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**நிதி அமைச்சு**  
**MINISTRY OF FINANCE**



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இலங்கை

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My No. }

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Your No. }

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திகதி } 02.10.2020  
Date }

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

**Streamlining the Fund Channeling Mechanism and Implementation Modalities of Grant Funded Projects**

01. It has been brought to my notice that number of issues, including the following have arisen, when implementing grant aid funded projects, due to the mismatches between the current fund channeling mechanisms & implementation modalities of some donors i.e. USAID, EU and UN etc. and the country's applicable project financing procedure as stipulated in the Financial Regulations, relevant Treasury Circulars & annual budgetary process of the Government.

- I. Projects are not in line with the Government priorities
- II. Duplication and overlapping of projects/project activities
- III. Sustainability of the project outputs due to issues with project ownership
- IV. Value for money concerns
- V. Taxes on the grant funded project activities are required to be exempted or reimbursed although there is no asset creation reported and recorded with the Government.
- VI. Project expenditures are not reported to the related line Ministries and therefore these expenditure are not accounted by the Ministries. As a consequence, such grant are not accounted in the National Accounts.

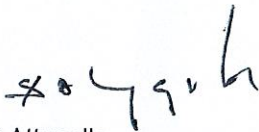
02. With a view of streamlining the procedure of grant aid funded projects, you are requested to follow the instructions given below.

- a) Proposed program / projects / activities should be in line with the Government's development policy framework. Line Ministries may develop project proposals with the Development Partner. However, the relevant line ministry should follow the instructions given in the Circular No. MNPEA 02/2019 dated 10.01.2019, and my letter No. MFEPD/NP/Gen/2020/01 dated 31.01.2020 on 'Guidelines for Submitting Development Project Proposals for Public Investment'.
- b) As instructed by the President Secretary Circular No. PS/SP/SB/Circular/06/2019 dated December 19, 2019, line ministries, departments, agencies, provincial councils and local governments should refrain from seeking finances directly from external sources as Department of External Resources is the apex unit of the Government in charge of securing foreign financing for development projects. Further instructions in this regard have been given through the letters dated 2019.07.25 and 2020.08.14, issued by the Department of External Resources (please refer [www.erd.gov.lk](http://www.erd.gov.lk)).
- c) On receipt of the NPD recommendations and other necessary approvals of the Government, Secretary to the Treasury or Director General of External Resources Department or other designated line Ministry or agency may sign grant agreement / MoU / Implementation Letter etc. with the Development Partner.
- d) Line ministry, department, agency, provincial council or local government may sign project implementation agreement or MoU with the project implementing partner to execute the project.
- e) Having considered the annual action plan agreed between the line ministry, department, agency, provincial council or local government and the Development Partner/Implementing Partner, a request for the required Budgetary Allocations will have to be made so as to provide the same through the annual budget estimates.
- f) Grant funds can be channeled through the Treasury or directly disbursed to the Implementing Partner. If the funds are directly disbursed to the Implementing Partner, the Development Partner / Implementing Partner should submit detailed monthly expenditure reports with clear expenditure lines and supporting documents to the line Ministry department, agency, provincial council or local government enabling them to account the project expenditure. Administration cost of the Donor/Implementing Partner may not be required to be recorded in your accounts.
- g) Secretary to the line Ministry/Head of Department or Agency should account the project expenditures against the given budgetary provisions.
- h) Necessary detailed information should be submitted by the line Ministry/Development Partner/Implementing Partner to the relevant Departments/Agencies including the Department of Project Management and Monitoring and the National Audit Office for their monitoring, reporting, recording, and auditing purposes.

- i) Project implementation could be guided and monitored through a Project Steering Committee under your chairmanship/co-chairmanship.

03. Any clarification on this circular could be obtained from the Director General of the Department of External Resources.

Your cooperation in this regard, and strict compliance to the above instructions when formulating, implementing, recording, accounting, and monitoring grant funded development projects is greatly appreciated.



S.R. Attygalle  
Secretary

#### Copies

1. Secretary to H.E. the President
2. Secretary to Hon Prime Minister
3. Secretary to the Cabinet of Ministers
4. Auditor General
5. Chairman, Finance Commission
6. Director General, Department of National Planning
7. Director General, Department of National Budget
8. Director General, Department of External Resources
9. Director General, Department of Project Management and Monitoring
10. Director General, Department of Treasury Operations
11. Director General, Department of Fiscal Policy
12. Director General, Department of State Accounts
13. All Development Partners