BCoP Workshop ‘’Capital Budgeting’’ Minsk, June 2011.

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INTRODUCTION

- PEM PAL BCoP meeting was held in Minsk, Belarus, on 14 - 17 June
- Topic: "Reforms to capital budgeting practices".
- Participants discussed capital budgeting practices in a number of countries, with the support of the World Bank
- Participants: budget experts from 17 PEM PAL countries in Central and Eastern Europe and Central Asia (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyzstan, Macedonia, Moldova, Montenegro , Romania, Serbia, Tajikistan and Turkey)

  \- <u>68 participants</u>.

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CAPITAL BUDGET?

- Governments may define "capital" in different ways. However, it generally refers to physical assets with a useful life of more than one year. However, it also includes capital improvements or rehabilitation of physical assets that enhance or extend the useful life of asset. This is distinct from repair or maintenance which only assures the asset is functional for its planned life (Jacobs, 2009, p. 3).
- The capital budgeting process must be fully integrated into a government's medium term budgeting and financial management process, and capital spending needs to be considered within the context of government-wide and sector-specific multi-year strategies and objectives (the main participant in the meeting and representative of the World Bank, Bill Dorotinsky).

Conclusions from presentations and discussions of participating countries about capital budgeting

1. The current financial crisis has seriously affected capital projects in many countries, especially in public investments, which are important factors of economic growth and development of each country.

2. A number of weaknesses within the organizational and regulatory framework leads to ineffective budgeting budgeting decisions

- lack of adequate cost-benefit analysis (poor selection, prioritization and implementation of projects)
- strategic documents often overlap (affects transparency and public confidence)
- decisions on capital investments often depend on available financial resources (benefits from invested funds)
- lack of accurate impact assessment (poor methodology for defining capital investment)
- inainadequate capacity of the Ministry of Finance and other line ministries
- lack of resources (delays, putting on hold some important infrastructure projects with significant potential for budget revenues)
- capital investment planning is often alienated from the budget planning
- the roles of line ministries and the Ministry of Finance are not well defined

3. The role of the Ministry of Finance and line ministries should be clearly defined

- The Ministry of Finance takes care of wide fiscal framework and general budgetary rules, while the line ministries are responsible for proper selection and implementation of projects.
- Implementation of the "top down" approach and monitoring the spending limits approved for line ministries (when needed, approved spending limits are cut down).
- Line ministries which apply the "bottom-up" approach must have appropriate skills and knowledge for good evaluation and management of the process.

Important conclusion:

- Ministry of Finance decides about the overall financial limits in 10 countries, while the projects can be blocked due to inadequate spending in 7 countries, out of 20 PEM PAL countries covered by the World Bank study.

Key elements of the capital budgeting process are:

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- Property Register
- Strategic planning
- Project identification and selection
- Project financing
- Monitoring and evaluation of projects
- Dialogue with politicians - decisions are made at the political level
- Capital projects filtering
- Training / education

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Conclusion

- **Participants of BCOP meeting proposed the topics for discussion at future meetings and elected new members for the Executive Committee.**

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Thank you!

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