Managing Public Investment

Experiences of selected EU member states in managing transport infrastructure investments

World Bank

Public Investment Workshop

Istanbul, Turkey

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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 form 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.