Why Public Investment Matters

Quality infrastructure investment is essential for sustainable and equitable economic growth, and the benefits of additional investment depend crucially on how it is managed.

IMF analysis suggests that the average country loses about 30 percent of the returns on its investment to inefficiencies in its public investment management processes (Figure 1), with substantial scope for improving public investment efficiency across income groups (see 2015 IMF Board Paper “Making Public Investment More Efficient”). Improvements in public investment management can help countries close up to two-thirds of their efficiency gap. The growth dividend from doing so is substantial—the most efficient investors get twice the growth impact for their investment than the least efficient investors.

FIGURE 1. LOSSES FROM POOR INFRASTRUCTURE GOVERNANCE

Strong infrastructure governance—i.e., strong public sector institutions in planning, allocating, and implementing public investment in infrastructure—not only improves efficiency, but is also critical for macroeconomic stability, economic growth and fiscal sustainability. This is particularly important for countries with high debt levels, low revenue collection, and little fiscal space.

Key Features of the PIMA

Recognizing the macro-criticality of infrastructure governance, the IMF’s Public Investment Management Assessment (PIMA) is a comprehensive framework to assess infrastructure governance for countries at all levels of economic development. PIMAs evaluate the procedures, tools, decision-making, and monitoring processes used by governments to provide infrastructure assets and services to the public; help identify reform priorities; and devise practical steps for their implementation. In this context, and as part of the IMF’s Infrastructure Policy Support Initiative (IPSI), PIMAs also promote the implementation of the 2015 Addis Ababa Action Agenda for financing sustainable development and the infrastructure-related Sustainable Development Goals (SDG).

The PIMA framework examines the institutional design and effectiveness of 15 key practices called “institutions” and three cross-cutting enabling factors supporting infrastructure governance, which shape decision-making at the three key stages of the public investment cycle (Figure 2).
Planning investment. Efficient investment planning requires institutions that ensure public investment is fiscally sustainable and effectively coordinated across sectors and levels of government.

Allocating investment to the right sectors. Allocating public investment to the most productive projects requires comprehensive, unified, medium-term planning and objective criteria for appraising and selecting projects.

Implementing investment. Timely and cost-effective implementation of public investment projects requires institutions that ensure projects are fully funded, transparently monitored, and effectively managed throughout their implementation.

Cross-cutting enabling factors. A comprehensive framework for infrastructure governance should also address cross-cutting issues such as the legal framework supporting infrastructure, staff capacity to implement and manage processes, as well as the adequacy of IT systems to enable good practices in all three phases of the public investment cycle.

The Benefits of a PIMA

Comprehensive. It brings a macro-fiscal perspective in assessing the entire public investment cycle, from investment planning, medium-term budget allocation, to project implementation management.

Accessible. It allows effective communication of country results to help identify gaps and focus reform priorities (e.g., summary charts, peer comparison, clear distinction between design and effectiveness of public investment institutions).

Practical. It results in concrete findings and recommendations tailored to country specific needs and capacities. Recommendations are summarized in a sequenced and prioritized reform action plan.

Supports coordination. It is a catalyst for stronger coordination and follow-up support by development partners. It facilitates shared understanding of key challenges in public investment, allowing partners to coordinate country strategies and mobilize funding.

PIMA Outputs

The findings and recommendations of a PIMA are summarized in a concise report prepared by IMF staff. The efficiency of a country’s public investment is estimated following a standard methodology, and the country’s access to infrastructure assets and services is compared to peers (Figure 3 and 4). The report provides an analysis of the public investment trends and its composition by function, level of government, among others (e.g., Figure 5 and 6).

FIGURE 3. MALI: Efficiency of Public Investment

FIGURE 4. IRELAND: Measures of Access to Infrastructure
A summary heatmap assigns a score to each institution giving a comprehensive picture of the institutional design and effectiveness of a country’s public investment management institutions (Table 1) and provides the basis for a prioritized set of recommendations and a sequenced action plan.

**TABLE 1. GEORGIA: PIMA Summary Heatmap**

<table>
<thead>
<tr>
<th>PHASE/INSTITUTION</th>
<th>INSTITUTIONAL DESIGN</th>
<th>EFFECTIVENESS</th>
<th>PRIORITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. PLANNING</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Fiscal targets and rules</td>
<td>High: There are permanent legal limits for general government fiscal aggregates.</td>
<td>Medium: The expenditure ceiling has been breached 3 out of 4 years.</td>
<td>Medium</td>
</tr>
<tr>
<td>2 National and sectoral planning</td>
<td>Low: The national and sectoral strategies are not comprehensive and only cover new initiatives.</td>
<td>Low: Objectives are not properly defined in public investment strategies, hindering implementation.</td>
<td>High</td>
</tr>
<tr>
<td>3 Coordination btw. entities</td>
<td>Medium: Capital transfers from central to subnational governments are coordinated but ad-hoc. No formal process to report contingent liabilities to central government.</td>
<td>Medium: Central government estimates and discloses contingent liabilities in budget documents (21% GDP by public corporations; 34% GDP by power purchase agreements).</td>
<td>Low</td>
</tr>
<tr>
<td><strong>B. ALLOCATION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Multi-year budgeting</td>
<td>Medium: Multi-year capital ceilings not identified separately, and total construction costs are not published.</td>
<td>Low: Major projects construction costs for outer years not provided or updated in information system.</td>
<td>Medium</td>
</tr>
</tbody>
</table>
Key Findings of the PIMAs

Some important themes have emerged in PIMAs conducted to date.

- The design of PIM institutions is generally stronger than the implementation of those systems. That is, there is often a gap between the design and formal rules governing public investment, and how they are followed in practice (Figure 7).
- There is room to strengthen the effectiveness of institutions at all stages of the PIM cycle: planning, allocation and implementation (Figure 8). Project appraisal and selection are often the weakest.
- The effectiveness of PIM institutions can be improved across all income groups. Advanced economies on average have the highest PIMA scores, followed by emerging economies—however scores vary greatly among countries within each income group. (Figure 9).

![FIGURE 7. PIMA SCORES: Institutional design vs. Effectiveness](image-url)
PIMA Implementation

FIGURE 8: Ranking of PIMA Scores (Average Effectiveness, All Countries)

- 1. Fiscal targets and rules
- 2. National and Sectoral Planning
- 3. Coordination between Entities
- 4. Management of Project Implementation
- 5. Alternative Infrastructure Financing
- 6. Multiyear Budgeting
- 7. Budget Comprehensiveness and Unity
- 8. Budgeting for Investment
- 9. Maintenance Funding
- 10. Project Selection
- 11. Procurement
- 12. Availability of Funding
- 13. Portfolio Management and Oversight
- 14. Management of Project Implementation
- 15. Monitoring of Public Assets

Since its introduction in 2015, PIMAs have become a key tool for helping IMF member countries strengthen their infrastructure governance, with over 50 assessments conducted by mid-2019 covering countries of all income and development levels.

FIGURE 10: PIMAs Around the World

PIMAs and follow-up capacity development activities are conducted by IMF staff with participation of staff from other organizations (e.g., World Bank, Inter-American Development Bank), and supported by the IMF’s regional capacity development centers.

Follow-up activities: In the last two years, almost every PIMA recipient country has had follow-up capacity development support to implement PIMA recommendations and prioritized action plans.

Regional workshops: Workshops covering all regions are delivered to provide training to government officials on good practices for infrastructure governance and to share international experience among peers.
“The efficiency of public investment management is crucial to derive the growth benefits from additional infrastructure investment.”

—Christine Lagarde, Managing Director of the IMF

“Public investment can serve as an important catalyst for economic growth, for example by supporting or enabling the delivery of key public services and connecting citizens and firms to economic opportunities.”

—Vitor Gaspar, Director of the Fiscal Affairs Department of the IMF

“The PIMA will play an important role in identifying how institutions and public governance systems in Ireland who are responsible for … public capital infrastructure might be further strengthened. … [T]he IMF PIMA can play a very helpful role in informing and guiding debate on public capital investment planning in the future.”

—Paschal Donohoe T.D., Irish Minister for Finance and Public Expenditure & Reform

Contact Us

Find out more about the IMF’s work on public investment at IMF.org/publicinvestment
For inquiries, please contact IMFPUBINV@IMF.org

INTERNATIONAL MONETARY FUND
700 19th Street, NW
Washington, DC 20431
USA