



Pacific Islands Workshop

Building Resilience to Natural Disasters and Climate Change



April 4-6, 2017 | Suva, Fiji



Improving Public Investment Management

Eliko Pedastsaar (Fiscal Affairs Department, IMF)

Workshop on Building Resilience to Natural Disasters
and Climate Change

April 5, 2017



Outline of the Presentation

The main aim of this session is to show why the public investment is important; present the key steps in public investment management; and discuss how to improve capital spending outcomes.

Topics covered:

- I. The importance of public investment
- II. Key steps in public investment management
- III. Public Investment Management Assessment (PIMA)

I. The importance of public investment

Challenges related to infrastructure development in PICs



- PICs are remote and unable to take advantage of economies of scale
- PICs are among the most exposed to natural disasters and climate change in the world
- A high proportion of public sector expenditure is used for recurrent expenditure (on average 20-55% of GDP), especially salaries and wages (See Annex I)
- Inadequate infrastructure maintenance
- Challenges in accessing sufficient and appropriate financing
- High political uncertainty

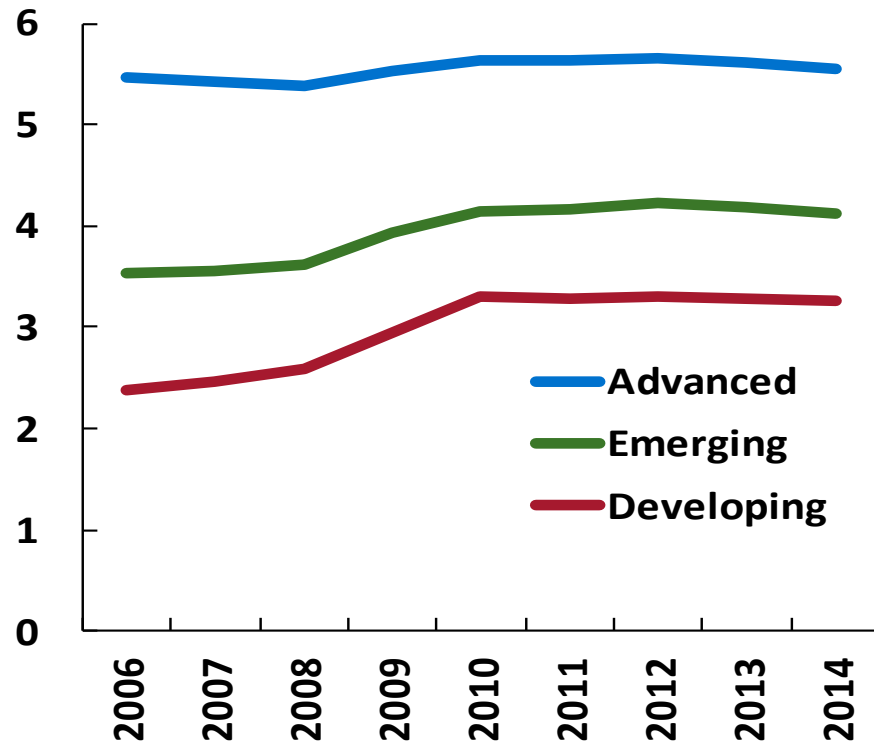
I. The importance of public investment

Trends in Infrastructure Quality and Quantity



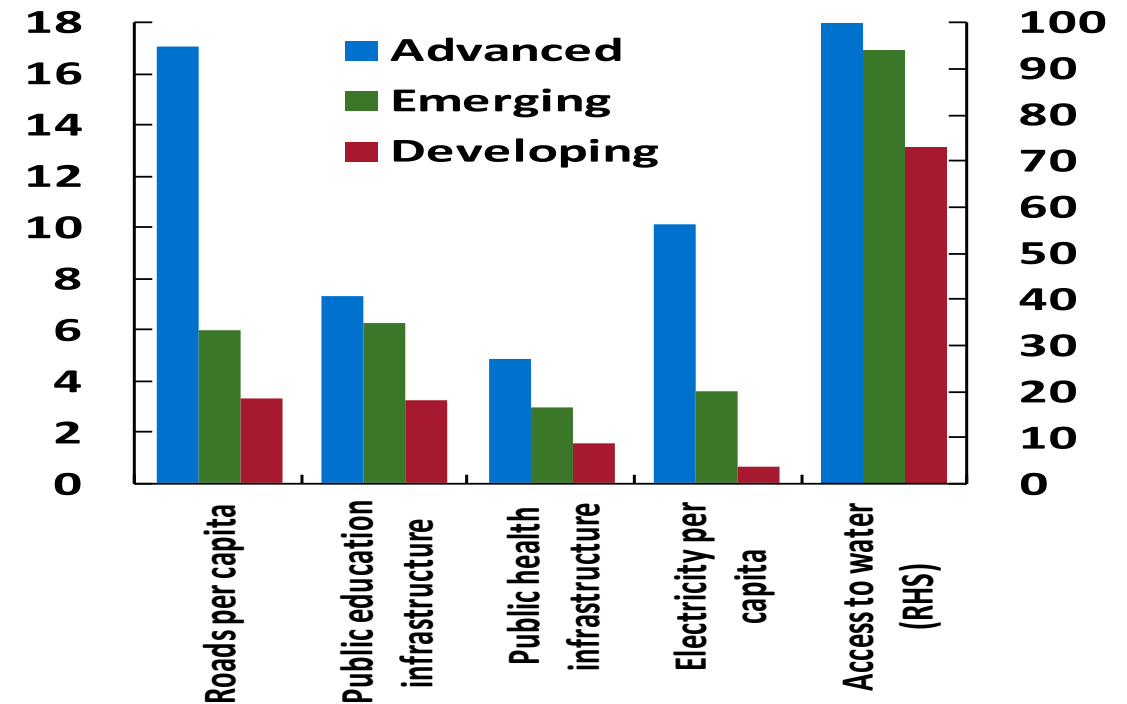
Survey measures suggest some convergence in infrastructure quality between rich & poor countries....

Perceptions of Infrastructure Quality
(2006-14)



...but physical measures highlight the large and persistent disparities in infrastructure access & quality between rich and poor

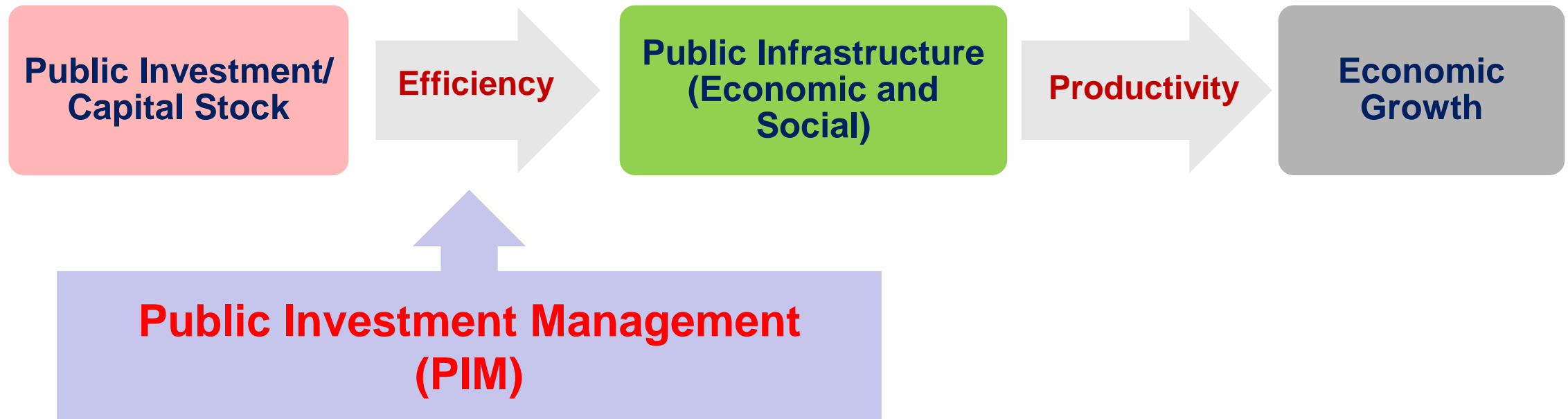
Measures of Infrastructure Access
(Latest year)



I. The importance of public investment

Role of public investment management in economic growth

- The efficiency of public investment has important impact on growth.
- The efficiency of public investment is linked with the strength of PIM Institutions.



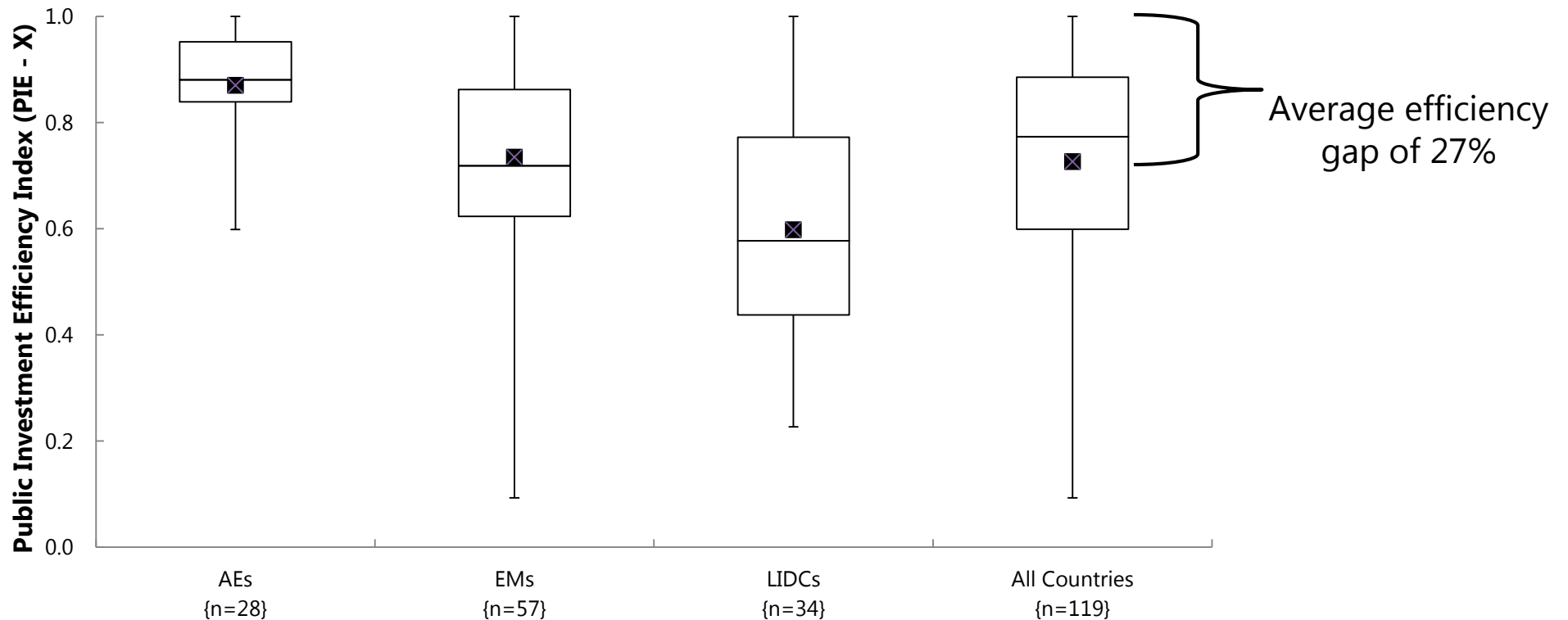
I. The importance of public investment

Efficiency of capital spending



Average country is 27% below efficiency frontier with largest efficiency gaps among low-income countries.

Public Investment Efficiency Index (PIE-X)



II. Key steps in public investment management

PFM perspective



Planning

- Sustainable levels of investment across the public sector?

Allocation

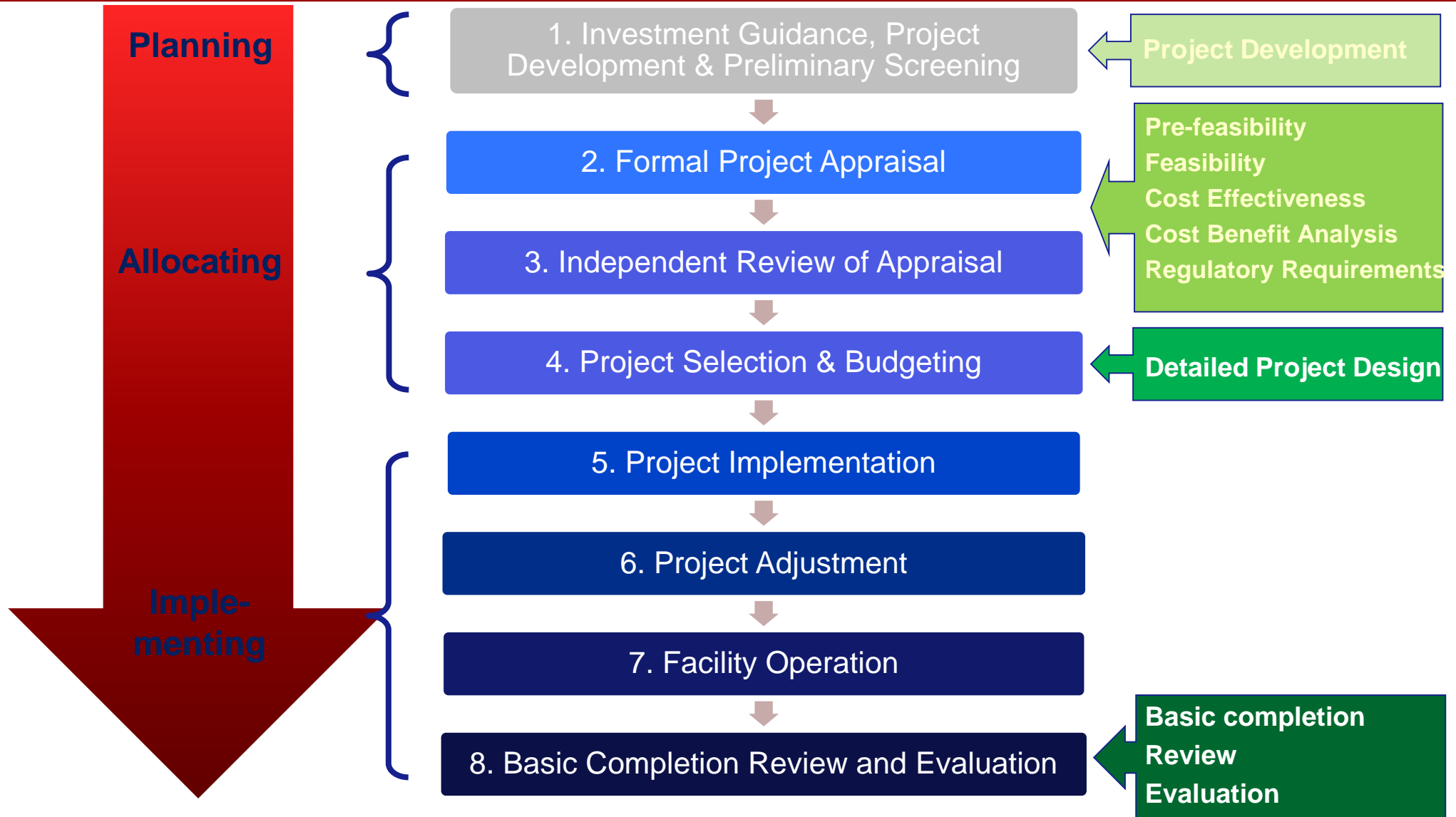
- Investment to the right sectors and projects?

Implementation

- Projects on time and on budget?

II. Key steps in public investment management

Project perspective



Source: Rajaram and others (2010)

II. Key steps in public investment management

Challenges in planning phase



- **Fiscal**

- Public investment is often cut first when government revenue declines, leading to start-stop inefficiencies

- **National and sector planning**

- Uncomfortable relationship of long-term planning and elections
- Plans often developed in absence of financial constraints, not well costed, or prioritized within ministries/sectors

- **Coordination**

- State-owned enterprises often carry out quasi-fiscal functions
- All levels of government have some public investment responsibilities
- Donor-funded projects often follow a separate planning process
- PPPs are often contracted outside the regular planning/budgeting processes

II. Key steps in public investment management

Challenges in allocation phase



- **Cost implications are multi-year**
 - The total cost of individual projects often difficult to know if the budget is annual
 - Sometimes recurrent costs are not available to operate the completed facility
- **Separation of project appraisal from selection**
 - Not sufficient time to appraise major projects during the budget process
 - Without standard methodology difficult to choose between competing projects
- **Project selection often highly political**
 - Budget process is where real decisions must be made: financial constraints more immediate and priorities may change

II. Key steps in public investment management

Challenges in implementation phase



- **Funding of approved projects not always available**
 - Starting new projects vs finishing projects already begun
 - Actual project costs often increase after budget approval; detailed costing done after budget approval
- **Avoiding the embarrassment of failed projects**
 - Need for continuous evaluation of project based on evolving total cost; sometimes need to cancel project before completion
- **Tendency to ignore capital stock**
 - Existence and condition of assets needed for national and sectoral planning; institutional fragmentation
 - Inadequate balance sheet prevents calculation of depreciation, need for capital replacement, and net worth
 - Inadequate maintenance reduces expected project benefits

IV. Public Investment Management Assessment (PIMA)

Objectives of a PIMA



PIMA is a diagnostic tool for evaluating the quality of a country's public investment management practices.

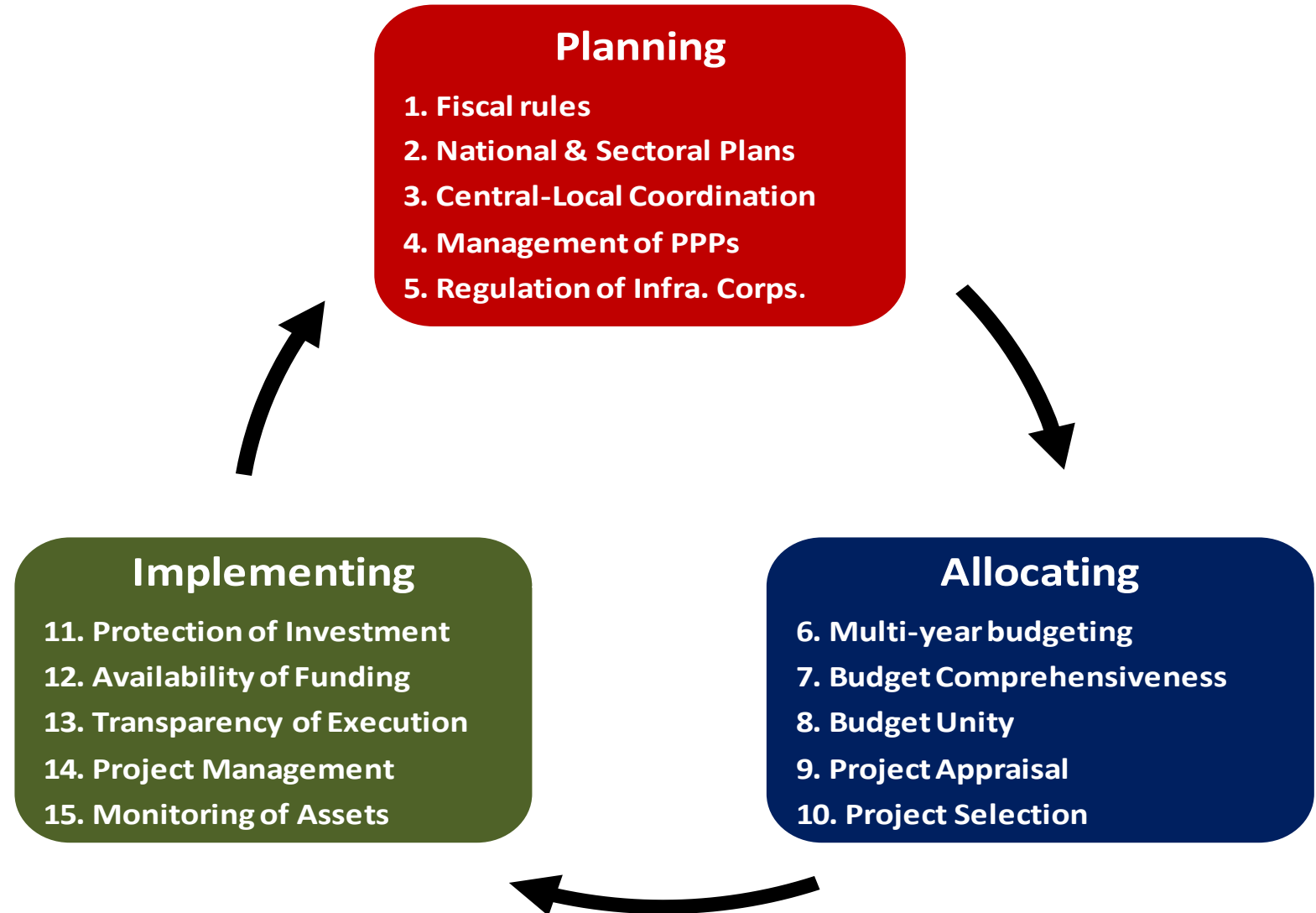
- Trends in public investment and the value of the public capital stocks;
- The efficiency of public investment in improving infrastructure coverage and quality;
- **The quality of public investment management at each stage of the public investment cycle.**

IV. Public Investment Management Assessment (PIMA)

PIMA Framework



- *Evaluates 15 key institutions in 3 phases of the PIM process*
- Identifies strengths and weaknesses of a country's public investment management practices
- Recommends priorities for reform

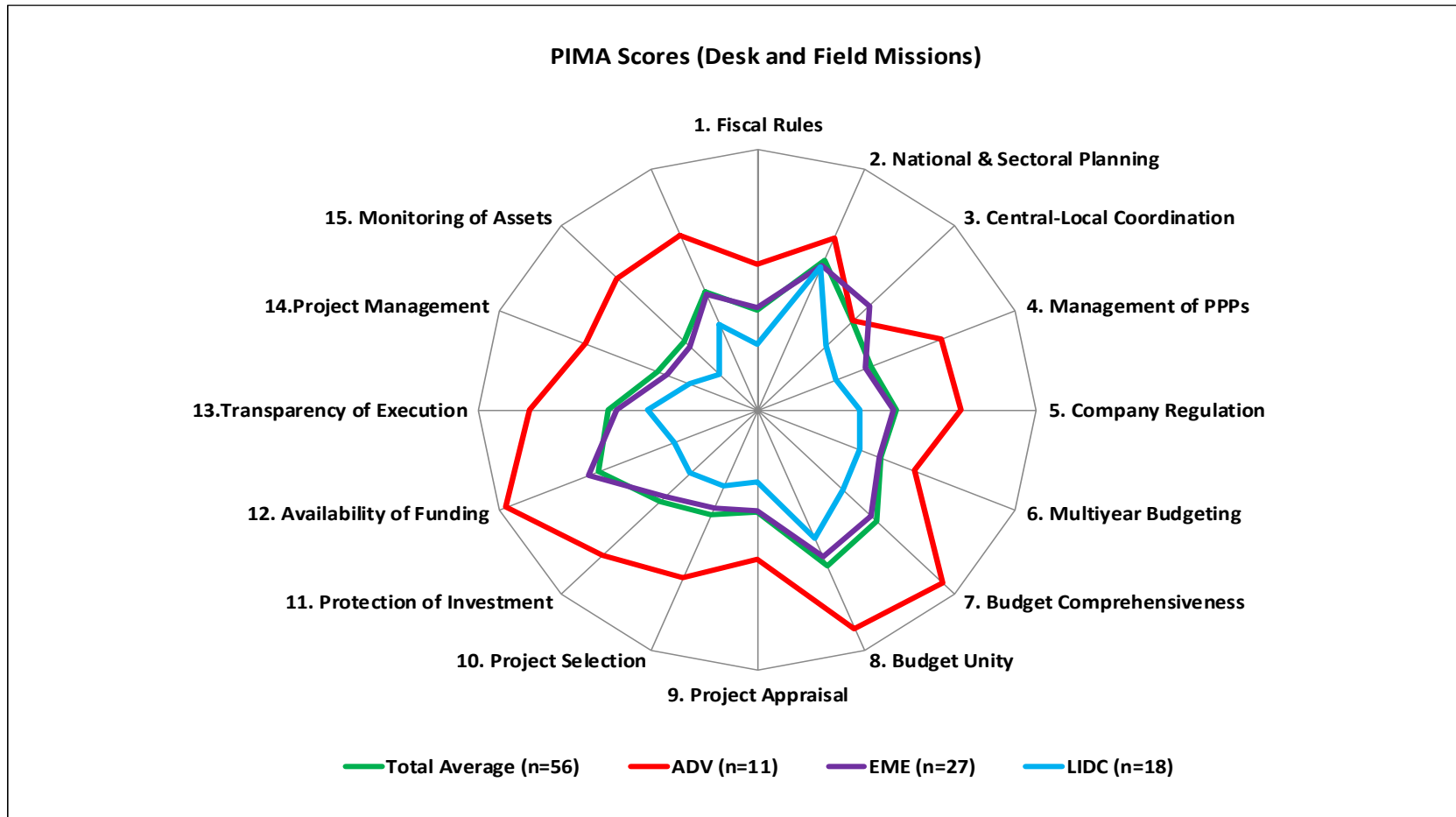


IV. Public Investment Management Assessment (PIMA)

Some Preliminary Findings: Overall PIM strengths and weaknesses



PIMA scores vary across institutions and country groups based on 56 sample countries:



- **Advanced Economies** have stronger PIM institutions overall, but not uniformly so.
- **Average institutional strength** tends to increase along the investment cycle, with planning being the weakest and implementation the strongest.



IV. Public Investment Management Assessment (PIMA)

PIM areas for improvement: Reforms should focus on weaknesses

- **All countries:** multi-year budget planning and management of PPPs;
- **Advanced economies (AE):** regulation of infrastructure corporations, central-local coordination, and fiscal rules;
- **Emerging economies (EME):** budget unity, and project appraisal, selection, procurement, and management.



Thank you!

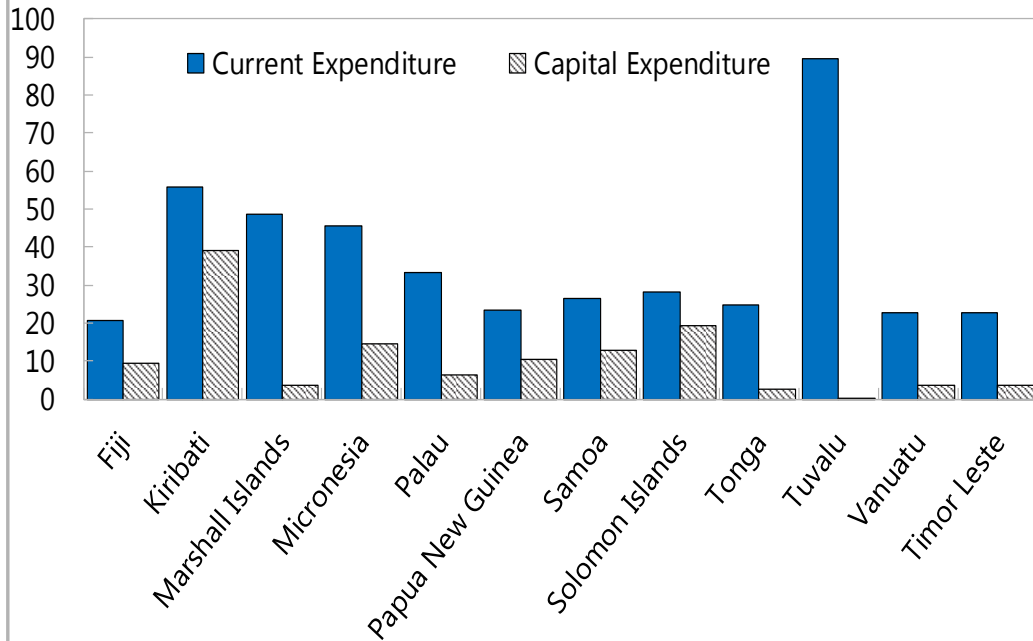
Annex I:

Current expenditure levels in PICs



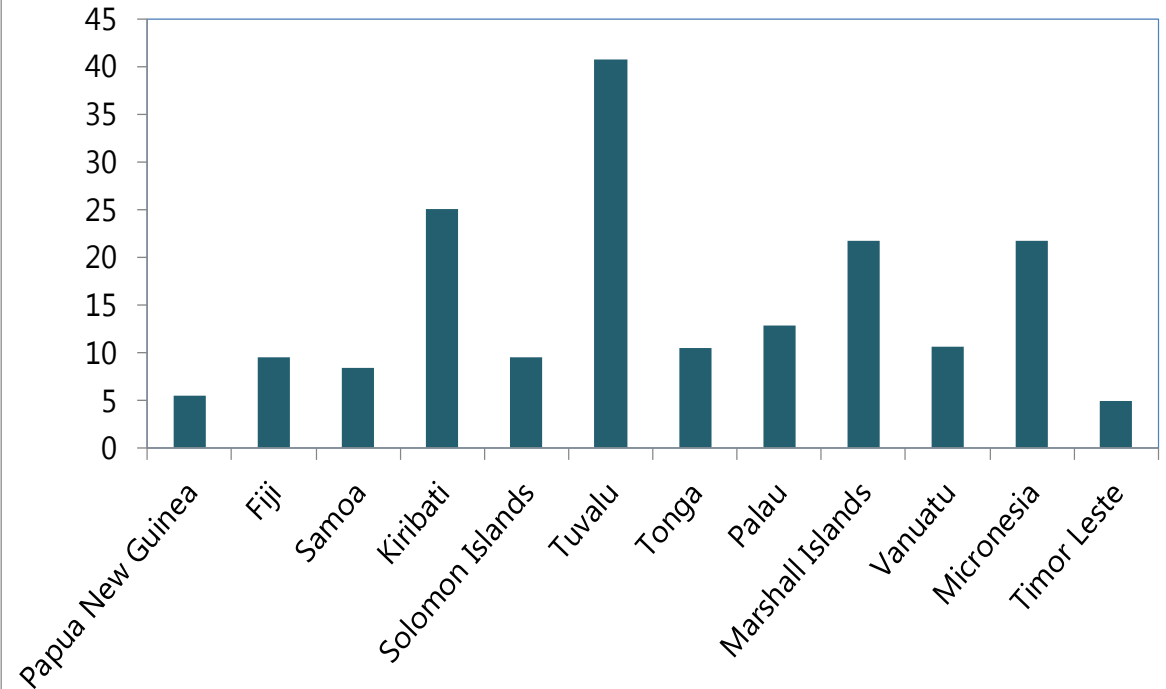
Current vs Capital Expenditure, Average 2012-15

(In percent of GDP)



Source: IMF Staff Reports

Wage Bill: Percent of GDP (2014)



Sources: IMF Staff Estimates

Annex II:

PIM dimensions and PIM outcomes



Phase of PIM Process

PIM Dimensions

PIM Outcomes

A. Planning sustainable levels of investment

1. Fiscal Principles or Rules
2. Strategic plans
3. Central – Local Coordination
4. Public – Private Cooperation
5. Coordination of SOEs

Support:

1. Fiscal Sustainability & Risk
2. Aggregate Level of PI
3. Stability of Investment Exp.

B. Allocating investment to the right sectors and projects

6. Multi-year budget planning
7. Budget comprehensiveness
8. Budget Unity
9. Project Appraisal
10. Project Selection

Allow:

4. Flexibility in Allocation
5. Quality/Social rate of Return
6. Balance capital/recurrent

C. Delivering productive and durable public assets

11. Protection of Allocation
12. Availability of Funding
13. Transparency of Project Execution
14. Project management
15. Monitoring of Public Assets

Discourage:

7. Expenditure Overruns/Delays
8. Re-allocation in Budget
9. Rent seeking/Corruption