

Capital Budgeting Practices in PEMPAL Member Countries

thematic survey results

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Objectives and Scope of Survey

- *The survey aimed to identify the current capital budgeting practices within PEMPAL member countries*
 - *To share good practices*
 - *Identify reform opportunities*
 - *Facilitate discussions*
- *12 PEMPAL member countries completed the survey (out of a possible 17 in attendance at this event)*
- *This presentation summarizes the key information provided from this survey. The full survey report is also included in your event materials*

PART I: SIZE AND COMPOSITION OF CAPITAL BUDGET



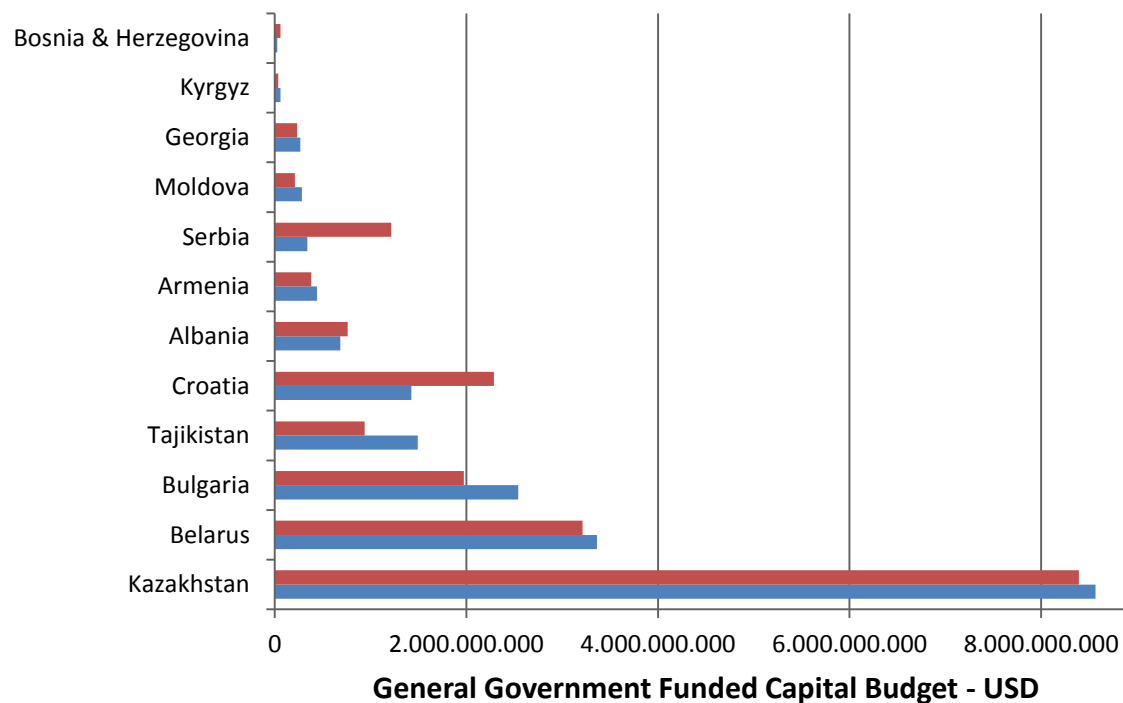
Size of the General Government Funded Capital Budget 2007 to 2010 (in USD)

Table 1:

| Country | 2010 | 2009 | 2008 | 2007 |
|----------------------|---------------|---------------|----------------|---------------|
| Kazakhstan | 8,568,469,872 | 6,455,826,481 | 13,973,523,989 | 8,392,095,186 |
| Belarus | 3,364,713,000 | 4,431,816,000 | 4,072,242,000 | 3,211,858,000 |
| Bulgaria | 2,540,382,997 | 3,656,438,669 | 3,229,962,639 | 1,974,520,526 |
| Tajikistan | 1,492,743,420 | 1,458,651,374 | 1,310,756,233 | 939,826,471 |
| Croatia | 1,424,568,235 | 1,570,114,114 | 2,434,643,785 | 2,288,127,763 |
| Albania | 684,518,575 | 1,112,084,160 | 1,127,323,780 | 761,425,430 |
| Armenia | 439,520,000 | 520,760,000 | 572,250,000 | 380,607,000 |
| Serbia | 341,591,547 | 412,372,288 | 1,068,832,838 | 1,215,395,299 |
| Moldova | 285,198,375 | 370,731,953 | 276,867,166 | 211,642,368 |
| Georgia | 266,852,807 | 232,029,343 | | |
| Kyrgyz | 60,942,000 | 88,523,330 | 83,145,084 | 37,785,000 |
| Bosnia & Herzegovina | 26,076,330 | 26,460,244 | 48,533,460 | 59,306,820 |

Size of the General Government Funded Capital Budget

Chart 1: Comparison of General Government Funded Capital Budget: 2007 and 2010 (in USD)



*: 2009 value used for Georgia

■ 2007* ■ 2010

What Proportion of the Total Budget is Allocated to the Capital Budget (in %)

Table 2: General Government Funded Capital Budget as a percentage of the Total Approved Government Funded Budget 2010 (in USD)

| Country | 2010 total budget | 2010 capital budget | % share |
|----------------------|-------------------|---------------------|---------|
| Kazakhstan | 31,290,098,960 | 8,568,469,872 | 27% |
| Belarus | 24,463,494,000 | 3,364,713,000 | 14% |
| Croatia | 22,282,426,078 | 1,424,568,235 | 6% |
| Bulgaria | 18,964,987,270 | 2,540,382,997 | 13% |
| Serbia | 10,070,119,032 | 341,591,547 | 3% |
| Georgia | 3,914,413,200 | 266,852,807 | 7% |
| Albania | 3,581,984,680 | 684,518,575 | 19% |
| Armenia | 2,507,140,000 | 439,520,000 | 18% |
| Moldova | 2,175,673,500 | 285,198,375 | 13% |
| Kyrgyz | 1,429,220,490 | 60,942,000 | 4% |
| Bosnia & Herzegovina | 1,086,016,000 | 26,076,330 | 2% |

- Charts 2: General Government Funded Capital Budget as a proportion of the Total Approved Government Funded Budget 2010 (in USD)*

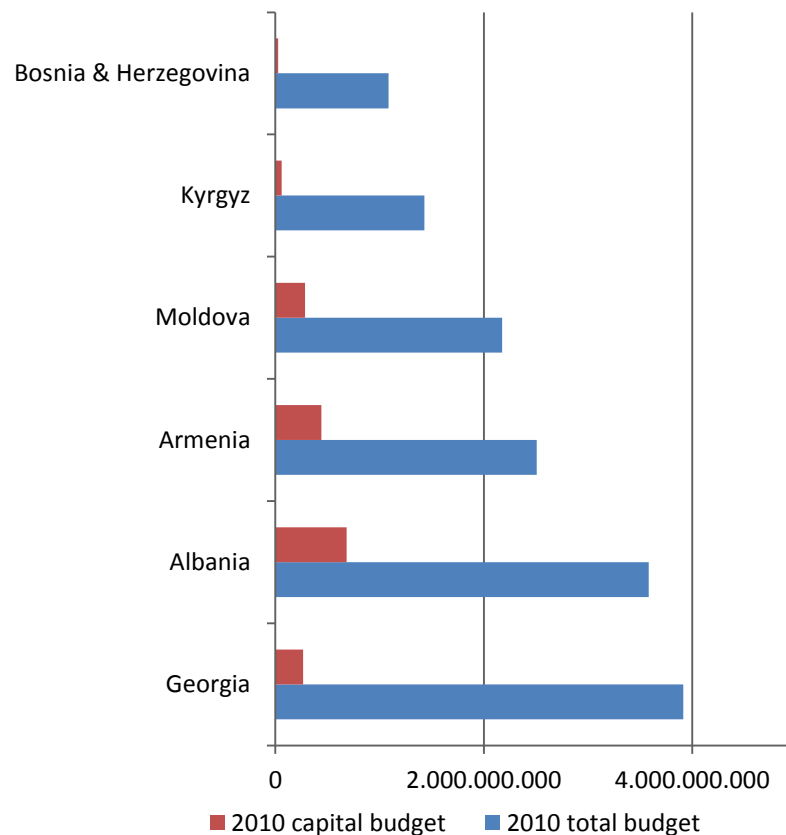
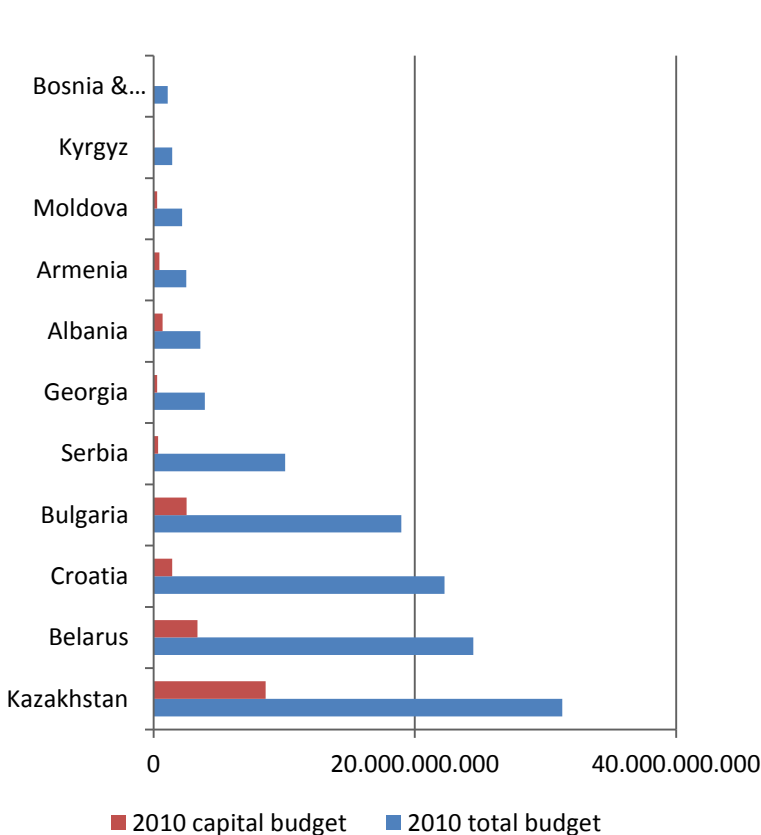


Chart 3a: What Sector takes the **largest share** share of the Capital Budget (in USD and % share) in last fiscal year?

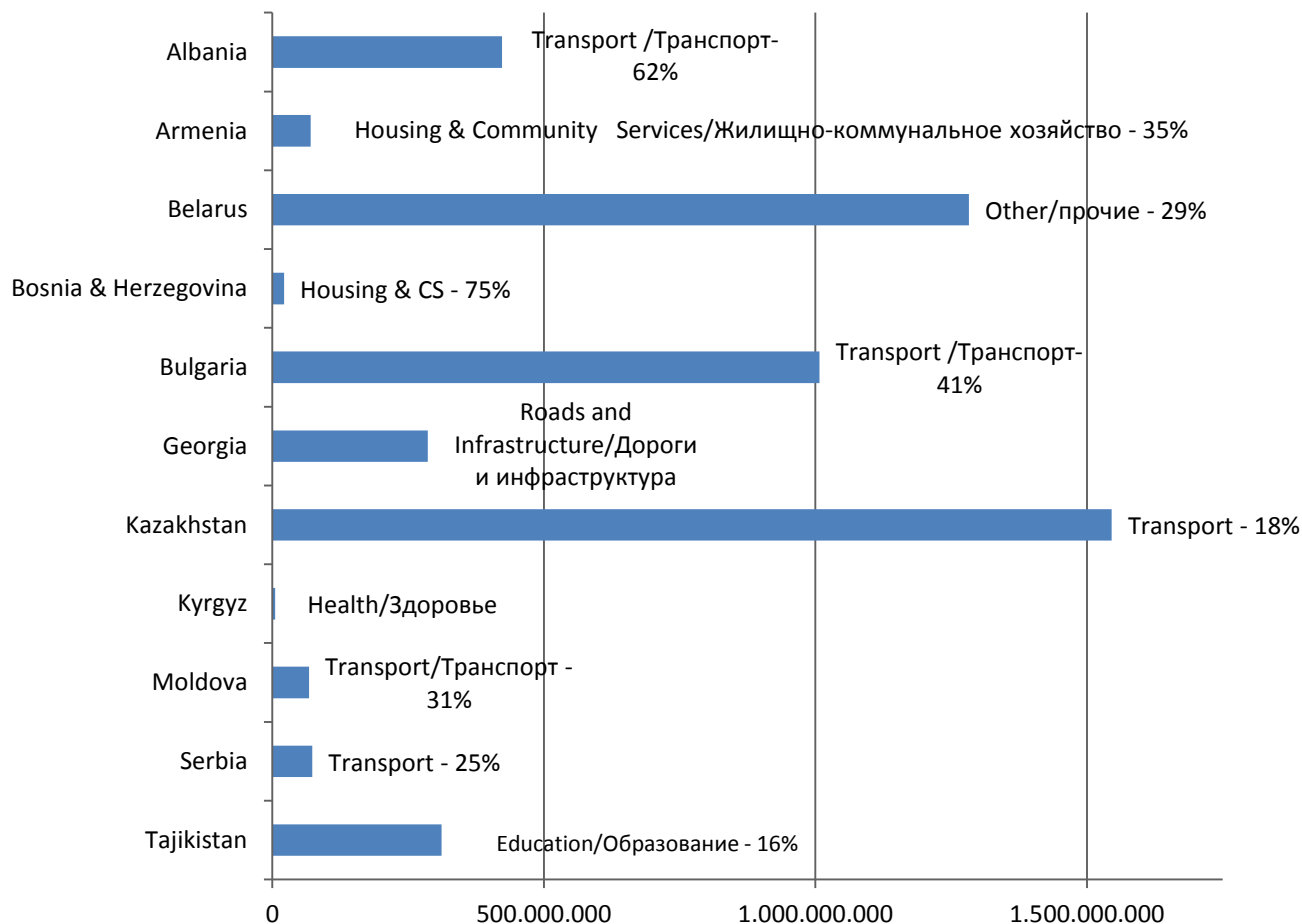


Chart 3b. What Sector takes the **second largest share** share of the Capital Budget (in USD and % share) in last fiscal year?

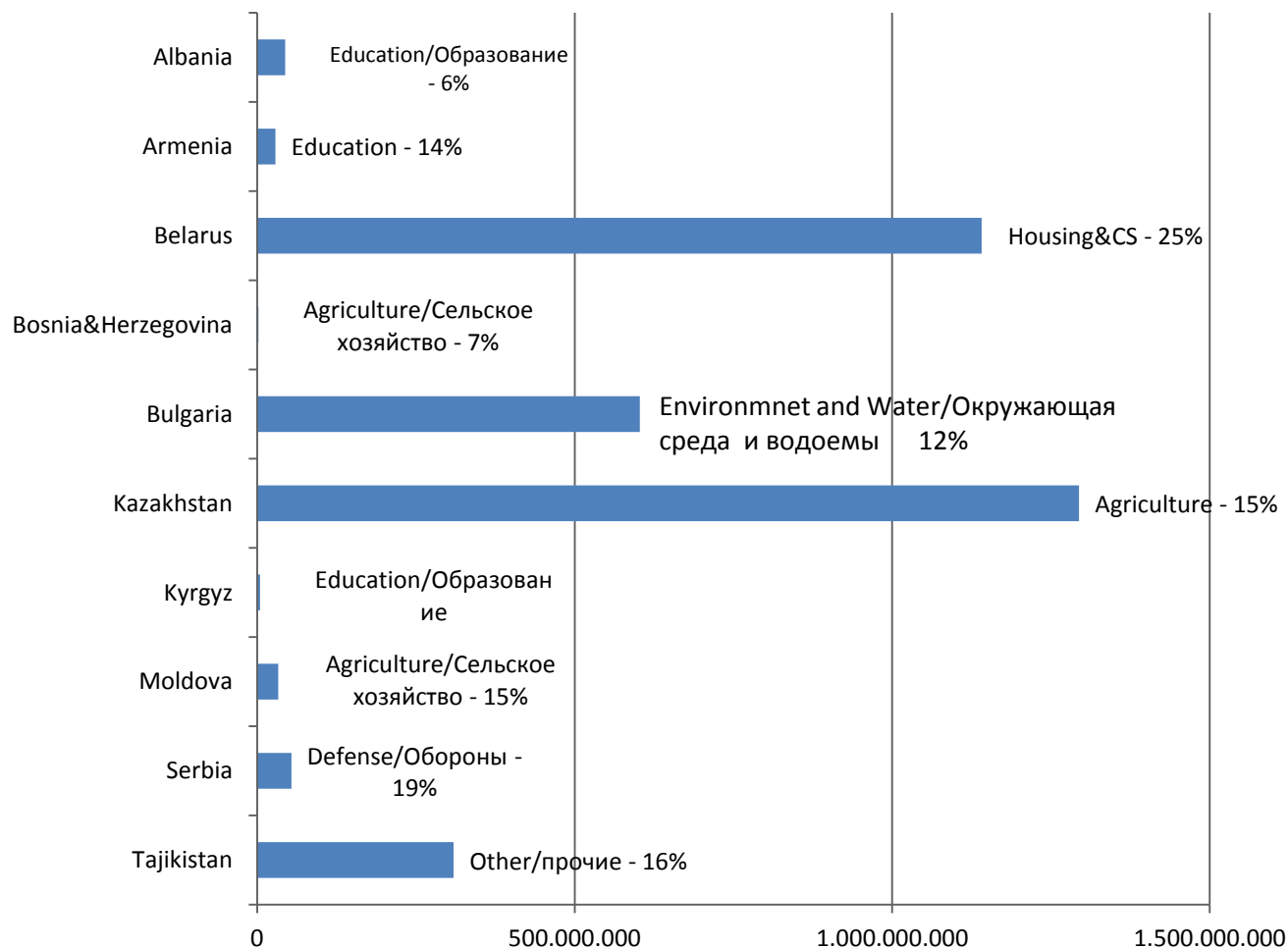
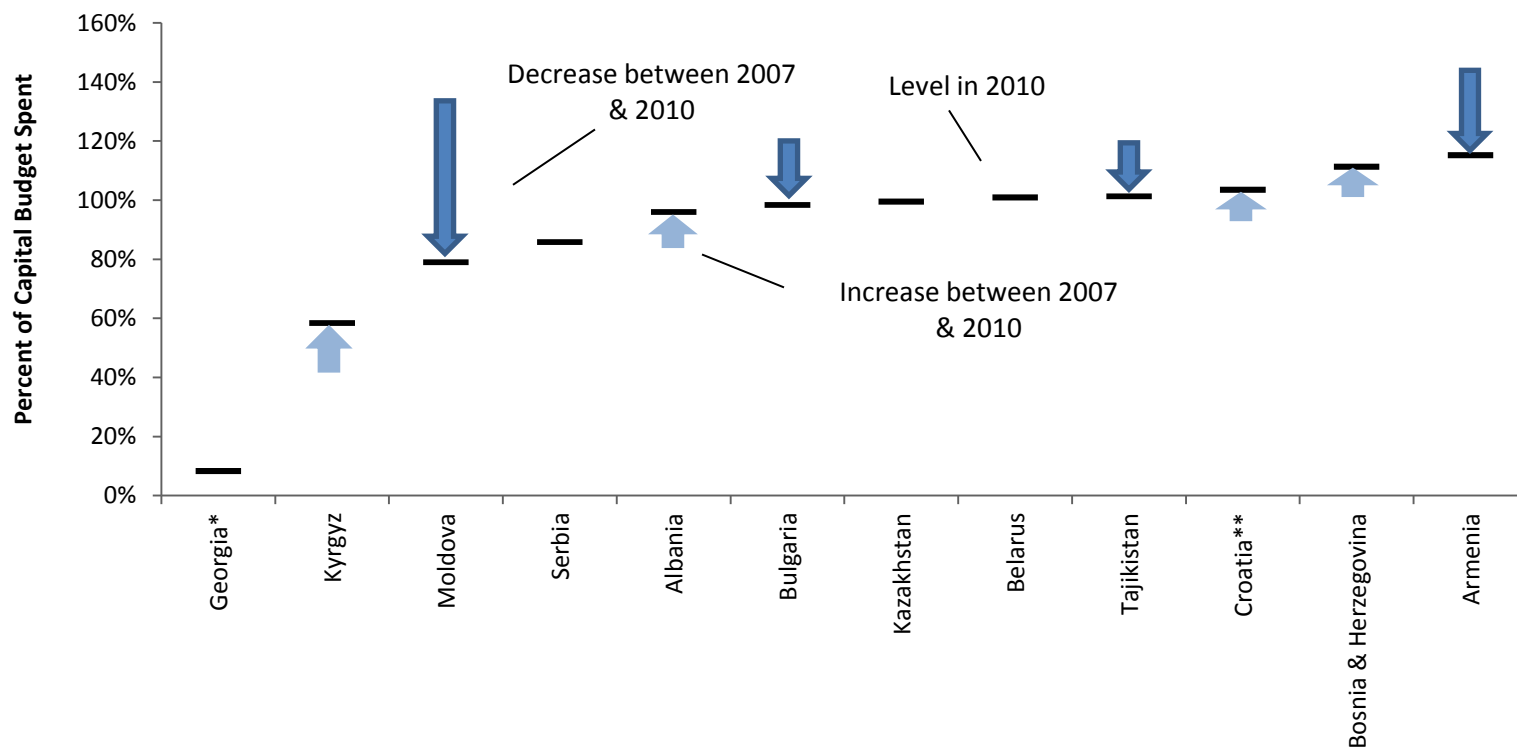


Chart 4: Execution of the Capital Budget 2007 and 2010



*: Georgia shows the increase between 2009 and 2010, which is less than 1%

** : Croatia shows the increase between 2007 and 2009

What has been the impact of the recent financial crisis?

All 12 countries gave responses.

- The recent financial crisis has caused an across the board cut in the capital budget in 9 countries.
- It has caused some projects to be delayed in 11 countries.
- It has caused some projects to be cancelled in 9 countries.
- It has changed the types of projects that are financed in 3 countries.

PART II: INSTITUTIONAL FRAMEWORK



Who is responsible for compiling and managing the government funded capital budget?

| Country | MoF | Other ministry | central | Other |
|---------------------|-----|----------------|---------|---|
| Belarus | | X | | |
| Serbia | | | | Several ministries within their competences |
| Bulgaria | X | | | |
| Kyrgyz | X | | | |
| Croatia | X | | | |
| Kazakhstan | | | | Budget program administrators, Ministry of Economic Development and Trade, Ministry of Finance |
| Georgia | | | | Together with the respective spending agency |
| Bosnia& Herzegovina | | | | Budget users submit capital budget requests to the Ministry of Finance. The Ministry of Finance presents proposals that need to be adapted to the Government of Republika Srpska, and Government of RS and National Assembly of RS adopt proposed requests. |
| Moldova | X | | | |
| Tajikistan | X | | | |
| Albania | | | | each line ministry and Ministry of Finance |
| Armenia | X | | | |

- MoF is also responsible for managing and compiling the donor funded capital budget in 7 of these countries

PART III: STRATEGIC PRIORITIZATION AND PLANNING



What Strategic Plans Exist?

- All countries have a country-wide strategy (of which one is a National Poverty Reduction Strategy)
- All countries have sectoral or ministry strategies (except Georgia)
- Some countries have public investment strategies.

Do defined sector strategies guide project prioritization?

- Most countries indicated that although sector strategies exist, they provide insufficient detail or are too general to accurately guide project prioritization
- With the exception of Bosnia and Herzegovina (Republik Srpska) and Tajikistan who have well defined sector strategies

Is there a Public Investment Plan to coordinate and channel external resources?

- 5 of the 12 countries have a PIP (Belarus, Bulgaria, Kyrgyz Republic, Bosnia and Herzegovina, Tajikistan)
- This PIP is well integrated into the budget planning processes in Bulgaria, Bosnia and Herzegovina, and Tajikistan
- It has a partial link in Belarus and Kyrgyz Republic

PART IV: IDENTIFICATION, APPRAISAL AND SELECTION



Is there an official definition of a capital project?

| Country | Yes | Official definition | No |
|---------------------|-----|--|----|
| Belarus | | | x |
| Serbia | | | x |
| Bulgaria | x | Capital project – accomplishment of all types of activities, associated with creation of one investment idea up to its implementation within the bounds of planned budget, duration, and quality. | |
| Kyrgyz | - | - | - |
| Croatia | x | Budget Law defines; investments or capital investments are investments in enhancing and preserving values of assets; investments in land, buildings, equipment and other tangible and non-tangible assets, including investments in training and education, development of new technologies, improvements in the quality of life, and other investments which will produce benefits. | |
| Kazakhstan | | Investment budget project – complex of actions on creating (construction) of new objects or reconstruction of old ones, as well as creation, implementation, and development of informational systems; which are budget-funded during definite period of time and have accomplished. | x |
| Georgia | x | Capital project is the project, which is about increasing assets and keeping them in working condition. The cost project includes all project-related expenditures, which are: purchase of territory and materials, work performed, architectural and engineering works and etc. | |
| Bosnia& Herzegovina | | | x |
| Moldova | | | x |
| Tajikistan | | | x |
| Albania | x | Investment projects will be those that: 1. result in an increase in assets 2. It has a life time over 1 year 3. Cost over 1 000 000 lek | |
| Armenia | | | x |

Project Appraisal Standards

- 4 countries have official documents which provide guidance on how to conduct economic analysis:
 - Albania
 - Bulgaria
 - Kazakhstan
 - Tajikistan

Role of MoF in Project Appraisal

Of the 11 countries who responded:

- In 10 countries, MoF sets overall financial ceilings
- In 7 countries MoF can block projects for reasons of poor justification.
- In 2 countries MoF develops and sets appraisal standards and does project approval (Bulgaria and Albania)
- In 1 country MoF does preliminary screening of projects against agreed criteria (Moldova)

What types of appraisals are done?

Of the 11 countries who responded:

- All countries do financial and economic analyses. Most also do environmental and technical analyses.
- 6 countries do social or risk analyses (Bulgaria, Kyrgyz, Croatia, Kazakhstan, Tajikistan, Armenia).

When are economic appraisals are done?

Of the 11 countries who responded:

- 6 countries do economic appraisals on all projects.
- Bulgaria and Albania only on projects above a certain threshold.
- Moldova and Armenia, only on projects from certain sectors.
- Serbia only on projects subject to public procurement.

Is there an independent review of appraisals?

Of the 10 countries who responded:

- 6 countries have no independent review of appraisals
- 3 countries have an independent review for certain projects (Armenia, Bulgaria, Kazakhstan)
- Kyrgyz Republic has an independent review for all projects

What factors or criteria affect selection of projects?

Of the 12 countries who responded:

- Funding availability and national or sector strategies are the biggest influences
- Political priorities are also an important factor

PART V: THE BUDGET PROCESS



Capital planning

Of the 12 countries who responded:

- 7 countries include a lump sum for operation costs for **new** investments in the Medium Term Budget Framework (MTBF). These are Serbia, Bulgaria, Kyrgyz Republic, Kazakhstan, Moldova, Tajikistan, and Albania)
- 3 countries include a lump sum for maintenance of **existing** capital in the MTBF (Bulgaria, Albania, Armenia)

Capital planning

Of the 12 countries who responded:

- In 4 countries expected maintenance and operating costs are not fully identified nor budgeted for in capital proposals (Belarus, Bulgaria, Croatia, Armenia).
- In 5 countries they are partially identified and partially budgeted for (Serbia, Kyrgyz, Kazakhstan, Bosnia and Herzegovina, Moldova).
- In 2 they are identified but not budgeted for (Georgia and Albania)
- They are fully identified and fully budgeted for in Tajikistan.

Comprehensiveness of Capital Budget

What does the capital budget include?

| Country | Government funded projects | Foreign financed projects | Capital projects and expenditures made by extrabudgetary funds | Public Partnership projects | Private |
|------------------------------|----------------------------|---------------------------|--|-----------------------------|---------|
| Belarus | x | | | | |
| Serbia | x | x | x | | |
| Bulgaria | x | x | x | | |
| Kyrgyz | x | x | | | |
| Croatia | x | x | | | |
| Kazakhstan | | x | | x | |
| Georgia | x | x | | | |
| Bosnia& Herzegovina | x | | | | |
| Moldova | x | x | x | | |
| Tajikistan | x | x | | | |
| Albania | x | x | | | |
| Armenia | x | | x | | |
| <u>Quantity of responses</u> | <u>11</u> | <u>9</u> | <u>4</u> | <u>1</u> | |

Multi-year list of approved projects

Of the 12 countries who responded:

- There are no multi-year list of approved projects in 4 countries
- 8 countries have such a list of which 5 of them rank them in order of priority (Albania, Bosnia and Herzegovina, Kazakhstan, Kyrgyz, Tajikistan)
 - In 7 of these countries, this list includes donor funded projects

PART VI: APPROVAL



Role of Parliament

Of the 12 countries who responded:

- Parliament has:
 - the authority to approve/reject or increase/decrease aggregate spending in the capital budget in 6 countries
 - The authority to add/drop individual capital projects within an existing ceiling in 3 countries (Bulgaria, Bosnia and Herzegovina and Moldova).
 - Has no authority (Armenia)

Level of Legal Appropriation

Of the 12 countries who responded:

| Country | Level | | | | | |
|----------------------------|----------|----------|----------|----------|-------------------|--|
| | Project | Program | Sector | Ministry | Economic category | Other |
| Belarus | | x | | x | | |
| Serbia | | | | x | x | |
| Bulgaria | x | x | x | x | x | |
| Kyrgyz | | | x | x | x | |
| Croatia | | | | | | We do not have capital budget, our capital budget is included in the overall budget. |
| Kazakhstan | x | | | | | |
| Georgia | | x | | x | x | |
| Bosnia& Herzegovina | | | | x | | |
| Moldova | x | | x | x | x | |
| Tajikistan | | x | | | | |
| Albania | | x | x | x | x | |
| Armenia | x | | x | x | x | |
| <u>Quantity of rsp</u> | <u>4</u> | <u>5</u> | <u>5</u> | <u>9</u> | <u>7</u> | |

PART VII: EXECUTION



Reasons for unspent capital budget

Of the 11 countries who responded:

- Reasons for underspending have been attributed to delays in project preparation and public procurement over the recent years
- A shortfall in budgeted revenues and complex administrative procedures are also a big factor for some
- Belarus, Bosnia and Herzegovina, Kazakhstan, Tajikistan, Armenia did not underspend there capital budget in 2010

PART VIII: MONITORING AND REPORTING



Who monitors the capital budget?

Of the 12 countries who responded:

- 10 countries indicated that line ministries monitor their own projects with MoF providing central agency oversight of all projects in Bulgaria, Kyrgyz Republic, Kazakhstan, Georgia, Moldova, Tajikistan
- In Bulgaria and Albania, MoF only monitors those projects above a certain threshold
- In Belarus, another central agency monitors capital projects

What type of monitoring is done?

Of the 12 countries who responded:

- In total, MoFs in 8 countries do monitoring of actual vs projected costs with 6 countries also preparing ex post reports on the quality of project execution
- In Bulgaria, Kyrgyz Republic, and Moldova, all three types of monitoring are done by MoF:
 - Actual versus projected costs
 - Ex-post reports on quality of execution
 - To ensure conditionalities are met for donor/EU funds

How is project level data captured?

Of the 12 countries who responded:

| Country | Through Treasury system | Reported by line ministries and captured in stand-alone database | A combination of both a. and b |
|------------------------|-------------------------|--|--------------------------------|
| Belarus | | x | |
| Serbia | | | x |
| Bulgaria | | x | |
| Kyrgyz | | x | |
| Croatia | | x | |
| Kazakhstan | | x | |
| Georgia | | | x |
| Bosnia& Herzegovina | | | x |
| Moldova | | | x |
| Tajikistan | x | | |
| Albania | | | x |
| Armenia | | | x |
| <u>Quantity of rsp</u> | <u>1</u> | <u>5</u> | <u>6</u> |

Asset Register Reporting

Of the 12 countries who responded:

- All projects and their values are reported in 5 countries in an asset register (Belarus, Bulgaria, Kazakhstan, Tajikistan and Albania)
- In two countries they are not (Kyrgyz Republic and Armenia)
- 5 countries did not know

External Audit

Of the 11 countries who responded:

- All projects are subject to routine external audit in Belarus, Bulgaria, Kyrgyz Republic, Moldova, Tajikistan and Albania
- Armenia also but only for projects above a certain threshold
- 3 countries did not know
- In BiH they are not

PART IX: REFORM PRIORITIES AND CHALLENGES



Reform Priorities

Of the 12 countries who responded:

- Political reforms (eg strategy to guide prioritization)- 7 countries ranked 1
- Process reforms (dual processes, medium term approach) 6 countries ranked 1
- Information reforms (improving guidelines, registers) 5 countries ranked as 2nd highest priority

Reform Challenges

Of the 12 countries who responded:

| Country | Process constraints | Information constraints | Institutional constraints | Weakness central authorities to enforce application of standards, rules | Human resource constraints | Political constraints | System constraints | Shortage of financial resources | Getting cooperation from donors | Getting cooperation from line ministries |
|---------------------|---------------------|-------------------------|---------------------------|---|----------------------------|-----------------------|--------------------|---------------------------------|---------------------------------|--|
| Belarus | 1 | 3 | 2 | 7 | 3 | 5 | 6 | 4 | 7 | 6 |
| Serbia | 3 | 1 | 3 | 2 | 1 | 4 | 3 | 3 | 5 | 4 |
| Bulgaria | 2 | 3 | 2 | 5 | 4 | 4 | 3 | 6 | 4 | 2 |
| Kyrgyz | | 4 | | | | 3 | | 1 | | 2 |
| Croatia | 6 | 2 | 2 | 3 | 2 | 3 | 3 | 2 | 4 | 4 |
| Kazakhstan | | 2 | | 1 | 3 | | | | | |
| Georgia | 1 | 6 | 5 | 6 | 5 | 3 | 5 | 2 | 2 | |
| Bosnia& Herzegovina | 3 | 3 | 2 | 4 | 1 | 4 | 2 | 1 | 2 | 4 |
| Moldova | 6 | 3 | 6 | 2 | 2 | 1 | 2 | 5 | 7 | 4 |
| Tajikistan | | | | | 2 | 2 | 1 | | | 3 |
| Albania | 7 | 6 | 7 | 2 | 5 | 7 | 1 | 3 | | 4 |
| Armenia | 1 | 2 | | | | 1 | | | | |
| <u>Average rank</u> | <u>3</u> | <u>2.8</u> | <u>3.2</u> | <u>3.9</u> | <u>2.7</u> | <u>3.4</u> | <u>2.9</u> | <u>3</u> | <u>4.4</u> | <u>3.7</u> |