International Seminar on Strengthening Public Investment and Managing Fiscal Risks from Public-Private Partnerships

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Public investment planning and the budget framework

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Background

- Substantial needs for public investments in many transition economies
- But investment portfolios often inefficient
  - White elephants
  - Beneficial projects not realized
- Consistency over sectors, projects and time?
- Institutional and procedural weaknesses add to financial constraints
- Methodological and practical difficulties

3 Key questions

- How to determine public resources allocated to investments?
- How to select the best projects?
- How to implement projects so they have the expected impacts?

- Need comprehensive approach
- There are no simple solutions

Resource allocation issues

- Fragmented investment budget
- Short-term budget focus
- No credible budget envelopes for investments
- Ambiguity about role of government, public enterprises, private sector
- PPP mechanisms unclear and inconsistent
  - No public sector comparison

Project selection issues

- Investment proposals inadequately developed and analyzed
  - Costing is variable
  - Benefit assessment always weak
- Investment planning poorly matched with budget process
- Decision criteria for investment proposals are unclear

Project implementation issues

- Capital cost estimates are often unrealistic
- No information about operating costs
- Maintenance costs for existing capital under-budgeted
- Investments disproportionately targeted for budget cuts
- *No systematic evaluation and learning*

Resource allocation solutions

- Consolidated budget approach, in particular foreign-financed projects
- Credible, hard budget ceilings
- Medium-term ceilings
- Ceilings for guarantees and commitments
- Clear policies for budget investment scope
- PPPs integral part of budget process and fully disclosed in budget documents.

Project selection solutions

- Public investment agency
  - Guidelines for project development and cost benefit analysis
  - Review project proposals and reject inadequate
- Calendar and procedures transparent and stable
- Investment proposals completed prior to budget preparation
- Allocation for new investment in MTBF
  - Competition based on net social value and political priority

	Budget management process	**Investment planning process**
Budget year – 2		Develop new investment projects
Budget year – 1		
Jan	Technical roll-over MTBF	Update estimates existing projects
Feb	Macroeconomic framework	Screening of new project proposals
Mar	Update MTBF	Decide on projects to put to Cabinet
Apr	Cabinet meeting I: Ceilings	External QA of major projects
Jun	Cabinet meeting II: New proposals	Update estimates new and existing
Aug	Detailed budget proposals to MOF	
Sep	Cabinet meeting III: Final budget	
Oct	Budget submission to Parliament	
Dec	Budget approved by Parliament	Detailed project implementation plans
Budget year		
Jan	Execute budget	Implement investment projects
Jun	Mid-year budget review	Update estimates
Dec	Year-end technical adjustments	Determine carry-over

Project implementation solutions

- Incentives for realistic capital cost estimates
  - Cost overruns partly covered by ministry
  - Real cost reductions partly retained by ministry
- Proposals disclose future operating costs and how these will be financed
- Maintenance of existing capital secured before consideration of new proposals
- Avoid excessive targeting of capital investments for budget cuts
- *Evaluation and analysis of completed projects*

3 priority (minimum) steps

- Consolidated budget approach, in particular foreign-financed projects
- Public investment agency
  - Guidelines for project development and cost benefit analysis
  - Review project proposals and reject inadequate
- Proposals must disclose future operating costs and how these will be financed