

Keynote Speech for PIM Conference Seoul 2019

Public Investment Management for Decades to Come: Lessons from the Past and Challenges for the Future

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Introduction

Good morning, everyone.

It is a great honor and pleasure for me to deliver this **keynote speech** at this prestigious conference.

On behalf of the IMF, I'd like to extend our sincere gratitude to our hosts — **the Korean Ministry of Economy and Finance, the Korea Development Institute and the World Bank** —for giving us this opportunity.

We note that this conference marks **the 20th anniversary** of Korea's Public Investment Management reform initiated in 1999.

I'm looking forward to the productive discussions that will take place over the next two days, during which we can learn from **Korea's reform experiences** and discuss **challenges** for the future.

Quality of Infrastructure Investment

Now, let me take this opportunity to present the IMF's perspectives on public investment management, which we often refer to as **infrastructure governance**.

Specifically, I'd like to talk about (1) the importance of focusing our attention on **quality aspects** of public investment, and (2) the critical role **infrastructure governance** can play in improving quality.

Indeed, this is where the IMF has conducted **intensive work** in recent years.

Let me first tell you why we believe **quality** of public investment is an important policy issue.

As you would probably agree, **infrastructure investment needs** are large almost everywhere, with various organizations estimating their massive size. Such needs include not only new infrastructure projects, but also maintenance of existing assets.

Addressing such needs and overcoming infrastructure bottlenecks—such as **poor roads** and **unreliable electricity networks**—is a top priority for policy makers around the globe.

Good quality infrastructure is also important to mitigate the impact of **natural disasters** and **climate change**. Recent extreme weather events and their casualties observed in various countries underline the importance of good and resilient infrastructure once more.

Yet, many countries have **limited fiscal space** to address competing fiscal needs in light of increasing debt. Our data shows that public debt is at a **record high** – and has more than tripled in the last 20 years.

Therefore, many countries cannot increase their infrastructure spending as much as they would like.

So instead of **just spending *more***, countries have to **spend *better***.

And the key to spending better is to **improve the *quality of infrastructure investment***, so that every unit of money spent yields higher returns.

Of course, this is also important for those countries with a more favorable fiscal situation.

Our analysis shows that infrastructure spending is often **very inefficient**.

On average, countries lose about **30 percent of potential returns** on their investments.

With the same amount of money, while the most efficient country builds **10 kilometers of high-quality roads**, a less efficient country will build only **7 kilometers of roads**, maybe with lower-quality pavement.

Inefficiency can also take the form of **poor functioning of key infrastructure services** such as electricity which are not conducive to business activities.

Indeed, we've witnessed various **examples of failed investment projects** that caused significant waste of public resources across all income levels.

Therefore, it is clear that there is **a lot of scope for enhancing public investment quality**, and countries can expect significant benefits—more and better roads, schools and hospitals—if they focus on improving the quality.

Infrastructure Governance and the role of IMF

So what can be done? Here is where **infrastructure governance** comes in.

IMF analyses show that about **two-thirds of the efficiency gap** can be closed if countries adopt the right policies and strengthen their **infrastructure governance**.

“Infrastructure governance” means the institutions and frameworks for **planning, allocating, and implementing** infrastructure investment spending.

This includes, for example, **national investment plans, project appraisal and selection processes, and project monitoring frameworks**.

The critical importance of governance has now been **widely acknowledged in the international community**.

For instance, the G20 endorsed the “**G20 Principles for Quality Infrastructure Investment**” at the Osaka summit in June this year, which set out G20’s common strategic direction and high aspirations for quality infrastructure.

And **infrastructure governance** is embraced as one of the key principles.

For our part, the IMF actively engaged in the process of developing the G20 Principles.

Specifically, we have highlighted the role that governance can play to ensure that public investment can fully contribute to **strong growth and sustainable development in a fiscally sustainable manner**.

IMF also contributed to this global effort by preparing a **G20 note on Infrastructure Governance**, jointly with the OECD.

This note will help **put the G20 Principles into action** so that they can have an actual impact on the ground.

We stand ready to assist our member countries in strengthening their infrastructure governance.

A key tool is the IMF’s **Public Investment Management Assessment**, or **PIMA**, which my colleague will discuss in detail later today.

The PIMA is a framework for assessing infrastructure governance. It underlines the **strengths** of the existing system but also helps identify **weaknesses** and sets out an **action plan** for addressing them.

Since 2015, the IMF has carried out PIMAs in **58 countries**, covering all regions across all income levels, including **12 countries** in Asia.

In addition, we are also intensifying our efforts on the **analytical work**.

In the spring next year, the IMF will publish a new book titled “**Infrastructure Governance: From Aspiration to Action**”, which represents a culmination of our work in this area.

The book focuses on the **macroeconomic importance** of infrastructure governance, and also discusses **good practices** on various aspects of governance.

It contains contributions from **World Bank and OECD staff**, thus representing a common and joint effort by the international community.

It is targeted exactly at the kind of audience who are present in this room — **government officials, researchers, practitioners and others**, who have stakes in infrastructure investment. I hope that you will have a chance to read it once it is published.

Korea's PIM system

Now, let me change the topic and offer a few observations on **Korea's Public Investment Management system.**

Thanks to a series of reforms that have been implemented since 1999, the current Korean system seems to be equipped with notable strengths including:

- a rigorous **project appraisal** by the independent evaluation unit,
- a systematic **mechanism to re-assess projects' feasibility** in case of cost overrun.
- an **integrated framework** for assessing public-procured projects and PPPs,
- and last but not least, a well-resourced organization— **KDI PIMAC** —which enables actual implementation of these technically challenging tasks.

We believe that these features are well **in line with what we see as good practices.**

During our PIMA exercises, we've found many countries struggling to improve exactly these areas of public investment management.

Therefore, while there is no such a thing as a “one-size-fits-all” solution that applies to any countries, Korea's model would certainly provide a **good example** for those aspiring to improve their practices.

And in this regard, we would like to acknowledge PIMAC's efforts to share its knowledge and expertise in and out of the country.

In particular, PIMAC has participated in **two IMF regional seminars** this year, — one in **Hanoi** and the other in **Tokyo** — and shared Korea's PIM practices with participants from developing countries in Asia.

We highly **appreciate these valuable contributions**, and look forward to continued collaboration with the Korean authorities.

Of course, one should never be complacent about its achievement.

I'm sure that this seminar will be a good opportunity not only to celebrate the progress made, but also to discuss **remaining and emerging challenges** to further improve Korea's Public Investment Management practices.

Conclusion

Now, let me conclude.

Let me reiterate that the IMF stands ready to help its membership in this important area, in strong partnership with the international community.

I hope that this forum will help you share your experiences and views, and develop the reform actions needed to strengthen various aspects of Public Investment Management going forward.

Thank you for your attention.