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MINISTRY OF FINANCE, ECONOMY AND POLICY DEVELOPMENT

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Date }

Circular No. MOFE&PD/ERD/2020/1

All Secretaries of Ministries
All Secretaries of State Ministries
All Chief Secretaries of Provincial Councils
All Heads of Departments
All District Secretaries
All Heads of Statutory Organizations

**Ensuring Project Readiness for Effective Disbursement of Foreign/ Local Financing and
Strengthening the Project Management**

Government annually invests a large amount of local and foreign financing resources on building social and economic infrastructure through development projects/ programmes and therefore, ensuring smooth implementation of these projects/ programmes is vital to realize the envisaged economic benefits within the agreed time period as planned. However, a considerable number of projects have been recorded as slow moving projects due to various reasons which were not given due attention at the initial stage of the project preparation. It has been observed that most of the slow moving projects will end up with project extension, cost variation or partial project cancellation, which will in turn incur a significant financial, economic and social cost to the country.

Accordingly, this Circular is issued with the objective of ensuring "project readiness" (the state of readiness of the project to operate/implement) for effective disbursement of foreign/ local finance while strengthening the project management and provides further provisions to the previous circulars listed at the end of this circular.

01. Project Readiness

(a) Project readiness is an important criterion for allocating financial resources from the national budget for implementation of development projects. Often it is observed that foreign and local financing allocated for projects are not utilized properly due to various issues relating to project readiness such as delay in land acquisition, utility shifting, poor designing, planning and coordination, inadequate implementation arrangements including delay in obtaining necessary approvals for the project staff and environmental and social safeguard issues. Therefore, the Secretary to the relevant line Ministry shall personally ensure that the required budgetary provisions are obtained to meet the readiness criteria of the proposed project as indicated in para 01 (e), and ensure that all pre-requirement for smooth implementation of the project activities are met prior to requesting budgetary provisions for supply of goods and services and civil works from the Department of National Budget.

(b) Commitments for the ongoing projects in the sector concerned, and implementation status of such projects needs to be reviewed before finalizing new projects with special attention to the implementing

capacity of the Implementing agencies. Lessons learnt from previous projects should also be considered when proposing new interventions/ activities. Public Corporations and statutory Boards shall ensure that the projects are well within the mandate and objectives of the institution.

(c) Given the country's high exposure to the foreign financing, every effort should be made to implement the projects with the domestic resources available in the medium term budgetary framework. Foreign financing opportunities should be explored for infrastructure projects that consists of a considerable volume of import content, and require foreign expertise and technology.

(d) With regard to all new local and foreign financing projects, project proposals should be complied with the provision of the Circular No. MNPEA/02/2019 dated 10th January 2019 issued by the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs which ensures readiness of the project at the planning stage. The recommendation of Department of National Planning and approval of the Cabinet of Ministers are pre-requirements for incorporating new projects into the National budget.

(e) With regard to the foreign financing projects, the Department of External Resources will conduct the initial discussions with the relevant development partners only after receiving recommendations of the Department of National Planning on the proposed project. The Ministries/Implementing agencies have to inform the Department of External Resources in writing on the project readiness based on the criteria specified below prior to loan negotiation as per Annex – 1(attached). The budgetary allocation will be confirmed by the Department of National Budget based on the project readiness and the available fiscal space in consultation with ERD.

- i. Feasibility/ Pre-feasibility studies with cost estimates should be completed by the line Ministry in consultation with all relevant stakeholders including relevant professional bodies.
- ii. Project cost should reasonably be estimated including all capital and recurrent cost items. Cost of Land acquisition, resettlement, arrangements for utility shifting, and disaster risk reduction when applicable, should be a part of the total cost, and the cost of consultancies and vehicles should be kept at minimal. When using foreign financing, need for and cost of consultancies should be well justified.
- iii. Environmental Impact Assessment and Resettlement plans (if applicable) should be finalized up to the satisfaction of all relevant parties prior to loan negotiation or final approval.
- iv. Land acquisition/ resettlement should be completed to the satisfaction of the relevant stakeholders including lending agency prior to loan negotiation. Secretary to the Line Ministry/Head of the implementing agency shall ensure that the adequate budgetary provisions are agreed by the Department of National Budget for land acquisition and resettlement.
- v. All relevant statutory clearances such as approvals from the Ministry of Defence, Department of Forest Conservation, Department of Wildlife Conservation, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board, Urban Development Authority (UDA), Municipal Councils, Department of Irrigation, National Building Research Organization (NBRO), Central Environment Authority (CEA) etc., should have been obtained prior to loan negotiation.
- vi. Procurement process should have been initiated and progressed up to the satisfaction of all relevant parties prior to loan become effective.
- vii. Annual disbursement projections should be finalized in consultation with the National Budget Department.

viii. Availability of Treasury/Sovereign guarantee in respect of the projects implemented by State Owned Enterprises (SOE's) with direct borrowing from lending agencies.

(f) Please refrain from entering into any new commitments with contractors on new projects without obtaining due concurrence and instructions from the Treasury Departments including the Department of National Planning, Department of External Resources, Department of Fiscal Policy, and Department of National Budget.

02. Changes to the Ongoing Projects

The recommendation of the Department of National Planning is needed for the following changes of the ongoing projects. Large scale scope changes and cost overruns need to be approved by the Cabinet of Ministers.

- a) Restructuring/Scope change/s of the ongoing project
- b) Utilizing savings for new activities
- c) New phases for additional financing

03. Project Management Unit

(a) Line Ministries and project executing agencies are advised to manage new projects within their existing institutional setup. Strengthening the project Management capacity at the executing agency level is vital in this regard to handle multiple projects within the permanent institutional arrangement. Whenever separate PMUs are proposed and justified, executing agency should ensure that the necessary staff be in place in advance to the loan signing to ensure enabling environment for project execution. Secretary of the line ministry shall identify the least human resource requirement for project preparatory activities.

b) As per the Para (7) of DMS Circular No. 1/2019 dated 05/03/2019, the performance of the Project Director and staff should be appraised by the appointing Authority based on the agreed criteria.

04. Contract Management

Since the overall success of a project is depended on contract management, project director should take all relevant steps to maintain proper contract management from the inception to the end of the project.

05. Steering Committees

Holding Steering Committee meetings on regular basis is vital to understand and resolve critical issues relating to project implementation. Steering Committees should meet at least once in two months. If there are critical issues to be attended on frequent basis, the Steering Committee should meet frequently as appropriate. It is the responsibility of the relevant line Ministry (Executing Agency) to follow up all project activities closely and bring related matters to the attention of the Steering Committee and to the relevant departments of the Treasury. If there are issues which cannot be resolved at the Steering Committee, the Department of Project Management and Monitoring (DPMM) need to be informed to take such issues to the attention of the Secretaries Committee meetings held at the Treasury.

06. Progress Reporting

Secretaries of the Ministries shall ensure that the project activity plan (implementing plan) covering the entire scope of the project, procurement plan, monitoring plan with milestones based on key Performance

Indicators and cash flow plan are made available within the first three months of the commencement of the project. As per the Circular No. PMO/1/Misa dated 25th August 2017 issued by the DPMM, line Ministry should report the progress of Large and Mega Projects to the Department of Project Management and Monitoring (DPMM) on monthly basis in order to keep the Cabinet of Ministers informed. Please refer to section 1.2 of the Circular No. MNPEA/02/2019 dated 10th January 2019 issued by the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs on Guidelines for Submitting Development Project Proposals for Public Investment, on project classification.

07. Smooth Functioning of Technical Evaluation Committees (TEC) and Cabinet Appointed Procurement Committees (CAPC)

All Secretaries should make sure that TECs and CAPCs appointed for the projects under their purview are functioning smoothly and their reports are available within a specified time period. The Project Director is responsible to provide secretarial assistance to the TECs by way of convening meetings, analyzing information and presenting them at TEC meetings, enabling the Committees to expedite the evaluations.

08. Project Extension

When line Ministries are seeking for time extension of large and mega projects, the Secretary of line Ministry shall provide proper justification including cost and benefit of the proposed extension along with a report from the DPMM on project performance.

09. Assets Management and Transferring of Assets

All assets purchased during the project period should be recorded properly in compliance with the circular No. MF/CG/02/ (Cir.) dated 28/06/2017 issued by the Comptroller General, and must be transferred to the project executing agency by the PMU or implementing unit at the end of the project period. If there are vehicles which were imported on duty free basis or on other special conditions, those vehicles should be disposed only after properly revoking such conditions. The parties who intend to buy the vehicles imported under duty free basis should be paid the relevant duties and it should be clearly mentioned in the disposal notices.

10. Relevant Circulars

This circular makes further provisions to the following circulars relating to implementation, accounting, strengthening internal control, and rationalization of prevailing mechanism of development projects with foreign financing -

1. Circular No. MOFP/ERD/2011/1 dated 21st April 2011 issued by the Ministry of Finance & Planning on Streamlining the Mobilization of Foreign Resources
2. Circular No. MOFP/ERD/2014/1 dated 26th June 2014 Issued by the Ministry of Finance & Planning on Acceptance of Donor Assistance
3. Circular No. 01/2019 dated 05/03/2019 issued by the Department of Management Services on Cadre and Remuneration Management.
4. Circular No. MNPEA/02/2019 dated 10th January 2019 issued by the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs on Guidelines for Submitting Development Project Proposals for Public Investment

5. Circular No. 30/94 dated 20.04.1994 issued by the Department of State Accounts on Foreign Aid Accounting
6. Guidelines indicated in the letter dated 21/05/2019 issued by the Department of Management Audit
7. Circular No. PS/SP/SB/Circular/06/2019 dated 19th December, 2019 issued by the Presidential Secretariat.



S. R. Attygalle
Secretary to the Treasury

- CC:
1. Secretary to H.E. the President
 2. Secretary to the Hon. Prime Minister
 3. Secretary to the Cabinet of Ministers
 4. Auditor General
 5. Chairman, Finance Commission
 6. Director General, Department of National Budget
 7. Director General, Department of External Resources
 8. Director General, Department of National Planning
 9. Director General, Department of Public Enterprises
 10. All Development Partners

ANNEX - 1

The Ministries/Implementation agencies have to inform the Department of External Resources in writing on project readiness based on the criteria specified below prior to loan negotiation.

No	Criteria	Remarks
(i)	Completion of Feasibility/ Pre-feasibility studies with cost estimates by the line Ministry in consultation with all relevant stakeholders including relevant professional bodies.	
(ii)	Cost of the project including all capital and recurrent items. (land acquisition, resettlement costs, utility shifting cost when applicable, disaster risk reduction cost, cost of consultancies, and vehicles)	
(iii)	Finalization of the Environmental Impact Assessment and Resettlement plans (if applicable)	
(iv)	a) Completion of Land acquisition/ resettlement (if applicable)	
	b) Availability of adequate budgetary provisions for land acquisition and resettlement	
(v)	Statutory clearances prior to loan negotiation (if applicable)	
	a) Ministry of Defence	
	b) Department of Forest Conservation	
	c) Department of Wildlife Conservation	
	d) Ceylon Electricity Board	
	e) National Water Supply and Drainage Board	
	f) Urban Development Authority	
	g) Municipal Councils	
	h) Department of Irrigation	
	i) National Building Research Organization	
	j) Central Environment Authority	
	k) Any other agency if applicable	

(vi)	Progress of the procurement process in brief	
(vii)	Finalization of the annual disbursement projections in consultation with the Department of National Budget	
(viii)	Availability of Treasury/Sovereign guarantee in respect of the projects implemented by State Owned Enterprises (SOE's) with direct borrowing from lending agencies	
(ix)	Institutional arrangement for implementation of the project	
(x)	Any other if applicable	