



Capital Budgeting

Role of the Ministry of Finance

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Investment programming and budgeting

- Programming and budgeting investment is part of an overall expenditure management process
- Steps in programming and budgeting:
 - setting priorities among strategic areas
 - within strategic areas, balance requirements for investment expenditure against those for current expenditure
 - identifying investment projects and programmes
 - within investment programmes, making choices among projects already identified and reviewing ongoing projects
- Steps in selecting investment projects:
 - preparation, appraisal and screening
- These processes are interdependent



Interdependence

The sequencing of decision-making and an appropriate design of linkages between the project preparation process and the budgeting-programming process are essential, in order to ensure that

- policies drive programmes;
- programmes fit the financial constraints;
- programmes drive projects



Direct budget implications of capital projects

- Project cycle includes a number of steps from problem analysis in a sectoral context until ex post evaluation
- Public investment projects have direct budgetary impact more than once:
 - After a decision to prepare a project
 - After a decision to implement the investment project
 - After the completion of the investment for operation and maintenance of the state asset
- The role of the Ministry of Finance has to be broader than these direct financial requirements





Structural aspects

- Responsibility for programming, assessing and screening investments in line ministries
 - But the MoF has to be interested in ensuring that framework conditions for these activities are in place
- MoF involved in process by means of
 - consultations in case of large/complex projects as from preparation phase
 - independent review over the costing and fiscal impact assessment
 - always above thresholds
 - monitoring progress of projects
- MoF also creating general rules for budgetary issues, such as transfer between budgetary years, flexibility to get additional financing for cost increases etc





How to achieve efficiency in budgeting investments?

1. Make national and sectoral strategies compatible with fiscal framework
2. Bring together all investments proposals, irrespective financing source
3. Allow for budget transfers between years (subject to certain conditions)
4. Create coordination mechanisms between project preparation and budget preparation
5. Phase steps for decisions on investment projects in budget time table
6. Focus on medium term to long term





How to achieve efficiency in budgeting investments? (cont.)

7. Define credible and realistic budget envelopes with hard budget constraint
8. Create financial motives for ministries for planning it right
9. Develop clear and comprehensive regulations for development of investment proposals
10. Define standards for project planning, structuring, costing, cost benefit analysis and prioritisation
11. Define detailed guidelines for appraising and screening proposals(a.o. decision criteria)
12. Ensure independent review on costing and fiscal impact assessment
13. Invest time in training in adequate development and analysis of costing and benefits of projects





How to achieve efficiency in budgeting investments? (cont.)

14. Base cost of investment on whole of life costs (capital investment + operating cost + maintenance cost)
15. Budget realistically maintenance costs
16. Develop procedures for monitoring all major investment proposals (done by MoF of Agency)
17. Analyse the final results of projects in terms of both costs and benefits
18. Ensure the preparation of completion reports for all investment projects
19. Ensure sound supporting legislation (for land acquisition, procurement)
20. Do not forget state owned companies (at least these who are subsidised from the state budget)





Cutting or maintaining investment in times of fiscal challenges

- The MoF has a task of ensuring a sustainability of public finances
 - both in short term and long term
- Public investments are relatively easy to cut if needed
 - but these (if appropriately planned) tend to create conditions for future growth and public revenue
- Current expenditure more difficult to cut
- MoF should not miss the opportunity from the fiscal crisis for structural changes in public expenditure





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