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MINISTRY OF FINANCE AND PLANNING

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My No. }

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Your No. }

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திகதி } 26 June 2014
Date }

Circular No. MOFP/ERD/2014/1

All Secretaries to line Ministries
All Chief Secretaries of the Provincial Councils
Secretaries to the Governors
Heads of Departments
Heads of Local Government Institutions
Heads of Public Corporation and Statutory Boards
All District Secretaries
All Development partners

Dear Sir/Madam

Acceptance of Donor Assistance

It has been observed that most of the line Ministries, Provincial Councils, Local Government Authorities, Departments and government agencies formulate project proposals for obtaining foreign funds from various development partners without giving due recognition to the macro fiscal implications, cost of foreign borrowings and use of foreign loans and grants, lender's conditionality both monetary and non monetary, required systems and procedures, availability of technical expertise with the respective lender, and their technical advantage/disadvantage in respect of different development sectors for foreign financing vs. local financing.

It has been brought to the notice of this Ministry that a considerable number of projects have been identified to be financed by development partners without prior consultations with this Ministry and following due process further. It has been observed that these projects could have easily been financed from the domestic resources in the Medium Term Budgetary Framework, and at a low cost with significant value additions. This practice has led to weaken our foreign financing strategy and budgetary process significantly, and has also raised sustainability issues of such projects in the long run. Meanwhile, this has a risk involving governance shortcomings affecting the country's well practiced financial procedures and annual budgetary process. Significant transaction costs, complexities in programme management of having too many small ad hoc projects, use of extensive sums of money for foreign consultants, too many foreign missions, operation of project based and funding agency based steering committees, separate procurement procedures, excessive administrative methods are some of the serious concerns that have received the attention of the Government.

The foreign financing strategy of the Government recognizes that the development projects which are implemented using foreign financing would create an asset base and economic activities that will generate future stream of income sources leading to increase of tax revenue and other sources of income in support of debt servicing. In view of the above, foreign financing proposals for development projects are appraised not only in terms of their financial terms, but also by examining the purpose for which such foreign financing is used, and their return overtime to ensure that they create a more revenue generating asset base.

Accordingly, the government borrowings from foreign sources are mobilized mostly to finance large-scale strategic infrastructure projects concentrating on well focused development needs in each sector to create diverse income earning sources in the economy. A greater focus has been made on the needed large investments for the priority sectors such as energy, roads including highways, ports and aviation, irrigation and water supply schemes to increase returns on investments to match the changing cost structure of foreign debt. However, the available Official Development Assistance (ODA) on concessionary terms will extensively be invested in soft sectors including education and health that do not create new assets or generate quick monetary returns in the short run, but will augment human resources base in the country.

As per the legal provision in the Foreign Loan Act, no government agency has authority to directly deal with foreign agencies at the time of formulating development project proposals or latter stages of project implementation without having a proper approval of the general Treasury. Development project proposals must be formulated on the basis of a proper need assessment conducted in line with the sectoral plans developed by respective line agencies within the Public Investment Strategy 2014 - 2016 stipulated in the Mahinda Chintana Vision for the Future, and should be submitted to the NPD for preliminary evaluation of feasibility.

The nature of capital expenditure is assessed carefully by the Treasury Departments to verify as to whether such expenditure directly or indirectly adds value to the external economy through export earnings and import savings. This analysis helps to determine the amount of domestic and foreign borrowings. Given the large number of development proposals received in respect of economic sectors, suitable proposals are selected by the Department of National Planning in consultation with line Ministries through a comprehensive analysis of economic costs and benefits of each project proposal. Economic and financial viability of the project particularly in respect of value addition to the economy and foreign exchange earnings are examined.

When determining the source of foreign financing, the advantages of engaging different lending institutions in different economic sectors and development projects are carefully assessed. The cost of borrowing, past experience, systems and procedures, conditionality, technical expertise available with the respective lenders are some of the key aspects taken into consideration in the process of working with potential sources of financing. The Department of External Resources then feeds the potential projects into the lending pipelines of respective lending agencies during annual consultative process between the Government and development partners.

The National Budget which is prepared on a three year Medium Term Budgetary Framework gives more flexibility for line Ministries and Departments to design their development project proposals in more realistic manner considering the greater resource envelop available over medium term.

Therefore, under no circumstances you should seek any donor assistance for activities for which funds can be allocated from the consolidated fund, and where local expertise is available when formulating project proposals for development partner's assistance. It should also be noted that once a project proposal has been recognized in the medium term lending pipeline of a development partner, line agencies should not engage in further negotiation with other development partners for the same project.

Unsolicited proposals are considered by the Treasury only if they are designed to achieve specific development targets identified in the development policy framework of the government "Mahinda Chintana Vision for the Future". The GOSL has already rationalized the screening process for unsolicited proposals, and all necessary guidelines have been issued to line Ministries to ensure that borrowings are well within the debt servicing capacity of the Government.

Therefore, even in an instance where unsolicited offer is made to state institutions by any foreign development partner or by non Government Agency to provide assistance for an economic development activities, you should discuss such proposals made, with the general Treasury prior to accepting same.

Your cooperation in this regard, and strict compliance to the above instructions when formulating development project proposals is greatly appreciated.

Yours sincerely



P.B. Jayasundera
Secretary to the Treasury

- CC:
1. Secretary to the President
 2. Secretary to the Cabinet
 3. Auditor General
 4. Chairman, Finance Commission
 5. Director General, Department of National Budget
 6. Director General, Department of External Resources
 7. Director General, Department of National Planning
 8. Director General, Department of Public Enterprises