

No.	Issue	Recommendation
1	Contracts are silent on price escalation, creating ambiguity regarding entitlement and circumstances after having ascertained the actual loss exposing contractors to severe financial hardship.	Obtain special approval from the higher authorities to allow equitable relief under changed economic conditions after having ascertained the actual loss incurred through claims on ex-gratia basis.
2	Price escalation provisions have been deliberately deleted from contracts, leading to distorted competition.	The procurement entity is responsible for such deletions which are considered to be NPC/SBD violations.
3	Indices do not accurately reflect actual market conditions.	The indices are based on the weighted average of prevailing market prices collected from representative suppliers and authentic market sources
4	Short-duration contracts below three months traditionally exclude escalation despite abnormal inflation affecting contractor viability.	Adopt CIDA simplified formula or manual adjustment methods upon request of the contractors and approval of the Cabinet. Implementing agencies should ascertain the total financial impact of their projects before seeking approval. Further, NPC has mandated to use the price escalation formulae for contracts with duration more than 03 months, implying that the contracts with duration 03 months or less may also use such provision.
5	Contractors who have already claimed escalation, face delays in assessment, certification, and payment, causing cash flow difficulties and disputes.	Establish mandatory timelines for processing claims and allow interim escalation payments subject to verification in order to ease out cash flow constraints
6	Tender prices become commercially unviable when there is a long delay between tender submission, acceptance, and commencement of work due to rapid price increases.	Re-tender or negotiate and agree with the concurrence of the procuring committees new rates and minimize delays between contract award and site possession.
7	Contractors purchasing diesel in bulk at higher market prices suffer losses because indices reflect only regulated filling-station prices.	Follow the CIDA Directive on Treatment of bulk (industry) fuel purchases under works contracts published (Gov/CIDA/Directive/102/2026)
8	Plant and equipment hiring contracts without escalation	Introduce mandatory fuel adjustment clauses for plant and equipment hiring contracts. CIDA fuel index can be

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	provisions expose hiring used. Otherwise, manually compute the gaps of prices and agencies to fuel cost increases, pay for the fuel consumed on authentic records. Further it is eroding profits and threatening the Engineers duty to compute input percentages by continuity of work.	including fuel as an input since plant hire rates normally exclude fuel cost.
9	Some construction materials are not covered under published indices.	Only 90% of the contract value is considered adjustable under the price escalation formula, while the remaining 10% is treated as insignificant. The coefficient 0.966 of the formula represents compensation for minor inputs calculated indirectly eliminating contractor's profit & part of overheads. As such some insignificant items can be assigned in the group of non-adjustable, while methods such as but not limited to, prime cost rates can be used. (such as MEP items, where CIDA indices are not available) Please refer Directive Gov / CIDA /Directive /102 / 2023
10	Material shortages and supply disruptions delay construction activities, forcing contractors to seek time extensions and incur additional costs.	Contractors are entitled to claim extensions of time on valid contractual grounds, including material shortages where justified. The Engineer to the Contract shall assess such claims considering factors such as float, concurrent delays, mitigation obligations, and relevant contract provisions before determining the appropriate extension of time. No specific time frame can be prescribed in advance or on a blanket basis, as the impact of material shortages and related delays varies significantly from project to project depending on the nature, scope, critical path activities, and availability of float, mitigation measures, location and overall project conditions. Pl refer to CIDA website for the Directive to Sustain the Construction Industry under Conflict-Induced Disruptions (Supply Chain Shocks, Fuel Volatility & Labour Mobility Constraints) Gov/CIDA/Directive/101/2026.
11.	Contractors seek declaring price escalation and EOT on the basis of force majeure	Although current market conditions, material shortages, inflation, and supply chain disruptions have affected the construction industry, such circumstances do not generally fall within the purview of force majeure under standard contractual principles. Force majeure typically applies to extraordinary, unforeseeable, and uncontrollable events that make contractual performance impossible, whereas market fluctuations and commercial risks are considered part of normal industry and business risks to be managed under the

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		contract provisions relating to price escalation and extension of time.
12.	Projects located outside Colombo and in remote areas experience disproportionately high escalation impacts due to transport and logistics costs.	CIDA intends to publish district-specific indices to better reflect regional market conditions, including transport and logistics costs applicable to remote areas. However, a comparative analysis indicated that, in relative terms, the overall variation in price escalation between districts is not significantly substantial when assessed against the total project cost composition.
13.	Timing mismatches occur where escalation is paid for work items not yet commenced or materials not yet incorporated into the works.	The formula-based escalation mechanism is intended to be consistently applied from the commencement to the completion of the project in order to reconcile such timing mismatches, which are inherently embedded within the formula approach. Over the full project duration, these variations are expected to balance out through the continuous application of the agreed adjustment mechanism.
14.	Complex escalation formulae are difficult to apply in small-scale, maintenance, or short-duration projects.	Apply simplified escalation formulae suitable for smaller and less complex contracts.
15.	Artificial price inflation caused by hoarding, cartel practices, or limited suppliers distorts escalation calculations and market fairness.	CIDA has already referred this matter to Consumer Affairs Authority for anti-profiteering mechanisms supported by independent price verification.
16.	In some cases, input percentages used in standard formulae may no longer reflect actual resource consumption patterns and modern construction methods.	In exceptional circumstances where there is a demonstrable error in the original coefficients, a formal amendment may be permitted through a properly documented contractual variation or addendum agreed by both parties. In such cases, the revised coefficients must be clearly derived from updated cost analysis, justified technically, and applied for the entire valuations and previous price fluctuation claims shall be revised accordingly.
17.	Imposing a fixed cap such as 20% on escalation may unfairly transfer inflation risk to contractors during abnormal economic	Even a modest cap can result in disproportionately high contingencies being added to bids, undermining the intended purpose of the escalation mechanism.

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	conditions.	
18.	Uncertainty exists regarding whether escalation should apply to provisional sums which no detailed cost breakdown, coefficients, or inputs included in the contract.	Escalation generally does not apply to provisional sums because such sums represent undefined or uncertain work for which no detailed cost breakdown, coefficients, or inputs exist at the time of tender.
19.	Applying escalation work creates legal, financial, and administrative complications.	Escalation does not generally apply retrospectively to completed work unless explicitly provided for in the contract.
20.	Escalation entitlement is generally not linked to contractor performance, efficiency or productivity. It is therefore independent of allowing poorly performing contractors to benefit equally.	Escalation reflects changes in macroeconomic conditions and market prices rather than contractor performance, efficiency or productivity. It is therefore independent of allowing poorly performing contractors to benefit equally. Escalation is applied uniformly regardless of how efficiently the contractor executes the work.
21.	Negotiating escalation provisions during tender clarification stages may undermine fairness and equal treatment among bidders.	Ensure all clarification-related modifications are uniformly communicated to all bidders.
22.	Published indices may require revision after release due to errors or anomalies identified subsequently affecting previously certified payments.	Interim payments are provisional in nature, and any errors or anomalies identified subsequently can be reviewed and rectified in accordance with the contract provisions. Similarly, if any inaccuracies are detected in published indices, CIDA may review and revise such indices where necessary based on verified data and due validation procedures. In this case it is advisable to use the CIDA directive Gov/CIDA/Directive/101/2023, upon duly approval of CIDA, where a case sensitive factual index may be used.
23.	Price escalation treatment in design-and-build contracts is more complicated due to integrated design and construction risks.	Whence the escalation provision is allowed in D & B contracts, the Engineer to the Contract is empowered to effect appropriate determinations. Therefore the decision on changing input percentages or deriving factual indices when there are abnormal deviations from CIDA published indices are remedies that could be met in complicated scenarios.
24.	Whether the Employer can utilize price contingencies	The disposal and utilization of contingencies are at the discretion of the Employer, subject to approval of the

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	included in the Contract Sum relevant Procurement Committee and compliance with for payment of price escalation applicable procurement guidelines and financial regulations. partially or in full.	Where justified by extraordinary market fluctuations, the Employer may utilize all or part of the price contingencies for settlement of verified price escalation claims.
25.	Materials are not available in the market, are in short sourcing through alternative suppliers, government agencies, supply, or are available only at state-owned enterprises, or bulk procurement arrangements. significantly higher prices, Where materials are supplied directly by the Employer, the causing delays in procurement value of such supplied materials shall be deducted from and execution.	The Employer may intervene to facilitate material in the market, are in short sourcing through alternative suppliers, government agencies, supply, or are available only at state-owned enterprises, or bulk procurement arrangements. Where materials are supplied directly by the Employer, the causing delays in procurement value of such supplied materials shall be deducted from payments due to the Contractor. Appropriate records, invoices, and issue vouchers shall be maintained for transparency and audit purposes.
26.	Contractors are generally suffering from severe cash flow constraints due to prevailing economic conditions.	Measures to ease contractors' cash flow constraints may include: (a) expediting interim/on-account payments; (b) reducing certification and payment processing periods; (c) releasing retention monies partially or against acceptable guarantees/bonds; (d) providing advance payments against advance payment guarantees; (e) permitting material advances for critical imported or high-value materials; (f) facilitating extensions of time without liquidated damages where delays are beyond contractor control; and (g) prioritizing settlement of certified claims, variations, and pending payments.
27.	Under lump sum contracts, price escalation is generally not request the Contractor to submit a detailed breakdown of the payable; however, lump sum price identifying material, labour, plant, and other extraordinary market cost components. The material component may then be conditions have substantially assessed against actual invoiced prices and corresponding affected contractor quantities incorporated into permanent works. The verified performance and viability.	In exceptional circumstances, the Employer may however, lump sum price identifying material, labour, plant, and other market cost components. The material component may then be substantially assessed against actual invoiced prices and corresponding contractor quantities incorporated into permanent works. The verified price gap attributable to abnormal market fluctuations may thereafter be considered for partial reimbursement or adjustment, subject to technical evaluation and approval by the relevant authorities.

Number	Issue	Recommendations
28.	Foreign currency exchange	Open market prices of building materials generally

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	rate fluctuation affecting the cost of imported construction materials and equipment.	the reflect the impact of foreign currency fluctuations when such materials are purchased on a retail basis. Therefore, in works contracts, reimbursement or adjustment should be based on prevailing market prices supported by invoices, supplier quotations, published market rates, or recognized price indices. The contract should clearly specify the base date, reference exchange rate, and applicable adjustment mechanism to avoid disputes.
29.	When agreements specify that price adjustment shall be made for the foreign currency component as well as equipment, or services attributable to that currency. The contracts involving two or more foreign currencies creating uncertainty in escalation calculations.	Where multiple currencies are used in a contract, price escalation should be calculated separately for each currency based on the proportion of work, materials, and equipment, or services attributable to that currency. The contract should identify the currency composition percentages at the outset and apply recognized exchange rate indices or central bank reference rates for adjustments. Care must be taken to avoid “double dipping,” where both foreign exchange variation and local market price escalation are claimed simultaneously for the same cost component. The escalation formula should therefore isolate exchange rate effects from domestic inflation effects and ensure that only the actual additional cost incurred is compensated. However, it should be noted that CIDA formula shall be used for Sri Lankan Rupee component of such projects.
30.	Service contracts that are highly labor-intensive and vulnerable to wage and labor market fluctuations.	In labor-intensive service contracts, payment and adjustments should primarily be based on an agreed labor cost index or wage index published by a recognized authority. Since labor constitutes the dominant cost component, changes in labor rates should be periodically measured against the base index prevailing at the commencement date of the contract. The adjusted payment should reflect the actual increase or decrease in labor costs for the services rendered during the relevant period. The contract should define the labor proportion of the contract price, frequency of adjustment, applicable labor categories, and source of labor indices.