



ජාතික ප්‍රතිපත්ති, ආර්ථික කටයුතු, නැවත පදිංචි කිරීම් හා පුනරුත්ථාපන, උතුරු පළාත් සංවර්ධන, වෘත්තීය පුහුණු හා නිපුණතා සංවර්ධන සහ යෞවන කටයුතු අමාත්‍යාංශය
 தேசிய கொள்கைகள், பொருளாதார விவகாரங்கள், மீள்குடியேற்றம் மற்றும் புனர்வாழ்வு, வடமாகாண அபிவிருத்தி, தொழிற் பயிற்சி, திறன்கள் அபிவிருத்தி மற்றும் இளைஞர் விவகாரங்கள் அமைச்சு

Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs

“මිලෝදා” පළමු මහල, බ්‍රිස්ටල් වීදිය, කොළඹ 01. ‘මිලෝදා’, 1^{වන} மாடி, பிறிஸ்டல் வீதி, கொழும்பு 01. “Miloda” 1st Floor, Bristol Street, Colombo 01.

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Circular No. MNPEA 02/2019

Secretaries to Ministries,
 Chief Secretaries of Provincial Councils,
 Secretaries to the Governors,
 Heads of Departments,
 District Secretaries,
 Heads of all Government Corporations/Statutory Bodies/ State Owned Enterprises,

Guidelines for Submitting Development Project Proposals for Public Investment

The Government felt the need to re-assess the submission process of development project proposals to be included in the Public Investment Programme (PIP). The Ministry of National Policies, Economic Affairs, Resettlement & Rehabilitation, Northern Province Development, Vocational Training & Skills Development and Youth Affairs has taken actions to streamline the project approval procedure to meet the requirements of Government’s investment priorities within the Medium Term Budgetary Framework (MTBF) as well as to rationalize both project identification/submission and appraisal processes for the purpose of identifying the most relevant and results oriented projects for investment.

These Guidelines are therefore intended to provide practical guidance to the Line Ministries, Provincial Councils, Departments, Government Corporations, Statutory Bodies and State Owned Enterprises (SOEs) that request to initiate development proposals under the Consolidated Fund. The scope of the guidelines is to evaluate all new Government initiatives and scope changes of the existing Government projects in any form of public investment. If any Government Corporation, Statutory Body or SOE makes an investment with the expectation of obtaining public funds, they should follow these Guidelines.

This circular details the Guidelines to be adopted in the process of;

1. Formulation/ Preparation of Projects
2. Project Submission and Appraisal
3. Recommendation/ Approval of Projects

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1. Formulation/ Preparation of Projects

1.1 Project Formulation

- a) Identification of new projects and initiatives on sectoral need basis is the responsibility of the respective government agencies. The primary focus should be given to projects that will address long felt needs in the respective sectors in line with Government's strategic priorities and such proposals need to cover unique and innovative ideas that enhance sustainable economic development and overall welfare of the people.
- b) Suitability of projects will depend upon the economic and social objectives of the Government. No national project should be formulated in isolation but as an integral component of a bigger sectoral programme/ master plan prepared to address broader national or sectoral objectives. The proposal should also indicate net economic and/or social benefits. Costs and benefits and 'with' and 'without' project analysis need to be demonstrated in the proposal.
- c) Project proposal should carry a justification in terms of better off than the present in contribution to economic growth, employment creation, poverty reduction, improvement of living standards, fair income distribution, foreign exchange saving and export promotion and essentially as an intervention where private sector is not crowded out and financial and economic stability is maintained.
- d) Projects need to consider the least expensive and most feasible solution for addressing a problem. All government investments are done with the expectation of future better off. However, with limitation of resources, investment prioritization is highly encouraged.
- e) It is necessary to ensure that the identified projects show value in economic, social, environmental and technical perspectives and therefore feasible to be implemented in all such means while taking the associated risks into consideration. Risks need to be managed and minimized in the context of the above perspectives.
- f) It is also needed to recognize that the management of proposals requires timeliness and due diligence and to demonstrate integrity in the management of information. Duplication of activities with other projects within the sector Ministries, Departments and among the sectors, Ministries as well as Departments should be avoided.
- g) Sufficient attention should be paid on Operation and Maintenance (O&M) to ensure the sustainability of the project.

1.2 Classification of Projects

Projects can be classified into Mega, Large, Medium, Small and Micro projects based on the Total Estimated Cost (TEC) of the project as follows.

Type of Project	TEC (Rs.mn)
Mega	More than 10,000
Large	1,000 – 10,000
Medium	100 – 1,000
Small	10 - 100
Micro	Less than 10

Micro projects can be implemented with the approval of the Secretary of the relevant Line Ministry without obtaining the approval of the Department of National Planning (NPD). It is not permitted to phase out or breakdown a project into separate components or implement in a piece meal basis. Furthermore, for a Micro project to be implemented under the approval of the Secretary, a project proposal should be evaluated by the planning division of the Ministry and the Secretary should grant written approval for implementation with a copy to NPD and the Department of National Budget (NBD).

The Mega, Large, Medium and Small-scale projects should follow the Project Submission and Appraisal process stated below. However, for Small scale projects, only appraisal process of NPD is applicable and its recommendations will be considered as the final approval. If NPD is of the view that some Small projects may require the approval of the Cabinet of Ministers for further consideration, then NPD may act in that regard.

2. Project Submission and Appraisal

- i. After formulation, the project should be forwarded to NPD for appraisal through the Secretary/ Chief Secretary with his/ her consent and recommendation. However, proposals from the Provincial Chief Secretaries should be submitted through the relevant Line Ministry.
- ii. Once the proposal is received, project appraisal will be carried out by NPD in two stages as follows.

2.1 Preliminary Appraisal

Project concepts should be submitted to NPD using the template available in Annex I- Project Submission Format and Operational Manual (www.mnpea.gov.lk/ www.npd.gov.lk/).

Submission of any detailed study/ pre-feasibility study at this stage will be useful for the appraisal process. The appraisal will be initiated by NPD within two weeks of submission. If the proposal lacks essential information/ data, additional information will be requested by NPD in respect of the proposal. If the project is accepted, NPD will inform whether the agency should proceed with formulating a feasibility study depending on the complexity and the scale of the project or whether further examination is necessary.

The principle criteria which are being used for appraisal of a project at the initial appraisal stage are;

- a) Whether the project has been formulated in line with national and sectoral policies and objectives of the Government.
- b) Cost and benefits which are quantified in a detailed manner with sustainable aspects of the project.

2.2 Detailed Appraisal

Detailed appraisal is carried out by NPD once the detailed project has been submitted along with a feasibility study in the second stage. This is accepted as the final step before a project is recommended for financing, after considering merits and acceptability of projects in accordance with established criteria. The feasibility of the project is set out at this stage to scientifically assess whether the objectives remain appropriate; that the costs are reasonable, project is technically, economically, socially and environmentally feasible, and any measures are identified to mitigate the risks.

3. Recommendation/Approval of Projects

The approval process for Mega, Large and Medium scale projects includes the two-stage approval procedure consisting of preliminary approval and final approval.

3.1 Preliminary Approval

Once the preliminary appraisal is undertaken, NPD will submit its recommendations to the Department of External Resources (ERD) for external funding arrangements and NBD for domestic funding arrangements with a copy to the relevant Line Ministry.

Once this step is completed, the relevant Line Ministry has to submit the project proposal with NPD recommendations to the Cabinet of Ministers for preliminary approval. Preliminary approval can be obtained for the project concept from the Cabinet of Ministers deciding whether to proceed with the detailed project proposal/ feasibility study.

The detailed project proposal will cover full project scope, cost details and financial, social, technical, risks and environmental assessments. If external funding is to be sought, initially ERD needs to assess the best possible external funding source considering the nature of the project.

The source of financing should be determined based on following criteria.

- a) which projects should be referred for domestics financing within the sectoral ceilings.
- b) which projects should be referred for foreign financing and negotiation.
- c) which projects should be referred for the Public Private Partnership (PPP).
- d) which projects should be referred for local bank financing.
- e) which projects should be considered for future implementation due to the prevailing resource constraints.

3.2 Final Approval

The full scope of the project or modifications of the project for which feasibility study is required will be approved at this stage with the proposed financing mechanism. The feasibility study will be submitted to NPD for the final appraisal. Once the project is recommended by NPD, it can be submitted to the Cabinet of Ministers by the respective Line Ministry for final approval. ERD can commence final negotiations with donor for external financing after receiving the approval of the Cabinet of Ministers.

Once the Cabinet approval is received for the project, it may enter into the National Budget. The project must be submitted by the Line Ministry in time to NBD to ensure budgetary provision.

4. Feasibility Studies

There can be instances where external assistance is invited to assist in undertaking feasibility studies. However, such feasibility studies need to be carried out essentially with the engagement and ownership of relevant government agency.

The project which does not need pre or detailed feasibility study will be forwarded directly to NBD or ERD after obtaining the approval of the Cabinet of Ministers.

5. Prioritization of the Projects

It is also proposed to streamline the project prioritization through the following three-step process.

- 1) Preparation of sectoral project pipeline by NPD in consultation with the Line Ministries and based on ministerial project pipelines. The criterion used for prioritization of project area is attached as Annex 2.
- 2) Incorporation of prepared sectoral pipelines into PIP will be done by NPD and the revised PIP will be published by 31st July by each year.
- 3). Prioritization of the projects in the PIP by the Public Investment Committee (PIC) proposed to be established under the proposed Public Finance Management Act. Until the Act is enacted, NPD will do the prioritization of the projects with relevant stakeholders.

6. Foreign Financing

Official Development Assistance (ODA) continues to play a significant role in government investment portfolio. As a result of increased number of development project proposals initiated from the Line Ministries, the demand for foreign financing has increased substantially over the recent past. However, it is difficult to increase the foreign borrowing levels at the same rates within the short term due to a number of reasons, including the existing legal and institutional limitations relating to foreign borrowings, the absorption capacity of the government budget as well as government commitment towards maintaining the debt sustainability over the long run. Therefore, the Line Ministries are required to identify priorities of project proposals for foreign financing and avoid submission of project proposals for foreign financing which are more suitable for domestic financing.

- 6.1 Since the full responsibility of identification of thematic areas and priorities of the project formulation in line with the national policy framework is vested with the Line Ministries/ agencies, donor involvement for this process could be considered only after obtaining the proposed acceptance for the project concept depending on the specific needs. Therefore, no government agency should directly engage with donors to formulate development projects for foreign financing without obtaining proper sanction for the projects concerned.
- 6.2 It has been observed that the Line Ministries and government agencies often formulate project proposals for obtaining foreign funds from development partners and lending agencies including export credit agencies without giving

due recognition to the macro fiscal implications, cost of foreign borrowings, effective use of foreign loans and grants, lender conditionality (both monetary and non-monetary), applicable procedures, availability of technical expertise with the respective lenders, commitment and repayment capacity and suitability of the project for the foreign financing against other financing modalities including PPP. This practice has led to weaken government foreign financing strategy and budgetary process, and also raised sustainability issues of such projects in the long run.

- 6.3 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 a future stream of income sources leading to an increase of tax revenue and other sources of income in support of debt servicing.
- 6.4 Implementing small projects with donor funding are discouraged due to an increase of transaction costs, complexities in project/ programme management of having too many small ad hoc projects, provision of extensive sums of money for foreign consultants, too many foreign missions and operation of donor driven programmes. Therefore, projects which are having TEC less than Rs.100 mn are encouraged to be financed in the MTBF without seeking the assistance of development partners. Projects with high foreign import content and projects focusing on technology infusion are best suited for foreign financing.
- 6.5 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 deciding the potential sources of financing. ERD will take action to include approved project proposals into the lending pipelines of respective lending agencies during the annual consultative process between the Government and development partners. Once a project proposal has been recognized in the medium term lending pipeline of a development partner, no request will be made for foreign financing from another development partner for the same project. In case if the aid negotiations result in substantial changes in the original project design thereby affecting either costs or benefits, approval of the Cabinet of Ministers needs to be obtained to incorporate such changes.
- 6.6 It is necessary to refer to the procurement guidelines which set up the steps and process regarding the unsolicited proposals.

The National Budget which is prepared on a three-year MTBF gives more flexibility for the Line Ministries and Departments to design their development project proposals in more realistic manner considering the resource envelop available over the medium term.

This circular will be effective from 01st January 2019. Any clarification on this circular may be obtained from the Department of National Planning (Tel: 0112-484612/ 0112-484576 or e-mail: dgnp@npd.treasury.gov.lk).



V.Sivagnanasothy
Secretary

Copies:

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5. Chairman, Finance Commission
6. Director General, Department of National Planning
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