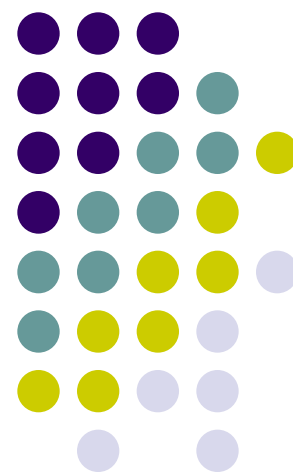


# Managing Public Investment

**Experiences of selected EU member states in managing transport infrastructure investments**

**World Bank  
Public Investment Workshop  
Istanbul, Turkey  
February 28, 2008**



# Objective and Coverage



1. Examines institutional practices in formulating and managing public investment programs in road and railway infrastructure
2. Builds on diverse country experiences:
  - EU case study countries
    - NMS: Latvia, Poland, Slovakia, Slovenia
    - Others: Ireland, Spain, UK
  - Other WB analytical work (outside EU study)
    - Kazakhstan, Ukraine, Russia, Serbia, Kosovo, Belarus, Albania
3. A pilot effort to:
  - understand key issues affecting public investment
  - identify potential areas for further investigation
  - bring attention to good practices within the EU
  - Highlight major challenges countries still confront.

# Why Focus on Investment Spending? Some Unique Features



- Contributions to long-term growth
- Requires medium term budgeting and accounting processes
- Volatility in spending – peaks and troughs with revenue flows
- Sometimes fragmented institutional responsibilities
- Specialized skills and systems for project monitoring, management, and cost containment
- Different (easier?) hurdles for requesting new funding
- Heavily impacted by public procurement systems

# Other Reasons to Focus on Investment Spending



- Huge inflows to budgets expected
  - EU structural funds will add 3-4% of GDP,
  - privatization proceeds,
  - natural resource revenues (e.g., Azerbaijan, Kazakhstan)
- Pressure to use it or lose it (EU funds)
- Public expectations created from natural resource wealth
- Challenge: Cost-effectiveness concerns are harder to make when budgets are running larger, larger surpluses
- Building capability within the public sector to plan, evaluate, and manage can have a high return on investment

# PFM Goals Translated into a Public Investment Context



- Level 1- Aggregate Fiscal Discipline : How much should we spend (including on investment projects), while maintaining long-term aggregate fiscal control?
- Level 2- Allocative Efficiency : How do we select the right projects in the right sectors to support the country's long-term strategic objectives?
- Level 3- Technical Efficiency : How do we assure that the projects initiated are implemented and operated in a manner that is efficient and effective – that achieve the intended results?

# Aggregate fiscal control (Level 1): How much to spend on public investment



## Key questions:

- Do national strategic and financial planning processes help provide guidance on how much to spend?
- What impact does availability of EU money (or privatization or natural resource revenues) have on the spending level? How much should it?
- What impact does the prospect of private financing have? When should it?
- How do unexpected increases or decreases in revenue affect the aggregate spending decision? (e.g., sudden cuts or new-found projects?)
- With what time horizon can/should investment spending be managed and planned? Is it consistent with medium/long term fiscal planning?

## Allocative Efficiency (Level 2): Achieving good project selection and good sectoral allocation decisions



### Key Questions:

- Does the strategic planning process guide the sectoral or intra-sectoral allocation? Do external organizations (and funding) have an influence on priority-setting?
- Who has the primary institutional responsibility to assure sound project selection?
- Are the tools and capacities available to adequately evaluate options? What factors affect the selection of projects? Are there any essential factors that should be given more weight?
- Are the relative priorities clearly and credibly reflected in medium term budget plans? Over what time horizon are investment priorities decided?
- Is maintenance of existing assets given appropriate weighting in decision making?

## Technical Efficiency (Level 3): Are the projects completed in an efficient and effective manner?



### Key Questions:

- What makes a ‘successful’ project? Are systems in place to measure good performance?
- Does the MoF have the information to adequately monitor project implementation? If not, what information is needed? Do any PFM practices contribute to poor project performance?
- Are there issues that should have been considered during project selection, but were not?
- How do procurement procedures affect outcomes, and what can be done about it?
- Is there a system to learn from past mistakes in project planning or implementation?



# Key Findings on 11 Areas of Public Investment Management



1. Role and impact of strategic planning
2. Budgeting for public investment projects -
3. Project appraisal and selection
4. Risk mitigation and project planning
5. Role of the MOF / External bodies

# Key Findings on 11 Areas of Public Investment Management



6. PPPs and off-budget entities
7. Procurement strategies
8. Project monitoring and accounting
9. Audits and ex-post review
10. Administrative context and management incentives
11. Capacity development



# Key Challenges

- Strategic planning is common, but it tends to be separated from medium term budget planning – resulting in wish lists
- Some countries create list projects in a 3-5 year public investment program, but these often are disconnected from annual budget realities
- Although projects are multi-year, funding for projects is typically decided annually, leading to costly disruptions
- Cost-benefit analysis is conducted to comply with requirements, but may not have an impact on project selection and the quality is not verified.
- Risk mitigation is not an active part of project planning in the NMS
- The MOF role tends to be reactive, and may not have technical expertise to challenge project justification from line ministries.



# Key Challenges

- Projects are identified for PPPs without adequate assessment of the benefits and risks
- Ineffective procurement strategies have been used, leading to higher project costs
- MOF is unable to monitor both financial and non-financial progress on a timely basis
- Ex-post evaluation is rarely done, so lessons from past projects are not incorporated.
- Administrative incentives focus on compliance with regulation, rather than achieving value for money
- Training for project appraisal and project management is generally weak and ad hoc.



# Good practices

- A credible medium term budget envelope to guide strategic planning
- Continual development of cost-benefit analysis techniques, including requirements for business cases, risk management
- Procedures to evaluate projects from a value-for-money perspective
- Use of external experts to review major strategies or projects
- Multi-year budget commitments to facilitate project management
- Systems of checks and balances to confirm compliance with guidance.
- More diversified use of procurement strategies depending on project needs.
- Deliberate effort to develop and retain some key skills in the public sector.