

Improving Public Investment Management in the Caribbean

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Outline of the Presentation

The main aim of this session is to show why public investment is important; present the key steps in public investment management; and discuss how to improve capital spending outcomes.

Topics covered:

- I. The importance of public investment
- II. Key steps in public investment management
- III. Public Investment Management Assessment (PIMA)
- IV. Key takeaways

I. The importance of public investment

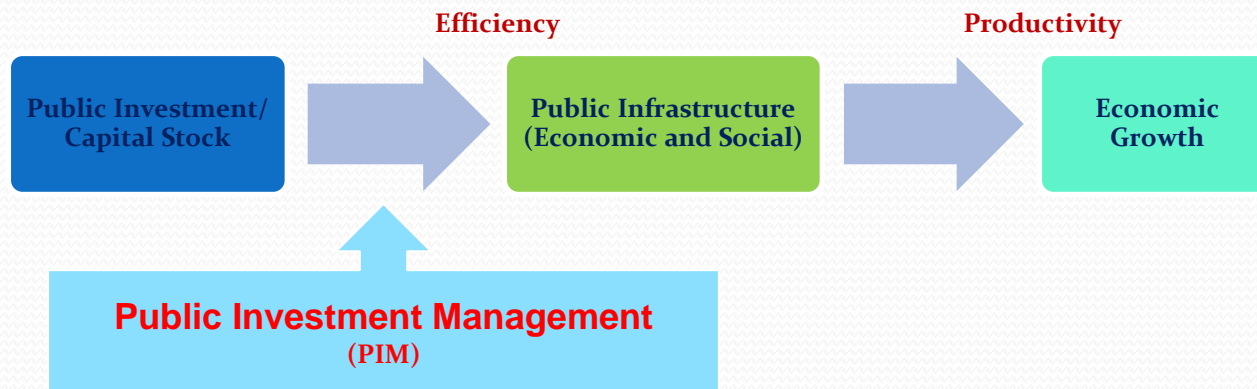
Challenges to infrastructure development in Caribbean

- Islands are small and unable to exploit economies of scale
- A high proportion of public sector expenditure is used for recurrent expenditure, especially wages and salaries
- Exposure to natural disasters and climate change requires significant ex ante investment to harden infrastructure
- Inadequate infrastructure maintenance
- Challenges in accessing sufficient and appropriate financing
- High political uncertainty

I. The importance of public investment

Role of public investment management in economic growth

- The efficiency of public investment has important impact on growth.
- The efficiency of public investment is linked with the strength of PIM Institutions.



II. Key steps in public investment management PFM perspective

Planning

- Sustainable levels of investment across the public sector?

Allocation

- Investment to the right sectors and projects?

Implementation

- Projects on time and on budget?

II. Key steps in public investment management

Challenges in public investment management cycle

1. Planning

- Fiscal
- National and sector planning
- Coordination

2. Allocation

- Cost implications are multi-year
- Separation of project appraisal from selection
- Project selection often highly political

3. Implementation

- Funding of approved projects not always available
- Avoiding the embarrassment of failed projects
- Tendency to ignore capital stock

III. Public Investment Management Assessment (PIMA)

Objectives of a PIMA

PIMA is a diagnostic tool for evaluating the quality of a country's public investment management practices.

- Trends in public investment and the value of the public capital stocks;
- The efficiency of public investment in improving infrastructure coverage and quality;
- The quality of public investment management at each stage of the public investment cycle.



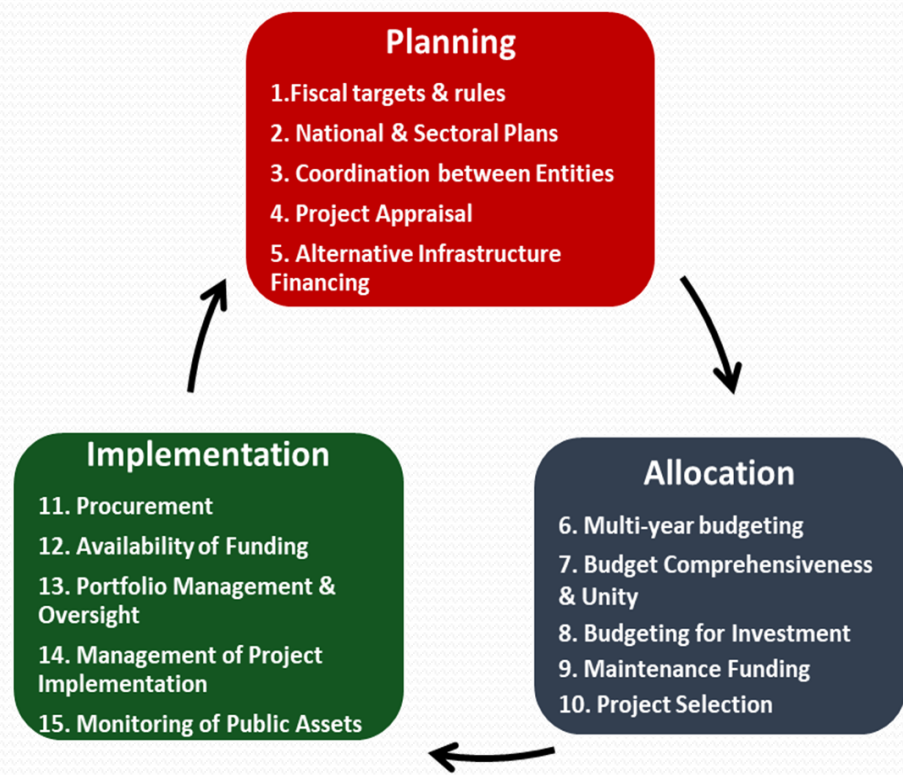
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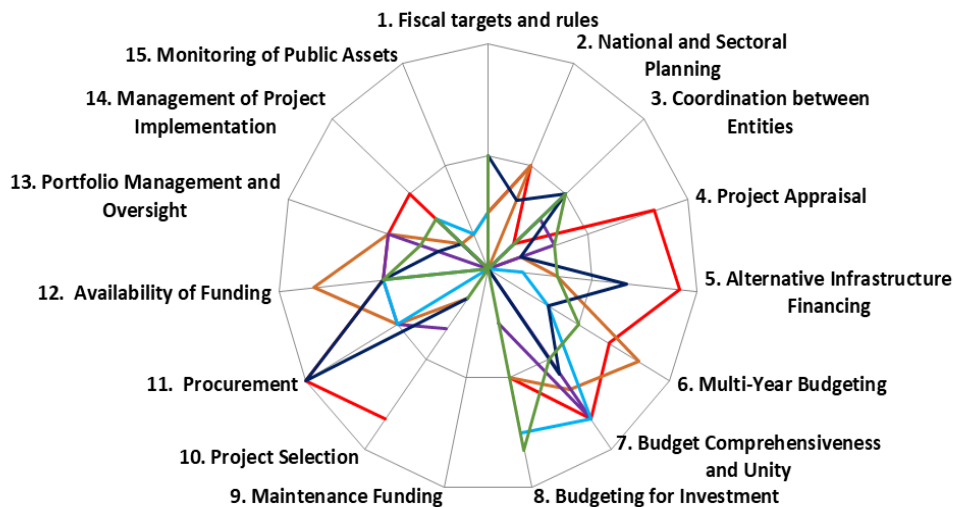


III. Public Investment Management Assessment (PIMA) PIMA Framework

- *Evaluates 15 key institutions in 3 phases of the PIM process*
- Identifies strengths and weaknesses of a country's public investment management practices
- Recommends priorities for reform



PIMA scores Small Island States



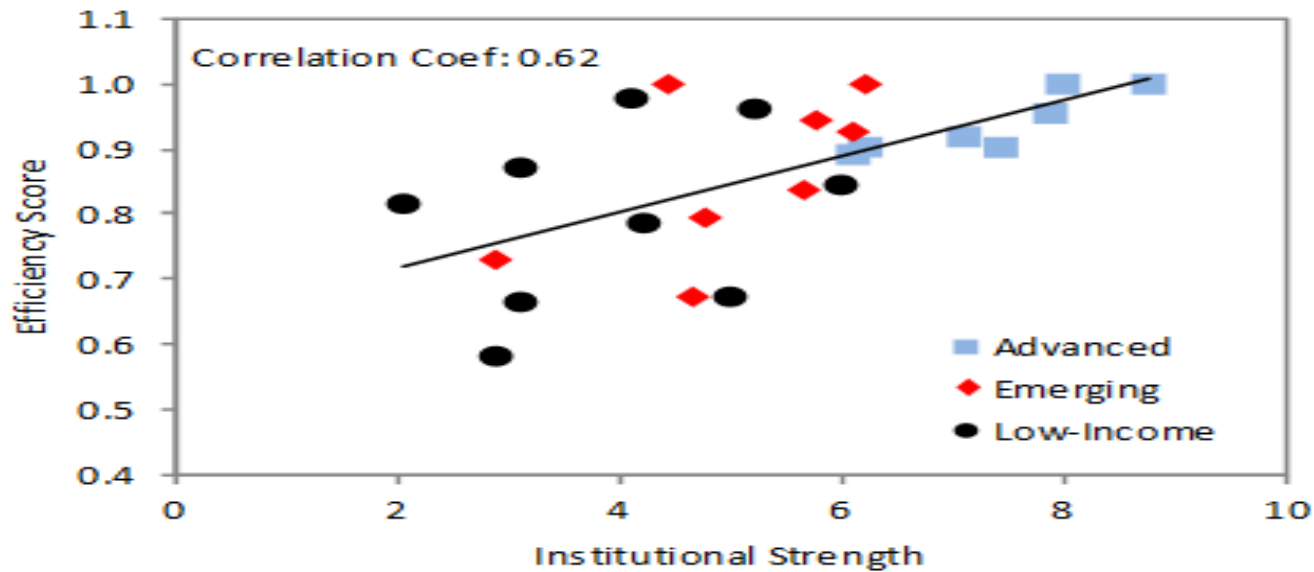
- Weaknesses in project selection and appraisal and in project management and monitoring
- Systems for planning sustainable levels of public investment are generally weak
- Reforms to be prioritized
 - Strengthen fiscal institutions
 - Rigorous project appraisal and selection
 - Mechanisms to oversee project implementation
 - Report government assets

III. Public Investment Management Assessment (PIMA)

PI Performance: Strong Institutions are linked to higher efficiency

Higher PIMA scores associated with more efficient investment...

PIMA Score vs. PI Efficiency

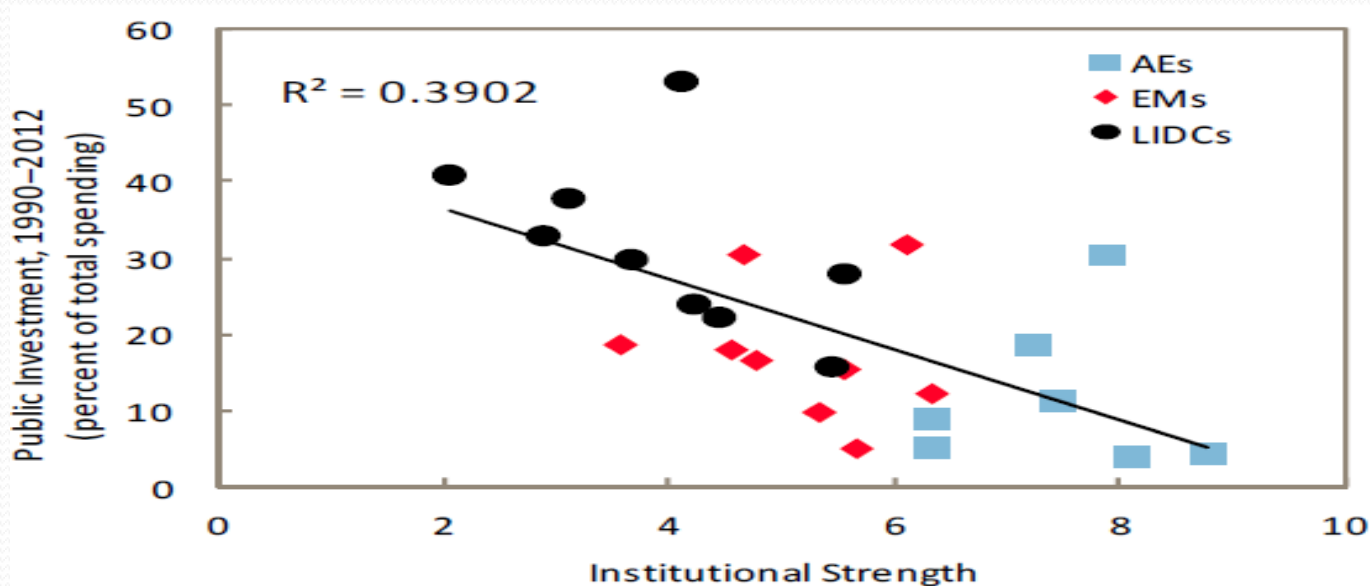


III. Public Investment Management Assessment (PIMA)

PI Performance: Strong Institutions are linked to lower investment

Stronger PIM institutions associated with less overall investment...

PIMA Score vs. Public Investment Level



III. Public Investment Management Assessment (PIMA) Presentation of Results

Institutional strength: this assesses the design of the processes, laws, systems, and managerial tools implemented from a design point of view.

Effectiveness: assesses how well an institution operates in practice and whether it achieved the envisaged results. Effectiveness is assessed qualitatively, based on evidence (e.g., data, IMF and other international institutions assessments, audit reports).

These generate a heat map: Green, yellow and red for high, medium and low, respectively

IV. Key takeaways

Public investment supports the delivery of key public services, connects citizens and firms to economic opportunities, and can serve as an important catalyst for economic growth.

However, the economic and social impact of public investment critically depends on its efficiency

Susceptibility to natural disasters and climate change implies need to undertake significant ex ante investments to harden infrastructure.

Improvements in PIM could significantly enhance the efficiency and productivity of public investment.

PIMA diagnostic tool can be instrumental in identifying key reform areas

Thank you!



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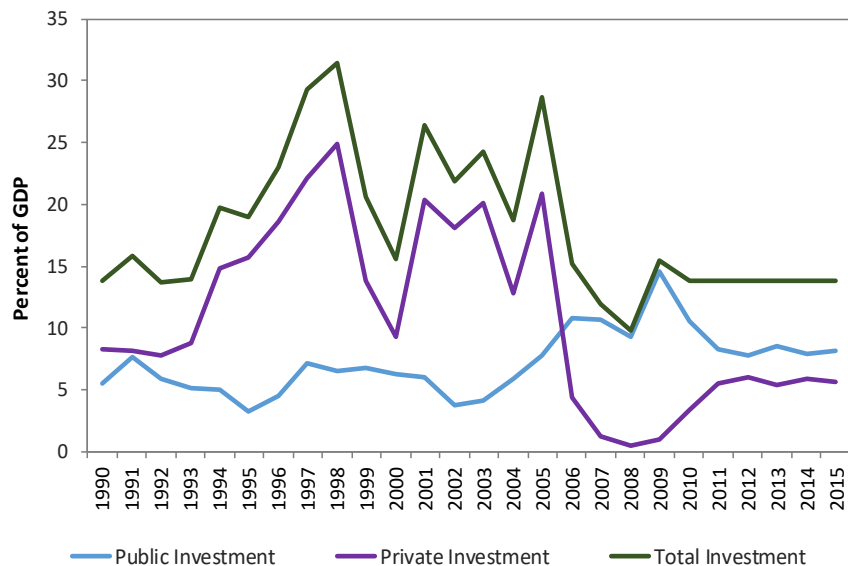
Additional Slides



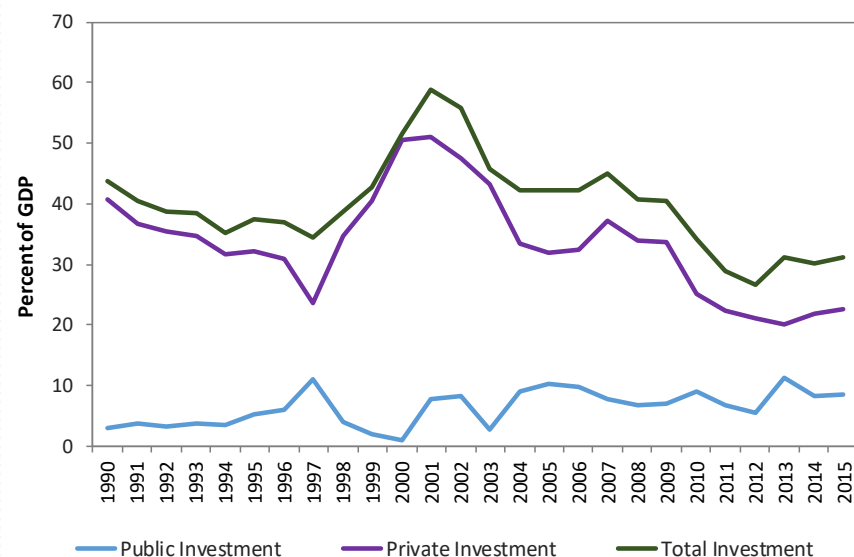
II. Spending inputs

Looking at Investment Flows: Public vs. Private Investment

Trinidad and Tobago
(2005 PPP\$-adjusted, percent of GDP)



St. Kitts and Nevis
(2005 PPP\$-adjusted, percent of GDP)

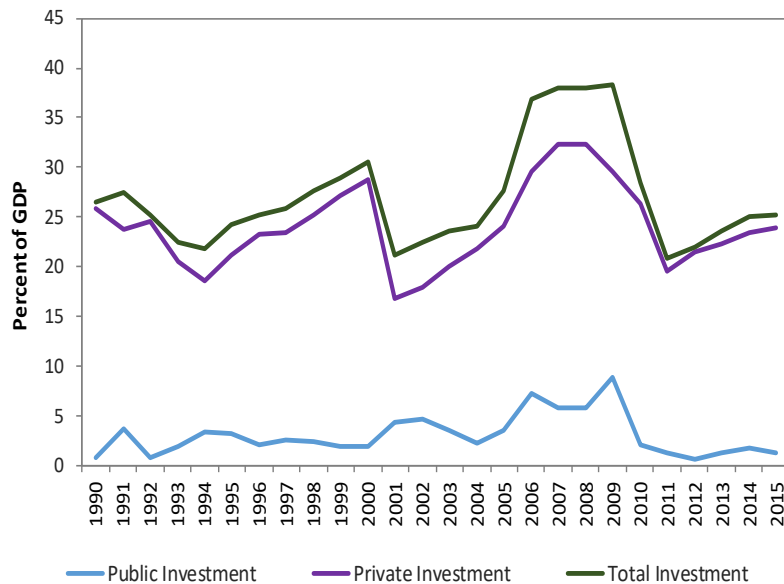


Source data: WEO database and staff calculations. PPPs-adjusted refers to power-purchase-parity adjustment to make figures comparable across time and countries.

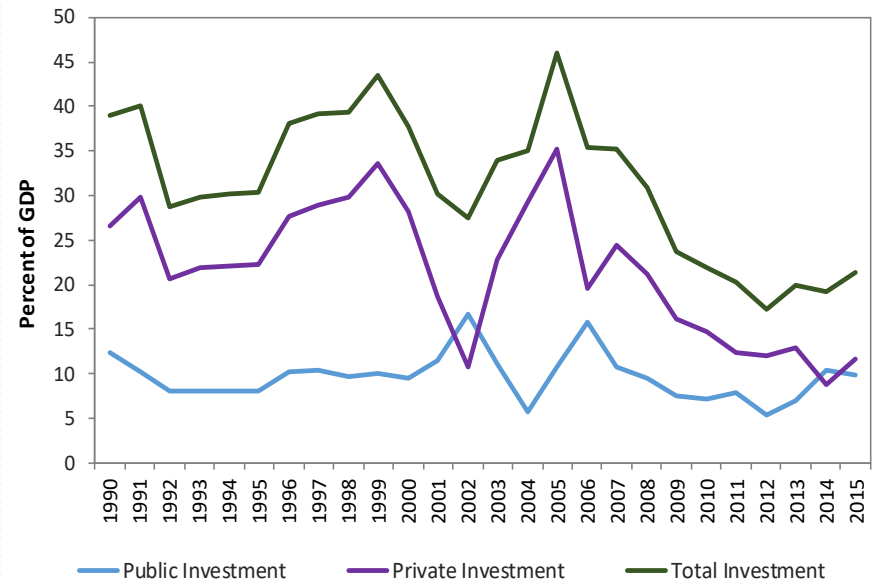
II. Spending inputs

Looking at Investment Flows: Public vs. Private Investment

Antigua and Barbuda
(2005 PPP\$-adjusted, percent of GDP)



Grenada
(2005 PPP\$-adjusted, percent of GDP)

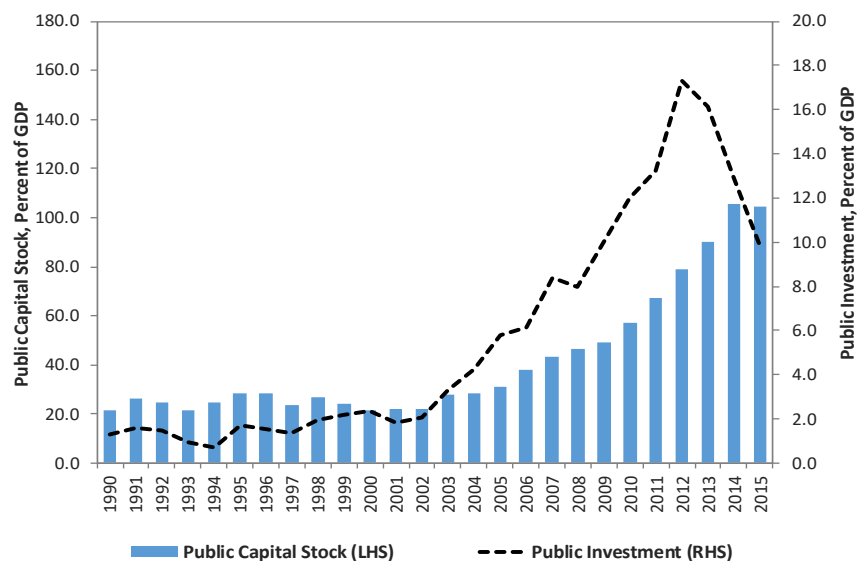


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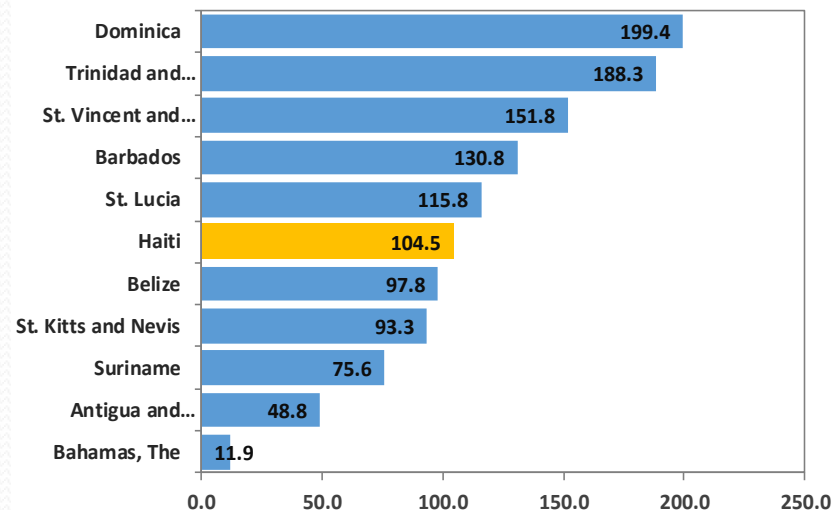
II. Spending inputs

Looking at Capital Stock: Levels and Trends in Percent of GDP

Haiti: Public Investment and Capital Stock
(In percent of GDP, nominal)



Caribbean countries: Public capital stock
(In percent of GDP, nominal), 2015



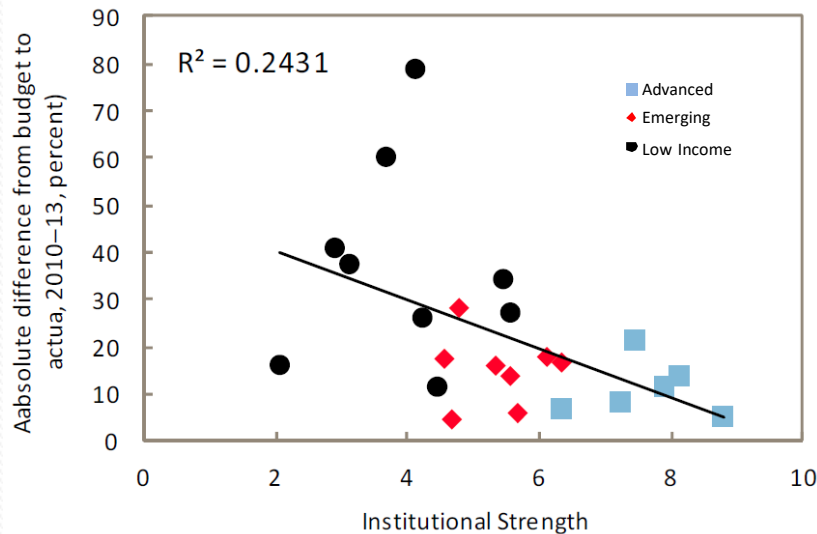
Source data: WEO database and staff calculations. PPPs-adjusted refers to power-purchase-parity adjustment to make figures comparable across time and countries.

IV. Public Investment Management Assessment (PIMA)

PI Performance: Strong Institutions also linked to higher credibility of investment and lower corruption

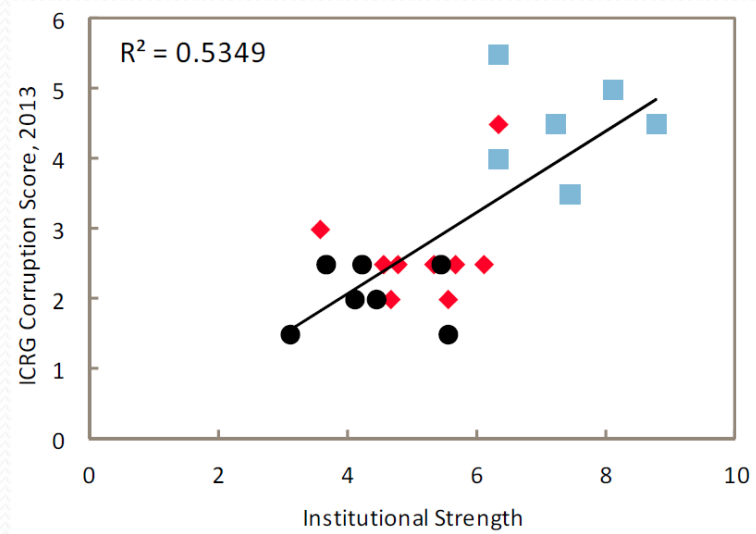
Stronger PIM institutions associated with more credible capital budgets...

PIMA Score vs. PI Over/Under Execution



...and lower perceptions of government corruption.

PIMA Score vs. Government Integrity



IV. Public Investment Management Assessment (PIMA)

PIMA questionnaire (extracts)

5. Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?

5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.
5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.

IV. Public Investment Management Assessment (PIMA)

Presentation of Results

14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?	1,33	Capital project management is integrated in regular work program and budget execution, with little attention to specific capital project issues.	1,33	Project fragmentation and lack of specific procedures for capital project management limits effectiveness.
Do ministries/agencies have effective project management arrangements in place?	2	Line managers are responsible for projects and implementation plans are not required prior to approval.	1	Fragmentation in annual allocations undermine effective project management and there is no clear project owner function.
Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	1	No specific rules for project adjustments	1	No rules that focus specifically on capital projects.
Are ex post audits of capital projects routinely undertaken?	1	Capital projects are usually not subject to ex-post audit.	2	Some aspects of project implementation are covered in regular audits and referred to in audit reports, but no systematic follow-up.

Example of Summary Assessment – Heat Map

Phase / Institution		Institutional Design	Implementation	
A. Planning	1	Fiscal targets and rules	Good: There is a sound fiscal responsibility framework, based on a debt limit; borrowing may only be used to finance investment.	Good: The fiscal framework has served its purpose well, though the debt to GDP ratio is now close to the legal limit.
	2	National and sectoral planning	Medium: Strategies include broad estimates of aggregate and sectoral investment plans; Some projects identified outside these plans.	Medium: Some unplanned projects get precedence in funding; targets, and indicators not always SMART.
	3	Coordination between entities	Medium: Conditional capital transfers discussed by high-level CG/SNG committee, but not investment plans.	Medium: Capital transfers not timely, and risks not comprehensively captured.
	4	Project appraisal	Low: No standard methodology and central support for appraisals; MoF circulars lack detailed guidance	Medium: In most cases, analysis is absent or weak, but varies depending on sector and source of funding, thus affecting decision-making.
	5	Alternative infrastructure financing	Medium: Framework exists for supporting competition in most sectors; public corporation (PC) investment plans are overseen by boards of management.	Medium: PC performance may only be evident in their annual financial statements. Regulatory agencies have been sued for not performing their functions effectively.
B. Allocation	6	Multi-year budgeting	Good: MTBF includes 3-year projections of capital spending; ceilings for years 2 and 3 are not binding. Data on full cost of development projects are published.	Low: MTBF is not a credible basis for budget planning. Ceilings are revised frequently, and the variance between budget allocations and outturns exceeds 100 percent in some years.
	7	Budget comprehensive-ness and unity	Good: All capital projects are shown in the budget; the process of preparing the budget is unified, using a program classification.	Medium: About one-third of capital spending is undertaken by extra-budgetary entities, but information is disclosed in the budget.
	8	Budgeting for investment	Medium: Capital projects receive some protection in the budget; in-year transfers from capital to recurrent are prohibited.	Medium: In principle, ongoing projects receive priority, but this is undermined by shortages of funds and disbursement delays.
	9	Maintenance funding	Medium: There is no standard methodology for estimating maintenance requirements and costs across government, but some sectors (e.g., roads) operate quite advanced practices.	Low: Routine maintenance is heavily under-funded – less than 0.5 percent of total development spending - and vulnerable to in-year cuts if funding pressures arise.
	10	Project selection	Low: Ineffective central reviews reflect lack of capacity and dominant role of politicians in decision-making. Lack of standard criteria and pipeline of projects.	Low: An expert panel provides the recommendation for project selection, but its decisions are subject to administrative and political review.
C. Implementation	11	Procurement	Medium: New procurement law is in place. Most tenders go through an open tender, but the eProcurement module is not used fully.	Low: There is significant use of non-competitive methods. Only limited procurement information and statistics are published.
	12	Availability of funding	Medium: New automated cash forecasting module is being used and funds are released quarterly. New donor bank accounts must be opened with the central bank.	Low: Current cash forecasting practices are basic, significantly so in SNGs. Many accounts are held with commercial banks. Donor funds at central bank are not part of the TSA.
	13	Portfolio management & oversight	Medium: MDAs manage projects, but central oversight is not systematic. There are restrictions on reallocating project funds. Ex-post reviews are not independent.	Medium: Utilization of project database averages only 30 percent, and there are problems with the quality of data on many development projects.
	14	Management of project implementation	Medium: Most major projects have dedicated project managers. Detailed implementation plans are prepared after budget approval. Annual financial audits undertaken by KeNAO.	Medium: There are many instances of significant project variations where permitted by the donors under their procurement rules.
	15	Monitoring of public assets	Low: Government entities generally do not maintain registers of their infrastructure or nonfinancial assets; estimates of depreciation are not included in financial accounts.	Low: Public corporations include all assets in their financial accounts, but most public sector assets fall under general government.