

Capital Budgeting Overview

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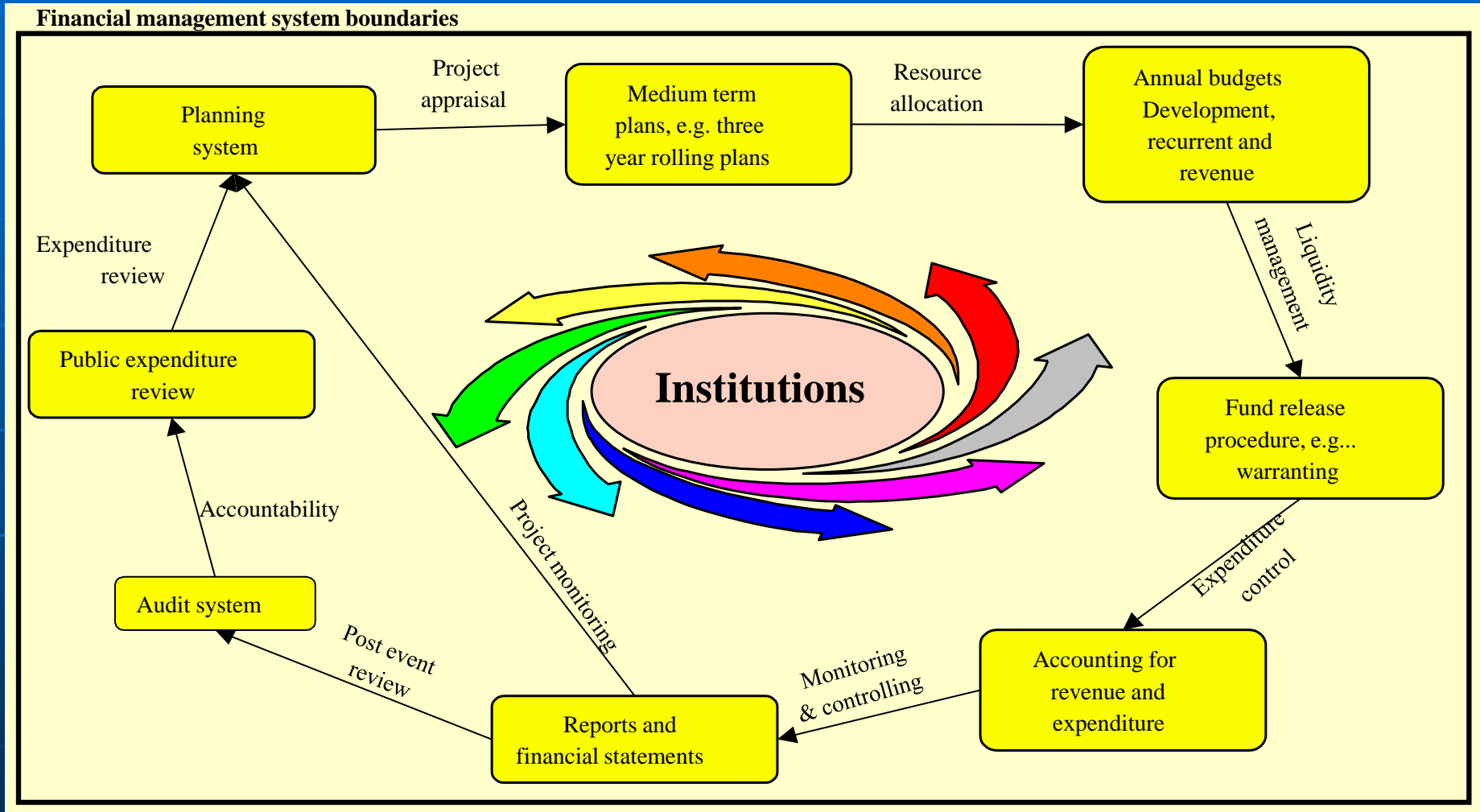
Outline

- PFM System Objectives
- The Budget Cycle
- Why focus on capital specifically?
- Capital Budget Cycle
- Selected Issues

PFM Goals Translated into a Public Investment Context

- Level 1- Aggregate Fiscal Discipline: How much should we spend (including on investment projects), while maintaining long-term aggregate fiscal control?
- Level 2- Allocative Efficiency: How do we select the right projects in the right sectors to support the country's long-term strategic objectives?
- Level 3- Technical Efficiency: How do we assure that the projects initiated are implemented and operated in a manner that is efficient and effective – that achieve the intended results?

Expenditure Management Cycle

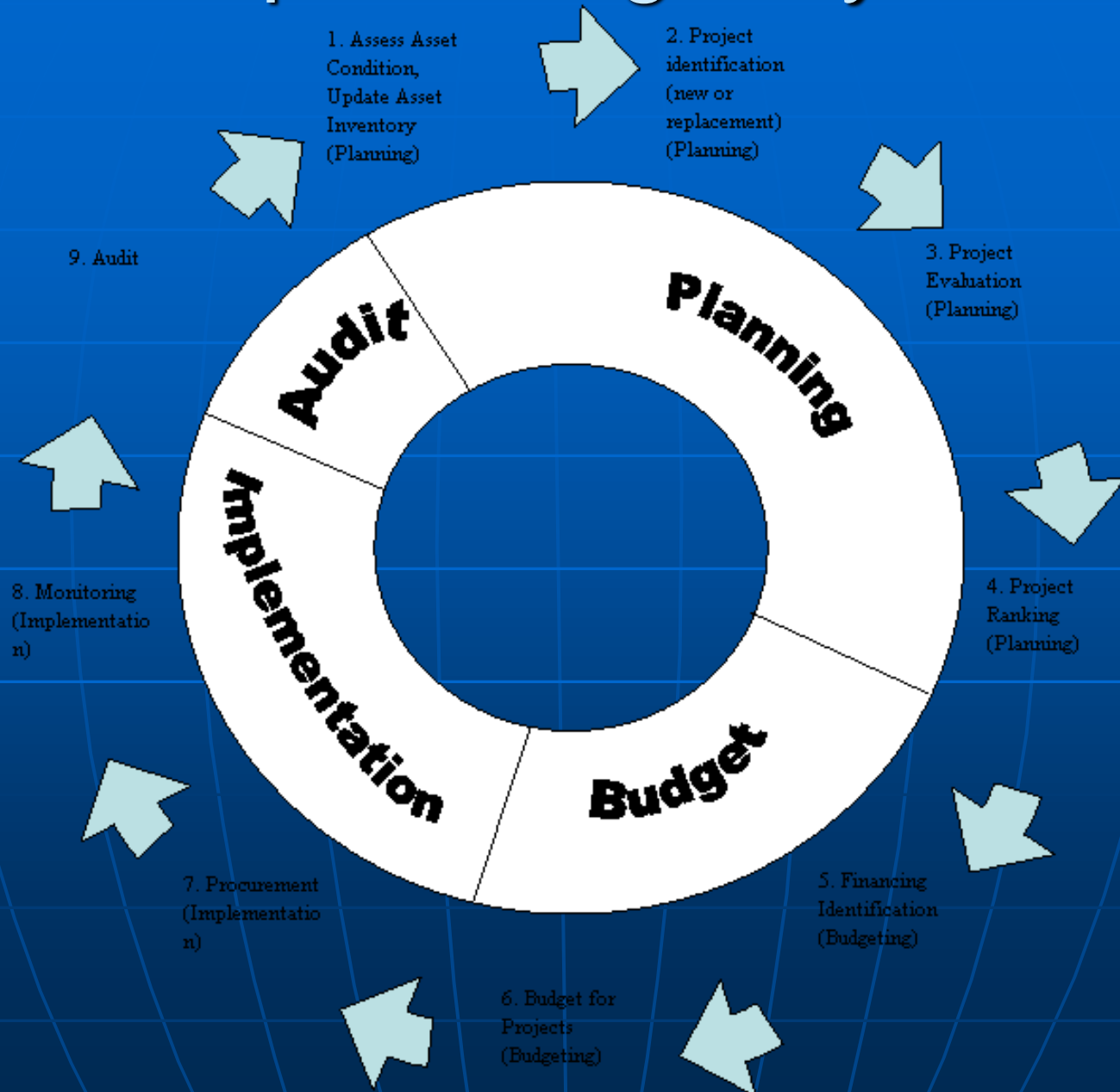


Source: Adapted from Integrated Financial Management, Michael Parry, International Management Consultants Limited. Training Workshop on Government Budgeting in Developing Countries. THE UNITED NATIONS. December 1997.

Why Focus on Investment Spending?

- Contributions to long-term growth
- Requires medium term budgeting and accounting processes
- Volatility in spending – peaks and troughs with revenue flows
- Specialized skills and systems for project monitoring, management, and cost containment
- Sometimes fragmented institutional responsibilities
- Different (easier?) hurdles for requesting new funding

Capital Budget Cycle



Planning

Step	Product	Feature	Responsible Agent
1. Update Inventory, Assess Asset Condition	Asset Inventory (including information on date facility entered service, annual maintenance and repair costs, current condition, etc.)	Condition assessment and maintenance cost history should enable better estimation of maintenance budget.	Inventory Database with each ministry, and/or centrally maintained by Central Agent (e.g. MoF capital budget office, Ministry of Economy capital office, or Planning Ministry) Asset Condition Assessment performed by sector ministry specialists, contracted to third-party.
2. Project identification	Preliminary list of possible projects with cost estimates	Identify need for rehabilitation or replacement of existing facilities, as well as new facilities Should be tied to sector strategy, service objectives Valuable to prepare list within over-all multi-year sector/ministry resource ceiling (capital and recurrent)	Sector ministries identify projects, cost estimates Central agent prepares guidelines, forms for use by sector ministries

Planning (2)

Step	Product	Feature	Responsible Agent
3. Project Evaluation	<p>More detailed costing of projects</p> <p>For revenue producing projects, estimates of revenues</p> <p>Identification of possible financing sources</p>	<p>More detailed project evaluation should be done only for the top priority projects of ministry and government, projects likely to be funded</p> <p>Cost-benefit and rate of return analysis can be undertaken, but this can be very expensive and time consuming, and may not add value for many projects</p>	<p>Sector ministry, using expert panels or contracting with consulting engineers</p> <p>Central agent prepares standard guidelines, forms for use by sector ministries</p> <p>MoF budget department needs to be involved in revenue estimates, evaluating the quality of the cost estimates</p>
4. Project Ranking	CIP/PIP	<p>Multi-year list of Approved Projects, ranked in priority</p> <p>Should be started afresh (zero-based) annually. No assumption that a project approved but unfunded last year is automatically included in subsequent plans or budgets.</p>	<p>Each ministry or Central Agent maintains approved project database, prepares plan</p> <p>Ranking can be done using formal project ranking sheets, used by a inter-ministry review panel. Including citizens in panel add credibility.</p> <p>A public hearing can also add credibility before final plan adoption.</p> <p>Some governments submit CIP/PIP to legislature for review and approval before finalizing plan.</p>

Budgeting

Step	Product	Feature	Responsible Agent
5. Financing	Specific financing arrangements for proposals to be included in the budget	Options include general revenues, debt, users fees, concessions, public-private partnerships, etc. Must reconcile with debt limits decided in debt strategy.	MoF budget department capital budget office
6. Budget	Include expenditures for projects in the budget, in sector/ministry	In addition to displaying the expenditures with the appropriate ministry and program, the budget might include an annex of those CIP/PIP proposals included in the budget for information	MoF budget department capital budget office

Implementation

Step	Product	Feature	Responsible Agent
7. Procurement	Procurement plan, cash flow forecast	<p>Procurement plans should already have been developed for the projects to be included in the budget, including a schedule of cash requirements for budget execution</p> <p>Procurement should follow good practices as defined in procurement law</p>	Responsible Ministry Central procurement agent may provide technical support, and certainly would set standards, provide general guidance
8. Monitoring	Regular monitoring of physical and financial progress in completion	<p>Financial progress can be monitored through Treasury payments</p> <p>Physical progress should be tied to a database of on-going projects</p>	Responsible Ministry Central Agent Treasury could require assessment of physical progress before making payment, and forward to capital database

Audit/Follow-up

Step	Product	Feature	Responsible Agent
9. Audit	Ex-poste assessment of financial records and physical completion	<p>Ministry internal audit bodies, required under the budget code, should monitor accuracy of financial records and efficiency of operations</p> <p>Central internal audit body and the Accounting Chamber should periodically check on the effectiveness of internal audit and internal control processes.</p> <p>Occasional evaluations of accuracy of original assumptions, estimates, and identification of systemic patterns and problems</p>	<p>Budget User internal audit offices</p> <p>Central internal audit body</p> <p>Accounting Chamber</p>

Selected Issues

- Strategic planning and budgeting
 - Links between plans, budgets, projects
 - Role of elected officials
 - How much to spend? Affordability?
- Capital Investment or Development Spending
 - Definitions, processes
- Equity in capital allocations
 - Region, sectors, ministries
- Project management, budget execution
 - Realistic timeframes, historical benchmarking
 - Removing barriers
- Money-chasing projects, or projects chasing money
 - Approved project pool
 - Filtering requests/proposals

Capital project filtering algorithm

Projects in budget

Projects financable

Projects are national strategic priority

Projects fit in sector multi-year ceilings

Projects are cost-beneficial

Projects are sector priority

Projects are feasible

Projects relevant for program

Universe of Possible Projects