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.
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

Planning
1. Fiscal targets & rules
2. National & Sectoral Plans
3. Coordination between Entities
4. Project Appraisal
5. Alternative Infrastructure Financing

Implementation
11. Procurement
12. Availability of Funding
13. Portfolio Management & Oversight
14. Management of Project Implementation
15. Monitoring of Public Assets

Allocation
6. Multi-year budgeting
7. Budget Comprehensiveness & Unity
8. Budgeting for Investment
9. Maintenance Funding
10. Project Selection
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

![Graph showing the relationship between PIMA Score and Public Investment Level](image)
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!
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. PPP$-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)

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

...and lower perceptions of government corruption.

PIMA Score vs. PI Over/Under Execution

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

<table>
<thead>
<tr>
<th>14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?</th>
<th>1,33</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital project management is integrated in regular work program and budget execution, with little attention to specific capital project issues.</td>
<td>1,33</td>
</tr>
<tr>
<td>Project fragmentation and lack of specific procedures for capital project management limits effectiveness.</td>
<td>1,33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do ministries/agencies have effective project management arrangements in place?</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line managers are responsible for projects and implementation plans are not required prior to approval.</td>
<td>1</td>
</tr>
<tr>
<td>Fragmentation in annual allocations undermine effective project management and there is no clear project owner function.</td>
<td>1</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>No specific rules for project adjustments</td>
<td>1</td>
</tr>
<tr>
<td>No rules that focus specifically on capital projects.</td>
<td>1</td>
</tr>
</tbody>
</table>

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<tr>
<th>Are ex post audits of capital projects routinely undertaken?</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital projects are usually not subject to ex-post audit.</td>
<td>2</td>
</tr>
<tr>
<td>Some aspects of project implementation are covered in regular audits and referred to in audit reports, but no systematic follow-up.</td>
<td>2</td>
</tr>
</tbody>
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## Example of Summary Assessment – Heat Map

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