering Co., Ltd of China.
 - (ii) Since the proposal indicates that local contractors will be entrusted with for the work it is proposed to evaluate financial proposal submitted by M/s Roughton International Co. Ltd by ERD to see whether financing terms are acceptable.
 - (iii) The other financial terms of EOI's mentioned in Para 2.1.5.2 could also be considered for evaluation possible by the ERD.
- 3.2 Ruwanpura Expressway Project (REP)**
- 3.2.1** This Project has been identified as a priority Project in the Government Policy Document of "Vistas of Prosperity and Splendour".
- 3.2.2** Initially it is proposed to start construction from Kahathuduwa via Ingiriya to Rathnapura (52.5km) and later the remaining section depending on the availability of funding.
- 3.3 Eastern Expressway Project (EEP)**
- 3.3.1** It is proposed to request funding for undertaking feasibility, detail and preliminary design and Construction.
- 4.0 Project Readiness**
- 4.1** In view of the current status of project implementation and the need of ensuring the connectivity of expressway network, priority will be given for completion of CEP I and CEP II.

- 4.2 Further, considering the prevailing fiscal constraints, new projects can only be incorporated into the National Budget in the medium term. Therefore, implementing agencies have sufficient time to ensure the project readiness and follow the competitive procurement procedures.
- 4.3 Accordingly, prior to initiating any contractual and financial agreements, it is prerequisite to ensure the project readiness to avoid unnecessary financial cost due to cost variations, delays in land acquisition, design variations as a result of environmental concerns and inadequate geological, geotechnical/hydrological investigations etc. To optimize the project benefits while minimizing financial and other project related cost, it is compulsory to ensure the project readiness in consultation with National Planning Department, giving due consideration to the following,
- Completion of feasibility study
 - Completion of Land acquisitions in line with the proposed construction plan
 - Resettlements and other social concerns
 - Geological, geotechnical/hydrological investigations and designing etc.
 - Environmental and other relevant approvals
- 4.4 Feasibility Studies, Preliminary Design, Bid Documents and Cost Estimates have been prepared in respect of CEP-III and CEP-IV.
- 4.5 The Section 3 and Section 4 of CEP fulfills Requirements mentioned in Para 4.2 and 4.3.
- 4.6 Land Acquisition in respect of Section 1 of Ruwanpura Expressway is ongoing and can be completed if funding is provided on time. The design of Section 1 and 2 is also completed.
- 5.0 Approval
- 5.1 Approval of the Cabinet of the Ministers is sought for following;
- i. To authorize Secretary, Ministry of Roads & Highways and the Road Development Authority to obtain Rs.31,767,144,391.60 from domestic or foreign financing sources for payment of mobilization Advance Payment for two CEP-I Contracts
 - ii. To raise funds from Local banks if there is any requirement for balance funds after issuing Bond(s) or Debentures for CEP-II.
 - iii. To Cancel the contract negotiation including the Conditional Letter of Acceptance issued on 04.05.2018 to M/s Taisei Corporation Ltd for construction of CEP-III, and cancel the financial negotiation with MUFG/NEXI Japan;
 - iv. To authorize Secretary, Ministry of Roads and Highways to invite Expression of Interest (EOI) on competitive basis from all prospective Contractors to submit EOI's with 100% financing acceptable to the Ministry of Finance for the total contract price of CEP-III and to authorize External Resources Department to pursue funding for CEP-III based on the outcome of the EOIs.
 - v. To authorize External Resources Department to evaluate financial terms submitted by M/s Roughton International Ltd. for CEP-IV.
 - vi. To authorize Secretary Ministry of Roads and Highways to request M/s CNTIC to provide 100% financing for the cost of Section 1 of the Ruwanpura Expressway.

- vii. To authorize External Resources Department to pursue funding for Section 2 of the Ruwanpura Expressway Project based on the outcome of Para 5.1. (vi).
- viii. To authorize Secretary, Ministry of Roads and Highways to invite Expression of Interest (EOI) on competitive basis from all prospective Contractors to submit EOI's with 100% financing for the total contract price of Section 2 of Ruwanpura Expressway.
- ix. To authorize External Resources Department to pursue funding for feasibility study, preliminary and detailed designs and construction of Eastern Expressway Project in consultation with the National Planning Department.



JOHNSTON XAVIER FERNANDO (M.P.)
MINISTER OF ROADS AND HIGHWAYS

February 2020

MINISTRY OF FINANCE, ECONOMY AND POLICY DEVELOPMENT

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WebSite } www.mof.gov.lk

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தேதி } 2020.02.27
Date }

Cabinet Memorandum

Observations of the Minister of Finance, Economy and Policy Development

- | | |
|----------------------------|--|
| Ministry | : Roads and Highways |
| Title & Date | : Implementation of Construction of Proposed Expressway Network in Sri Lanka

15.02.2020 |
| Proposals/ Requests | : The approval of the Cabinet of Ministers is sought for the following proposals,

i. To authorize Secretary, Ministry of Roads & Highways and the Road Development Authority to obtain Rs.31,767,144,391.60 from domestic or foreign financing sources for payment of mobilization Advance Payment for two CEP- I Contracts.

ii. To raise funds from Local banks if there is any requirement for balance funds after issuing Bond(s) or Debentures for CEP- II.

iii. To Cancel the contract negotiation including the Conditional Letter of Acceptance issued on 04.05.2018 to M/s Taisei Corporation Ltd for construction of CEP- III, and cancel the financial negotiation with MUFG/NEXI Japan;

iv. To authorize Secretary, Ministry of Roads and Highways to invite Expression of Interest (EOI) on competitive basis from all prospective Contractors to submit EOI's with 100% financing acceptable to the Ministry of Finance for the total contract price of CEP- III and to authorize External Resources Department to pursue funding for CEP- III based on the outcome of the EOIs.

v. To authorize External Resources Department to evaluate financial terms submitted by M/s Roughton International Ltd. for CEP- IV.

vi. To authorize Secretary Ministry of Roads and Highways to request M/s CNTIC to provide 100% financing for the cost of Section 1 of the Ruwanpura Expressway.

vii. To authorize External Resources Department to pursue funding for Section 2 of the Ruwanpura Expressway Project based on the outcome of para 5.1. (vi). |

viii. To authorize Secretary, Ministry of Roads and Highways to invite Expression of Interest (EOI) on competitive basis from all prospective Contractors to submit EOI's with 100% financing for the total contract price of Section 2 of Ruwanpura Expressway.

ix. To authorize External Resources Department to pursue funding for feasibility study, preliminary and detailed designs and construction of Eastern Expressway Project in consultation with the National Planning Department.

Observations

: (i) - (ii) I agree to the proposals in principle.

(iii) I agree to cancel the contract negotiation including the Conditional Letter of Acceptance issued to M/s Taisei Corporation Ltd.

(iv) I agree to the proposal in principle.

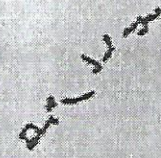
(v) I agree to the proposal. However, it is suggested to direct the Secretary, Ministry of Roads and Highways to request detailed technical proposal from the proponent and evaluate it through a Cabinet Appointed Negotiation Committee and a Technical Evaluation Committee.

(vi) I agree to the proposal subject to obtaining 100% foreign Financing for the project based on optimal payment mechanism including a deferred payment option.

(vii) I agree to the proposal to arrange financing based on the outcome of para 5.1(viii)

(viii) and (ix) I agree to the proposals

However, Ministry of Roads and Highways should ensure that all prerequisites highlighted in the Para 4 of the Cabinet Memorandum are fulfilled in a satisfactory manner to the Cabinet of Ministers, enabling the Department of External Resources to finalize the financing arrangements with the respective lender/s in a timely manner based on the project readiness and the borrowing capacity of the Government.


Mahinda Rajapaksa, M.P.
Minister of Finance, Economy and Policy
Development

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அமைச்சரவை அலுவலகம்
OFFICE OF THE CABINET OF MINISTERS

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Publication No., Your Reference No.

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Date 2020-03-01

Urgent & Confidential

Mr. R.W.R. Pemasiri
Secretary
Ministry of Roads and Highways
Fax: 2862705

CABINET DECISION

Item (63) of the Minutes of the Cabinet Meeting held on 2020-02-19, as amended at its meeting of 2020-02-27 [(Item 04(a)(IV))] is given below.

Item:[04(a)(IV)]

Item No.63 - Cabinet reconsidered the decision on this Item in the light of the further observations of the Minister of Finance, Economy and Policy Development since received dated 2020-02-27 and it was decided to amend the said decision to read as follows:

"63. Cabinet Paper No.20/0413/221/013, a Memorandum dated 2020-02-15 by the Minister of Roads and Highways on "Implementation of the construction of proposed Expressway Network in Sri Lanka" - the above Memorandum was considered along with -

- * the observations of the Minister of Finance, Economy and Policy Development dated 2020-02-19; and
- * the further observations of the Minister of Finance, Economy and Policy Development since received dated 2020-02-27.

After discussion, it was decided to grant approval -

- (I) to the proposals (i) to (iv) in sub-paragraph 5.1 of paragraph 5.0 of the Memorandum; and

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Secretary

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Senior Additional Secretary

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Additional Secretary

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Senior Assistant Secretary

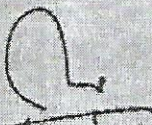
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(II) to the proposals (v) to (ix) therein, subject to the Secretary, Ministry of Roads and Highways taking action as indicated in the respective paragraphs of the observations submitted by the Minister of Finance, Economy and Policy Development in this regard.

It was also decided to treat this decision as confirmed and to authorize the Secretary to the Cabinet of Ministers to convey the same to the relevant authorities for necessary action accordingly."

Action by: My/Finance, Economy and Policy Development
My/Roads and Highways - above observations annexed.

Copied to: Secretary to the President - copy of Memorandum and above observations annexed.
Secretary to the Prime Minister - copy of Memorandum and above observations annexed.


S. Amarasekara
Secretary to the Cabinet of Ministers