

## **ALTERNATIVES FOR THE RATIONALIZATION OF PUBLIC INVESTMENT PROGRAMMES IN ROMANIA**

*Cristina DIMA<sup>1</sup>*  
*Mihai CONSTANTINESCU<sup>2</sup>*

---

### **ABSTRACT**

*Increasing the performance of public investment projects is a topical challenge in public management. The impact of public investment on economic growth and implicitly the performance level should be assessed and monitored at economic, social, technical and environmental levels.*

*The issue of budgeting investments, reporting to certain specific criteria and indicators, creates some difficulties in the evaluation process from the perspective of the framing of projects in the category of performing or non-performing ones.*

*In the context of the existence of a large portfolio of projects in different phases of implementation, the public investment budgeting process has led to an exclusive focus on quantitative indicators, to the detriment of those in the qualitative area. Retrospective research on public investment budgets has identified a significant number of non-performing but funded projects.*

*This paper propose a methodology for rationalizing the public investment program (PIP) and implicitly eliminating non-performing projects.*

*The study results demonstrate the need to integrate the rationalization methodology approached from the perspective of the financing and performance of the public investment program.*

**KEYWORDS:** *non-performing projects, public investment programs, rationalization.*

**JEL CLASSIFICATION:** *O22, H40*

---

### **1. INTRODUCTION**

Growth and social and economic development are a major priority for both public and private entities, in the context of the globalization- and European integration-related challenges. The classical approach, exclusively relying on cost management and the optimization of resource consumption, no longer is a solution that guarantees the observance of standards regarding performance and opportunity capitalization.

The medium- and long-term concerns of the managers have shifted towards the strategic planning of the solutions regarding the funding, use and implementation of programmes and projects. The adoption and implementation of the specific strategic planning tools has led to dysfunctionalities at the level of the various entities, especially the public ones. The grounds underpinning such situations relate to the limited change ability, the lack of properly trained human resources for such processes, as well as the inconsistency of proper incentivization systems.

Public investment programmes and projects are the tools through which local and central authorities may generate economic growth, solve social problems and contribute to the improvement of community members' living conditions.

---

<sup>1</sup> Bucharest University of Economic Studies, Romania, cristina.dima@man.ase.ro

<sup>2</sup> Bucharest University of Economic Studies, Romania, miconsysnet@yahoo.com

## 2. LITERATURE REVIEW

According to the report published by the International Monetary Fund (2015), public investment is the establishment of gross fixed capital as the sum of the total net amount of the public fixed asset procurements during an accounting period, plus the variations resulting from the evaluation of unsold assets.

The World Bank (2015), however, regards public investments as being made up of the expenses made for the procurement of the fixed assets and contributing to the establishment of fixed capital in the public sector. The category of fixed assets includes both the products and the buildings, the machinery and equipment, as well as certain intangible assets, such as IT&C systems.

Investment opportunity selection is a major concern for public institutions, as it involves extensive financial obligations and a considerable period of time as Dumitrascu (2014) demonstrated.

In so far as public investment management is concerned, it should be oriented towards the immediate implementation of projects, so that the performance is assessed depending on the commissioning term. (Dabla-Norris et al., 2011). The most relevant factors based on which the efficiency of the investment programmes and the use of the resources are assessed are the cost and time deviation level, as compared to the estimated values.

Romania, as an EU member state has undertaken a convergent and sustainable economic growth policy compliant with the European values and principles, starting from the customs and experience acquired at an economic, social and administrative level. The continuity of the process is conditioned by the implementation of public sector investment strategies and policies, able to respond to the needs of the population and guarantee the complementarity with other development strategies.

Even though there have been major legal changes in the public project substantiation and implementation process represented by the Decision no. 28/2008 of the Government of Romania, Decision no. 907/2016 updated in 2017 of the Government of Romania and the Emergency Ordinance no. 88/2013, the volume of the investments and especially their impact on the economic development of the communities was limited.

As part of this paper, I have analyzed the evolution of the investment expenditure in Romania between 2014 and 2016, as well as the forecasts of the Ministry of Public Finance until 2020.

The statistics of these expenses, associated to the percentages of the total expenses and of the GDP are presented in table 1. From a general point of view in the case of the analyzed amounts, the total investment expenses represent the expenses related to the programs financed by external post-accession non-reimbursable funds (post-accession European non-reimbursable funds), capital expenditure and expenses related to reimbursable funding programs.

The interpretation of the available data and of the forecasts highlights the economic context in which Romania allotted and used important amounts to the public investment-related expenses, during 2014 and 2015, and in, 2016, in the context of certain economic and social reorganization processes, the level of these expenses considerably decreased. Moreover, the institutional and administrative blockage regarding the accessing and use of the European programs majorly contributed to the regression of the 2016 amounts.

The forecasts for 2018 – 2020 (see table 1) highlight a new public investment incentivizing policy, relying on the undertaking of certain strategic planning documents compliant with the European objectives, as well as on the observance of pre-conditions imposing concerning the achievement of minimum standards for the quality of life, the medical and education services.

In the light of this analysis, the fact that Romania ranked 4<sup>th</sup> at the end of Q2 of 2016 in terms of country indebtedness level, whereas at the level of the EU member states it featured the lowest debt level, i.e. 37.9% of the GDP, after Estonia (9.7%), Luxembourg (22.0%) and Bulgaria (29.4%). (The Government of Romania and Ministry of Public Finance, 2017)

**Table 1. Investment costs in Romania in the period 2014-2020**

	2014	2015 <i>achievements</i>	2016 <i>achievements</i>	2017 <i>proposals</i>	2018 <i>forecasts</i>	2019 <i>forecasts</i>	2020 <i>forecasts</i>
<b>Total expenditures in the Consolidated General Budget (mil. lei)</b>	231,298	243,426	242,016	278,817	310,293	335,885	352,710
% of GDP	35.1	34.2	31.9	34.2	35.3	35.5	34.8
<b>Investment costs CGB (mil. lei)</b>	39,753	41,568	29,535	34,391	47,653	63,474	69,126
% of total expenditure	17.2	17.1	12.2	12.3	15.4	18.9	19.6
% of GDP	6.0	5.9	3.9	4.2	5.4	6.7	6.8

*Source:* adapted from the Government of Romania and Ministry of Public Finance (2017), p.20

### 3. RESEARCH METHODOLOGY

According The Government of Romania and Ministry of Public Finance (2017) the statistical research performed has led to the conclusion that during 2015-2020 the investment expenses were constantly significantly above the budgetary deficit level. The investments supported by national and European funds, as well as the measures in the New Tax Code [Official Gazette], as well as the fiscal measures adopted at the beginning of 2017 could incentivize the business environment.

The previous programming periods and the resources allotted as grants, supplemented by the national budget investment expenses, have allowed us to identify a significant number of projects regarded as featuring a high non-performance risk, in the light of the associated indicators and criteria. This issue, which is known at a central level, has requested the passing of legal orders, meant to define an investment project prioritization framework, starting from relevant criteria.

This paper is a possible supplement to the existing methodology for the settlement and rationalization of public investment projects (PIP). Through the development of a succession of stages that ensures the elimination of low performance projects and the fact that all PIP-included projects benefit from implementation funding and they are completed within the undertaken deadline. The need to improve the public investment efficiency and effectiveness, in the context of the assigned period of time, represented the key research trigger.

From the point of view of the usefulness of the proposal submitted, the methodology comprised a succession of 5 stages, presented in figure 1, as follows (World Bank, 2015):

Stage 1. The review and selection of potentially low performance projects, so as to include them in the rationalization program;

Stage 2. The review of the decisions made on the basis of the criteria triggering the low performance of the project;

Stage 3. The elimination of the projects declared as low performance ones from PIP and the introduction thereof in the settlement mechanism;

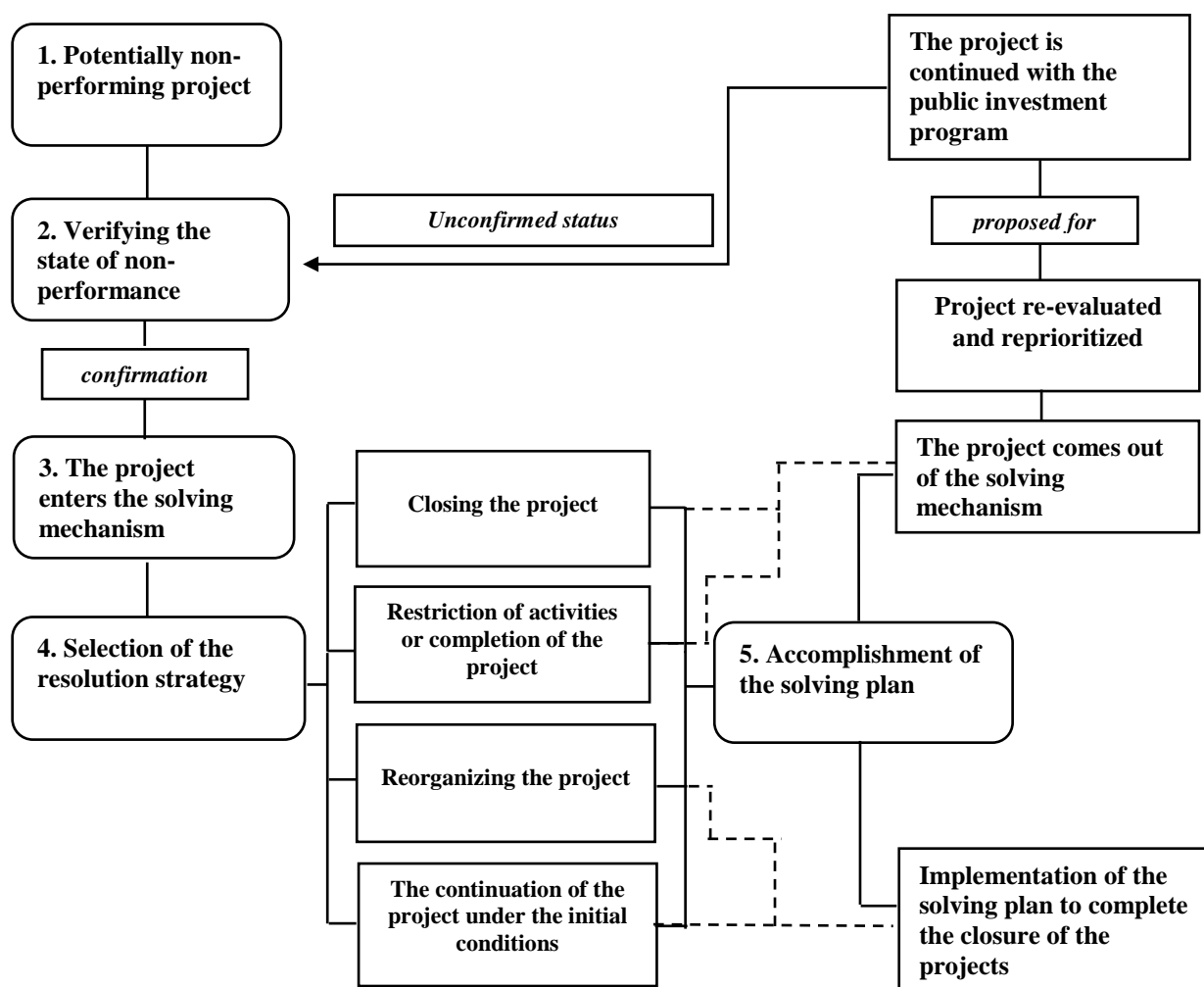
Stage 4. The establishment and implementation of a settlement strategy for the individual projects in the rationalization programme;

Stage 5. The implementation of a settlement plan for individual projects.

The succession of the five stages proposed, in figure 1, is supplemented by the specific actions and by the manner in which projects are differentiated depending on the decisions adopted as part of each stage.

As part of the first stage proposed, referred to as the Review and selection of potentially low performance projects so as to be able to include them in the rationalization projects, the processes

for the inclusion an selection of low performance projects must be reviewed, relying on a system of criteria set by the responsible entity, i.e., the Public Investment Evaluation Unit (PIEU).

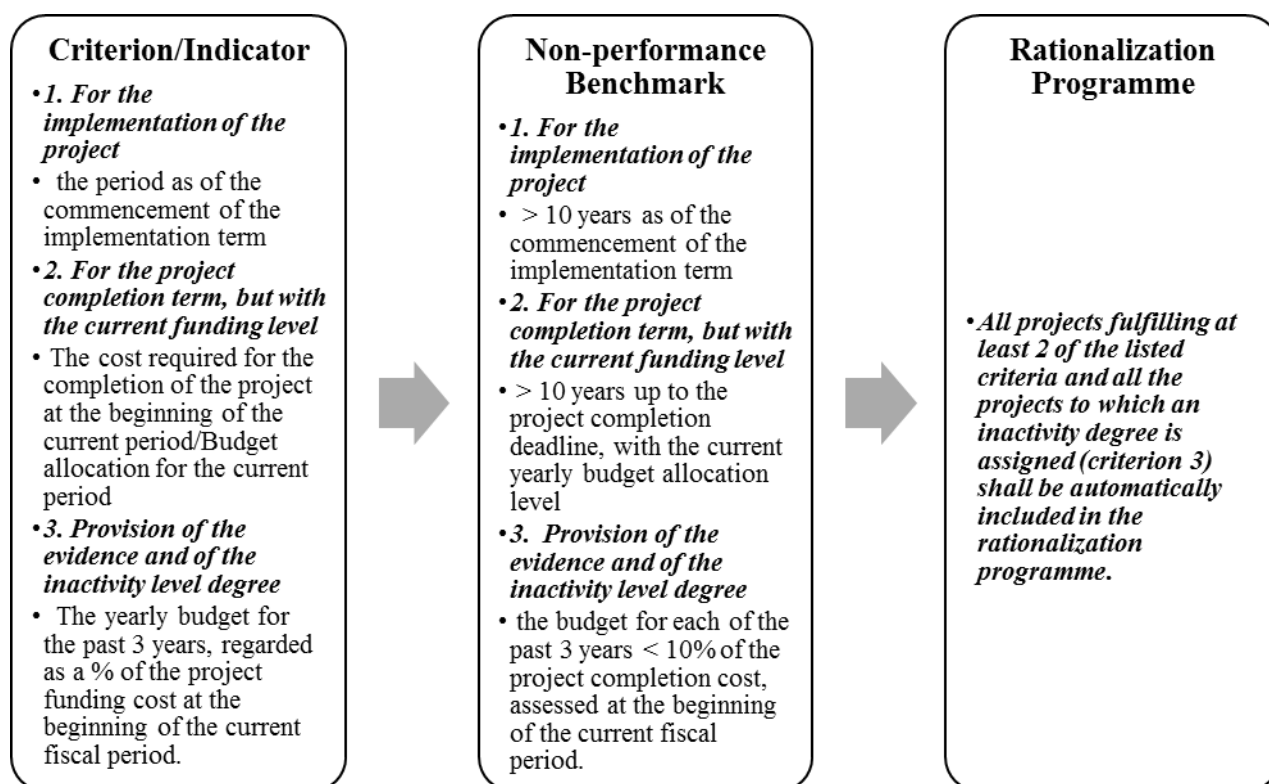


**Figure 1. Representation of the 5 stages of the process of solving a non-performing project**  
 Source: adapted from The World Bank (2015, p.55)

These criteria rely on the concrete use of the data and information in the funding body's database: Ministry of Public Finance. Pursuant to the implementation of the set criteria, a list of the potentially low performance projects is established, drafted for each Principal Authorizing Officer. (PO).

Figure 2 presents the criteria based on which the low performance status of the public investment projects may be identified:

These criteria may represent the basis for the identification and selection of low performance projects. They may be supplemented depending on the strategic objectives undertaken at the level of the funder and of the central public authority. This low performance project identification process must be carried out during the first quarter of the fiscal period, after the update of the PIP database according to the completion of the assigned budget. The results of the rationalization process shall demonstrate their usefulness in the substantiation of the decisions for the draw up of the following year budget.



**Figure 2. Criteria for the identification of low performance projects**

*Source:* adapted from The World Bank (2015, p.56)

As a second stage, we proposed the review of the decisions made on the basis of the criteria triggering the low performance of the project. After the list of the low performance projects is drawn up, they must be validated by PIEU in collaboration with the Principal Authorizing Officer. This process is the second project filtering stage, because there might be errors in the initial classification of a project as being a low performance one. The non-fulfilment of certain criteria may induce a non-performance status of the projects, but it may be caused by other temporal aspects. For instance, the low performance of a project may be caused by the delay in fulfilling certain temporal technical conditions, prior to the implementation, but which, after being solved, may allow for the proper deployment of the project.

The review stage is useful if the non-performance status is a result of the application of the criteria, but, in reality, the causes related to this status were solved or eliminated. If pursuant to the review it is found that certain projects do not observe the non-performance criteria, they must be re-included in PIP, with the obligation to observe the following conditions:

- The Principal Authorizing Officer shall justify the project continuation need by demonstrating that:
  - the project represents a priority in their investment project and it fulfills its main role and functions;
  - the feasibility study, a result of the project approval, still is reliable;
- The Principal Authorizing Officer must demonstrate to the PIEU both the availability of the funds required for the project according to the budgeted framework, and the fact that the project implementation will not lead to deficiencies at the level of the budget for the other projects included in the investment programme.

After the review process is complete, the list of projects validated as part of the rationalization programme must be integrated in the following year's fiscal and budgetary strategy.

As a third stage, we proposed the elimination of the projects declared as low performance ones from PIP and the introduction thereof in the settlement mechanism.

The projects declared as belonging to the low performance category and included in the rationalization programme are going to be included in the settlement mechanism.

The budget assigned to the settlement mechanism is set by in the national fiscal and budgetary strategy and must not exceed 5% of the overall amounts assigned to public investments. The settlement of the project from budgetary re-assignments is ensured within the limit of the financial and temporal framework on the short-term, of no more than one year, but it is not guaranteed.

The funding of the projects from the settlement mechanism may apply for cases such as:

- the existence of cost corresponding to work provided and unpaid;
- the existence of absolutely required maintenance costs, limited in time, up to the settlement of the plan;
- the existence of expenses required for the completion of a project prior to its deadline, if this is the best alternative;
- the existence of cost corresponding to the project closure decision.

If a project is subjected to a renewed analysis and detail review, in order to be re-included in the PIP, it shall not receive funding from the settlement mechanism.

The fourth stage supposes the establishment and implementation of a settlement strategy for the individual projects in the rationalization programme.

The projects transferred to the settlement mechanism shall benefit from a settlement strategy, developed by the Principal Authorizing Officer, checked by PIEU, prior to its approval by the Ministry of Public Finance.

The deadlines for the development of the settlement strategies shall be set after the final validation of the list of projects included in the rationalization programme.

The settlement strategy shall be developed based on an initial cost and benefit analysis, for the various project options. Four settlement options may be considered:

1. the closure of the project;
2. the limitation of activities or the completion of the project prior to the initially set term;
3. the reorganization of the project in terms of the purpose and objectives proposed so as to increase the sustainability level;
4. the continuation of the project under the initial conditions.

The last proposed stage considers the implementation of a settlement plan for individual projects.

Pursuant to the integration of an individual project settlement strategy, the Principal Authorizing Officer shall develop a settlement plan for each project, depending on the stage of the respective project:

- The projects requiring reorganization or full completion shall be reassessed so as to check whether they may be included in the re-prioritization project, in the light of various other investment options. The whole project shall observe the documentation and the generally valid evaluation procedures, applicable for all types of PIP project, including the update of the feasibility study;
- In the case of projects for which there are closure or activity restriction and anticipated completion proposals, a settlement plan per stages and costs shall be drafted. This plan shall include the most viable option at the respective point, as well as an additional lowest cost alternative. In the settlement plan, the completion and closure of a project shall observe a 24-month term, except for special situations. The projects included in this stage will be funded from the settlement mechanism budget.

#### 4. RESULTS

The implementation of this project prioritization methodology may contribute to the improvement of public investment project management, both at a local and at a central level. The implementation advantages may be determined by the fact that the number of projects in various stages may be limited in the light of aspects related to opportunity, strategic integration, economic and social justification, acceptability and sustainability. Another advantage of this methodology is related to the increase of the trust level in the achievement of the budgetary forecasts, due to the detailed knowledge of all project-related financial commitments.

As part of this research, we have identified aspects such as: the lack of information or the restricted access to the information regarding previous investment projects, which may lead to difficulties in the objective implementation of the methodology, as well to the potentially limited interest of Principal Authorizing Officer to solve low performance projects.

Moreover, we mention that the implementation of the public investment project rationalization methodology requires a considerable period of time, i.e. 2 – 5 years, so as to allow for the analysis of all projects and, as applicable, interrupt or continue funding up to their completion.

#### 5. CONCLUSIONS

The prioritization of investment projects in the context of the multiannual budgetary planning must represent a major concern of decision-makers, so as to ensure the optimum framework for the smart, sustainable and integrated development of communities.

The quality of the prioritization tools and the provision of a proper objectiveness level in the implementation thereof is a precondition for the overall process performance.

The results obtained pursuant to the rationalization process must also be analyzed from the perspective of the territorial convergence (locality, county, region), as well as from the point of view of the strategic orientation concerning the focus on projects generating considerable added value and able to trigger multiplying effects.

Moreover, the project rationalization process should also take into account the achievement of a balance in the satisfaction of people's current, historical and future needs. The excessive focus on the settlement of historical and present problems may affect, on the medium-term, the administrative and financial capacity of public authorities to collect and understand future needs in the light of already undertaken commitments.

The diversity of needs and, implicitly, of the solutions that may be adopted for their settlement, must be permanently correlated to the financial and institutional possibilities of responsible entities, in order to strengthen a stable management framework, relying on efficiency, effectiveness and performance.

#### REFERENCES

- Dabla-Norris, E., Brumby, J., Kyobe, A., Mills, Z. & Papageorgiou, C. (2011). Investing in Public Investment: An Index of Public Investment Efficiency. *International Monetary Fund, J Econ Growth* (2012) 17, 235–266.
- Dumitrascu, V. (2014). *Investment Management*. Bucharest, Publishing House Universitară.
- International Monetary Fund. (2015). *Making Public Investment more Efficient*. Washington D.C.
- The Government of Romania. (2008). *Decision no. 28/2008 regarding the approval of the framework content of the technical and economic documentation related to the public investments, as well as the structure and methodology for elaboration of the general estimate for investment objectives and intervention works*. Bucharest.

- The Government of Romania. (2013), a. *Government Emergency Ordinance no. 88/2013 regarding the adoption of fiscal-budgetary measures for the fulfillment of agreed commitments with the international bodies, as well as for the modification and completion of some normative acts.* Bucharest.
- The Government of Romania. (2013), b. *Budget Fiscal Strategy for 2014-2016.* Bucharest.
- The Government of Romania. (2017). *Decision no. 907 of November 29, 2016 on the phases of elaboration and the framework content of the technical and economic documentation related to the public-financed investment objectives / projects (updated until February 27, 2017).* Bucharest.
- The Government of Romania and Ministry of Public Finance. (2017). *Report on the Macroeconomic situation in 2017 and these projection for the years 2018-2020.* Bucharest.
- The Ministry of Public Finance and the International Bank for Reconstruction and Development. (2015). *Public Investment Management Manual.* Bucharest.
- The World Bank. (2015). *Public Investment Management Handbook, Consulting Services for Strengthening Public Investment Management. Draft report with prioritization criteria, methodology, rationalization criteria and guidance on costs of multi-annual projects,* Project co-financed from the European Regional Development Fund through POAT 2007 – 2013. Romania.