Infrastructure in the Middle East, North Africa, Caucasus, and Central Asia: Getting Bigger Bang for the Buck

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Infrastructure is the backbone of everyday life. From power plants to transportation systems, and from highways to railways—they are all important means for achieving higher growth and realizing development goals.

The good news is that many oil and gas exporting countries in the Middle East and North Africa (MENA)—Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen—and the Caucasus and Central Asia (CCA)—Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan—have seized the opportunity of rising resource revenues in the past to spend on infrastructure.

A recent IMF study, however, found that these countries need to improve the *efficiency* of such public investment as their performance lags behind the best performers.

Put differently, these countries need to get a bigger bang for the buck spent on public investment projects. They should save on the cost of infrastructure and make it comparable to what's incurred by advanced economies. This would require strong institutions, including better appraisal (through rigorous cost-benefit analysis), selection, and execution of infrastructure projects.

Why worry about efficiency now?

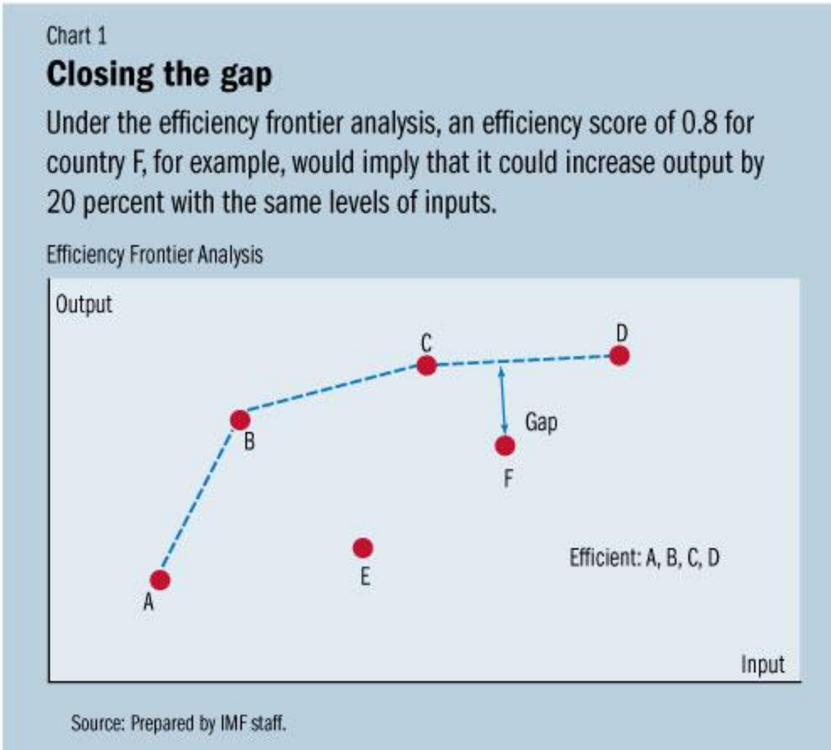
Improving public investment efficiency in MENA and CCA oil exporters is a priority, partly because these countries continue to have substantial infrastructure needs. For example, their stock of paved roads is considerably smaller than in advanced economies. This is the case even for some GCC countries—the best performers within the group.

Improving the efficiency of public infrastructure investment is also more important now for the region than ever simply because oil revenues are declining amid the fall in international commodity prices. No country would want to spend more for the same level of infrastructure at a time when its main source of income is falling.

Mind the efficiency gaps

In the study, we explored measurements of public investment efficiency (or inefficiency) relative to the best performing countries. In doing so, we used the so-called "efficiency frontier analysis" as a means for translating monetary inputs (public investment) into output (infrastructure).

The room to improve efficiency is determined relative to the best performing countries in the global sample. The efficiency scores for MENA and CCA oil exporters found in the analysis suggest that these countries have room to increase the infrastructure quality by up to one fifth with the same amount of investment.



Public investment efficiency varies within countries when analysis is based on project-level data (such as metros and roads). The study, for example, finds that the average metro unit cost (expressed in dollars) is broadly similar to that in the United States, despite the fact that countries in MENA and CCA pay much lower wages.

The quality of the public investment management system over the investment project cycle is another measurement of public investment efficiency (Dabla-Norris and others, 2012). This measure also points to weak performance in MENA and CCA oil exporters and suggests that these countries lag behind Central and Eastern Europe and Latin America and Caribbean regions, particularly in the appraisal and selection stages of the investment project cycle.

Close the efficiency gaps

MENA and CCA oil exporters can enhance efficiency of their public investment through the following:

Exercising greater scrutiny of public investment projects to help increase the efficiency: this will entail more transparency of investment projects in the context of the budget process and over the project cycle (e.g., appraisal information, competitive procurement process, bidding statistics). Additional insights into reform strategies in these and other economies should be informed by the forthcoming IMF Policy paper “Making Public Investment More Efficient”.

Modifying, subsequently, the framework for managing public investment to help improve its productivity: analysis suggests that stronger medium-term budget frameworks thorough appraisal and selection of investment projects and systematic ex post assessments could help strengthen the productivity of public investment.

The role of sound institutions plays out in a selected review of public investment management systems. Norway—a resource-rich country that has achieved relative success in the outcomes of infrastructure programs—lends itself as an example of how quality of institutions plays a strong role in fostering efficient public investment. A particular strength of the system in Norway is the clear technical management of projects along with independent reviews of the project's costing, which has helped prevent the politicization of investment decisions and controversies about the ineffective use of public funds.

BIOS:

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