

MEASURING INVESTMENT PROJECTS' PERFORMANCE IN ROMANIA

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ABSTRACT

This paper aims to present the current situation related to the measuring process of the Romanian investment projects' performance.

The research on which the article is based was made using the available official data and the literature review of the specialized publications.

The purpose of this article is to highlight the methodology applied by the authorities to expose performance of the investment projects, to discover the flaws in the process and to propose a possible solution to adjust the process.

The authors took into consideration good examples offered by other countries' authorities related to measuring the investment projects' performance.

The article contributes to identifying the weaknesses of the measuring process and appropriate solutions to eliminate disfunctionalities.

The main conclusion of the article is that the measuring process of the investment projects' performance is nearly inexistent in Romania and it should be developed considering good practices applied by other countries. Therefore, a solid overview of the projects' performance would be provided and would contribute to improve the public resources' management.

KEYWORDS: *investment, measurement, project, performance*

1. INTRODUCTION

The present paper explores one of the main problems encountered in the investment projects' performance in Romania after the implementation phase. Due to the lack of performance measurement and reporting, there is no evidence that the allocated public funds are properly managed.

An effective situation of an investment project's performance after being implemented contributes to identifying the weaknesses of the project. Therefore, having this situation would help the authorities to avoid similar problems in the future projects and to improve the implementation process if the situation requires so.

The need for performance measurement comes from the considerable number of implemented projects in Romania that did not accomplish their objectives and proved to be unsustainable.

2. LITERATURE REVIEW

Approximately 90% of the EU budget are allocated to programmes and policies dedicated to the Member States' citizens. As the EU resources are limited, a new concept was developed to address

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the need for better spending, respectively Performance – based Budgeting (PBB). (EPP Group, 2016)

"Performance-based budgeting was first applied in Australia and New Zealand." (Altundemir & Gungor-Goksu, 2017)

The purpose of this concept is to improve financial resources spending by connecting EU expenditure with clear targets and priorities which are established in advance. The concept of Performance-based Budgeting can be found as the need to concentrate the EU funds on results and performance in the Art. 318 from the Treaty on the Functioning of the European Union, Interinstitutional Agreement of 2/12/2013 and the Parliament's resolution of 26 February 2014. (EPP Group, 2016)

OECD (Organisation for Economic Co-operation and Development) defined Performance – based Budgeting as follows: "use of information about the outputs, results and/or impacts of public policies in order to inform, influence and/or determine the level of public funds allocated". (Policy Department D for Budgetary Affairs Directorate General for Internal Policies of the Union , 2019)

Several Member States implemented the concept and some of them offer examples of good practices in public financial management.

One of these countries is Austria which organised its budget using a simplified structure and establishing links between ex ante and ex post evaluations and the Performance Budgeting system. (Policy Department D for Budgetary Affairs Directorate General for Internal Policies of the Union , 2019)

France adopted the concept of Performance Budgeting and develops regular reports on performance of public spending. (Policy Department D for Budgetary Affairs Directorate General for Internal Policies of the Union , 2019)

Ireland uses the Performance Report in order to expose performance indicators and the connection between the allocated resources and the achieved outcomes. (Department of Public Expenditure and Reform, Ireland, 2019)

Sweden used performance indicators and measured its budget's performance since 30 years ago having permeated a Performance Budgeting culture. (Policy Department D for Budgetary Affairs Directorate General for Internal Policies of the Union , 2019)

In order to improve efficiency and decision making towards public spending, Estonia adopted the concept of Performance Budget and ministries promoted the linkage between programmes' targets and performance indicators. (Policy Department D for Budgetary Affairs Directorate General for Internal Policies of the Union , 2019)

In USA the Government approved the Government Performance and Results Act in 1993 which proved to be a great success in improving the performance of programmes. (OECD, 2007)

Although, Romania is a EU Member State, the Performance Budgeting concept is not applied in the Romanian budgeting process and public spending is still mismanaged. Therefore, public financial resources are allocated without having an overview on the connection between public expenditure and achieved results. Unsustainable projects are being implemented despite the fact that resources are limited. Problems such as administrative difficulties, poor management, laggard implementation and corruption affect the use of public budget for economic and social development. (EPP Group, 2016)

However, an agreement entitled "Romania: Assistance on strengthening planning and budgeting capacity and supporting the introduction of performance budgeting" was signed in 2016 in order to implement the concept of performance budgeting. (The World Bank, 2017)

The EU funded projects from Romania are not evaluated ex-post in order to measure performance. The only information made public about these projects is about the level of fund absorption. The ex-post evaluations of investment projects do not use predefined performance indicators so the legislators are not enabled to make better decisions towards public resources spending for the future. The mistakes are perpetuated as clear data on performance is not available.

Implementing the concept of Performance Budgeting enables other European instruments to function, such as Integrated Territorial Investment (ITI). ITI is an important tool used to implement integrated strategies in a specific geographical area. ITI promotes using the financial resources in an integrated way in order to lead to a more effective result for the same financing. (European Commission, 2014)

The instrument does not have satisfactory results in Romania as input data related to performance of previous investment projects is not available.

Another European instrument that would work only if Performance Budgeting was implemented is Community – Led Local Development (CLLD). CLLD which aims to implicate local communities and organisations to bring their contribution to achieving the European strategic goals for 2020. (European Commission, 2014)

Achieving the smart 2020 European strategic goals is impossible for Romania if performance is not measured and taken into consideration by the action groups when selecting and promoting certain projects.

However, Romania is not the only European country that encounters hurdles in implementing Performance Budgeting. Therefore, the Group of the European People's Party (EPP Group) asks for better focusing on performance and results in the entire budgeting process. (EPP Group, 2016)

EPP Group offers several recommendations for better performance budgeting for EU Member States which are briefly illustrated in the following figure (EPP Group, 2016):

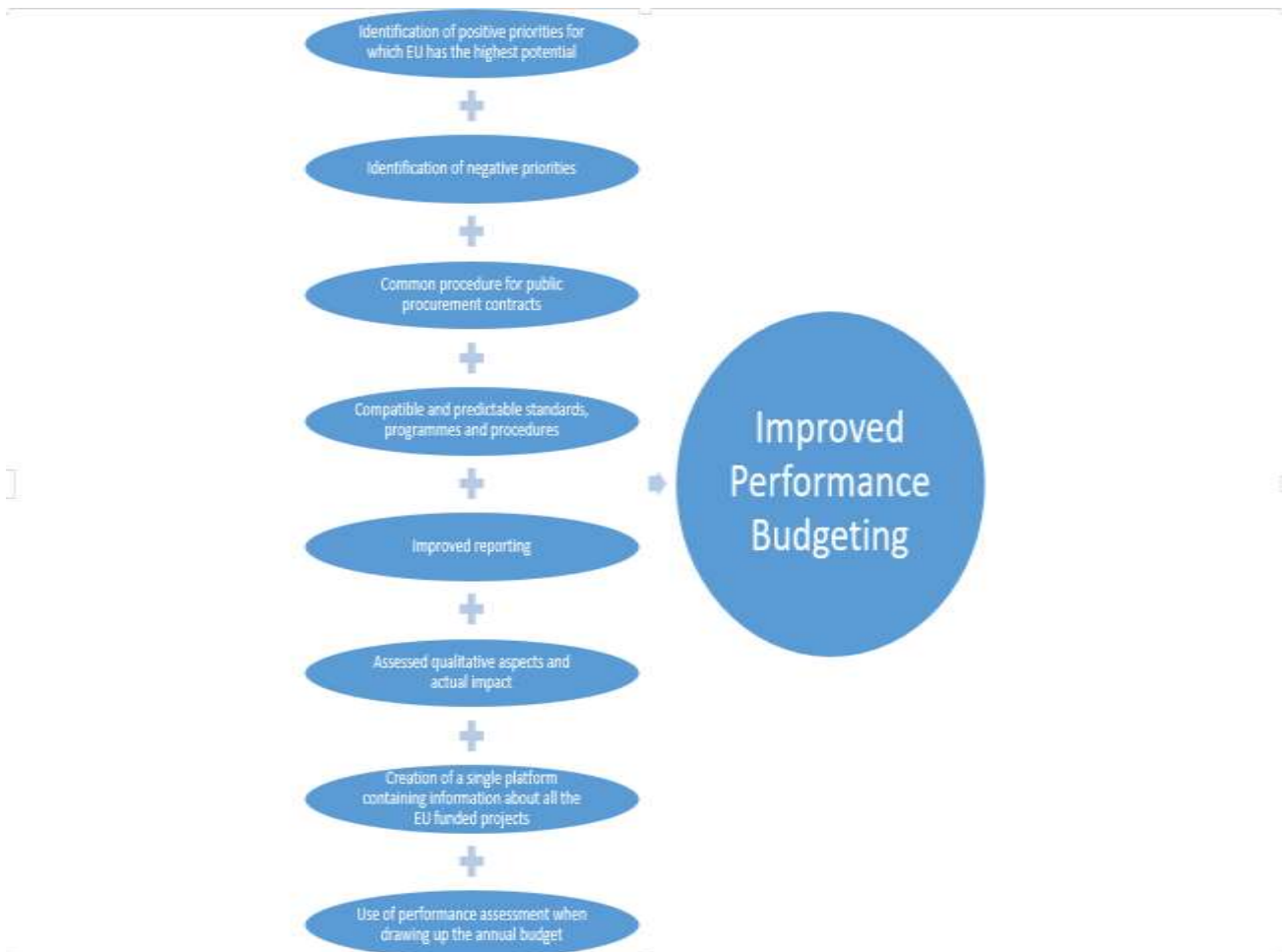


Figure 1. Recommendations for better Performance Budgeting

All in all, performance of projects, programmes and strategies must be measured and assessed in order to obtain the desired results in any country.

3. PROPOSED SOLUTION

The proposed solution to the problem described above is to integrate a new stage in the development framework of any investment project. The stage should be legally based in order to become compulsory and should consist in measuring ex-post performance of the project using predefined performance indicators established in the early stage of fundamenting the project.

In addition, annual budgeting should be made having as input the performance data resulted after the ex-post assessment.

In this way, the comparison between the amount of funds allocated to the previous projects for the same objective and the achieved results would empower the authorities to make better decisions in establishing the budget for the future programmes and projects.

The inclusion of the performance evaluation stage in the development of an investment project is presented in the following figure:

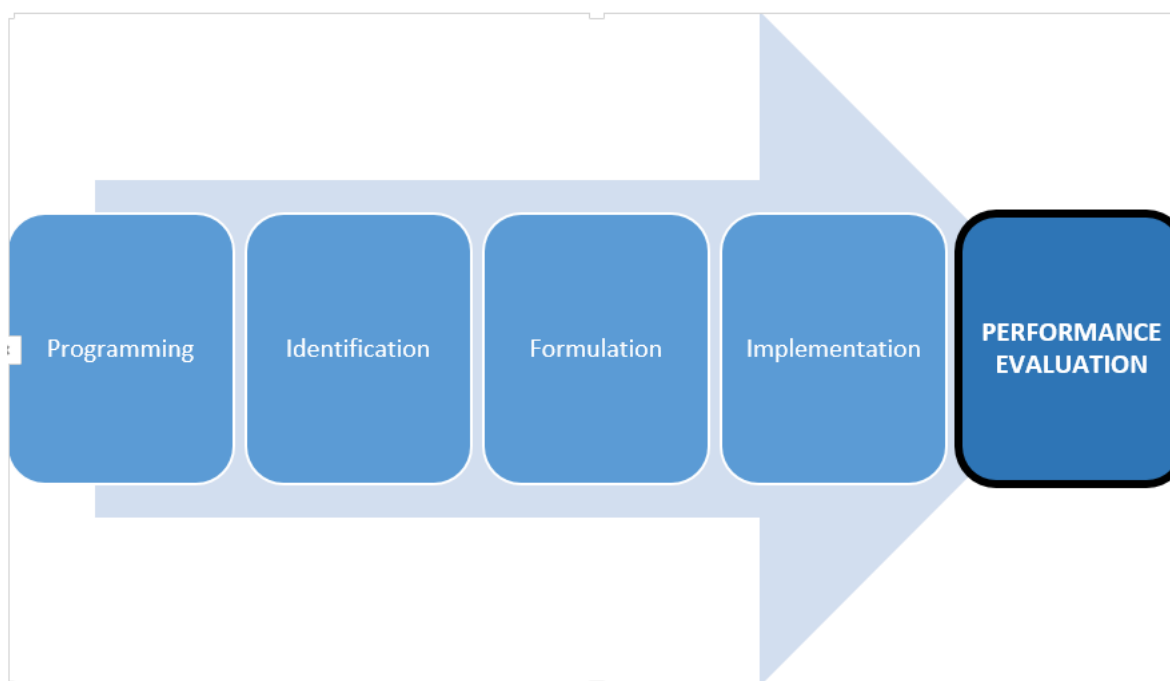


Figure 2. Performance evaluation stage

Source: adapted from The European Investment Advisory Hub (n.d.)

The stage of programming should also include the formulation of the performance indicators in accordance with the "vision, strategy and objectives that a public authority or private promoter has over a specific timeframe" (The European Investment Advisory Hub, n.d.).

The tabel 1 illustrates examples of performance indicators used by the Irish authorities in applying the concept of Performance – based Budgeting (Department of Public Expenditure and Reform, Ireland, 2019)

4. RESEARCH METHODS

The research methods used were the literature review and benchmarking.

The first method was applied by analysing the public official data and publications related to performance of investment projects and budgeting.

Then, benchmarking was used to make a comparison between policies concerning the budgeting process from Romania and the ones from other European countries that offer an example of good practice in this matter.

Table 1. Performance Indicators

Sectors	Indicators
Education and skills	Students provided with school transport
Housing, planning and local government	Sustainable exists from homelessness
Justice	Detection rate for burglaries
Transport, tourism and sport	Public transport users
Public Expenditure and reform	Major building projects in planning or under construction
Children and youth affairs	Assessments for Home Education
Defence	% of White Paper Projects initiated
Business, enterprise and innovation	High Potential StartUps Supported
Foreign Affairs and Trade	Citizens Satisfied With Consular Service Quality
Communications, Climate Action & Environment	Industrial/Waste site visits
Finance	Tax Avoidance Cases Settled
Culture, Heritage and Gaeltacht	Architectural Inventory Surveys Completed
Rural and Community Development	People Self-Employed within 6 months of SICAP Employment Supports

CONCLUSIONS

In conclusion, Performance – based Budgeting is essential for improving financial management in Romania offering permanently an overview on the allocated funds and the achieved results.

The efforts in this direction made so far were not effective in the absence of a national legal basis and a clear procedure. Therefore, public funds continued to be wasted despite the European directions and instruments offered.

The present paper offer a solution to improve the present situation and requires further research on the examples of potential performance indicators.

ACKNOWLEDGMENT

The views expressed are those of the authors and not necessarily those of the organizations they represent.

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