

Efficient Management of Public Investment: An Assessment Framework



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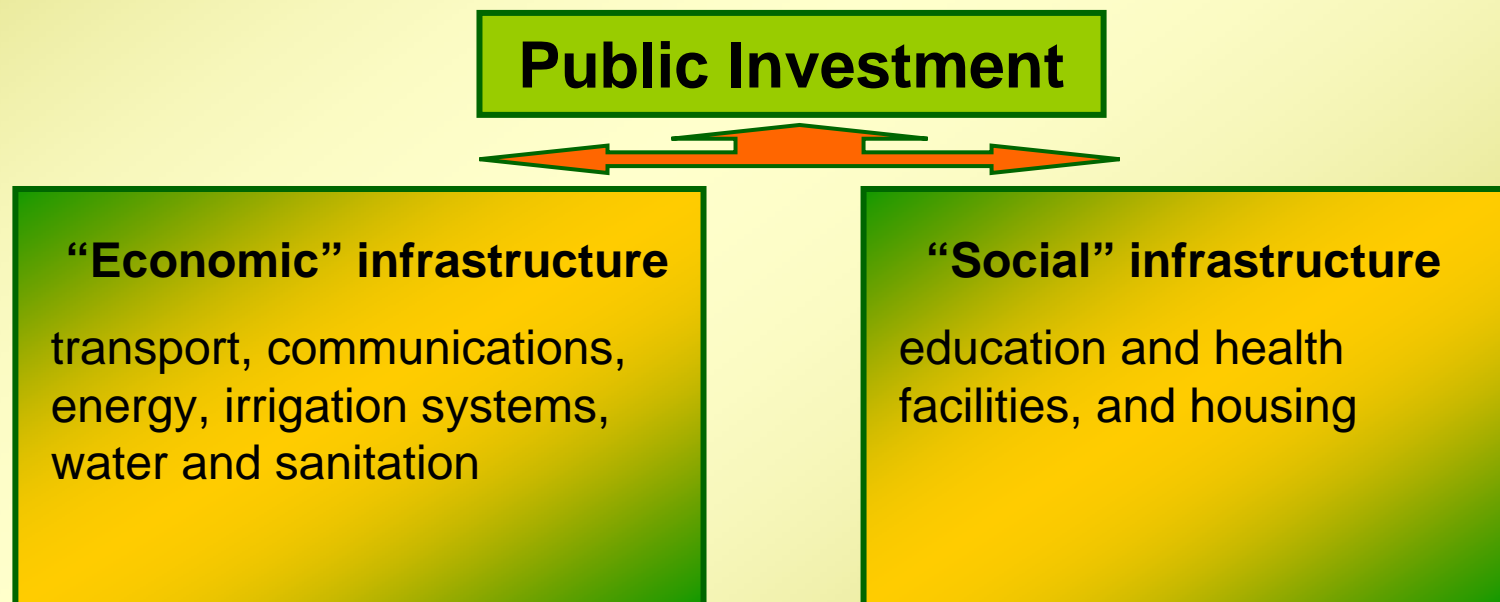
Outline

- Rationale for this work
 - Public investment matters, but evidence of many challenges
 - Not just technical; management matters
- Introduction to the framework
 - Choice of six countries
 - Eight institutional features
- Some points from case studies



Public Investment: The Scope

- Public expenditure on physical infrastructure; adds to gross fixed capital formation (capital expenditure in national accounts)



Public Investment:

Why It Matters

- Infrastructure bottlenecks: often a significant constraint to growth and competitiveness in many countries (HICs, MICs, LICs)
- Strengthening public infrastructure – among key economic development priorities
- Insufficient resources for public investment but still significant share of public spending

	Access to electricity (%)	Roads (km/km ²)	Mainlines per 1000 people	Cellular telephones	Water (%)	Sanitation (%)
LAC	87	0.008	170	246	89	74
China	99	0.189	209	215	77	44
MIC	90	0.06	178	225	83	61
<i>Year</i>	<i>2000</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>	<i>2002</i>	<i>2002</i>

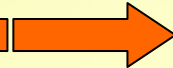
Source: Infrastructure in LAC (WB, 2007). Note that the road density is much lower in LAC regardless of the deflator used (population, area, GDP or any combination thereof) and whether total roads or paved roads are used.

Public Investment Efficiency:

Important Area of PFM Reform

- Essential question to ask: *Will spending on public investment translate into commensurate productive assets?*
- Evidence of inadequate efficiency
 - Regardless of income level
 - Cost over-runs pertinent for various countries
 - Optimism bias, unrealistic schedules in ex-ante appraisal
 - Problems dominant in lower income environments:
 - Poor project selection (wasteful “white elephants”)
 - Delays in project design and completion
 - Neglect to operate and maintain created assets
 - Chronic underexecution of capital projects
- Areas of concern in PIM system
 - Unduly political interference in PIM process
 - Lack of objective criteria for project selection
 - Unclear lines of responsibility and accountability
 - Shortage of project appraisal, procurement and management skills
 - Lack of coordination between different levels of government, across jurisdictions

Framework for Reviewing Public Investment Efficiency

- Focus on how to inform reform design to enhance efficiency of PIM system
 - Search for appropriate institutional and technical measures
 - Provide an emphasis on basic processes and controls linked to broader budget processes
- Assessment of actual functioning of public investment system  **gap analysis**
 - Structural aspects of decision and management processes
 - Recognizing the role of institutions, capacity and incentives
 - Underpinned by diagnosis; drawing from “accepted” framework

Framework for Reviewing Public Investment Efficiency

Two pillars of the approach:

- Desirable institutional features
 - Correspond to PIM decision-making cycle
 - Include the bare-bones institutional arrangements rather than best practice to minimize major risks
- Diagnostic indicators
 - Inputs, processes and outputs

ERR — most appropriate measure but

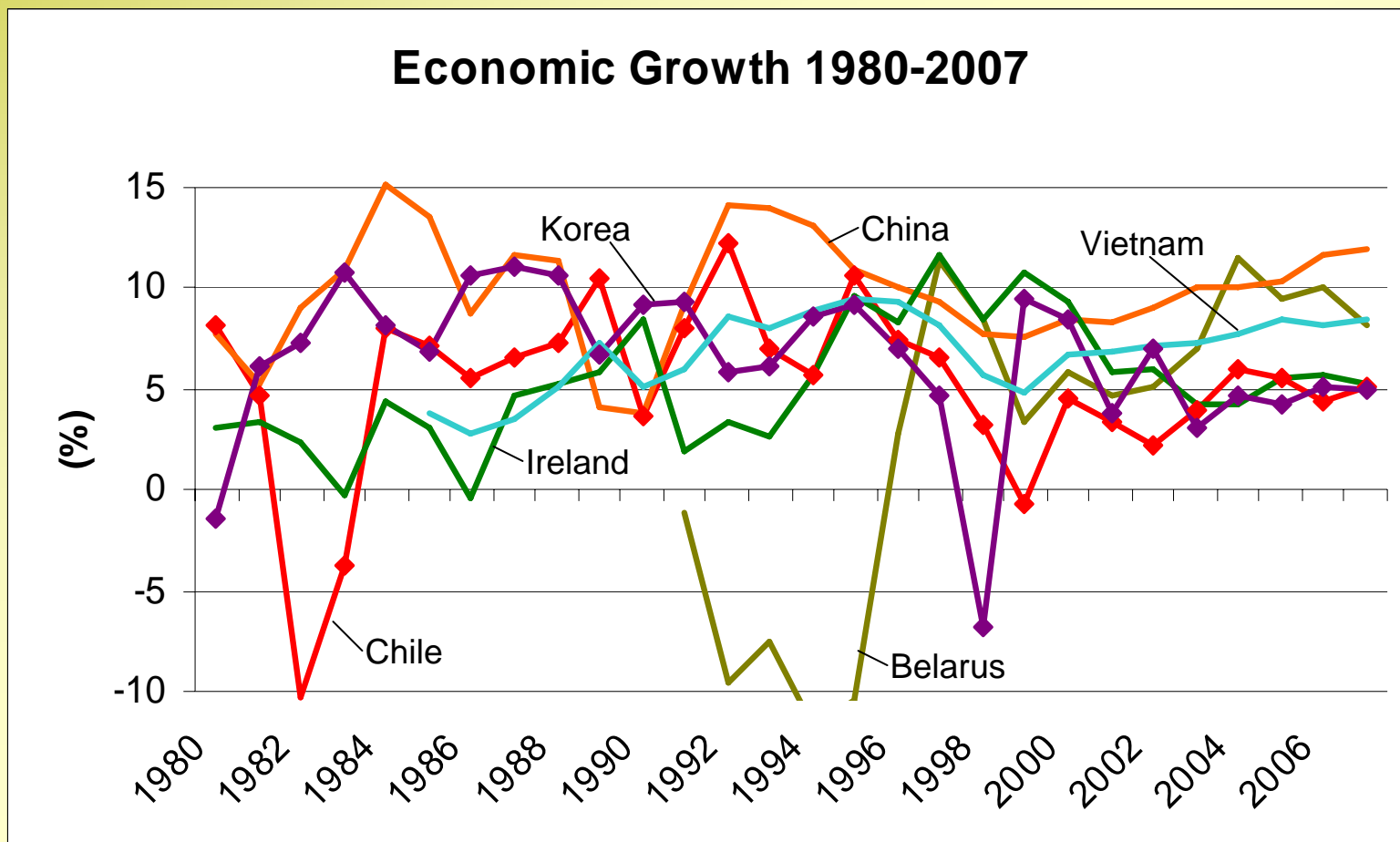
- Usually ex-ante if available
- Ex-post systematically lower than ex-ante (WB, 1994; Florio, 1999)

WB projects	Ex-ante	Ex-post
All evaluated 1974-97	24.51	21.09
Completed FY 1990-97	28.91	26.09

Framework for Reviewing Public Investment Efficiency – Road Test

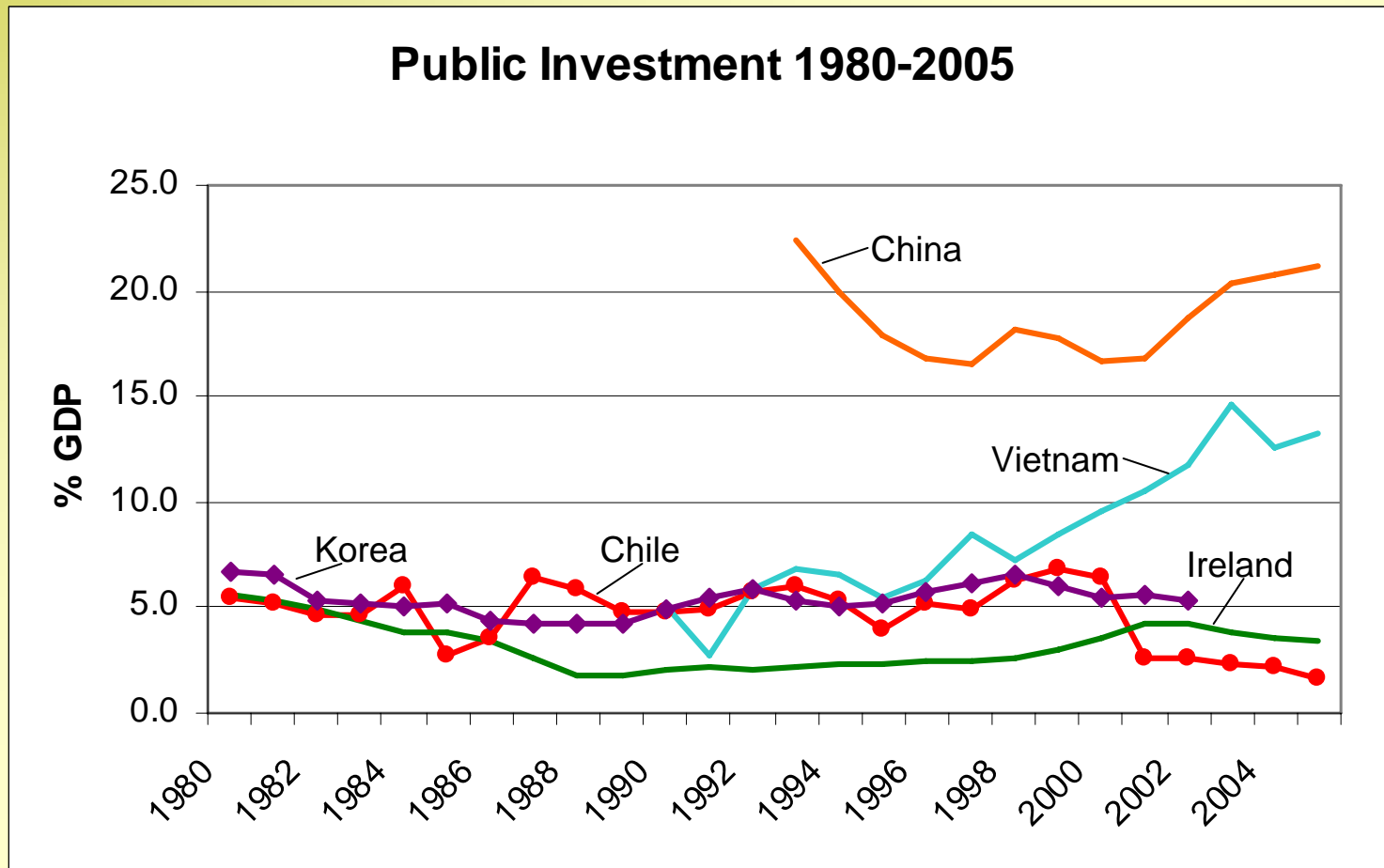
- In ***six countries*** – Belarus, Chile, China, Ireland, Korea, and Vietnam
 - Stages of development
 - Growth pattern and infrastructure needs
 - Sector specific vs. broad service delivery needs
 - Institutional arrangements
 - Centralized and decentralized
 - Level of PIM system capability
 - Processes, skills, tools for project evaluation
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Framework for Reviewing Public Investment Efficiency – Road Test



Source: World Bank WDI

Framework for Reviewing Public Investment Efficiency – Road Test



Sources: Biletska & Rajaram (2007); IMF WEO

Note: Public sector for China, Chile & Vietnam;
general government for Ireland & Korea.

Desirable institutional features

1. Investment guidance and preliminary screening
 2. Formal project appraisal
 3. Independent review of appraisal
 4. Project selection and budgeting
 5. Implementation
 6. Adjustment for changes in project circumstances
 7. Facility operation
 8. Evaluation
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1. Investment guidance & preliminary screening

Desirable Institutional Arrangement	Diagnostic indicators
<p data-bbox="129 451 767 505"><u>Strategic guidance for PI</u></p> <ul data-bbox="129 536 1054 654" style="list-style-type: none">■ Published development strategy or vision statement <p data-bbox="129 689 649 743"><u>First-level screening</u></p> <ul data-bbox="129 775 1035 1136" style="list-style-type: none">■ Centralized (MoP or MoF) or delegated approval/explicit ministry level justification■ Test for inclusion as a project■ Clarity of project objectives	<ul data-bbox="1127 536 1734 1136" style="list-style-type: none">■ “Realism” of strategy relative to available resources■ Consistency of major projects with strategy■ Sampling of proposals■ Sampling of proposals

2. Formal project appraisal

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Formal guidance on technical aspects for ex-ante appraisal of the project economic value■ Techniques appropriate for the scale & scope of the project■ Publicized & transparent■ Backed by effective training & deployment of staff for project design & appraisal■ Application of guidance	<ul style="list-style-type: none">■ Quality of guidance ■ # of staff with training in project appraisal in line positions■ Sampling of appraisals

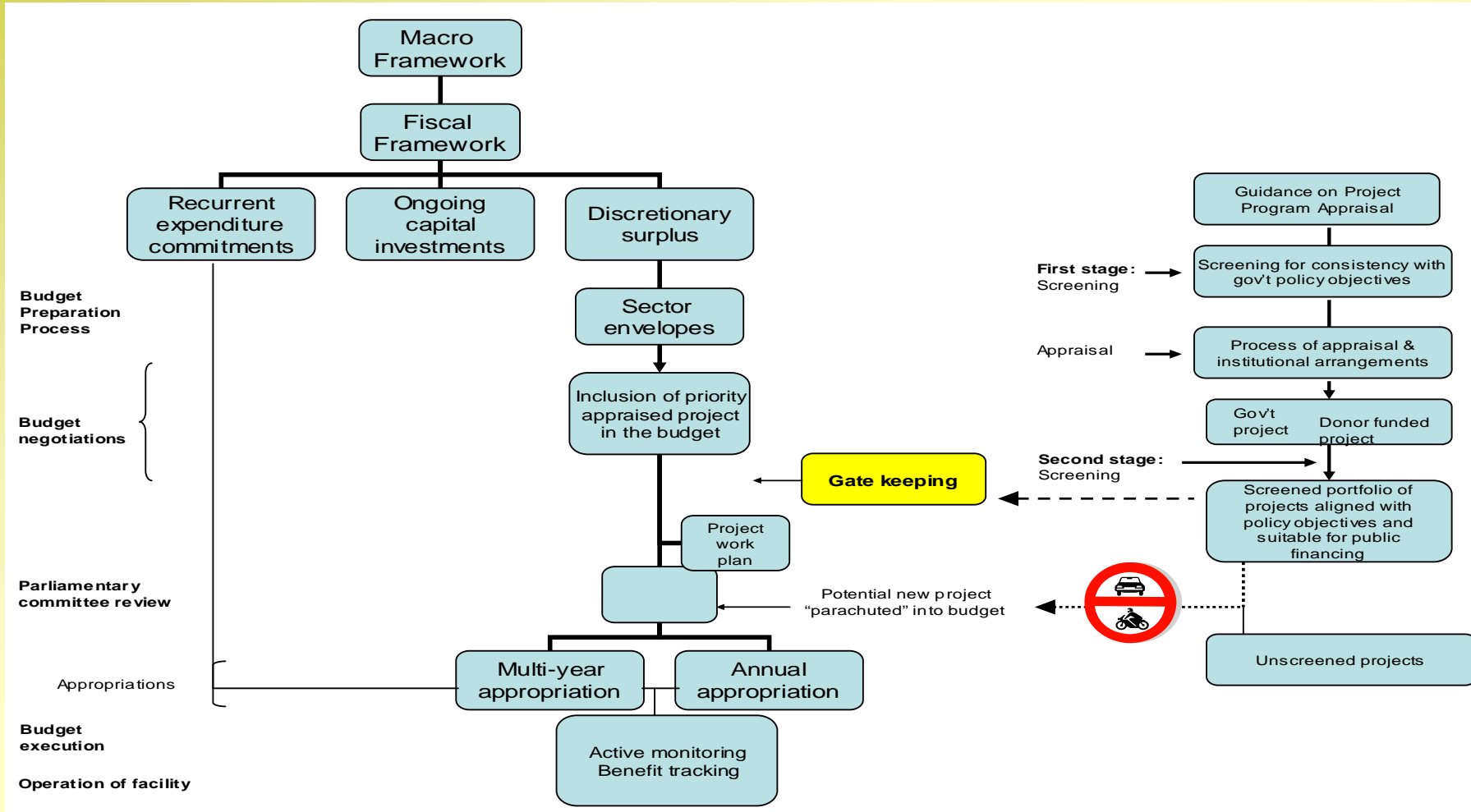
3. Independent review of appraisal

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Independent checks to ensure objectivity and quality■ Project appraisal completed prior to budget■ Identifying and maintaining inventory of appraised projects ranked by priority■ Clarity of roles	<ul style="list-style-type: none">■ Rate of rejection (incl. donor funded)■ Appraisals “hurried” to meet budget timetable■ Existence of portfolio of appraised projects by ministry■ Lack of clarity about specific responsibility for proposals

4. Project selection and budgeting

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Transparent criteria for selecting projects with reference to policy objectives at ministerial level■ Well structured budget preparation process with scope to integrate investment and recurrent expenditure■ Effective gate-keeping to ensure that only appraised projects and approved projects are selected for budget financing■ Adequate financing available	<ul style="list-style-type: none">■ Lack of transparent criteria■ Disciplined budget calendar, with clear requirements for consideration of O&M■ High % of projects in the budget that evaded established appraisal and selection process■ High value of new project starts relative to ongoing program

Synchronizing Public Investment Evaluation with Budget Process



5. Project Implementation

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Published guidelines for project implementation■ Cost effective procurement and contracting■ Timely implementation ■ Timely implementation reports on major projects■ Effective budgeting for selected projects	<ul style="list-style-type: none">■ Quality (clarity, requirements for efficiency & accountability)■ Competitive project tendering ■ Sample for delays in project implementation. (sector specific)■ Stock of incomplete projects■ Sample of reports ■ Capital budget outturns; Multi-year budget allocation; Under-funding of major projects; Cost over-run estimates

6. Adjustment for changes in project circumstances

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Active monitoring	<ul style="list-style-type: none">■ Estimated costs & benefits updated■ Consequences reflected in operating budgets■ Mechanisms to stop project with negative marginal benefits

7. Facility operation

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Asset registers ■ Facility operation	<ul style="list-style-type: none">■ Complete asset registers■ Valuation & custodianship supported by records management ■ Tracking & accountability for associated service delivery

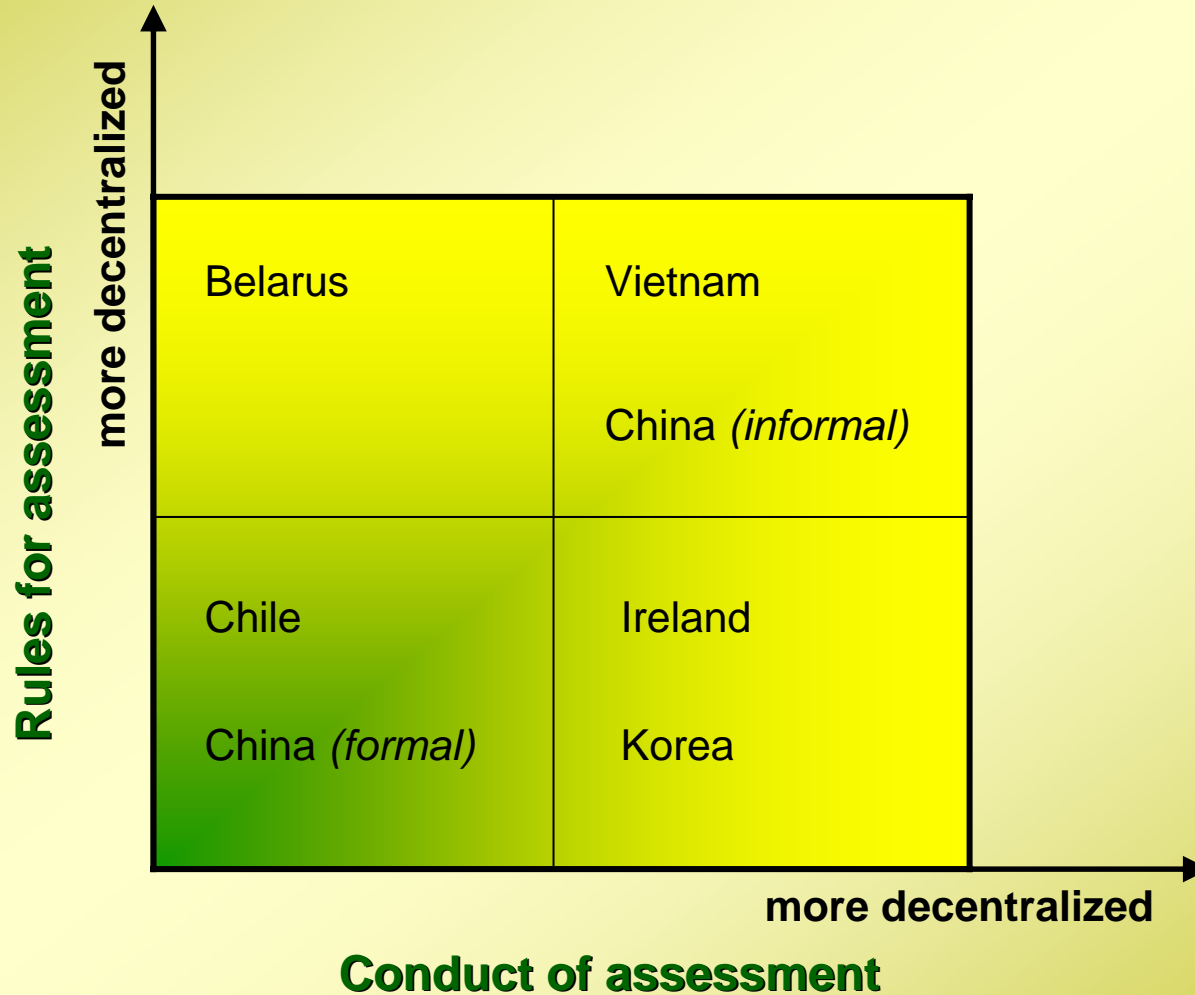
8. Evaluation

Desirable Institutional Arrangement	Diagnostic indicators
<ul style="list-style-type: none">■ Formal institutional arrangements for ex-post project/program evaluation with feedback into future project design	<ul style="list-style-type: none">■ % of PI projects subject to ex-post evaluation■ Quality of evaluation and recommendations■ Evidence of response to the evaluation findings

Lessons from Country Experience

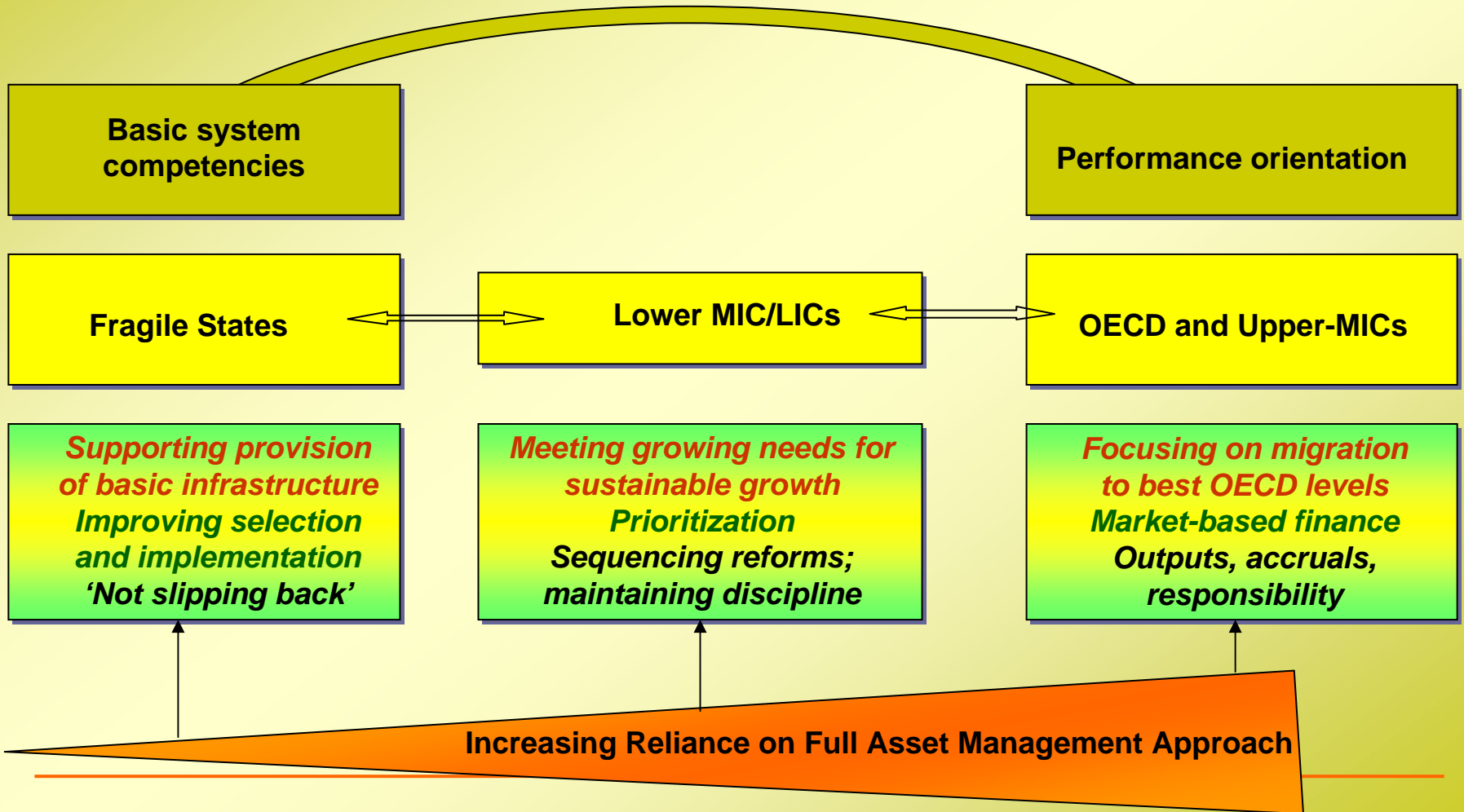
- Clear lines of managerial responsibility and accountability in project planning and management
 - Appraisal guidelines: uniform approach, clear and sufficiently detailed requirements
 - Monitoring is important – early remedial action and learning
 - Building capability: gradual advancement in “must-have” institutional features and skills
 - Varying degrees of centralization/decentralization
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Country Experience: Project Assessment



Tailoring engagement to country context

Public Investment Management



Thank You

