



Capital Budgeting of public investments: the European Commission approach

PEMPAL Budget Community of Practice
Thematic Workshop on Capital Budgeting

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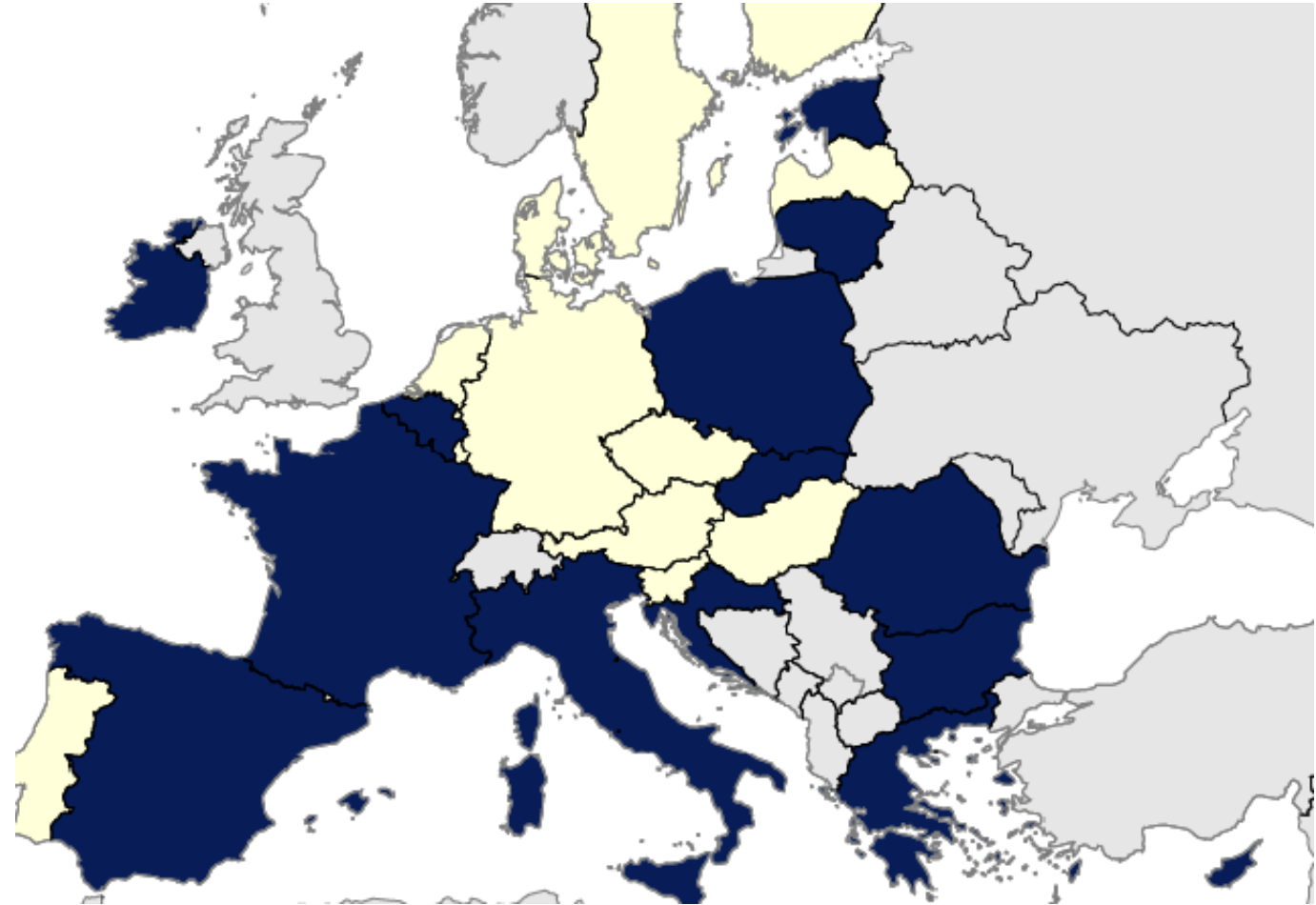
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Outline

1. Rationale for a Public Investment Management (PIM) workstream at the European Commission (COM)
2. Some insights into how good investment planning can reduce cost overruns and capital budgeting tools
3. Conclusions

Motivation: high investment needs and many PIM reforms across the EU

- Substantial public investment needs in relation to defence, competitiveness, and the green/digital transition over the long-term.
- Many PIM reforms in the Member States, partly financed by the European Commission



Note: Dark blue highlight indicates recent or ongoing reforms of public investment management practices as reported in COM survey 2022.

DG ECFIN approach

WHAT

- Analysis for the preparatory committees of the Economic and Financial Affairs European Council (ECOFIN), which *inter alia* monitors **budgetary policies** of the EU Member States
- Part of the regular EU **macroeconomic surveillance tools** (European Semester and the new Economic Governance Framework)
- Regular **exchanges of good practices** and learning from peers among Member States
- Coordinate with DG REFORM for technical support available for the Member States on demand

Useful to develop a common understanding on public investment management within the EU Member States.

DG ECFIN approach

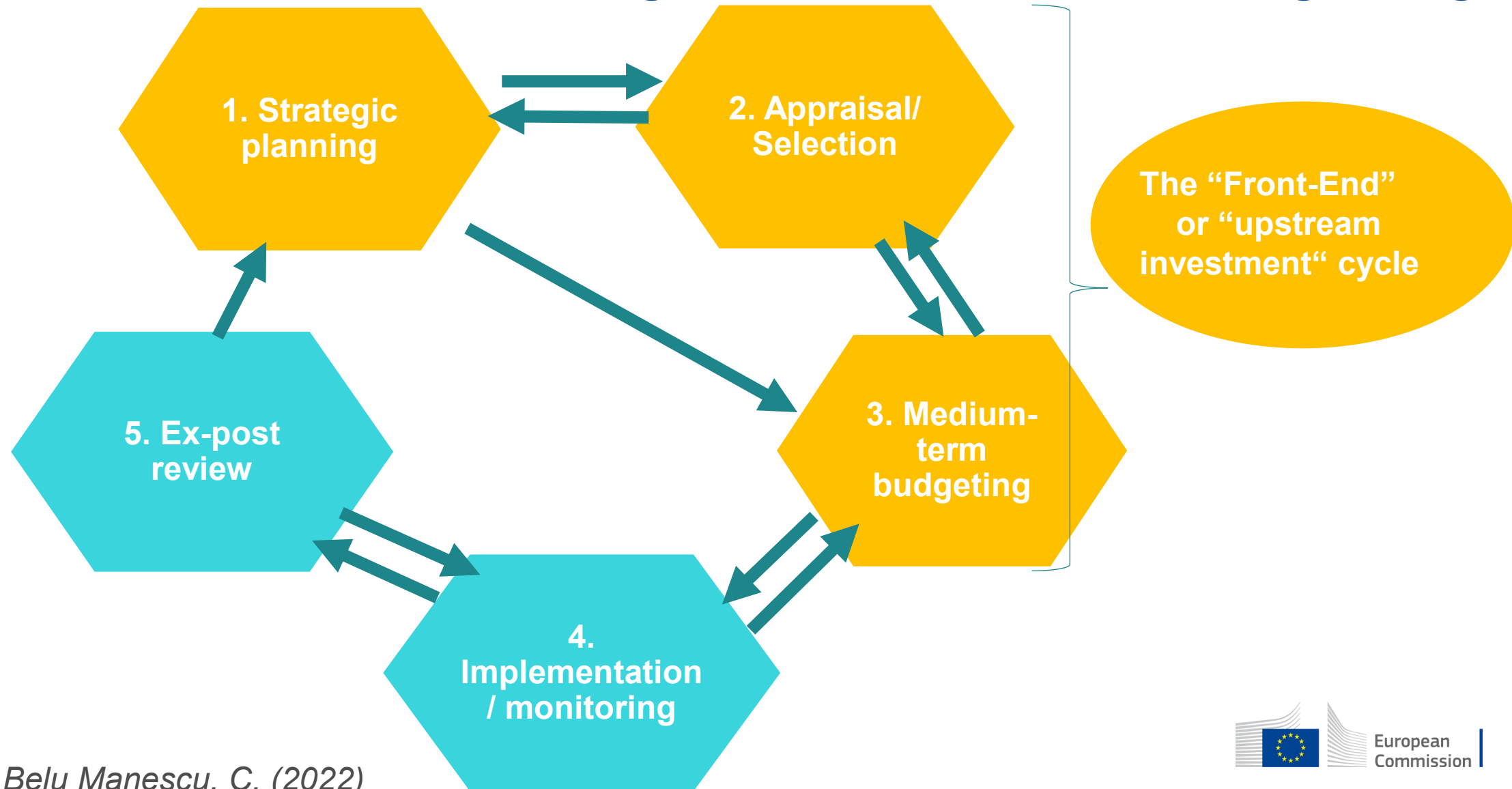
HOW

- Develop an **assessment framework** and analytical work on the full investment cycle (planning, appraisal/selection, budgeting, implementation and ex post reviews)
- Build a data repository: **run surveys with all Member States** (second survey to be launched in April 2025)
- Manage an **informal EU network of national experts** on public investment management
- Provide theoretical support for COM **technical assistance on PIM** to EU Member States

Focus on the “front-end” (project terminology) or the “upstream cycle” (public investment terminology), which includes:

- Strategic planning
- Appraisal/selection
- Budgeting tools

The investment cycle: an **integrated approach** to planning, selection and budgeting



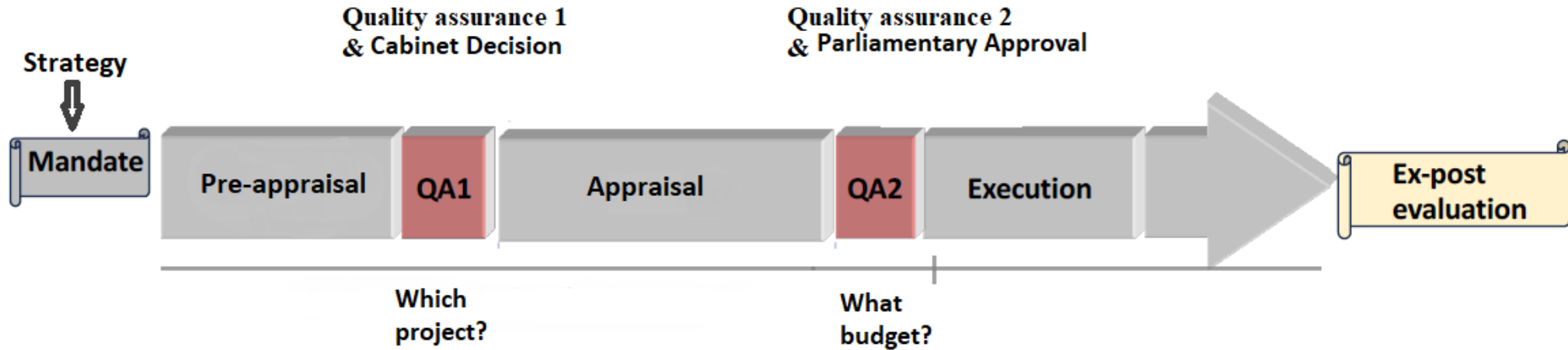
Source: Belu Manescu, C. (2022)

Strategic planning: Key elements

Element	Sub-components
High-level vision	Spatial planning and coordination; Guides all local/regional strategies; Well-defined monitoring and review processes
Integrated investment plans	Fully aligned with vision; Integrated across uses and sources of financing; Strong involvement by the Ministry of Finance
Medium-term capital allocations or ceilings	Anchor in the annual budget
Monitoring	Of the high-level vision Of the investment plan, of outcomes and strategic alignment
Transparency	Regular publication of (monitoring) reports Real-time data on project implementation
Political support	

Appraisal/Selection

The stage-gate model



Note: Adapted version of (Samset, Volden, Olsson, & Kvalheim, 2016) and Volden ([2025](#)).

- Several stages before final decision (gates)
- Each stage ends with a decision to continue or not
- External quality assurance supports the decision to build
- Higher weight to the pre-appraisal phase

Benefits of the Stage-gate model for planning

- Better understanding of risks early on
- Possibility to consider alternative financing modalities early on
- Offers a framework to stop projects early on (although still quite difficult in practice)

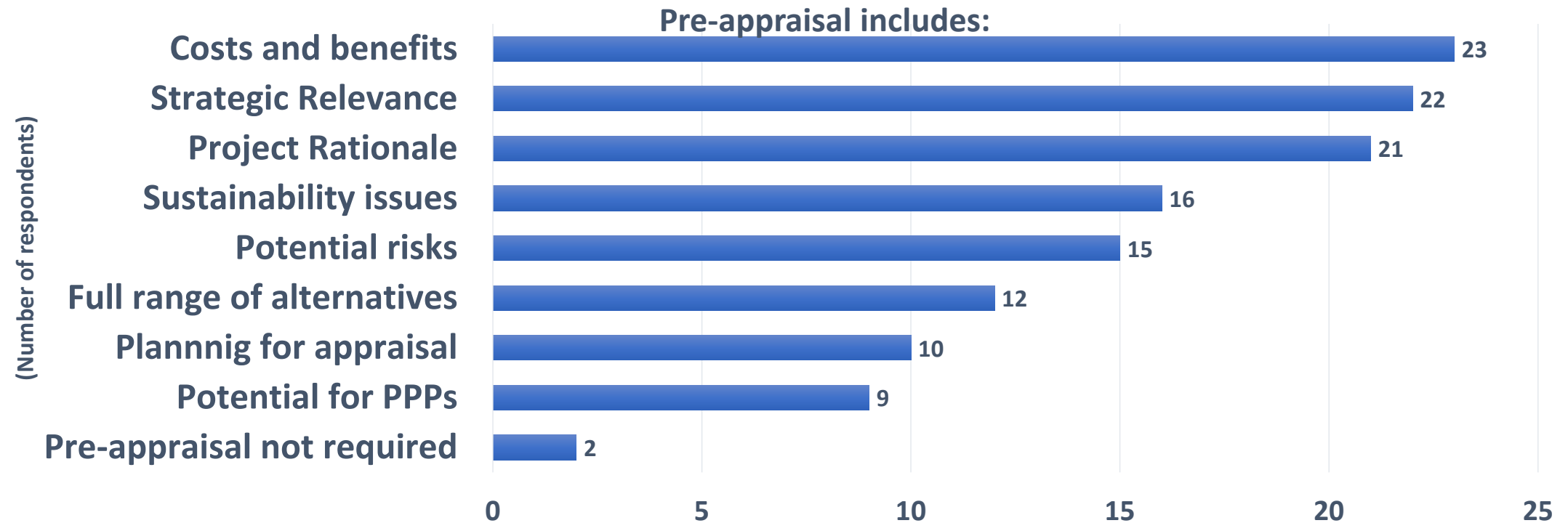
Evidence of what it can achieve

- Reduces cost overruns (*Welde, M., & Klakegg, O., 2024*)
- Shortens lengthy decision-making processes (*Samset, K. F., Volden, G. H., Olsson, N., & Kvalheim, E. V., 2016*)

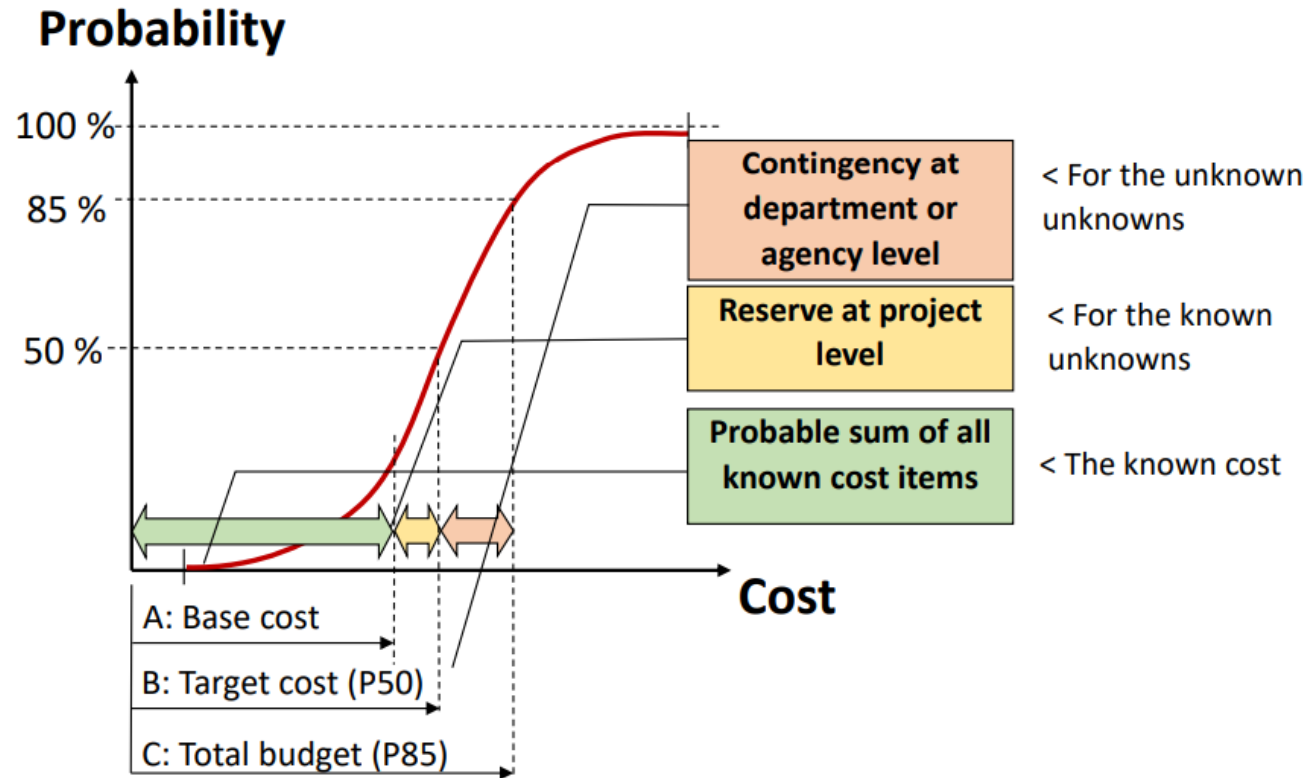
Norway among the first to introduce it, also in place in Denmark, Sweden, Ireland, the Netherlands, Canada, Australia, the US.

Some evidence from the EU

- Wide-spread pre-appraisal process but key elements missing in many Member States.
- External quality assurance relatively common, though with limited coverage (e.g., EU funds only or selected sectors).



Probability-based cost estimates



- Good preparations
- Good analysis process
- Stochastic method for calculation
- Openness in communication
- Accept and expose uncertainty
- Open discussion in group
- Good report to the decision makers
- Transparency and sharing of data and results

Source: Welde, M. (2025) "[In search of success: Projects governance through the Norwegian state project model](#)", Irish Fiscal Advisory Council 2025, Conference "Path for the Public Finances 2025"

Budgeting tools

Key budgeting tools

Multi-annual budgets over a relevant horizon

Multi-annual commitment appropriations

Carry-over arrangements

Long-term budgeting for maintenance



Benefits

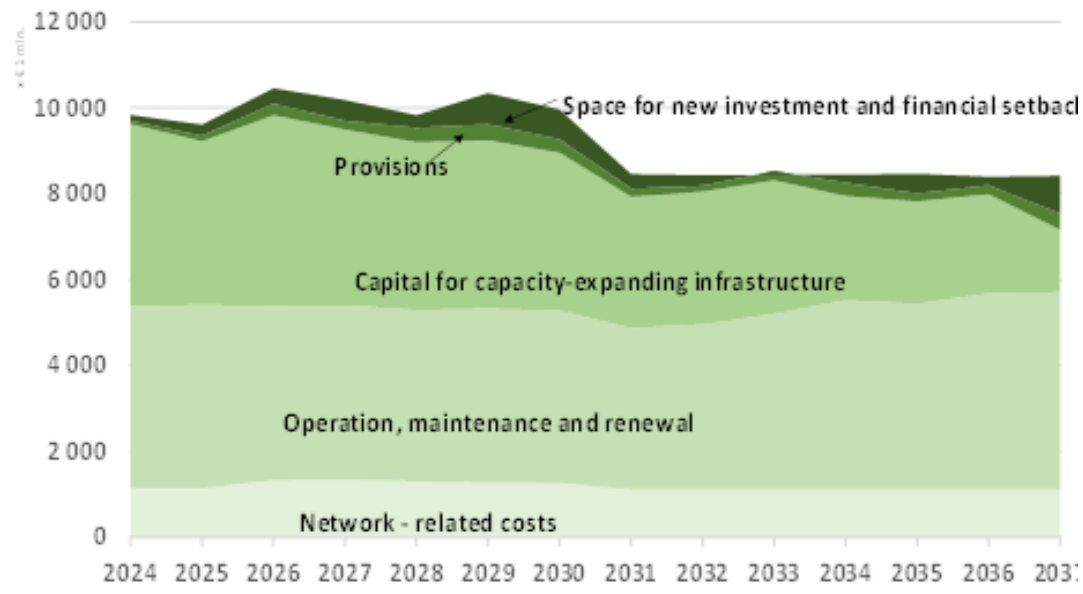
Transparency

Clarity on available resources

Accountability

Example: the Dutch Mobility Fund

Allocation of funds as of 2024



Source: Dutch Ministry of Infrastructure and Water Management.

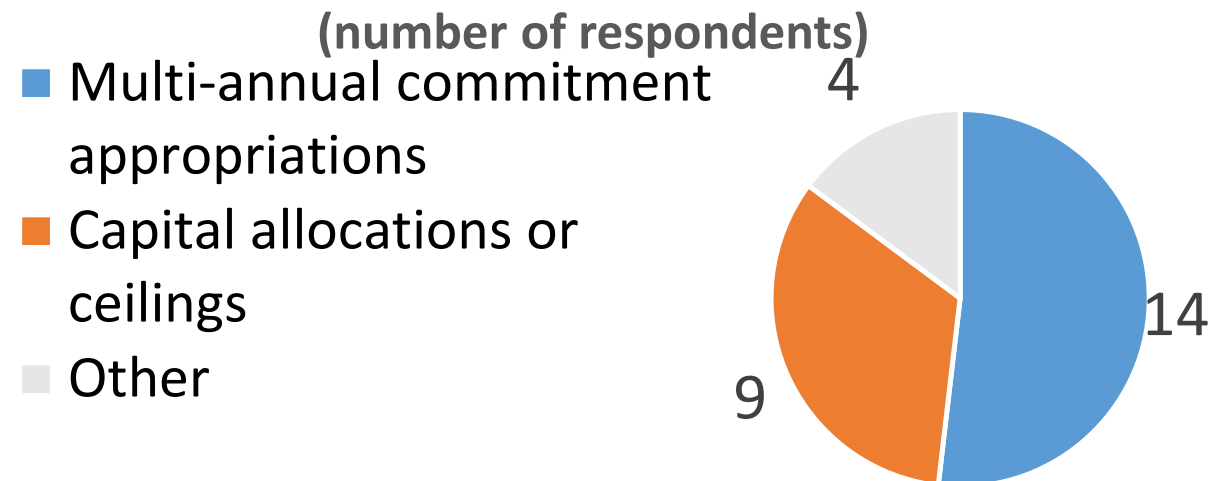
- Rolling T+14 year horizon
- Clear breakdown by capital and maintenance costs over the long-term
- Clarity of available space for new investments
- Accompanied by strict/clear rules on project initiation. Pre-appraisal starts only when 75% of funding is in sight, and full appraisal requires 100% of funding.

16 Note: the Dutch Mobility Fund is a budgetary fund that is separated from central budgetary decision-making.

Some evidence from the EU

- Limited use of commitment appropriations
- Limited use of maintenance estimation
- Institutional aspects: some info available only at ministerial level
- Missing info on the use and quality of long-term budgets in most countries

11. How is capital investment budgeted for?



Source: 2022 COM survey.

Conclusions

- **Improved planning can reduce cost-overruns**, according to the Norwegian experience and Concept Research Group research
- **Probability-based cost estimates** can support more realistic budgeting
- Multi-annual cost estimates and commitment appropriations help to identify **committed budgets over the project life-cycle**
- Medium-term budgetary frameworks for investment help to identify available **fiscal space for new projects**
- **Maintenance** accounts for a significant part of budget

Next steps

- Second PIM survey in the EU to be launched this year, with report out before year-end, focused on appraisal/selection and budgeting tools.
- Continued engagement with the EU PIM Expert Group
- More prominence of the quality of PIM issue in the EU annual macro-surveillance tools
- Forthcoming book on “*Governance of Public Investment Projects: A comparative perspective*”, edited by Vedran Zerjav, Morten Welde, Gro Holst Volden (from Concept Research Group and the Norwegian University of Science and Technology), published by Wiley.

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Thank you



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