

# *Public Investment Management Reference Guide*

## *(PIM Reference Guide)*

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# Outline of Presentation

1. Why *PIM Reference Guide*: for Consultation on 'HOW'
2. Main Contents of *PIM Reference Guide*
3. Discussions and References in PIM Agendas
4. Challenges and Next Steps

## *PIM Reference Guide* for Consultation on 'HOW'

- Remains a gap between the functionality principles recommended in the PIM and PIMA diagnostics and the countries' demand for practical guidance on HOW to adapt them.
- *PIM Reference Guide (WB forthcoming)* provides PIM practitioners with different approaches and experiences, and draws attention to any commonalities among them.
- Appropriate sequencing is critical for implementing PIM reforms.
  - ✓ Putting controls in place to ensure development of core legal, regulatory and institutional settings for the country;
  - ✓ Establishing and strengthening decision-making mechanisms to improve both upstream and downstream PIM functionalities; and
  - ✓ Relevant on-demand agendas concerning PIM-PPP integration, prioritizing the existing project portfolio, or developing a basic data system to support PIM system performance.

# Main Contents of *PIM Reference Guide*

The most prioritized agendas in PIM are discussed/referenced for consultation on 'HOW':

*Chapter 1: Introduction and Overview*

*Chapter 2: Clarification of the definition and scope of PI and PIM*

*Chapter 3: Establishment of regulatory and institutional setting for PIM*

*Chapter 4: Allocation of roles and responsibilities for key players in PIM across governments*

*Chapter 5: Strengthening the project appraisal process and methodology*

*Chapter 6: Integration of strategic planning, project appraisal and capital budgeting*

*Chapter 7: Upgrading capital budgeting process and appropriation*

*Chapter 8: Addressing effective implementation, procurement, and monitoring of projects*

*Chapter 9: Strengthening of asset management and ex post evaluation*

*Chapter 10: Integration of PIM and public private partnership (PPP) in a unified framework*

*Chapter 11: Rationalization and prioritization of the existing PIM project portfolio*

*Chapter 12: Development of a PIM database and IT in the form of PIM Information System*

# Clarifying Scope and Definition of PI and PIM

Start with clarifying the formal and legal definition of a public investment (PI) and public investment management (PIM)

PIM is a regulatory concept which should be governed by an appropriate legal and regulatory framework.

- ✓ PI and PIM can mean different things to different people in different places.
- ✓ Need for a dedicated management system with distinct procedures and specialized methods.
- ✓ Clarify how to manage PI and PIM in public private partnership (PPP), state owned enterprise (SOE), and sub-national government (SNG) projects?

PIM is a branch of the wider public financial management (PFM) system.

*Public* = consistent with the role of the public sector in a modern, mixed-market economy

*Capital investment* = consistent with international definitions of capital expenditure

*Project* = in line with the terminology of project cycle management

*Infrastructure investment* = no precise definition, taken to be a subset of public investment, encompassing the physical assets required to deliver the services required to support economic activity.

IMF guidance in the Government Finance Statistics Manual (GFSM 2014) on Fixed (Capital) Asset:

- ✓ Acquisition of new non-financial assets with a useful life of more than one year
- ✓ Capital improvements or rehabilitation of assets that enhance performance or extend useful lives
- ✓ Not repair and maintenance required to assure an asset is functional for its planned life
- ✓ Not small expenditures, regardless of useful life
- ✓ Can include intangible assets, like software

# Developing Legal and Regulatory Framework for PIM

- To avoid using superior legal instruments to set down detailed procedural arrangements and methodological guidance, the principle points to the design and adoption of a hierarchical legal and regulatory framework, consisting of three tiers from top to bottom.

Hierarchy	Legal/Regulatory Formality	Notes
Tier 1	Legal authority for the PIM system	Usually established through some form of primary legislation
Tier 2	Procedural guidelines, high-level decision criteria and designation of analytical tools	Often established in governmental or ministerial regulations, or the equivalent, issued under authority of the primary legislation. Usually referred to as 'secondary' legislation.
Tier 3	Methodological guidance, detailed criteria, standardized parameter values and procedural documentation	Generally issued directly by the PIM coordinating agency (finance ministry or other) in the form of manuals, templates and circulars, under the authority granted to it by the primary legislation

<i>Different Models and Countries in Tier 1</i>		
Different models	Legal/Regulatory Schemes	Country Examples
Model 1	Specific primary legislation for PIM	Vietnam, Laos, Italy
Model 2	Directly through the budget systems law or fiscal responsibility law (or their equivalents)	Croatia, Cyprus, Ghana, Georgia, Kazakhstan, Korea, Serbia, Ukraine, Zimbabwe
Model 3	Indirectly through the budget and fiscal systems legislation (or its equivalent)	Australia, New Zealand, UK

# Roles and Responsibilities of Key Players in PIM

Key roles/responsibilities should be set at Tier 1 or Tier 2 in the hierarchy of PIM legislation and regulations:

- **Line ministries and their departments and subordinated agencies**, where projects originate and are implemented
- **Finance ministry**, which has a potentially important oversight role in quality-at-entry processes and has a critical role in coordinating capital budgeting
- **Planning ministry or agency**, which is an alternative location for overseeing quality-at-entry processes, and should have a critical role in coordinating strategic planning
- **Inter-ministerial committee** or similar body, which may have a role in confirming appraisal decisions and selecting projects as eligible to compete for budget funding
- **Ministerial committee**, made up of finance, planning and infrastructure ministers, with delegated powers from the council of ministers in the area of major projects
- **PIM Unit** Whether to establish a PIM unit in separate
- **Independent Body** How to carry out an independent review. Usually performed by the Finance/Planning Ministry or a designated special agency

Four general roles can be differentiated in PIM functions of pre-appraisal, appraisal, selection, and capital budgeting:

- ✓ **Proposer** – in response to an identified need or emerging problem, identifies the project concept and initiates the steps that follow;
- ✓ **Appraiser** – performs analysis of the net social worth, affordability and sustainability of the project as it develops from concept to budget-ready expenditure proposal;
- ✓ **Reviewer** – reviews the quality and robustness of the analysis at each step and advises decision-makers accordingly; and
- ✓ **Decision-maker** – ultimately responsible for making a decision to proceed to the next stage on the basis of the analytical findings and the reviewers' advice.

In some cases, different roles may be performed by the same organization, but where this is the case it may also require internal safeguards against conflict of interest.

# Establishing a Dedicated PIM Unit

- PIM oversight activities are highly specialized.
- Where there is no planning ministry already well performing the PIM functions, a dedicated central PIM unit would help to bring together the required expertise.
- If the dedicated PIM unit is established outside the finance ministry, all the above arguments relating to the planning ministry apply.
- Where the PIM unit is established in the finance ministry, issues arise concerning its location within the ministry, its responsibilities and its powers.
  - ✓ Placing the PIM unit outside the budget department can create coordination issues and intra-agency rivalries. These should be avoided by strictly limiting the PIM unit's responsibilities to strategic guidance and 'quality-at-entry' activities. If this is properly done, placing the PIM unit outside the budget department can be an effective option.
  - ✓ In weaker institutional contexts, however, placing the PIM unit outside the budget department could potentially leave it isolated, without influence, and unable to command adequate financial and human resources to establish its reputation.

# Upgrading Project Appraisal and Selection Framework

Clarify Appraisal Process into **Three Sub-Stages** of Pre-appraisal, Appraisal, and Selection

*Strategy and Planning Stage*



- Pre-appraisal: A process of pre-screening for choosing reasonable options for further feasibility studies by creating a project concept note/project substantiation note/pre-feasibility study



- Appraisal: A process of feasibility study for identifying or measuring an option with best social and economic viability → CBA, CEA, MCA, etc.



Independent Review

- Selection/Prioritization: A process of comprehensively ensuring the most preferred option and making recommendations to final decision



*Capital Budgeting Stage*

# Accountable Responsibilities of Key Players Across Stages

Stage/Key Player	Proposer	Appraiser	Reviewer	Decision Maker
<i>Pre-appraisal</i> (with project concept notes)	BEs	BEs, LMs	LMs, MOP, MOF, IRSB? (Led by MOP?)	MOP or MOF or CM or IMC based on proposal from MOP (or MOF)?
<i>Appraisal</i> (with feasibility study reports)	BEs	BEs, LMs	LMs, MOP, MOF, IRSB? (Led by MOF?)	MOF or MOP or CM or IMC based on proposal from MOF (or MOP)?
<i>Selection/prioritization</i> (with budget workshops/labs)	BEs, LMs	LMs, MOP, IRSB?	LMs, MOF, MOP, IRSB? (Led by IMC?)	CM or IMC based on proposal from MOF?
<i>Capital Budgeting</i> (with budget proposal submissions)	BEs, LMs	LMs, MOF, IRSB?	LMs, MOF, MOP, IRSB? (Led by CM)	CM or IMC based on proposal from MOF

Budget Entities (BEs), Line Ministries (LMs), Ministry of Planning (MOP), Ministry of Finance (MOF), Council of Ministers (CM), Inter-Ministerial Committee (IMC), Independent/Professional Review & Supporting Body (IRSB),

# Different Approaches According to Project Size, Sector, Level of Government

- Allocation of roles and responsibilities may differ according to project size, sector, level of government, or all three.
  - ✓ This ensures that only 'significant' or 'major' projects above specified investment cost thresholds, are escalated to the highest levels of scrutiny.
- Setting thresholds is very much a country-specific decision: principally, the government needs to consider the capacities and competing workloads of the bodies and decision-makers involved.
  - ✓ A more sophisticated system of thresholds should be considered only after the simpler system has been shown to work.
- Government may wish to set lower thresholds for some sectors: thresholds may be lower in sectors where the margin of error attaching to monetary estimates of benefits is likely to be highest, or where benefits are more likely to be assessed in qualitative terms only. This is generally the case in the social and environmental sectors.
- Lower thresholds may also be set for local government projects: if these are potentially subject to central government scrutiny, reflecting the likelihood of weaker appraisal capacities at this level.

# Clarifying Project Appraisal Methods and Criteria

- Appraisal Methodologies

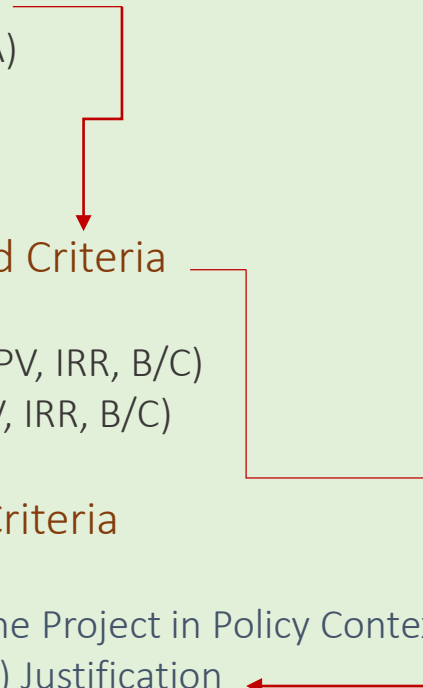
- Cost-Benefit Analysis (CBA)
- Cost-Effectiveness Analysis (CEA)
- Multi-Criteria Analysis (MCA)
- Simplified methodologies

- Economic/Financial Analyses and Criteria

- Economic analysis (Economic NPV, IRR, B/C)
- Financial analysis (Financial NPV, IRR, B/C)

- Project Selection/Prioritization Criteria

- Criteria 1: Appropriateness of the Project in Policy Context
- Criteria 2: Economic (and Social) Justification
- Criteria 3: Affordability and Financial Sustainability
- Criteria 4: Implementation Arrangements



- Financial Analysis

- Construct cash flow profile of project/program
- Ascertain sources and costs of financing
- What are minimum cash flow requirements for each stakeholder? What can be adjusted to satisfy all of them?

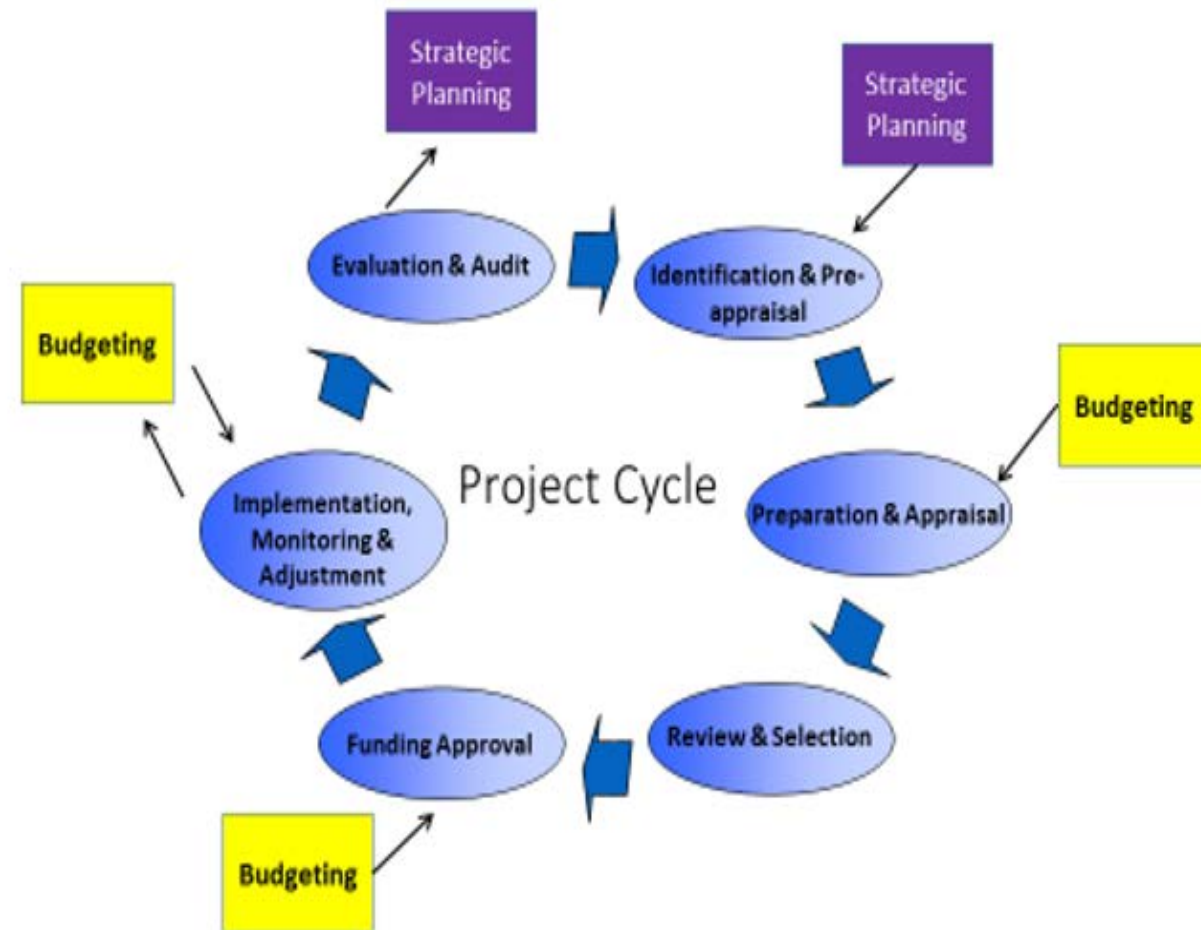
- Economic Analysis

- Examines the project using the whole country as the accounting entity. Transfers between members are ignored. Focus of value of added outputs produced and cost of resources used
- Evaluation of externalities including environmental impacts
- What is the expected value of net economic benefits?

# Linkage of Planning, Appraisal, and Budgeting

Ensure strategic planning, project appraisal, and capital budget appropriation are linked and aligned systematically

- Develop governance structure and methodological guidance for enhancing the effectiveness of the linkages in these three stages:
  - In strategic planning stage, develop the National Strategy/Master Plan/Sector Plan as compatible/feasible as practically applicable
  - In appraisal stage including pre-appraisal and selection sub-stages, assess the compliance of the project with the National Strategy/Master Plan/Sector Plan
  - In capital budgeting stage, encourage budget appropriations keep the consistency and priority in all three stages
- Upgrade Medium Term Expenditure Framework (MTEF) from MTEFF to MTBF:



# Strengthening Capital Budgeting Process and Appropriation

- Establish a capital budget baseline of on-going public investment projects for 3-5 year within the constraints given by the total resource envelope.
- New projects should be prioritized within the available fiscal space separately from the baseline of on-going projects.
  - ✓ The fiscal space for new projects should be determined based on resource availability and taking into account the resource demands from the existing baseline.
- Adoption of Multi-Annual Capital Budget Appropriations could assist in resolving the problem of an excessive number of projects → (i) an appropriation for payments versus (ii) an appropriation for commitments.
- Integrated documentation and presentation of recurrent and capital/development budgets.

# Upgrading Implementation, Monitoring/Adjustment and Evaluation

- Extend monitoring to include non-financial performance measures, for implementation and operation [requires planning improvements].
- Undertake in-depth assessment of project management capacities and gaps as input to design of strengthening measures.
- Formalise project management arrangements by introducing requirements for PIM unit/team.
- Automatic re-assessment of feasibility for delayed or over-budget projects, leading to adjustment/cancellation decision.
- Implement ex post evaluation, beginning with significant projects.
- Establish functioning feedback loops - lesson learning for identification and design.

## Re-Assessment Study of Feasibility (RSF) in Korea

- Under Total Project Cost Management (TPCM) system, RSF is conducted if:
  - ✓ TPC has increased by more than 20 percent (excluding price escalation and increase in land acquisition cost) of the cost endorsed by the MOF at the initial phase of the project;
  - ✓ the Pre-feasibility study (PFS) has not been conducted although it falls under the PFS coverage;
  - ✓ the demand forecast for a project has decreased by 30% or more; or
  - ✓ the Board of Audit and Inspection or the National Assembly requests the RSF
- RSF aims to check unnecessary cost increases by re-affirming the feasibility of projects under implementation and procurement, and scrutinizing the adequacy of the cost increases

# Harmonized Approach to PIM and PPP in a Unified Framework

There should not be such a thing a 'PPP project' intrinsically → PPP is a form of implementing a public investment project → Need a unified approach for integrating both TIP and PPP.

- *Align and integrate PIM/PPP Upstream Project Selection Decision:* Project planning, strategies, preparation, appraisal, selection and budgeting should be aligned and integrated to ensure consistent decision-making.
  - Need to develop the PIM/PPP project appraisal/selection guidelines & decisions as aligned and integrated.
- *Align and integrate PIM/PPP Capital Budgeting Decision:* Clear rules for PPP accounting, reporting to disclose all information regarding the costs (capital and recurrent) and liabilities, and safeguard ceiling for aggregate PPP expenditure should be aligned to the regular PIM rules → IMF/WB P-FRAM.
- *Align and integrate PIM/PPP Downstream Project Implementation Decision:* Project implementation, adjustment, operation and maintenance, and ex post evaluation should be aligned and integrated.
  - During implementation of a PPP project, VFM outcomes are contingent on effective management over contract terms → It is useful to develop and announce standard implementation guidelines for deciding procurement strategy, managing bid processes, developing model project agreement and standard clauses.
  - As projects enter into the implementation phase, it is essential to clearly understand the process of PPP project adjustment, particularly regarding the two distinct cases of renegotiation and refinancing.

# Rationalization/Prioritization of the Existing Portfolio

- Many countries have **the problem of the excessive stock of existing projects**: active projects are “drip funded”, and inactive projects are effectively suspended with no budgetary allocations but never been formally cancelled.
- **To prioritize investment projects, the government can consider:**
  - ✓ Disallowing new projects unless they are at the highest priority
  - ✓ Closing down or mothballing the existing projects that haven't completed procurement or started implementation; and/or
  - ✓ Rationalizing existing projects based on standardized scheme & objective criteria.

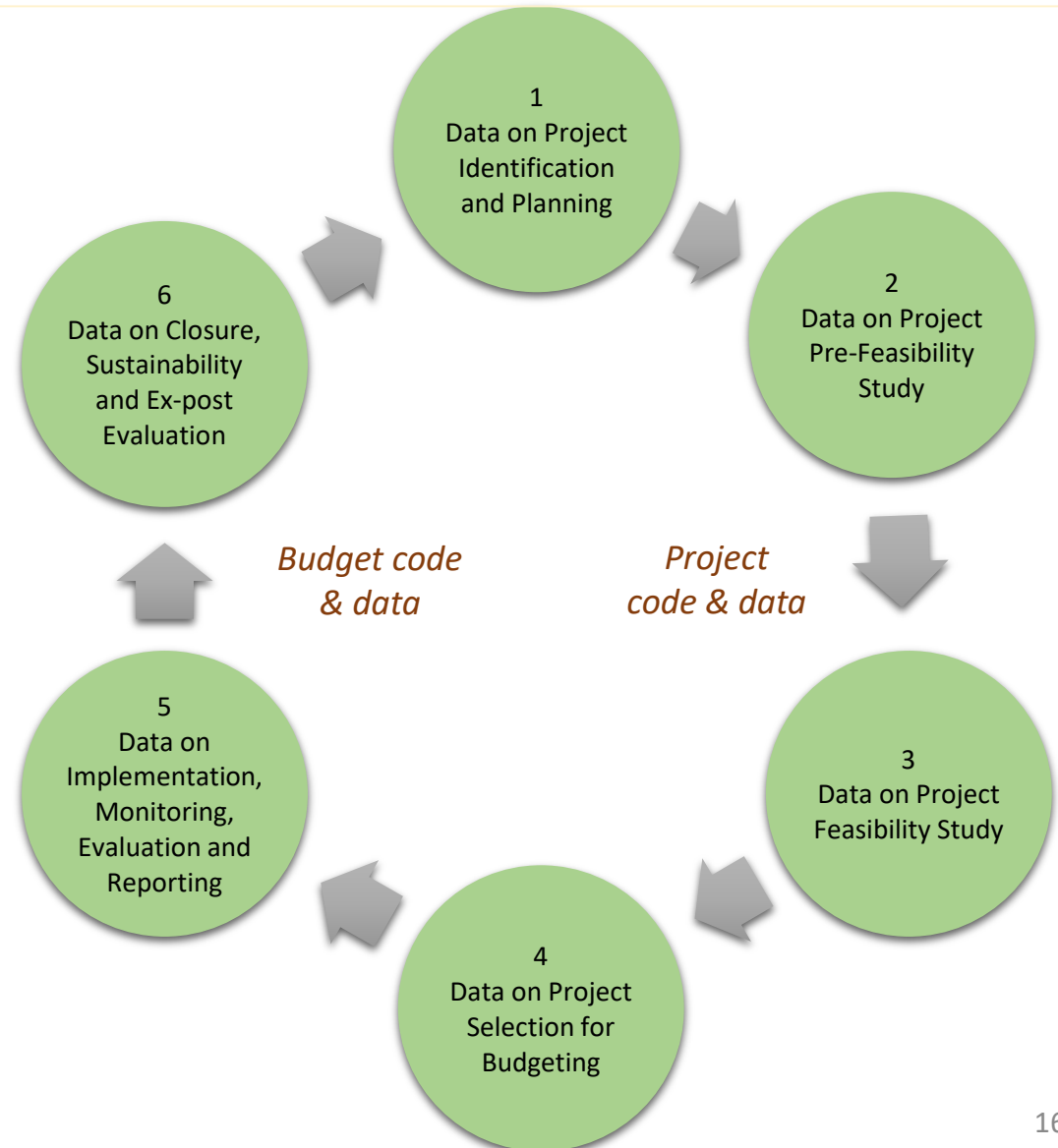
## *Rationalization/Prioritization Scheme and Steps*

- **Step 1: Identify non-performing or under-performing projects** based on objective criteria.
- **Step 2: Transfer the projects out of the budget to a 'rationalization/prioritization facility'**, which will be shown separately in the investment budget as a memorandum item.
- **Step 3: Conduct rigorous assessment** on the projects in the rationalization facility. The assessment criteria are as:
  - I. Strategic importance
  - II. Contractual obligation
  - III. Implementation progress
  - IV. Economic efficiency
- **Step 4: Decide options** for the projects in the rationalization facility including:
  - i. Full completion → re-enter to budget basket
  - ii. Down-scaling, down-costing, or re-scheduling to enable early completion
  - iii. Closure/cancel
- **Step 5: Implement the decided options**

# Developing PIMIS (Public Investment Management Information System)

Develop a comprehensive PIMIS to make the PIM function & IT systems support to those of the other major PFM systems

- The PIMIS should be a comprehensive, centrally accessible tool to support both the preparation, appraisal and management of investment projects by the line ministries and the review, approval, oversight and quality control of the PIP.
- The PIMIS should not duplicate data collection and validation functions of primary PFM/IFMIS systems but get connected to them.



# Challenges and Next Steps

## PIM for SOEs

- Governance arrangements for SOEs should be largely exercised through the state's role as shareholder. This interest is probably more appropriately exercised separately from PIM.
- Exceptions to the exclusion of SOEs investment from PIM may be where the government finances investment in pursuit of public policy objectives, which are outside the primary purpose of an SOE. This sort of investment is more appropriately considered within the scope of PIM.

## PIM for SNGs

- Constitutional issues may often prevent the national PIM system from extending to sub-national governments.
- However, even decentralized infrastructure provision requires coordination among levels of government.
- Different formats of coordination:
  - ✓ National planning and implementation / SNG maintenance,
  - ✓ National planning / SNG implementation and maintenance,
  - ✓ National goal setting / SNG planning and implementation & maintenance
  - ✓ Other

## Political economy of PIM

- Approaching PIM reforms through the lens of the political economy has enormous potential to increase the driving force of reforms, and to identify obstacles to reform with an eye to designing more appropriate institutional solutions.
  - ✓ who are the actors involved in *de facto* decisions over the PIM cycle?
  - ✓ what are their incentives, and how do they affect PIM decisions?
  - ✓ what are the processes and procedures, formal and informal, according to which these actors reach decisions for PIM?

Procurement and PIM

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Climate sensitive PIM

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Others

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# Many Thanks

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