Public Investment Management:
Investing to Invest: Promoting Public Investment Efficiency

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Rio de Janeiro, Brazil
May 6-7, 2013
Why Public Investment Management (PIM) Matters?
Challenges in PIM
Eight “Must-Haves” of PIM
Approaches to PIM Reform
Lessons Learned
The Bank’s “Investing to Invest” Agenda
A broader belief: Resources allocated to public investment translate into an equivalent value of public capital stock, which, by lowering the cost of production or distribution, benefits the private sector and affects the overall growth process. This effect is typically measured by the rate of economic or social return from public investment.

In practice: This rate of return will depend very much on the effectiveness of the management of the public investments, both in the budgeting and execution of the investment projects and in the subsequent operation and maintenance of the public asset created by public investment.

The 2007–12 global economic slowdown brought the spotlight on PIM policy as an instrument to revive economic activity: all countries need to continue efforts for better PIM to get the highest value for money and the greatest growth impact.

– Fiscal stimulus plans and post-crisis environment: reliance on public investment
– Enhance value for money by creation and preservation of economically and socially productive fixed capital assets
\[ Y = A \cdot F(K, L) \]

where  
\( K \) : stock of private capital  
\( L \) : labor force  
\( A \) : an index representing total factor productivity  

\[ Y = A^* \cdot F(K, L, G) \]

where  
\( A^* \) : total factor productivity purged of the influence of the government capital stock.  
\( G \) : government capital stock  

\[ \ln Y = \ln A^* + a \cdot \ln K + b \cdot \ln L + c \cdot \ln G \]
(Effectiveness Problem: Diminishing Returns?)

Government Investment and Infrastructure Quality in the World

Source: IMF WEF (2010) and IMF WEO(2011)
(Cost and time overruns can be significant)

Source: CoST (2011), IMED for Bangladesh
2. Challenges in PIM

- For better PIM, challenges to ensure:
  - An investment choice is justified as a welfare-improving public policy;
  - The investment is undertaken through an allocation of risk that is more likely to ensure efficient and effective implementation of the project;
  - There is efficient and sustainable operation of the asset created by public investment; and
  - There is a process of learning to improve future project selection, implementation, and operation.
• Lumpy investments: transparency?
• Multi-year nature: ownership?
• Multi-sector: technical capacities?
• Cross-cutting nature: champions?
• Localized and visible benefits: politicization?
• Public and private sectors: regulatory capacity?

(PIM Diagnosis is so tricky)
(A closer look at the complex agenda)
• **Country starting points are very different**
  – Public investment ranging from an average of 1%-36% GDP (2005-2010)
  – Natural resources
  – Aid-dependent settings
  – Advanced economies

• **A complex efficiency problem**, therefore:

• Public investments can **justify fiscal space, but only if**:
  - *Good decisions on investment choices are made*
  - *Assets are efficiently created, operated and maintained*
3. Eight “Must-Haves” for PIM: A Diagnostic Framework

1. Guidance & Screening
2. Formal Project Appraisal
3. Appraisal Review
4. Project Selection & Budgeting
5. Implementation
6. Project Changes
7. Service Delivery
8. Project Evaluation

• **Step 1: Strategic Guidance and Preliminary Screening:** National and/or sector strategy documents are specific enough, and have sufficient coherence and authority to actually guide public investment, and are used systematically to screen new projects (with at least some projects dropped at the preliminary screening stage). Sector strategies are fully costed, and are closely integrated and consistent with medium term budgets.

• **Step 2: Project Appraisal:** Project development follows a standard and well-defined set of procedures, and projects are appraised using the full range of techniques as appropriate. There are comprehensive central guidelines on project appraisal, including specific detailed guidance on the appraisal of PPPs.

• **Step 3: Independent Appraisal Review:** The risk of line ministries “cooking the numbers” to ensure that a project passes appraisal is limited by an independent review of the project. This is a key feature of all four of these countries. In Korea, upon request from the Ministry of Strategy and Finance, the Public and Private Infrastructure Investment Management Center (PIMAC), a semiautonomous agency, undertakes prefeasibility studies of large projects independent of the sponsoring ministry.

• **Step 4: Project Selection and Budgeting:** In general, only projects that have been subject to thorough appraisal, and have been independently reviewed, are selected for funding in the budget. Multi-year budget authority supports effective project implementation.
• **Step 5: Project Implementation:** There is a strong focus on managing the total project costs over the life of each project. Clear roles and responsibilities are in place for project implementation, with regular reporting on financial and non-financial progress and close monitoring by the CFA. Sound procurement systems are in place and are consistently implemented, with advanced techniques for allocating risks between government and contractor.

• **Step 6: Project Adjustment:** A distinctive feature of these advanced PIM systems is that specific mechanisms are in place to trigger a review of a project’s continued justification if there are material changes to project costs, schedule, or expected benefits.

• **Step 7: Facility Operation and Maintenance:** Comprehensive and reliable asset registers are maintained and are subject to external audit. In the UK, full accrual balance sheets are in place across the central government, and the Gateway process focuses specifically on readiness for service (Gateway 4). In Chile, there is systematic recording and checking of completed capital assets, and a register records the name of the responsible official for each asset.

• **Step 8: Basic Completion Review and Evaluation:** All advanced countries put significant effort into ex post review. Investment projects are subject to audit by the supreme audit institution, including value-for-money audits.
## Credibility of the Budget
- PIM-1 Aggregate capital expenditure out-turn compared to original budget
- PIM-2 Composition of capital expenditure out-turn compared to original budget
- PIM-3 Aggregate revenue out-turn compared to original budget
- PIM-4 Stock and monitoring of capital expenditure payment arrears

## Comprehensiveness and Transparency
- PIM-5 Classification of the budget
- PIM-6 Comprehensiveness of information included in budget documentation
- PIM-7 Extent of unreported capital spending
- PIM-8 PIM-related inter-governmental fiscal relations
- PIM-9 Management of fiscal risks from capital spending outside central government
- PIM-10 Public access to key information on capital spending

## Policy-Based Budgeting
- PIM-11 Investment guidance, project development, and preliminary screening
- PIM-12 Formal project appraisal
- PIM-13 Independent review of appraisal
- PIM-14 Orderliness and participation in the annual budget process
- PIM-15 Multi-year perspective
- PIM-16 Project selection and budgeting

## Predictability and Control in Budget Execution
- PIM-17 Project implementation
- PIM-18 Predictability in the availability of funds
- PIM-19 Procurement
- PIM-20 Effectiveness of internal controls and audit for capital spending
- PIM-21 Project adjustment
- PIM-22 Facility operation

## Accounting, Recording, and Reporting
- PIM-23 Basic completion review and evaluation
- PIM-24 Quality and timeliness of in-year budget reports
- PIM-25 Quality and timeliness of annual financial statements

## External scrutiny and audit
- PIM-26 Scope, nature and follow-up of external audit
- PIM-27 Legislative scrutiny of capital spending in the annual budget
- PIM-28 Legislative scrutiny of external audit reports

## Donor practice
- PIM D-1 Financial information provided by donors
- PIM D-2 Proportion of aid that is managed by use of national procedures
(Country Cases Facing Various Challenges in Eight “Must-Haves” of PIM) (1=green, 5=red)

<table>
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<th>Institutional Features</th>
<th>Chile</th>
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<th>Brazil</th>
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<td>Investment guidance &amp; preliminary screening</td>
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4. Approaches to PIM Reform: (In Advanced PIM systems)

• “Center of excellence”
• Strengthening appraisal
  – Establishing clear expectations of new project proposals
  – Building capacity across government in the techniques of project appraisal
  – Independent reviews
• Demand-side strengthening
• Transparency
4. Approaches to PIM Reform: (In Developing Countries)

- Strengthening project planning
  - Strategic guidance
  - Medium-term orientation
  - Project preparation
  - Project appraisal (cost-benefit analysis, other appraisal analyses)
- Procurement reform
- Internal and external audit
4. Approaches to PIM Reform: 
(In Aid-dependent Countries)

- Strengthening project implementation
- Centralized capacity for procurement reform
- “Contracting out” of capacity
- Rationalizing and reducing the number of public investment units
- Improving quality of national strategic plans
## 4. Approaches to PIM reform: Trade-offs and Sequence?

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<th>Poorly executed</th>
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<td>Poor projects</td>
<td>B</td>
<td>D</td>
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5. Lessons Learned

• Ownership of assessment is important.
  – Often, but not always MoF at the center of process
  – Develops the framework for investment decision and has oversight control of public investment
• Clarity of roles and responsibilities is crucial for effective PIM.
  – Coordination across sectors and levels of government
• The role of central guidelines are a particularly critical aspect of a well functioning PIM.
• Monitoring is important for early remedial action.
  – Financial Management Information System (FMIS)
  – Public Transparency & Accountability
5. Lessons Learned

• PIM reforms are incentive compatible.
  – Based on a sound understanding of and tailored to fit individual country trajectories, circumstances and practices
  – Technically feasible, relying on good enough practice
  – Carefully designed and sequenced
• Well functioning PEM and budgeting system, SOE governance and debt management system is also important.
A PIM assessment of a country would comprise:

1. An institutional mapping
   a) Trends in public investment spending
   b) Who are the key stakeholders?
   c) What are the different PIM modalities?
   d) What are the rules and procedures for PIM?
2. A gap analysis against the PIM performance indicators
3. Quantitative indicators of PIM system performance
4. Discussion of key cross-cutting issues that impact on PIM system functioning
5. Identify key binding constraints on the performance of the PIM system at the margin
6. Identify priority areas for reform, drawing on both the technical PIM system analysis and the political economy and wider PFM system indicators. This should be followed by a discussion of key operational entry points for engagement.
### 6. The Bank’s “Investing to Invest” Agenda

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Thank You