



PEM PAL Budget Community of Practice

“Capital Budgeting and Public Investment Management”

PLANNING-PROGRAMMING-BUDGETING AND PUBLIC INVESTMENT PROGRAM MANAGEMENT EXPERIENCE IN TURKEY

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Outline

- Turkey Country Context
- Capital Budgeting Procedures in Turkey
 - Strategic Planning
 - Project Appraisal
 - Budget Process
 - Implementation
 - Monitoring and Evaluation, Audits
- Conclusion and Lessons from Turkish Experience

Turkey Country Context



TURKEY AT A GLANCE



Turkey is located at the intersection of three continents and stands as a crossroad between Asia and Europe.



TURKEY AT A GLANCE

- Turkey is the thirty-fourth largest country in the World with an area of 783,562 km².
- With 72.7 million population in 2010, Turkey holds a population density of 93 people/km² and an annual population growth rate of 1.2%.

Historic Peninsula, Istanbul





TURKEY AT A GLANCE

INDICATORS	2007	2008	2009	2010 (Est.)	2011 (Prog.)
GDP (At current Prices, Billion \$)	649	742	619	734	781
GDP per Capita -At current Prices, \$ -At Purchasing Power Parity, \$	9,234 13,685	10,440 14,631	8,578 14,449	10,043 15,392	10,624 16,126
Current Account Deficit / GDP (%)	-5.9	-5.7	-2.3	-5.4	-5.4
Public Spending / GDP (%) (General Government)	33.8	34.6	40.1	39.1	37.9
Public Sector Barrowing Require. (%) -General Government -Total Public (Includes SEE's)	0.2 0.1	1.6 1.6	5.5 5.1	3.7 3.4	2.1 2.0



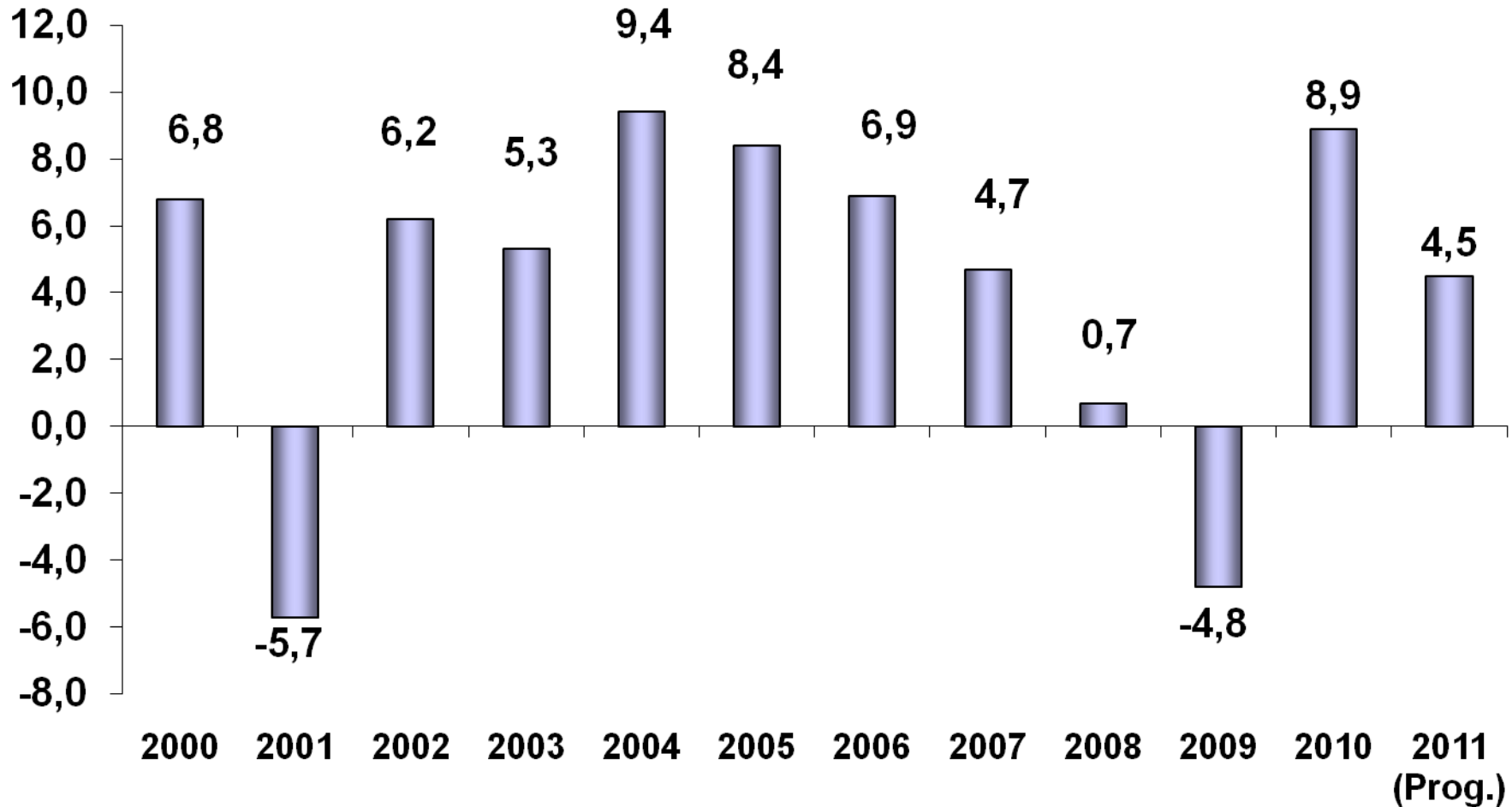
The Effects of Global Crisis on the Turkish Economy

Global Crisis Affected Turkish Economy in Three Channels:

- Foreign Trade
- Foreign Financing
- Expectations



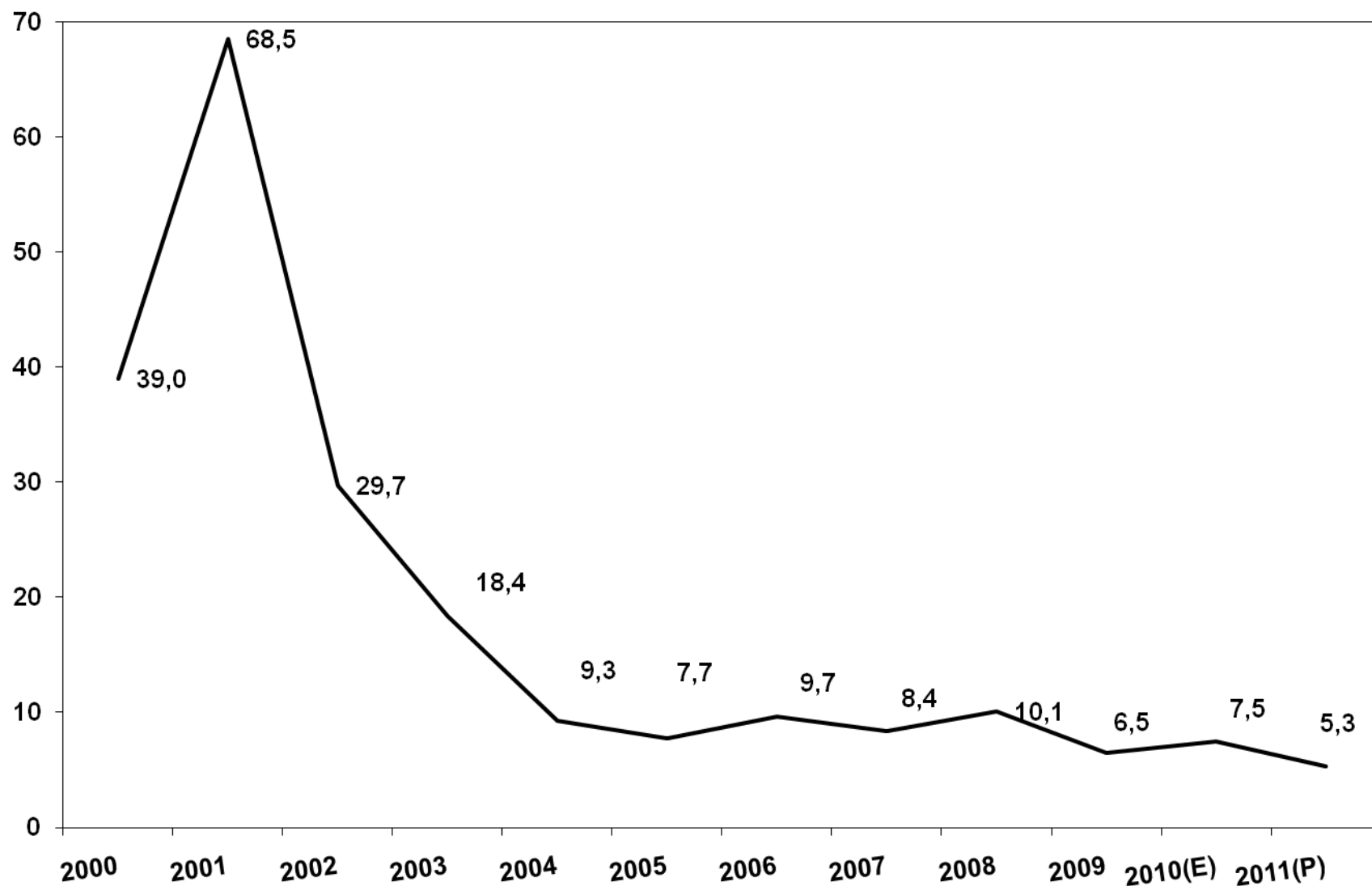
GDP Growth Rates (Annually % Change)



In period of 2003-2007, GDP growth rate on average is recorded 6,9 percent annually.

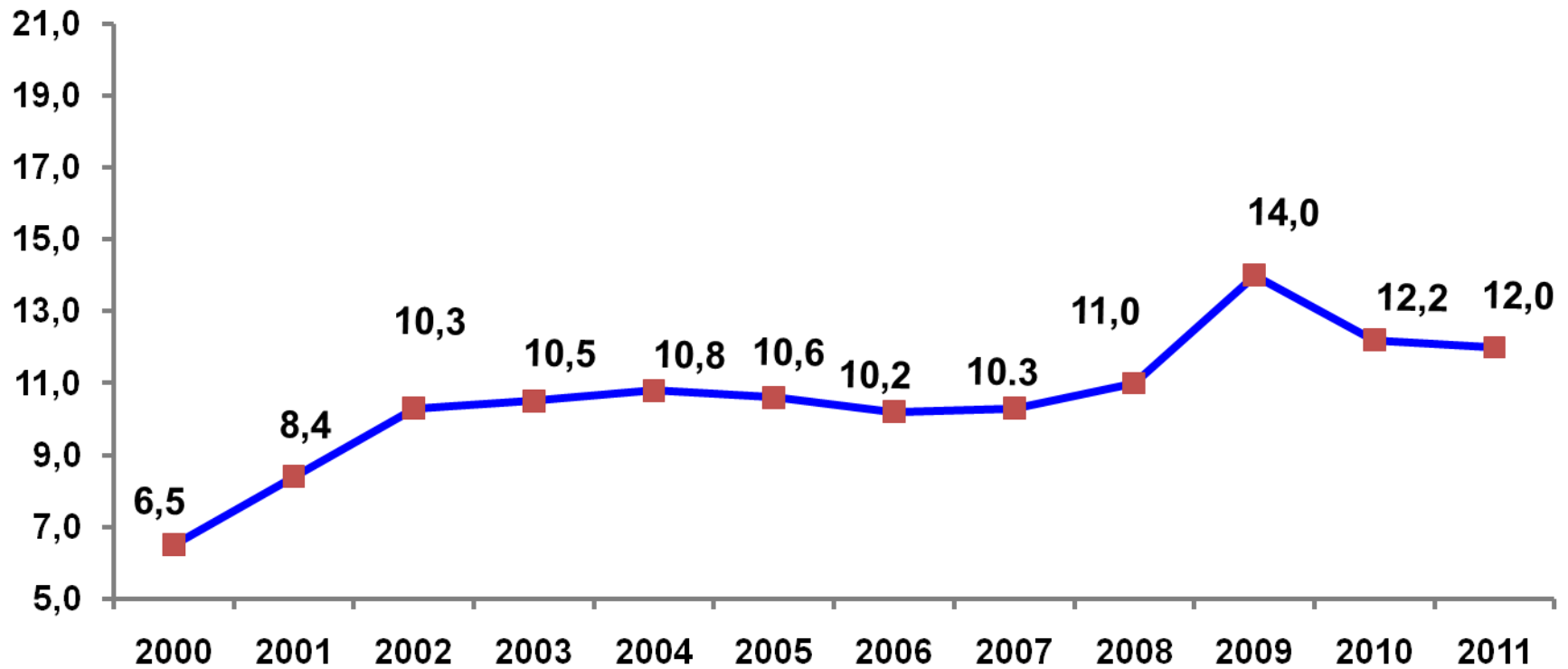


Inflation (CPI, 12 Monthly % Change)



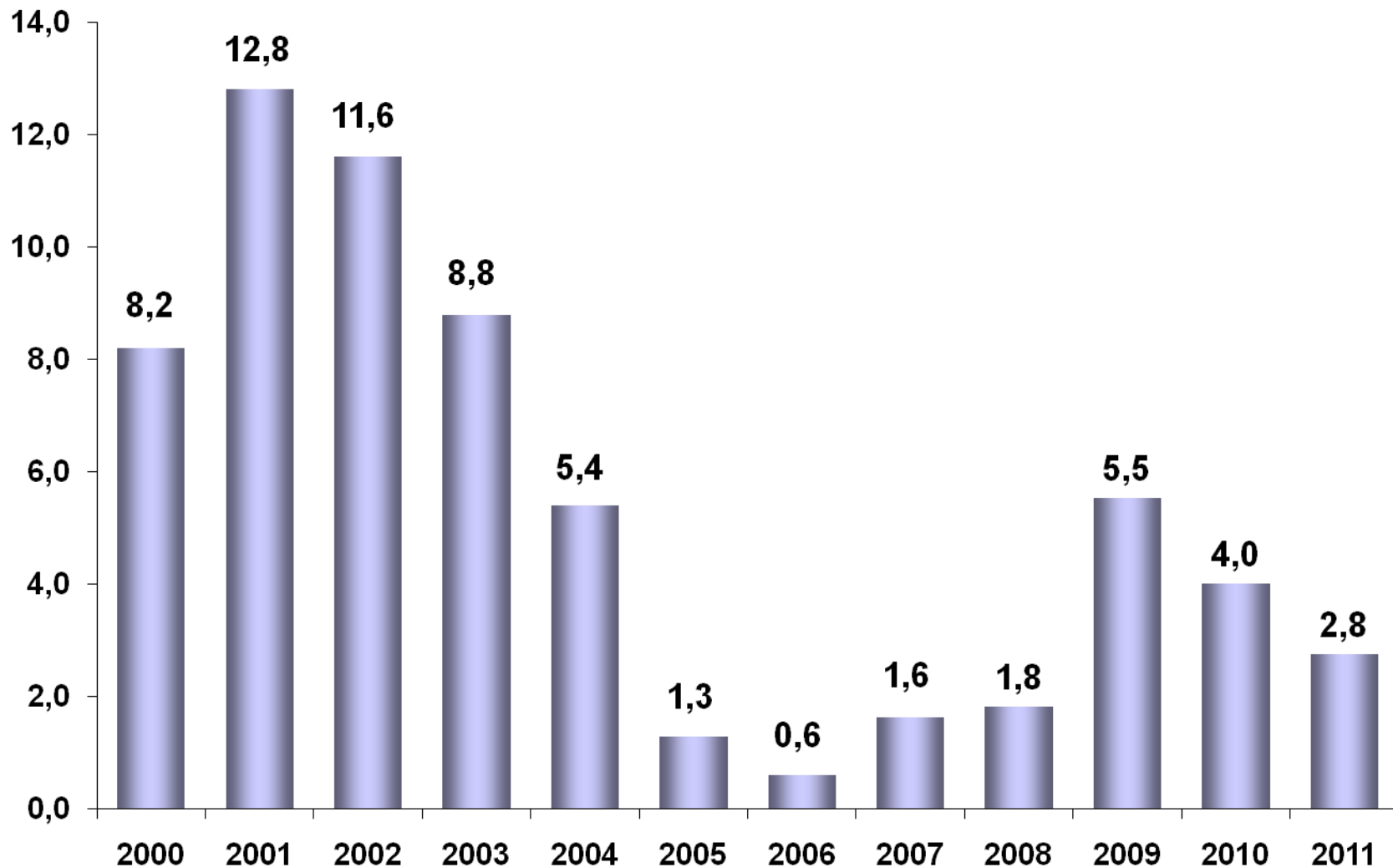


Unemployment Rates (%)



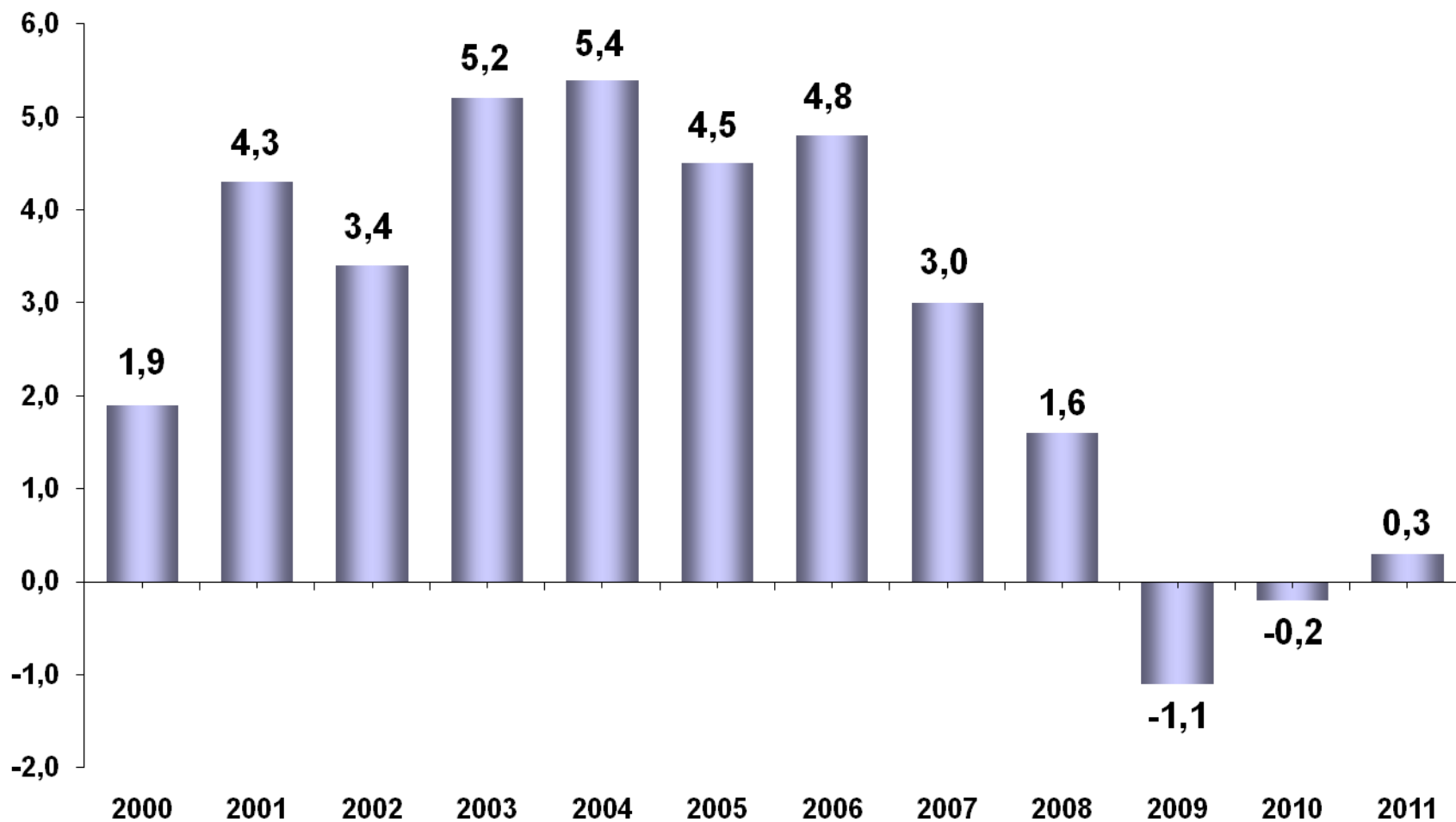


Central Government Budget Deficit / GDP (%)



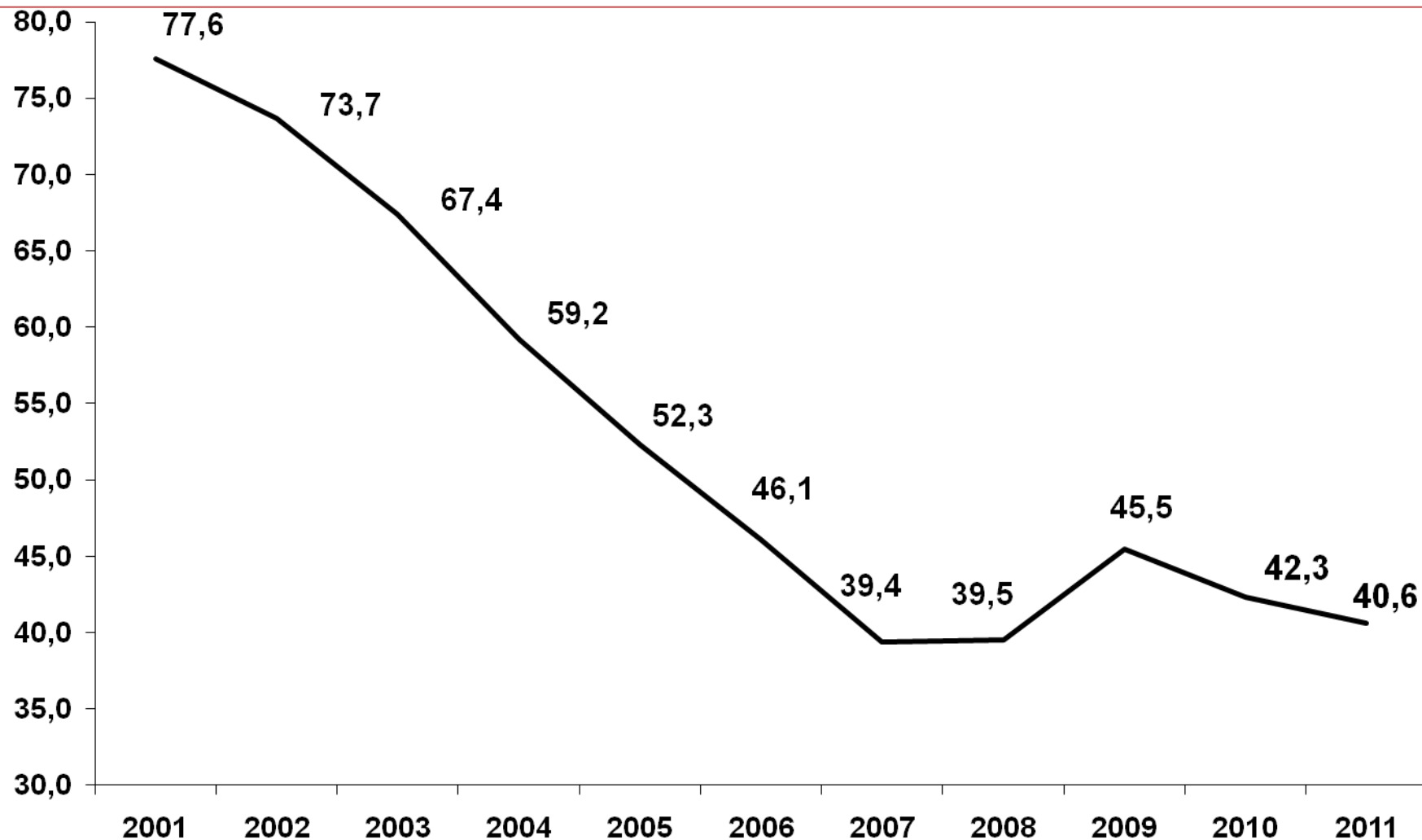


Public Sector Primary Surplus / GDP (%)





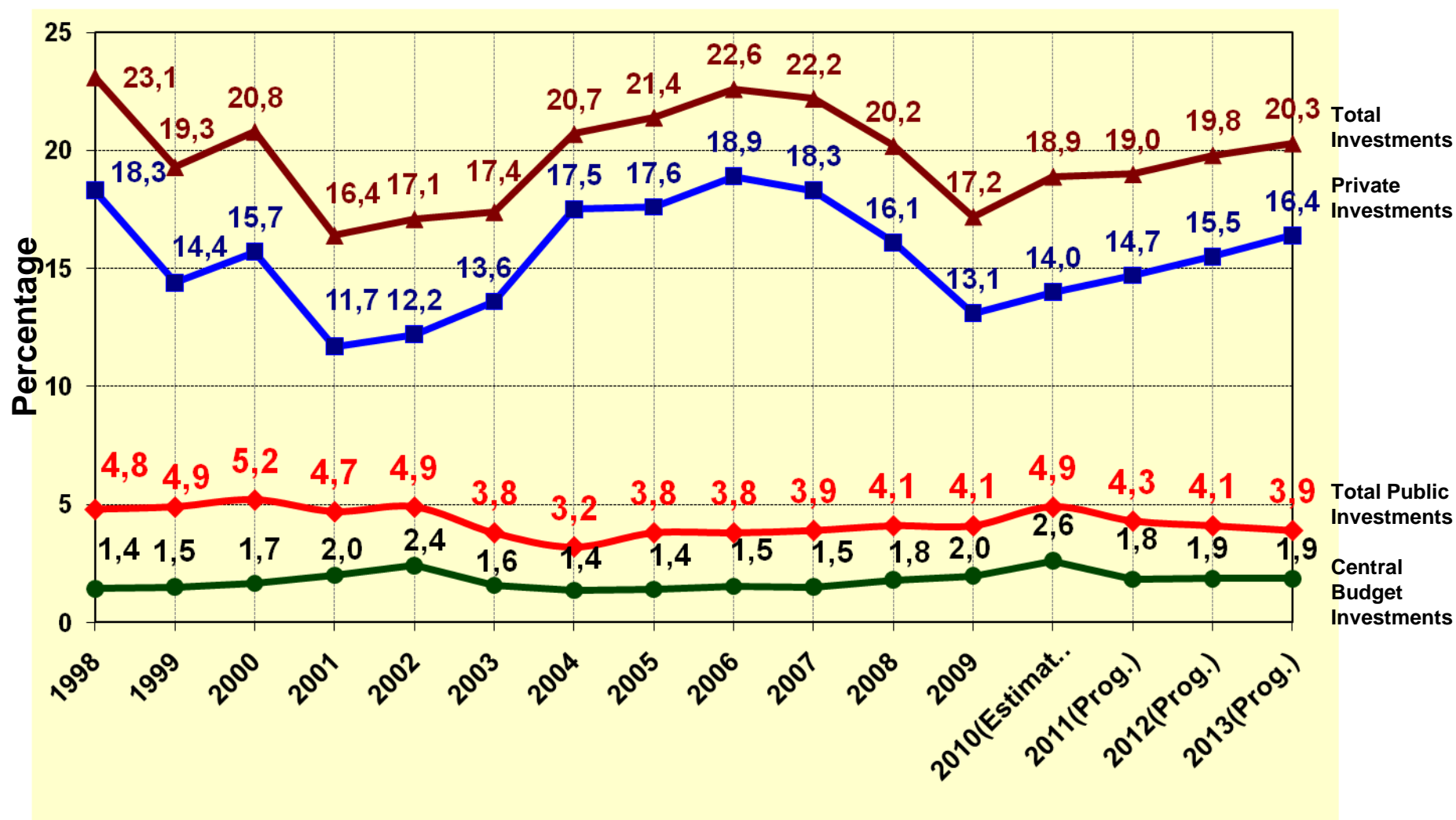
Public Nominal Debt Stock (*) / GDP



(*) EU Definition



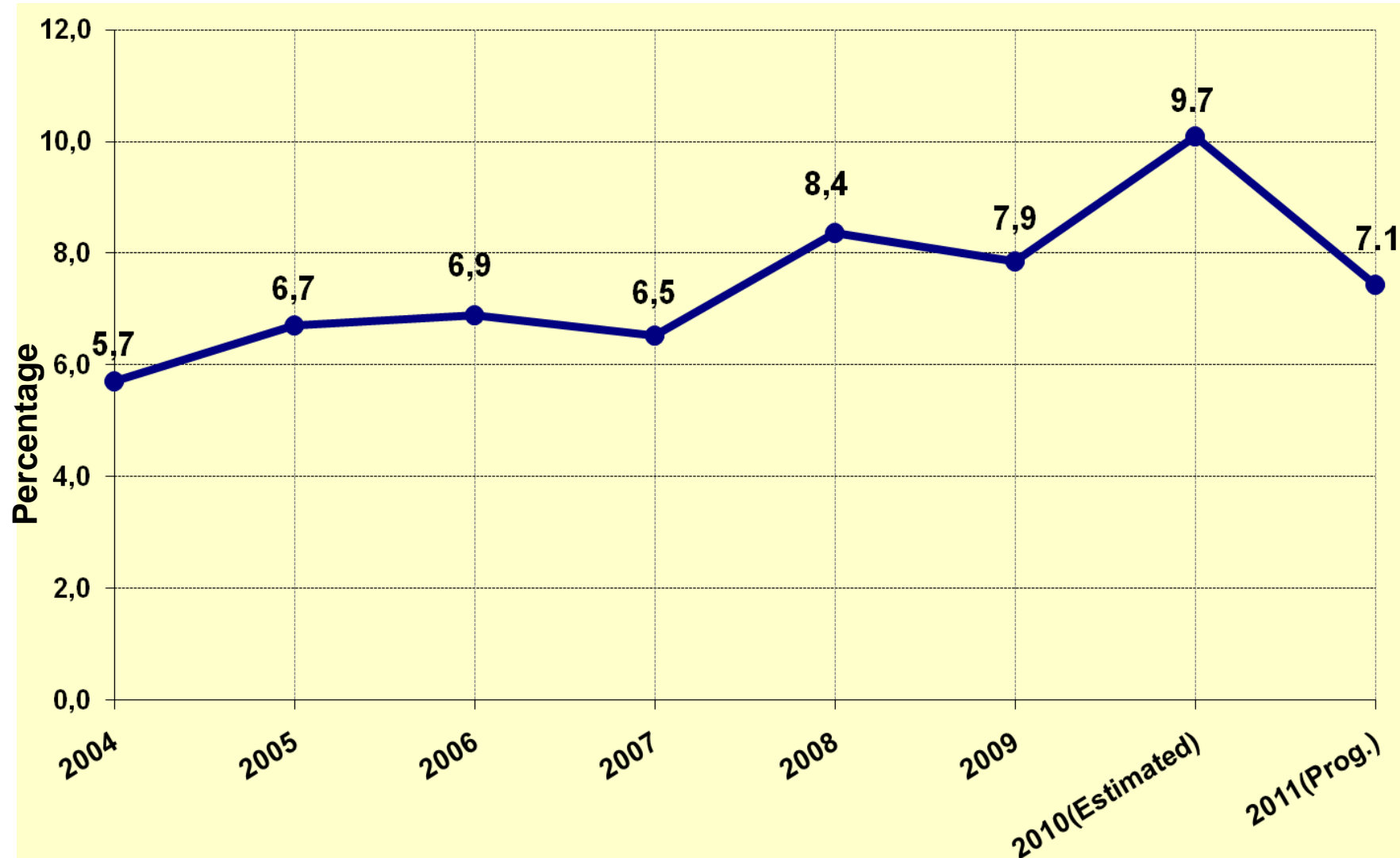
Share of Fixed Capital Investments in GDP (1998-2013) (*)



(*) Investments by Local administrations are included



Share of Investments in Central Budget (%)



Note: Investments include capital expenditures and investment kind capital transfers.



Sectoral Breakdown of Fixed Capital Expenditures in Turkey

Current Prices, %

	2009			2010 (Est.)			2011 (Prog.)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	12,2	1,2	3,9	9,5	2,9	4,6	11,3	2,8	4,7
Mining	2,1	1,8	1,9	2,7	1,8	2,0	3,2	1,7	2,1
Manufacture	1,1	42,9	32,9	0,8	44,7	33,3	1,2	42,3	33,1
Energy	9,5	8,5	8,7	6,2	5,0	5,3	6,6	6,5	6,5
Transport	29,6	24,9	26,0	43,3	26,5	30,9	31,0	27,5	28,3
Tourism	0,3	5,1	4,0	0,5	4,7	3,6	0,8	4,4	3,6
Housing	1,5	6,0	4,9	1,5	5,4	4,4	2,1	5,3	4,6
Education	12,6	0,8	3,6	10,0	1,1	3,4	12,4	1,2	3,7
Health	6,9	3,3	4,2	4,6	3,3	3,6	5,7	3,9	4,3
Other Serv.	24,1	5,4	9,9	20,8	4,7	8,9	25,7	4,5	9,2
TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0



Public Investment Stock in Turkey (2001-2011) (1)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Projects (Number)	4 414	3 851	3 555	2 627	2 525	2 710	2 759	2 332	2 425	2 534
Total Project Cost (Current Prices, Billion \$)	92,6	105,7	122,3	128,2	141,3	135,9	158,9	174,3	182,3	195,2
Cumulative Expenditure (Current Prices, Billion \$)	56,0	60,3	68,1	76,1	80,3	75,2	84,6	78,7	78,9	90,4
Total Annual Allocation (Current Prices, Billion \$)	5,9	7,1	7,5	10,0	12,5	11,1	12,4	15,3	18,3	20,1
New Multi-year Projects (Number)	128	134	149	137	155	161	180	279	241	196
Total Allocation / Total Project Cost (%)	6,3	6,7	6,1	7,8	8,7	8,2	7,8	8,7	10,1	10,3
Average Completion Time of the Stock (Year) (2)	8,5	7,6	8,1	6,6	5,5	5,8	5,8	5,3	4,6	4,2

(1) Excludes investments of local administrations, expenditures for expropriations and investment workers payments.

(2) Average time of completion is calculated as the amount of time required to finish up the remaining stock completely, assuming that no other projects are taken into the investment program in the following years and an appropriation and expenditure is made of the magnitude of the current year level.

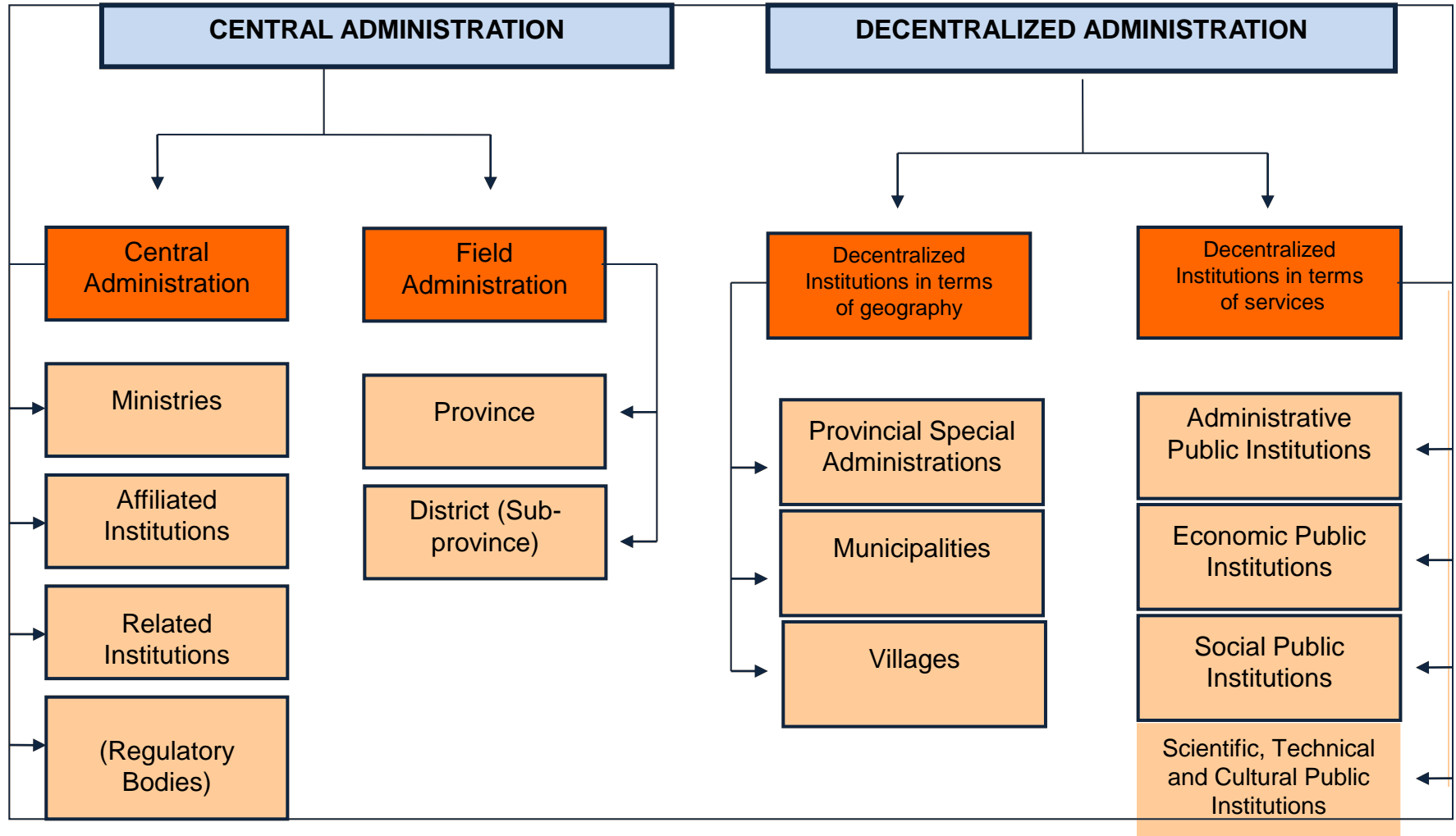


Main Challenges in Public Investment Management

- *Lack of efficient, systematic, results based monitoring and evaluation system*
- *No systematic impact assessment yet*
- *Poor quality of feasibility studies*
- *Lack of qualified personnel in line agencies and weak institutional capacity*
- *Poor relationship among the planning, programming, budgeting documents and resource allocation*



Administrative Structure of Turkey



Capital Budgeting Procedures in Turkey

- Strategic Planning
- Project Appraisal
- Budget Process
- Implementation
- Monitoring and Evaluation, Audits



Basic Principles:

➤ *Transparency*

➤ *Accountability*

➤ *Efficiency*

➤ *Effectiveness*



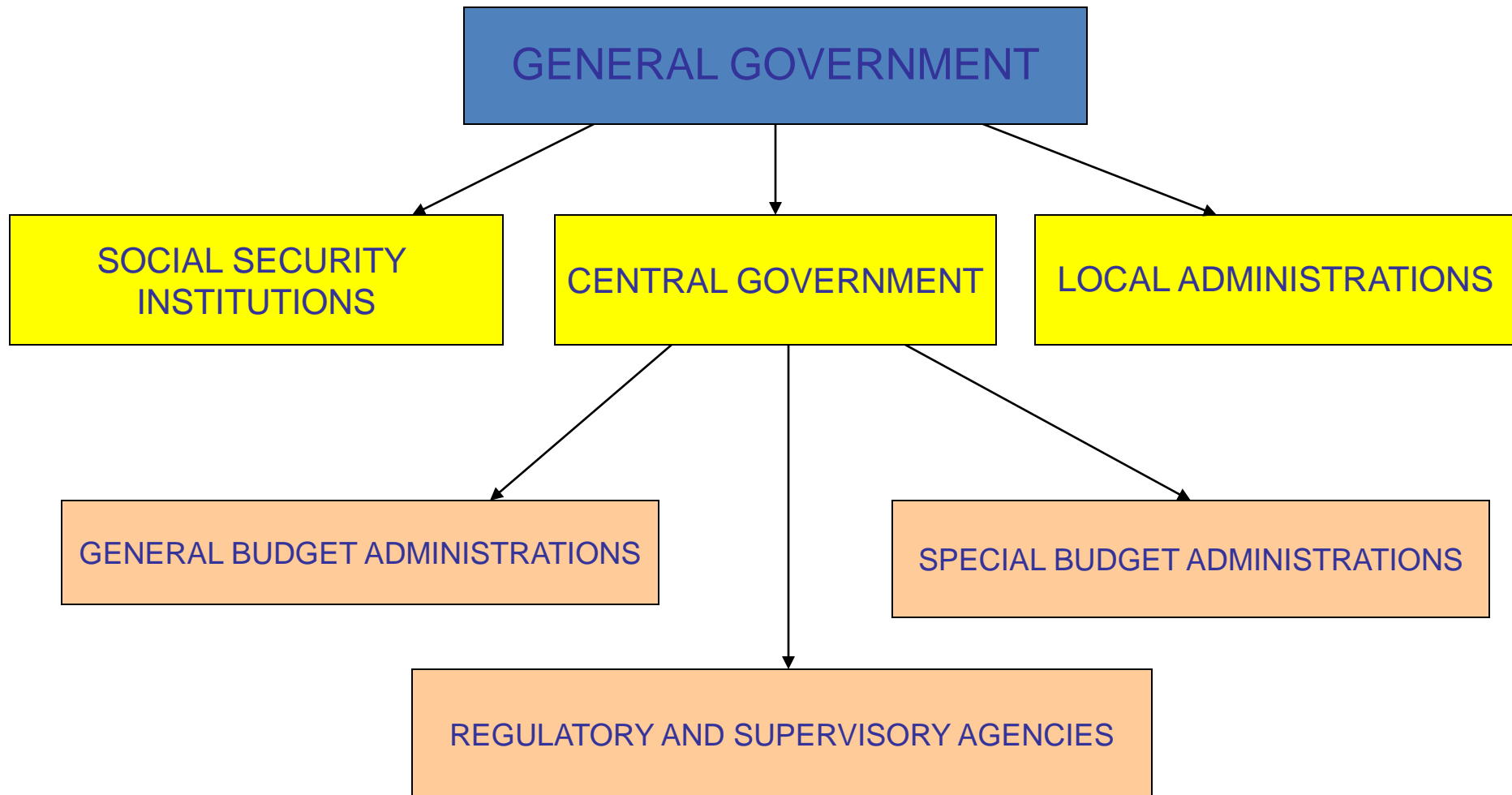
New management tools

(The new framework law no.5018 for public financial management and control)

- Multi-year analytical budgeting
- Institutional strategic planning
- Performance based budgeting
- Internal control and audit

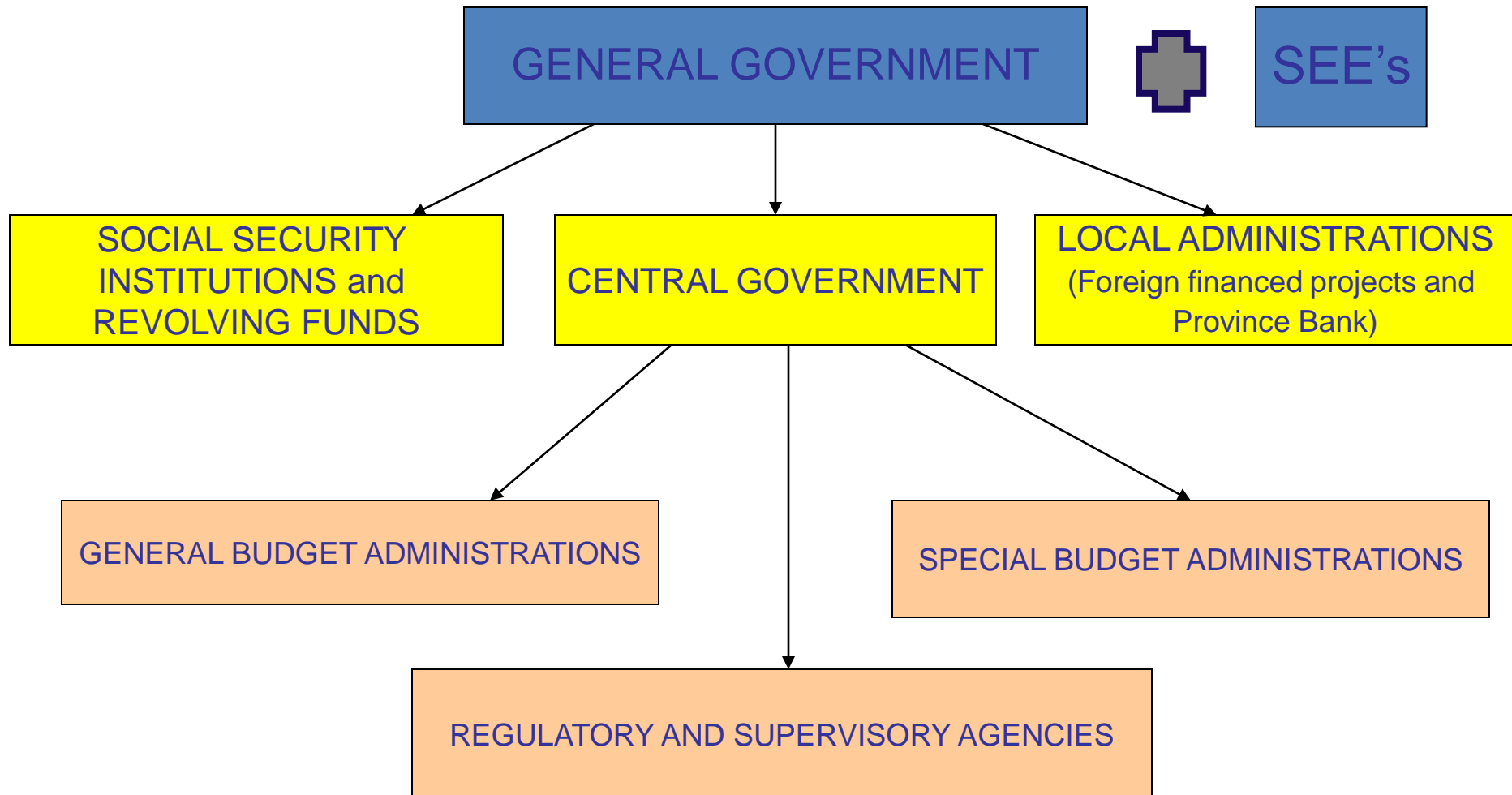


Scope of the Public Financial Management and Control (PFMC) Law





Scope of the Public Investment Program (PIP)



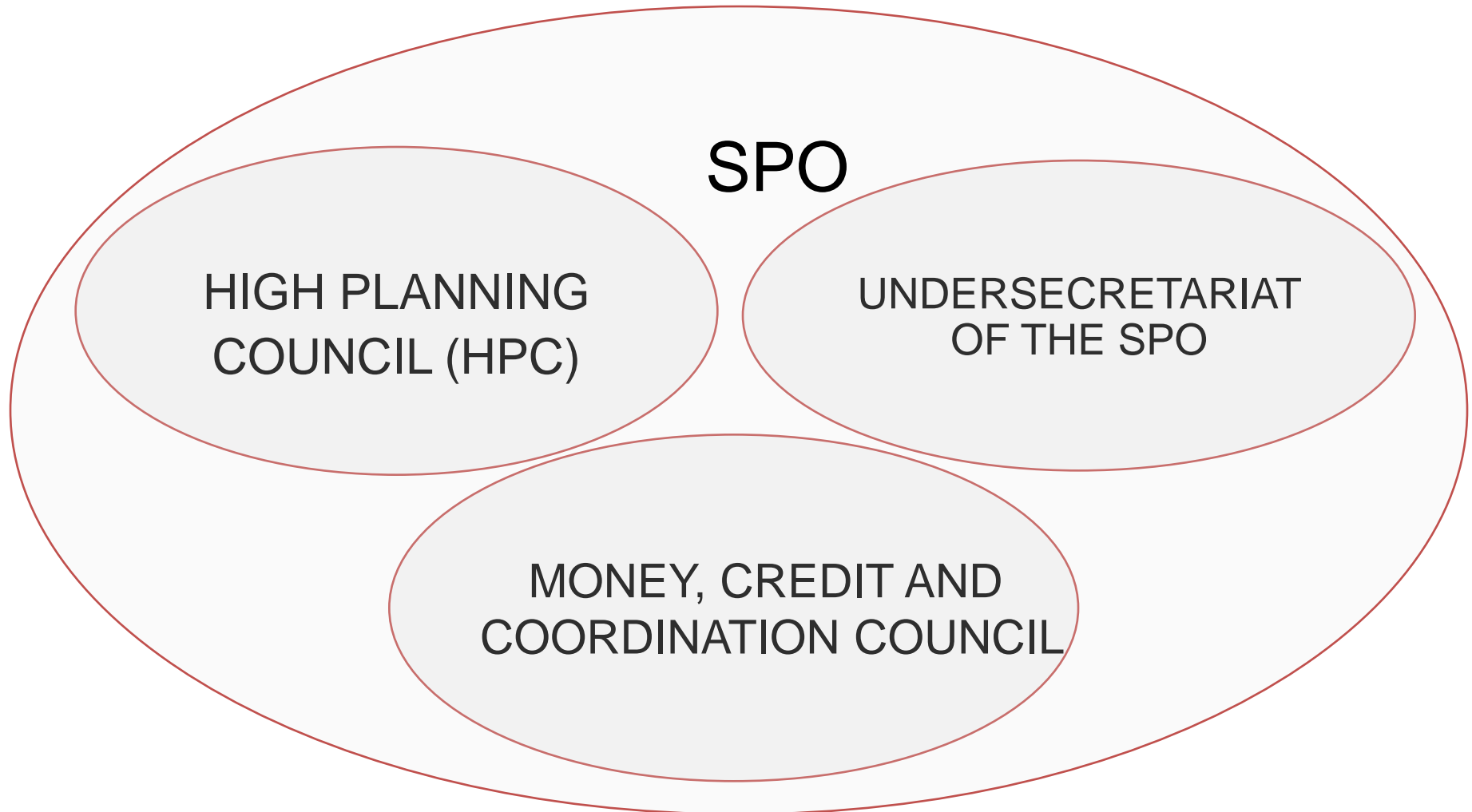


Main Actors in Budgeting, Planning and Implementation

- **Ministry of Finance** (Preparation of Medium Term Fiscal Plan, Central Budget, General Activity Report, monitoring of budget implementation)
- **State Planning Organization** (Preparation of Draft Long Term Plans, Medium Term Programs, Annual Programs, Public Investment Programs, monitoring of Public Investment Program)
- **Treasury** (Debt and cash management)
- **Line Agencies** (Preparation of strategic plans and performance programs, budget and investment program proposals, feasibility studies, activity (accountability) reports, monitoring reports etc.)
- **Court of Accounts** (External audit)



State Planning Organization (SPO)





Members of High Planning Council

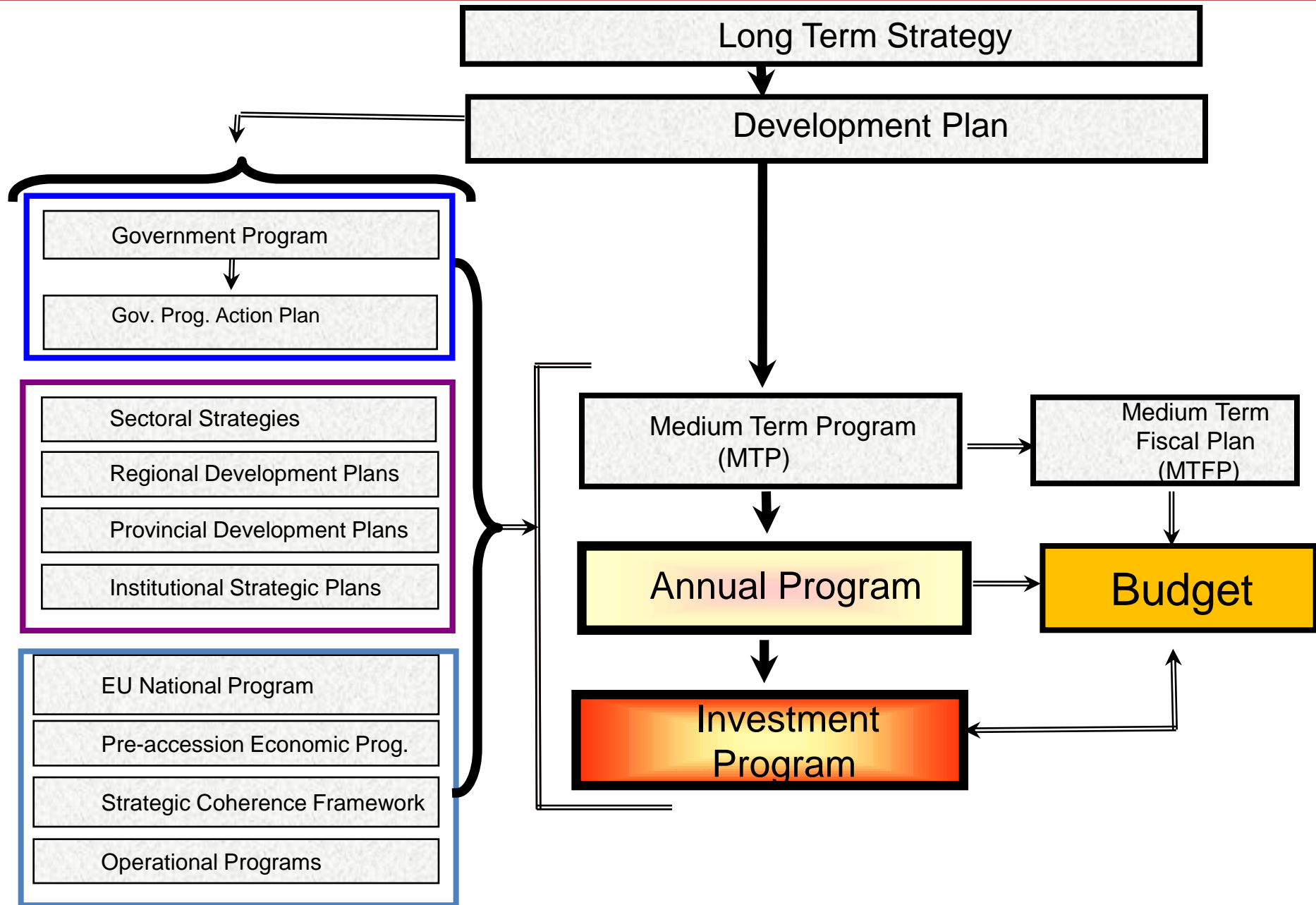
Head : Prime Minister

Members :

- State Minister (Responsible for Treasury)
- State Minister (Responsible for SPO)
- Minister of Finance
- Minister of Public Works and Resettlement
- Minister of Transport
- Minister of Industry and Trade
- Minister of Energy and Natural Resources
- Undersecretary of the SPO



Plan-Program-Budget System in Turkey





Long Term Strategy (2001-2023)

- ❑ Long term basic objectives and policies regarding macroeconomic and social sectors
- ❑ Prepared by SPO; approved by Turkish Grand National Assembly



National Development Plan

- ❑ Five-year documents-seven year for Ninth National Development Plan covering 2007-2013, in line with the EU Planning horizon (non rolling)
- ❑ Long-term strategic objectives and priorities organized under thematic development axes
- ❑ Guides all macroeconomic, sectoral and regional policies and implementations
- ❑ Sets the general framework of economic, social and regional indicative targets
- ❑ Based on findings of the ad-hoc committees formed by representatives of academia, public institutions, private sector and NGO's
- ❑ Prepared by SPO; approved by the Turkish Grand National Assembly



Medium Term Program (MTP)

- ❑ Medium-term strategic objectives and priorities organized under thematic development axes
- ❑ Sets priorities, macroeconomic policies, targets and projections
- ❑ 3-year documents (rolling on annual basis)
- ❑ Consistent with the Development Plan and current internal and foreign developments
- ❑ Prepared by SPO in collaboration with Ministry of Finance (MoF), Treasury and Central Bank in the light of views of public institutions and NGO's
- ❑ Approved by the Council of Ministers



Medium Term Fiscal Plan (MTFP)

- ❑ 3-year documents (rolling on annual basis)
- ❑ Sets institutional budget ceilings
- ❑ Based on MTP
- ❑ Covers central government institutions
- ❑ Prepared by MoF in collaboration with SPO and Treasury
- ❑ Approved by the High Planning Council



Annual Program

- ☐ Sets measures to implement the policies of the Development Plan and MTP
- ☐ Institutional responsibilities and timetable
- ☐ Prepared by SPO, Approved by the Council of Ministers



Budget

- ☐ Rules regarding the implementation in line with the budget
- ☐ Institutional appropriations (3 year appropriations, 2nd and 3rd year indicative)
- ☐ Revenue estimations
- ☐ Approved by a law adopted by Turkish Grand National Assembly.



Programming and Budgeting Process in Turkey

Medium Term Program (SPO) (End May),
Medium Term Fiscal Plan (MoF) (June 15)

Budget Call (Ministry of Finance)
(End June)

Budget Preparation Guidelines (MoF)
(End June)

Investment Program Preparation Guidelines
(SPO)
(End June)

Budget and Investment Program Proposals
from Public Institutions (End July)

Program, Budget and Investment
Negotiations (SPO, MoF, Institutions)
(September)

Finalization of Draft Macro
and budget aggregates (MoF, SPO)
(End September)

Discussions in High Planning Council
and Approval of Macro & Budget
Aggregates (First Week of October)

Submission of Budget Draft to TGNA
(October 17)

Issuing Decree on Implementation,
Coordination and Monitoring of Annual
Program and Annual Program (October)

Budget Approval by TGNA
(Before new fiscal year starts)

Publication of Public Investment Program (In
two weeks after New Fiscal Year starts)



Budget Codification

(Analytical Classification)

INSTITUTIONAL				FUNCTIONAL				FIN.	ECONOMIC			
I	II	III	IV	I	II	III	IV	I	I	II	III	IV
00	00	00	00	00	0	0	00	0	00	0	0	00

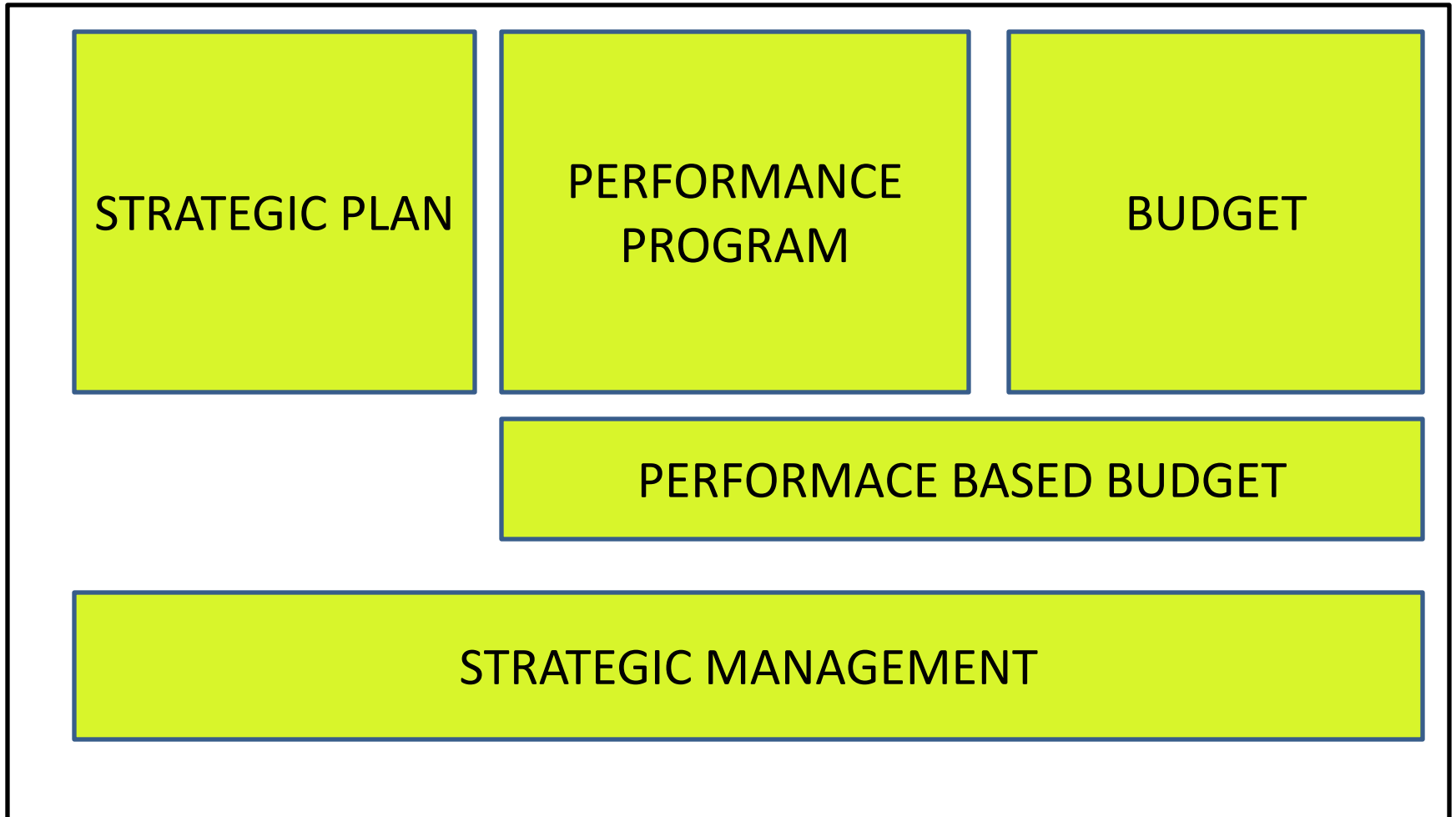


Budget Preparation Level - Sample

INSTITUTION.				FUNCTIONAL				FIN.	ECONOMIC				EXPLANATION	ALLOCATION
I	II	III	IV	I	II	III	IV	I	I	II	III	IV		
07													BAŞBAKANLIK	1.147.239.000
			02										ÖZEL KALEM	24.818.000
				01									GENEL KAMU HİZMETLERİ	24.818.000
					1								Yasama ve yürütme organları, finansal ve mali işler, d	9.818.000
						1							Yasama ve yürütme organları hizmetleri	9.818.000
							00						Yasama ve yürütme organları hizmetleri	9.818.000
								1					Genel Bütçe	9.818.000
									01				PERSONEL GİDERLERİ	440.000
										1			Memurlar	352.000
											1		Temel maaşlar	159.000
												01	Temel maaşlar	159.000
											2		Zamlar ve tazminatlar	119.000
												01	Zamlar ve tazminatlar	119.000
											3		Ödenekler	25.000
												01	Ödenekler	25.000
											4		Sosyal haklar	13.000
												01	Sosyal haklar	13.000
											5		Ek çalışma karşılıkları	36.000
												01	Ek çalışma karşılıkları	36.000

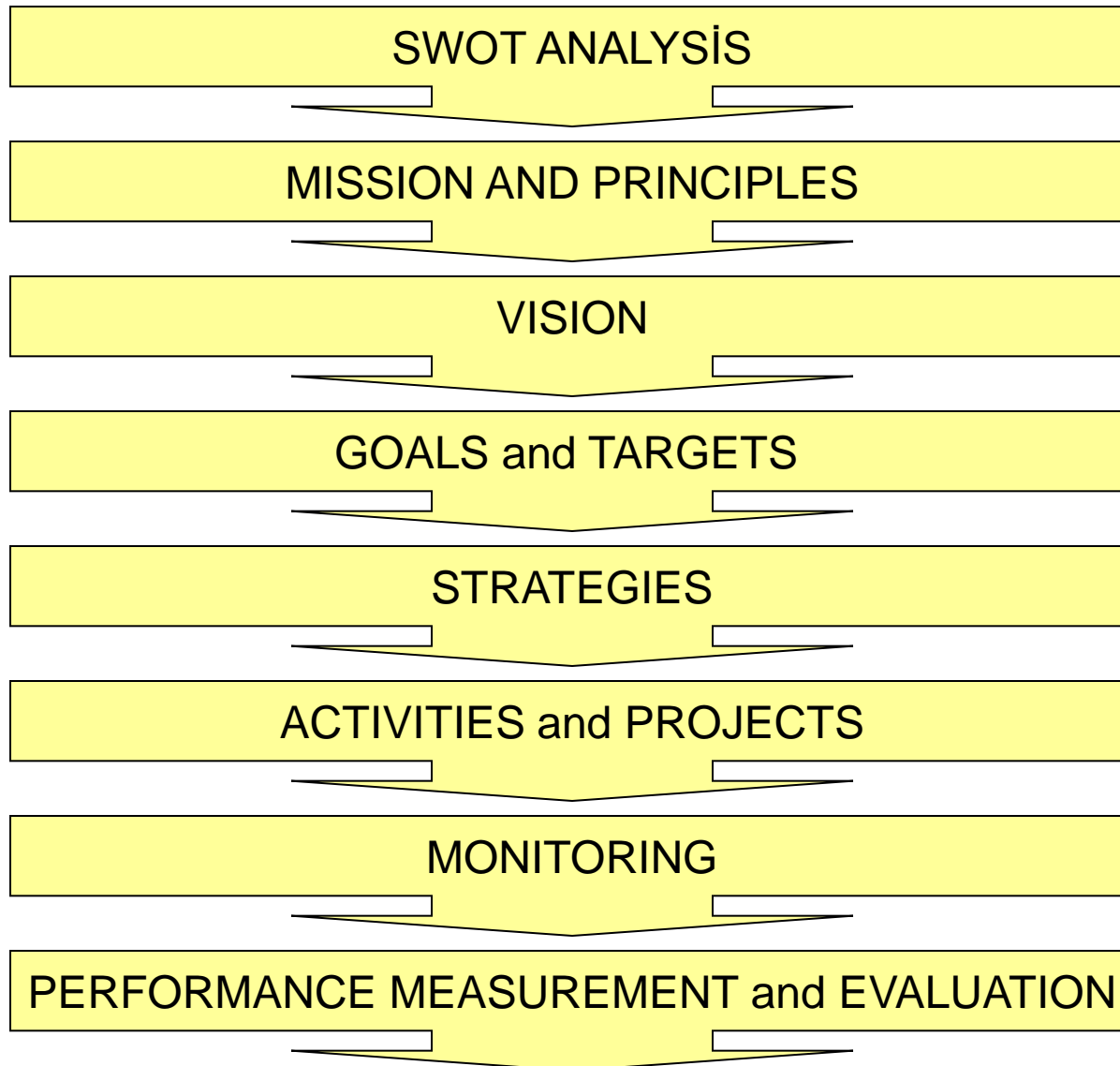


General Approach of the System





Strategic Planning



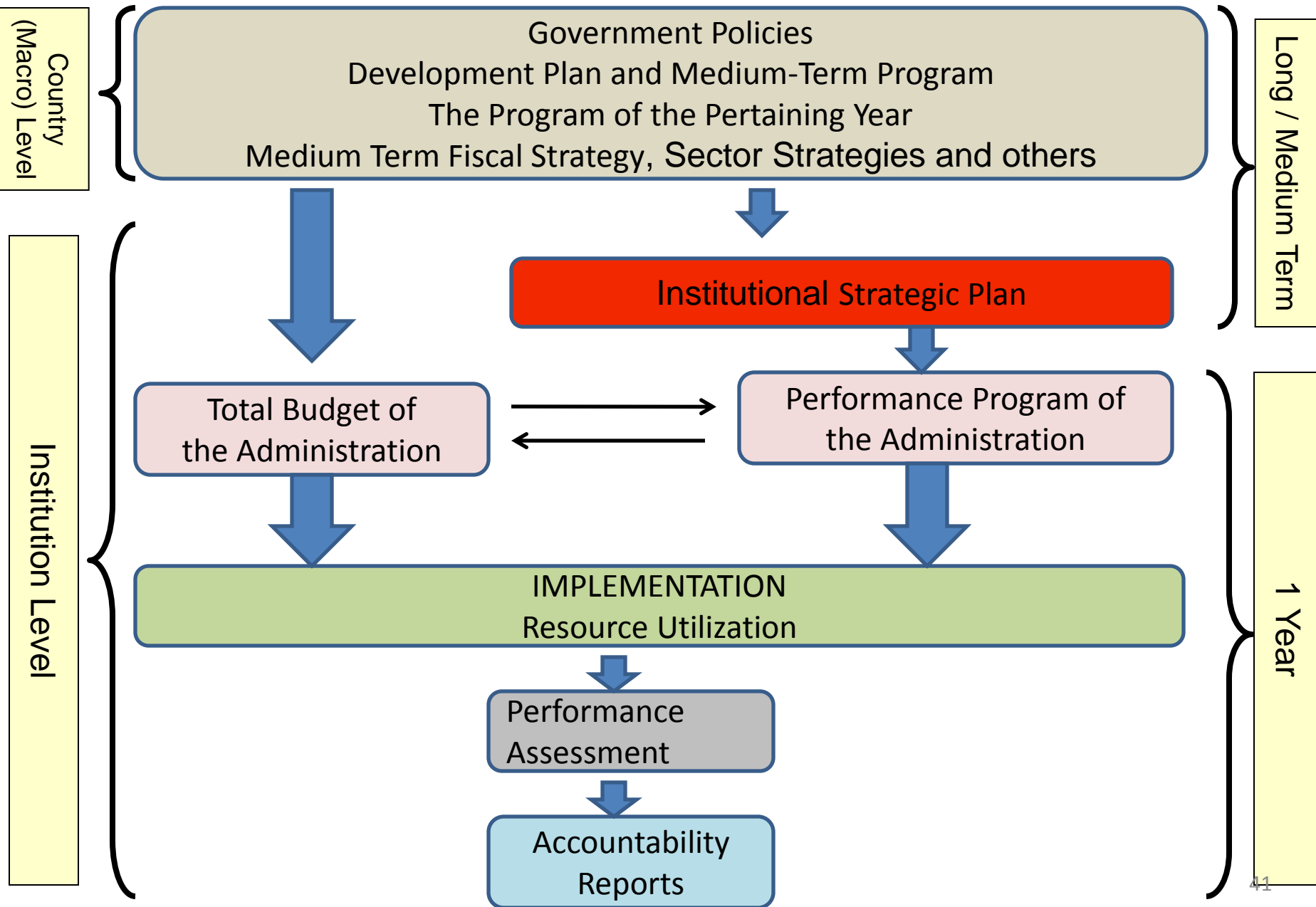


Strategic Planning

- SPO coordinates strategic planning activities, prepares guidelines, provides trainings, improves the system and mechanisms
- Before approval by top management or minister, draft strategic plan are sent to the SPO for assessment
- SPO assesses the plans with the criteria;
 - ✓ consistency with the national planning documents
 - ✓ compliance to the methods, principles and rules in the circular
 - ✓ Consistency with the other strategic plans of other related institutions

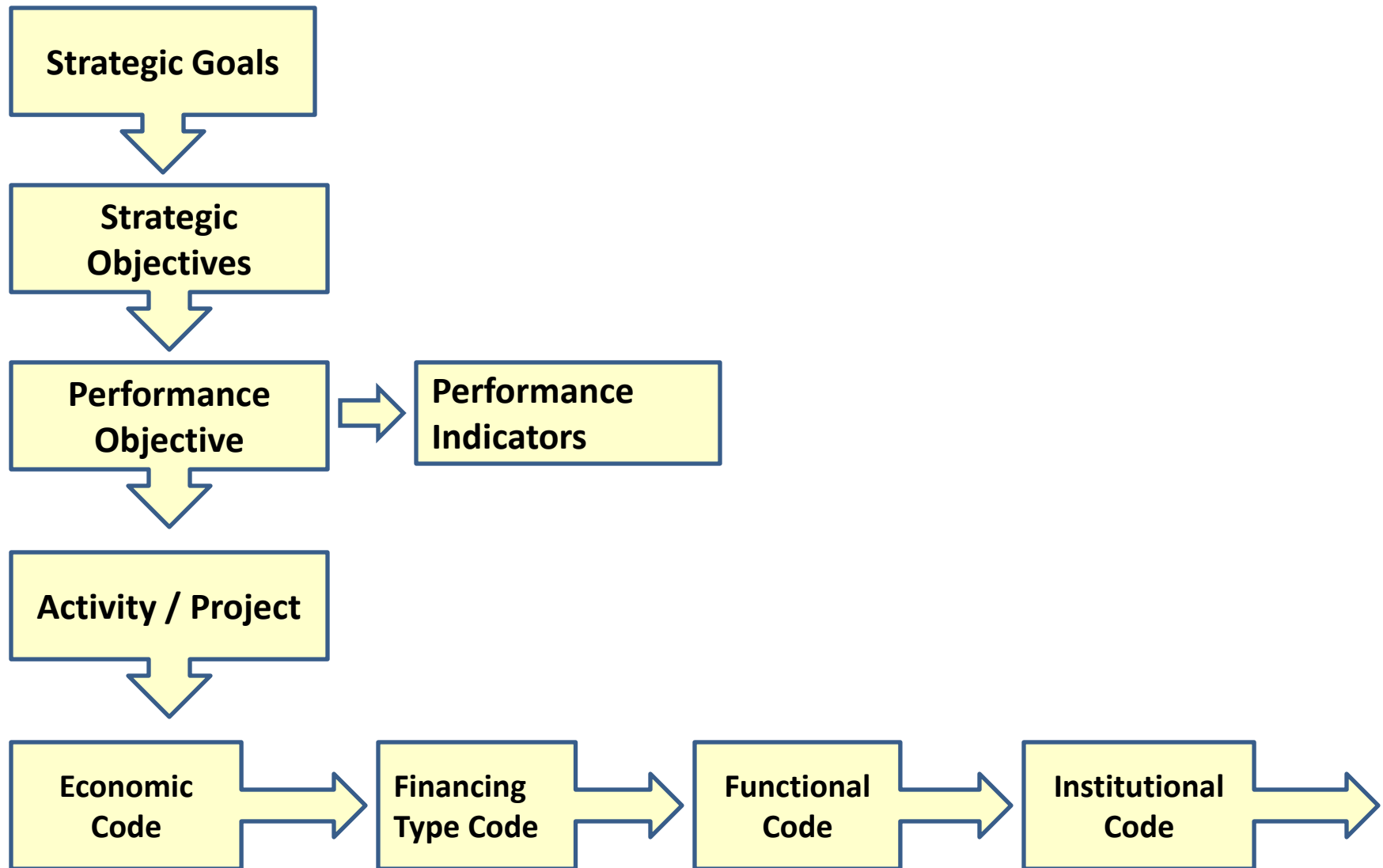


Strategic Plan, Performance Program and Budget





Performance Based Budgeting Model





Weaknesses in Strategic Planning

- Public institutions have prepared their first strategic plans. Some weaknesses;
 - ✓ not efficient reference documents for resource allocation
 - ✓ lack of quality, sufficient data at the preparation and implementation stages
 - ✓ weak institutional capacity and strategic management approach
 - ✓ weak link with the territorial plan and programs
 - ✓ stakeholder analysis, goal, target, strategy, performance indicators are problematic areas
 - ✓ SWOT analysis and their usage in the strategy determining stage are not sufficient
 - ✓ confusion in the goal-target-strategy concepts
 - ✓ costing is one of the most problematic area



Evaluation of Program Results

- Institutional Activity (Accountability) Reports
- General Activity Reports
- Monthly Public Accounts Bulletin (Realizations)
- Court of Account Audit



Public Investment Program (PIP)

- ❑ Project-based distribution of investment allocations
- ❑ Covers whole public sector (including SEE's, social security institutions and foreign- financed investments of local administrations)
- ❑ Indicates; the number, the name, the scope, starting and completion time, project cost, cumulative expenditure up to the current year and annual allocation (*from local and foreign finance*) of all projects



Public Investment Strategy

- Focusing on social and economic infrastructure areas that private sector can not realize
- Realization of local investments by local administrations
- Utilization from PPP in investment financing



Public Investment Priorities

For public Investments;

- ✓ sectoral
- ✓ regional
- ✓ Institutional
- ✓ project base

priorities are determined in macro level policy documents from more general view to more detailed view, starting from Long Term Strategy, in Development Plans, Medium Term Programs, Annual Programs and Investment Preparation Guidelines.



Investment Budget and Program

- Total capital expenditure (investment) level for central budget is decided by both SPO and MoF taking into account;
 - GDP growth rate, fiscal targets (revenues, deficit, surplus, debt level), current project stock etc.

- Distribution of total investment level among sectors and institutions are decided by SPO taking into account;
 - development goals in the development plans and programs
 - sectoral, regional strategy and plan documents
 - institutional strategic plans and performance programs
 - needs for ongoing and new project stock of institutions
 - previous year implementations and realizations



Investment Budget and Program

- Prioritization of projects are made by implementing agencies (project owners) taking into account;
 - ✓ sectoral, regional, institution, project base priorities in the long term national plan, medium term program, annual program, investment circular and its annex investment program preparation guidelines
 - ✓ budget ceilings in the medium term fiscal plan
 - ✓ goals, targets and indicators in the strategic plans and performance programs
 - ✓ budget allocations for investment projects multi-annual but published investment program shows only annual allocation
 - ✓ institutions have flexibility for transferring funds among the projects in same sector and budget items
 - ✓ intersectoral transfers may be done by the approval of SPO



Investment Program Preparation Guide

➤ Investment Circular and Its annex 'Investment Program Preparation Guide' includes:

- investment proposal ceilings,
- sectoral, sub-sectoral, regional and project based priorities,
- principles, methodologies
- feasibility study formats
- and the parameters (exchange rate, deflators)



Projects Proposals

- Investing institutions being acquainted with their own indicative budget ceilings gather project proposals from:
 - regional and local administrations,
 - public authorities,
 - NGOs and
 - citizens etc.
- Proposals should comply with the Development Plan, Medium Term Program, Medium Term Fiscal Plan, Annual Program and Institutional Strategic Plan
- For the new projects that cost is above 3.5 million \$, a detailed feasibility study, covering cost/benefit and/or cost effectiveness and environmental impact analysis, is necessary to be submitted to the SPO. For smaller projects simple project proposal form (like prefeasibility study) is necessary.



Project Appraisal

➤ Projects submitted by the investing institutions to SPO for the following analyses:

- Financial
- Economic
- Social
- Institutional
- Environmental
- Regional

➤ No central guidelines for appraisal

➤ Feasibility report formats in annual Investment Program Preparation Guidelines

➤ No formal costing guidelines/standards



Structure of Public Investment Program

-Project Samples-

SECTOR : AGRICULTURE
PROJECT OWNER : GENERAL DIRECTORATE OF STATE HYDROLOGIC WORKS

(Bin TL)

					PROJECT COST		CUMULATIVE EXPENDITURE BY THE END OF PREVIOUS YEAR		2011 ALLOCATION			
PROJECT NO	PROJECT NAME	LOCATION ((PROVINCE)	CHARARASTERICTIC	START / END DATE	FOREIGN	TOTAL	FOREIGN		TOTAL	FOREIGN		TOTAL
							CREDİT	LOCAL		CREDİT	LOCAL	
DEVLET SU İŞLERİ GN.MD. TOPLAMI					4 106 581	72 633 354	2 597 127	-	26 608 690	46 030	-	3 351 800
A) ETÜD-PROJE İŞLERİ TOPLAMI					16 783	1 171 246	16 783	-	310 246	-	-	150 000
a) 2011'de Bitenler					-	15 000	-	-	-	-	-	15 000
2011A010010	Muhtelif Etütler	Muhtelif	Etüd-Proje	2011-2011	-	15 000	-	-	-	-	-	15 000
2000A010300	Kıbrıs Anamur (Dragon) Çayından Boruyla Su Götürme(1)		Etüd-Proje	2000-2011	(14 781)	(17 442)	(13 535)		(15 972)	(1 246)		(1 470)
b) 2011'den Sonraya Kalanlar					16 783	1 156 246	16 783	-	310 246	-	-	135 000
1985A010020	Muhtelif Etütler (GAP) (DAP) (KOP)	Muhtelif	Etüd-Proje	1985-2016	16 783	1 156 246	16 783	-	310 246	-	-	135 000 (35 000) (20 000) (5 000)
B) DEVAM EDEN PROJELER TOPLAMI					4 088 620	67 871 626	2 580 344	-	26 298 444	46 029	-	3 136 056
a) 2011'de Bitenler					182 042	1 969 632	182 042	-	1 897 972	-	-	71 660
1999A010010	Filyos-Köprübaşı (DA) (ZBK)	Zonguldak,Bolu	Taşkın : 2 ilçe	1999-2011	-	15 447	-	-	14 147	-	-	1 300
1986A010180	Mersin-Mut	Mersin	Sulama : 4163 ha	1986-2011	-	124 375	-	-	121 375	-	-	3 000
1964A010800	Erzincan II. Merhale (DAP)	Erzincan	Depolama: 178 hm3 Sulama : 32321 ha Yenileme: 5700 ha	1964-2011	31 118	430 111	31 118	-	429 111	-	-	1 000
b) 2011'den Sonraya Kalanlar					3 906 578	65 901 994	2 398 302	-	24 400 472	46 029	-	3 064 396
1991A010070	Bursa-Yenişehir I. Merhale	Bursa	Depolama: 65 hm3 Sulama : 16665 ha Taşkın : 1 ilçe	1991-2014	-	348 562	-	-	108 384	-	-	7 500
1991A010130	Karaman II. Merhale (KOP)	Karaman	Depolama: 134 hm3 Sulama : 8700 ha	1991-2015	-	165 765	-	-	69 267	-	-	10 000
C) YENİ PROJELER TOPLAMI					1 178	3 590 482	-	-	-	1	-	65 744
a) 2011'de Bitenler					-	56 142	-	-	-	-	-	56 142
2011A010030	Ağaçlandırma, Park ve Fidanlık	Muhtelif	Muhtelif	2011-2011	-	4 000	-	-	-	-	-	4 000
b) 2011'den Sonraya Kalanlar					1 178	3 534 340	-	-	-	1	-	9 602
2011A010160	Samsun-19 Mayıs (YHGP)(4)	Samsun	Depolama: 43,4 hm3 Sulama : 1654 ha	2011-2015	-	51 000	-	-	-	-	- 53	100



Innovative Approaches In Public Investments

- Provide more flexibility for institutions in grouped and other projects to increase ownership
- Authorization of institutions in revisions during year substantially
- Resource transfer to local administrations through Development Agencies, Village Infrastructure Support Project etc.
- Result oriented Social Support Program Implementations for social needs
- Realization of education and health facilities by means of Housing Development Administration



Public-Private-Partnership (PPP)

Both at central and local level;

- Several models such as Build-Operate-Transfer (BOT), Build-Operate (BO), Build-Lease-Transfer (BLT) and Transfer of Operating Rights (TOR) used to attract private financing for investments.
- Airports, ports, motorways, dams, hydro-electric power plants, natural gas plants with current the PPP laws
- A draft general legislative framework for PPP is under legislation process



Public Procurement Authority (PPA)

- Independent regulatory and monitoring body
- administrative and financial autonomy while maintaining a linkage to the Ministry of Finance
- Independent in fulfillment of its duties
- Consists of the Public Procurement Board acting as management organ with ten members, chairmanship and ten service units
- The Board members are nominated by different ministries, high courts and private sector's unions, and appointed by Council of Ministers
- Duties and powers of PPA are:
 - to prepare, develop and guide the implementation
 - to review the complaints
 - to prepare secondary legislation
 - to provide training on procurement legislation
 - to collect, analyze and publish the data
 - to keep the records of prohibited tenderers
 - to regulate the principles and procedures
 - to establish and operate the Electronic Public Procurement Platform



Current Electronic Monitoring Systems in Turkey

- Public Investment Program Quarterly Monitoring System (SPO)
- Annual Program Activity Monitoring System (SPO)
- Budget Monitoring System (Say 2000) (MoF)
- Province Coordination Monitoring System (İKİS) (SPO)
- EU Programs Monitoring System (SPO)

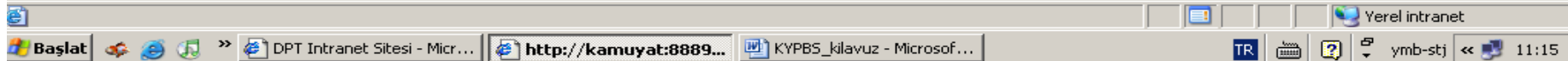


Monitoring & Evaluation of PIP

- Ex-ante evaluation (appraisal) of projects by the SPO
- Mid-term periodic (quarterly) financial monitoring for all projects
- Detailed investment implementation report at the end of year to be sent to MoF, SPO and Court of accounts
- Both electronic and printed reporting by the institutions and recording in electronic database in the SPO
- Physical, financial and progress information for all projects requested by the Investment Circular
- Site visits for randomly selected projects by the SPO experts
- Separate monitoring system for EU funded projects
- No impact assessment yet



Public Investment Program Monitoring System in SPO



Conclusion and Lessons from Turkish Experience



Conclusion and Lessons from Turkish Experience

- ✓ Long term and medium term perspective (strategy) is necessary (Long Term Development Plans, Medium Term Programs, Multi-year Budgeting).
- ✓ Monitorable planning and programming structure is necessary.
- ✓ Ownership of the plan and programs by stakeholders is important. So participatory approach must be adopted during the all phases of program, budget and project cycle management.
- ✓ Project Cycle Management Approach and Logical Framework Matrix may be very useful tools.
- ✓ More flexibility must be given to the line agencies.
- ✓ Horizontal and vertical coordination and cooperation among central agencies and local authorities are important. The roles of the institutions must be well defined.



Conclusion and Lessons from Turkish Experience

- ✓ Principles like transparency, accountability, participation, efficiency, effectiveness, results based management must be adopted
- ✓ The project stock must be consistent with the resources available
- ✓ Institutional capacity of the public institutions is crucial for sound projects. Quality of relevant personnel must be improved.
- ✓ Efficient monitoring & evaluation system is necessary for corrective and preventive actions and for better planning for future projects.



Conclusion and Lessons from Turkish Experience

- Timely, credible, accurate, objective reports and dissemination are important
- Use of findings and information of M&E Reports in practice and create demand for M&E are necessary
- Results oriented systematic, integrated approach must be adopted.
- PPP models may help to reduce the burden of the public sector and to transfer financial and management capacity of the private sector to the public services.
- Well defined legal, institutional framework and institutional roles for program, budget and project cycle management helps for better results.



Conclusion and Lessons from Turkish Experience

- Sound feasibility studies need time and resource. Relevancy, feasibility and sustainability of the projects are very important.
- Other country experiences may be helpful for system design but local systems must be suitable to local conditions (economic, technologic, cultural etc.).
- Experts from international organizations may help to design efficient management system.



Thanks for your attention !