



Infrastructure Governance

From Aspiration to Action

Gerd Schwartz

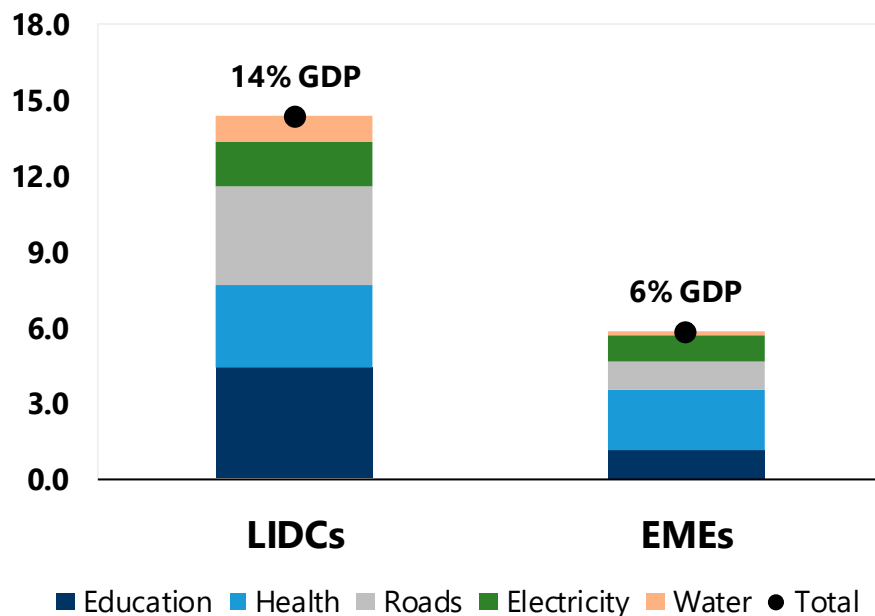
Fiscal Affairs Department, IMF

October, 2018



Needs in physical infrastructure assets are massive, but human capital needs are also large

Marginal annual increase in physical assets and human capital



Annual increase in physical infrastructure assets and human capital relative to current trend^{1/}

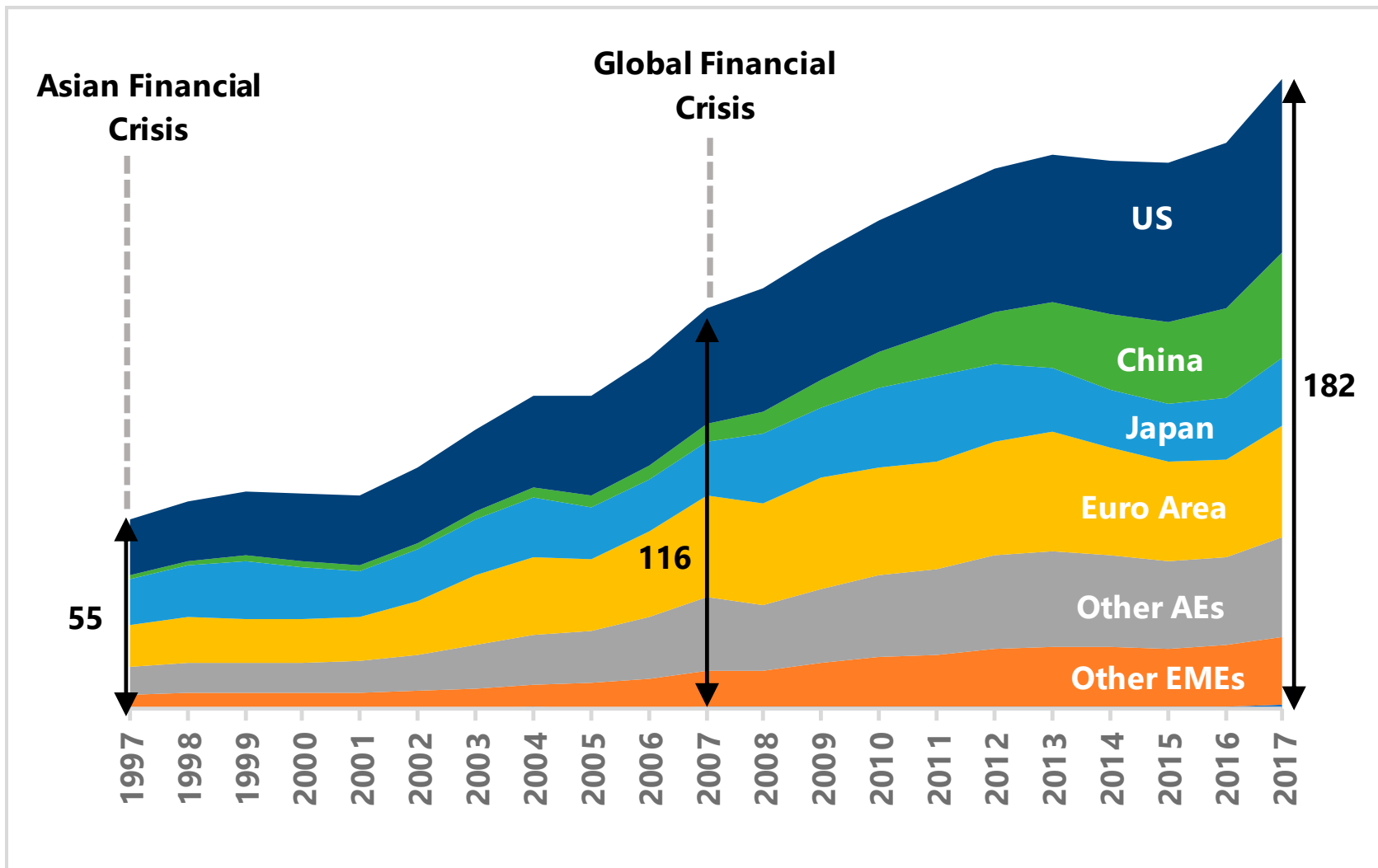
- **6 % of GDP in EMEs**
- **14% of GDP in LIDC**

Data source:

1/ IMF estimates for LIDC and EMEs countries in five sectors: human capital in education and health, and physical capital in roads, electricity and water.

Meeting these needs in a fiscally sustainable way will not be easy

Global debt breaking record: \$182 trillion



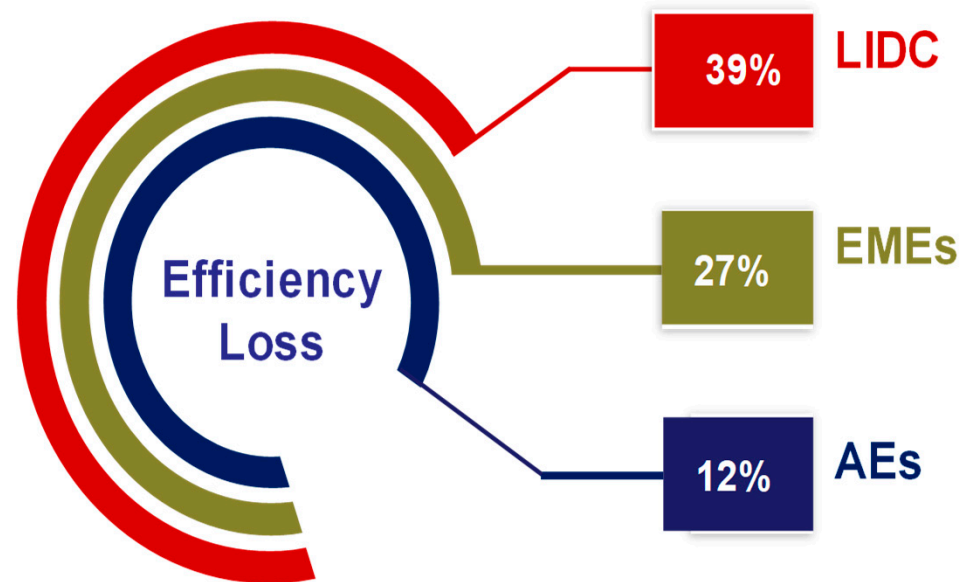
Source: IMF Global Debt Database (2018), preliminary estimates. * Total debt is the sum of public and private debts.

Spending more needs to go hand in hand with spending better

Meeting infrastructure needs

- Revenue mobilization
- Sustainable private financing
- Increase efficiency through better governance

Public Investment Efficiency Losses

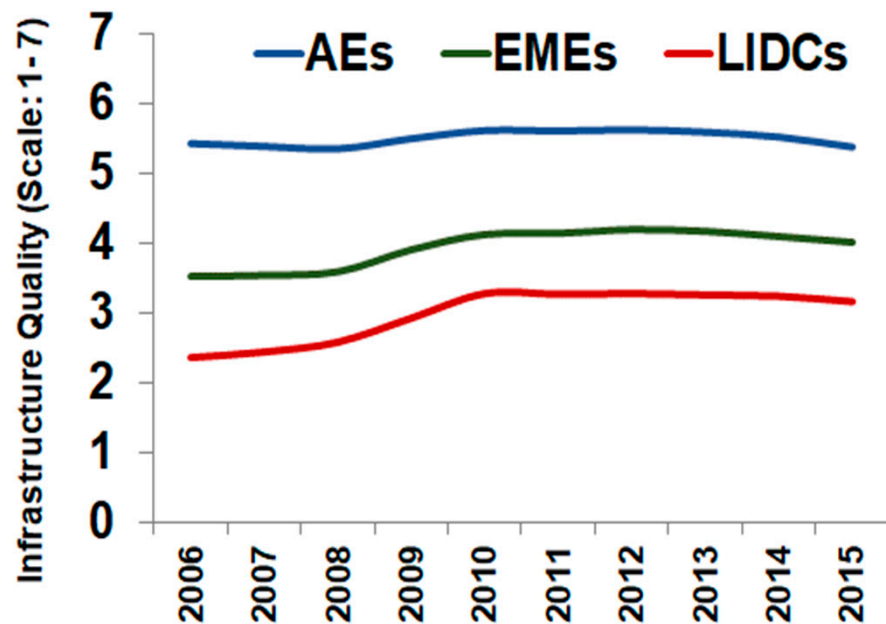


Source: Making Public Investment More Efficient, 2015, IMF.

Large inefficiencies are reflected in disparities in quality and access to infrastructure

Infrastructure Quality

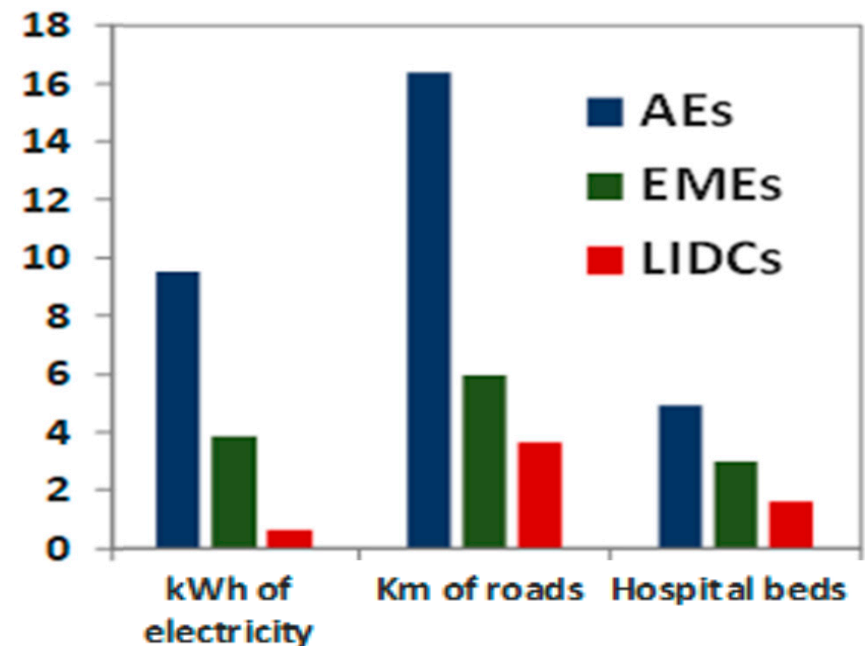
(Perception Indicators)



Source: World Economic Forum (2017)

Physical Access to Infrastructure

(per 1000 people, most recent year available)



Source: Making Public Investment More Efficient, 2015, IMF. Database updated 2017

Need for stronger infrastructure governance recognized in global principles

2012 OECD

Principles for Private Sector Participation in Infrastructure

2014 WB “The Power of Public Investment Management”

Transforming Resources into Assets for Growth

2015 UN Sustainable Development Goals (Infrastructure)

2030 Agenda for Sustainable Development

2016 Japan G7 Presidency Ise-Shima Principles

Promoting Quality Infrastructure Investment

2017 OECD “Getting Infrastructure Right”

Framework for Governance of Infrastructure

2018 Argentina G20 Presidency

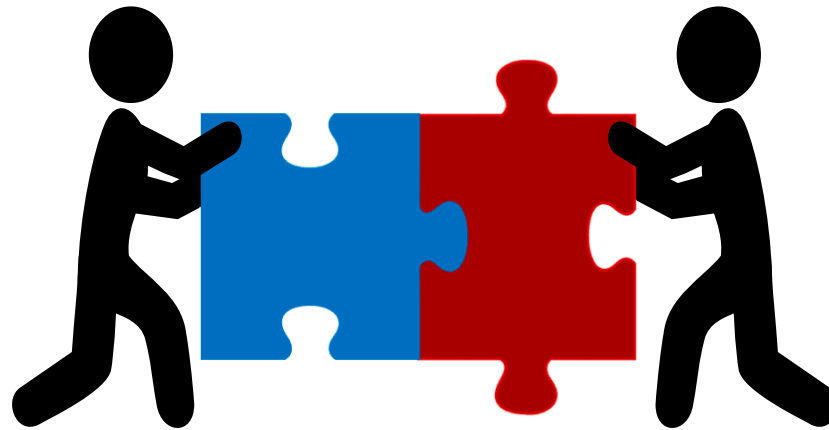
Infrastructure as Asset Class



How do we put infrastructure governance principles into action?

- **Assessing where countries stand relative to these principles**
- **Providing follow-up support and capacity building**
- **Improving coordination**

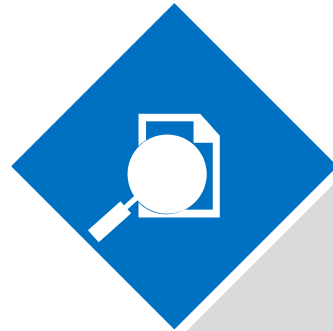
Need for a comprehensive, practical, accessible framework that facilitates coordination



PIMA could serve as an overarching global standard for infrastructure governance

Comprehensive

- Macro-fiscal framework
- Investment planning
- Medium-term budgeting
- Project management



Practical

- Concrete recommendations
- Tailored to country context
- Sequenced prioritized action plan



PIMA



Accessible

- Effective summary charts
- Peer comparison
- Clear distinction among design, effectiveness and importance

Facilitates coordination

- Catalyst for follow-up support
- Improve coordination among development partners to achieve results



Comprehensive framework for assessing infrastructure governance



Comprehensive

PLANNING

1. Fiscal principles or rules
2. National & sectoral plans
3. Coordination between entities
4. Project appraisal
5. Alternative infrastructure provision

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. Maintenance funding
9. Budgeting for investment
10. Project selection

CROSS CUTTING ENABLING FACTORS

- Legal and institutional frameworks
- Capacity
- IT systems

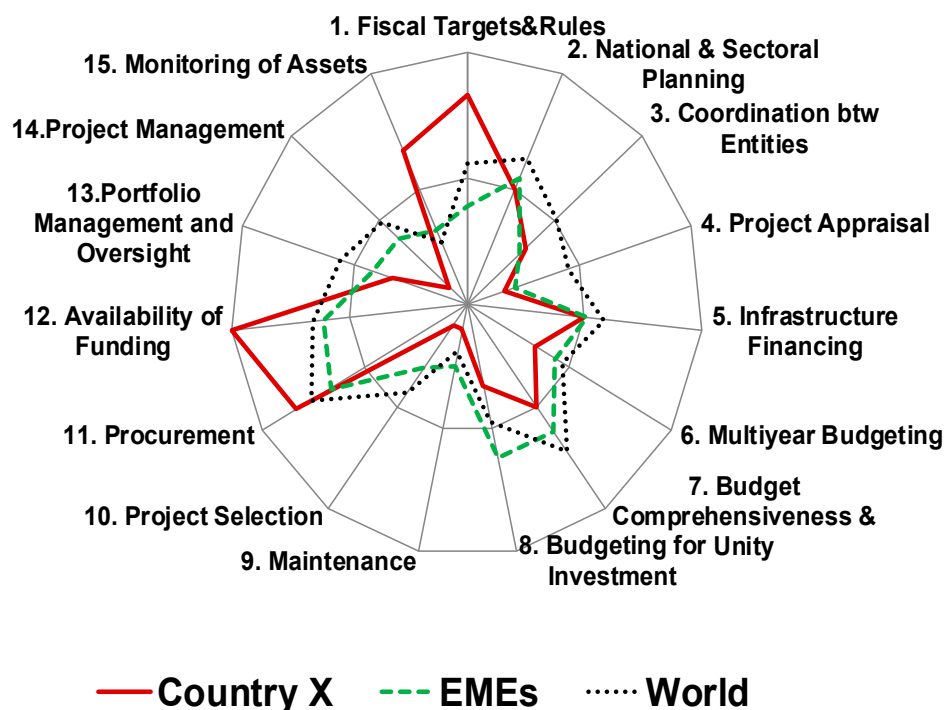
Accessible and effective communication of findings by stakeholders

Accessible



“Spider charts”:
benchmarking with peers

“Heatmap”:
Design vs Effectiveness
Key priority actions



Phase / Institution		Institutional Strength	Effectiveness
A. Planning	1 Fiscal rules	Strong: Debt rule since 2009, deficit rule in effect since 2014, with an investment clause and automatic adjustment mechanism.	Medium: In 2014, the deficit exceeded the ceiling by 0.4 percent of GDP within the margin, despite under execution of capital spending.
	2 National and sectoral planning	Good: National development under preparation; multiplicity of sectoral strategies with some performance measures.	Low: Around 80 sectoral strategies are in place, without clear coordination and incomplete costing.
	3 Central-local coordination	Medium: Debt limits constrain debt for municipalities; information for municipalities timely; no rule-based allocation of capital transfers.	Medium: In 2014, optimistic projections of own revenues of 6 million result in corresponding under execution of capital spending for municipalities.
	4 Public-private partnerships	Good: PPPs guided by strategy within strong institutional and legal framework, but not included in MTBF or budget documentation.	High: Existing PPPs capital stock account for 1.2 percent of GDP, but several projects planned. Fiscal risks currently low.
	5 Regulation of infrastructure companies	Good: Regulatory framework supports competition; prices set by independent regulators; weak financial oversight assessment of fiscal risks of POEs.	Medium: Challenges to regulators' independence. Public investment of POEs account for 0.1 percent of GDP, but fiscal risks not assessed.
B. Allocation	6 Multi-year budgeting	Good: Multi-year ceilings of capital spending are published based on not published projections of full cost of capital projects, but not binding.	Low: There are large discrepancies between MTBF ceilings and budget allocations (22 percent for n+2).
	7 Budget comprehensiveness	Medium: Budget incorporates loans and co-financed donor funding, but not externally financed grants and PPPs.	High: Externally financed projects not in the budget less than 3% of total capital spending; extra-budgetary capital spending is insignificant.
	8 Budget unity	Good: Budgets disclose capital and current appropriations in a single document in line with GFS, but project specific information is not disclosed.	Low: Auditor General qualified the 2014 financial statements because of 5 percent misclassifications of current as capital spending.
	9 Project appraisal	Medium: The methodology is comprehensive; but results not published and limited risk analysis.	Medium: MoF and BOs lack resources to undertake the required analysis.
	10 Project selection	Medium: Most project selection carried out by BOs, broadly in line with criteria in PIP Manual; but role of MoF weak and no legal basis.	Low: Weak and fragmented decision making on project prioritization and selection contributes to the 45 percent efficiency gap.
C. Implementation	11 Protection of investment	Low: Projects appropriated on annual basis only, no restrictions on virements, and restricted carryovers.	Medium: Average under execution of the annual budget was 10 percent, in line with regional average.
	12 Availability of funding	Good: Cash flows planned quarterly and generally released in time, but some grants outside TSA.	Medium: 1.1 percent of capital spending is in arrears, but total arrears are 2 percent of GDP in 2014.
	13 Transparency of execution	Medium: Procurement law in line with internet standards; quarterly monitoring; limited ex post audit of projects.	Low: Court proceedings limit ex post audits of projects to donor-funded projects.
	14 Project management	Medium: Major projects have project managers; adjustment rules generally in place; no ex post reviews.	Medium: In 2012 and 2013, around one fourth of the projects had delays.
	15 Assets accounting	Good: Nonfinancial assets regularly surveyed, depreciated and reported annually.	Medium: Poor data quality, e.g. mismatch of between capital spending and stocks of 33 percent.

Practical recommendations and key priority actions



A sequenced action plan

Recommendations and Actions	FY16/17	FY17/18	FY18/19	Responsibility	Coordination
A. Sustainable Public Investment Planning					
Recommendation 2: Provide a more comprehensive statement of the government's development strategy for public investments in new and updated strategic documents					
Provide in Vision 2030 a consistent overview of the government's main strategies and investment priorities, with clear prioritization and linkages between sectors and projects.	→			Prime Minister Office	
Identify in the National Strategy for Land Use suitable sites for the different initiatives and projects, and provide a basis for the strategic acquisition of land.		→		Ministry of Lands	
Update sector strategies to provide a comprehensive description of priority projects with indicative estimates for costs and expected outputs.			→	Sector Ministries	WB

Recommendations and Actions	FY16/17	FY17/18	FY18/19	Responsibility	Technical Assistance
A. Sustainable Public Investment Planning					
Recommendation 1: In the near term, improve the quality of strategic planning by enhancing the current documents.					
Expand government long-term strategies and investment priorities.				MoFED/Sector Ministries	
Provide in the PSIP a clear description of major investment projects together with a reference to overarching policies and priorities.				MoFED/Sector Ministries	
For major projects, include in the PSIP a detailed reconciliation between investment estimates in the previous PSIP and the actual spending, and describe the impacts on project implementation.				MoFED	FAD/AFS or Development Partners
Means of Verification: Review of PSIP					

Recommendations and Actions	FY16/17	FY17/18	FY18/19	Responsibility	Technical Assistance
Outcome 5: Oversight role of the Minister of Finance in assessing exempted PPP projects strengthened.					
Increase the role of the BOT Project Unit in checking if value for money, contractual risk sharing agreements, and budget affordability is retained during the operational stage of PPP projects.				MoFED	
Compile and report in an annex to the budget documents data on existing PPP contracts, including: investment by PPP companies (regardless of whether they take the form of BOT or other type of PPP, and whether they are classified as public or private); long-term cash-flow forecasts of gross costs and revenues of PPP companies and their associated present value; estimates of government's future payments to PPP companies and their associated present value; assessment of the risks associated with PPP contracts (e.g. explicit guarantees, traffic risks, force majeure, etc.)				MoFED	FAD/AFS
Means of Verification: HPC minutes documentation					

Catalyst for stronger coordination



Facilitates coordination



Sri Lanka

WB/IMF country programs

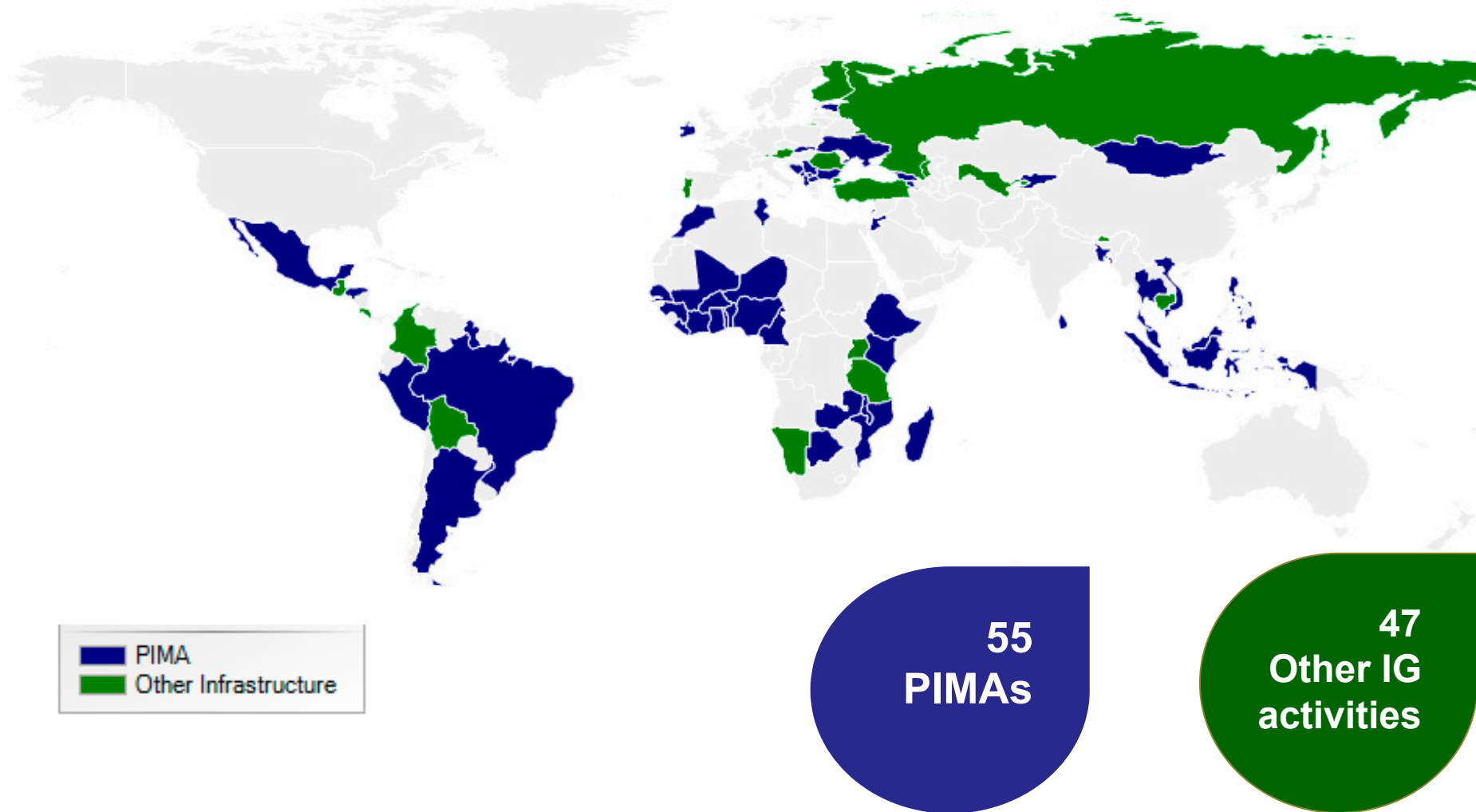
Maldives

WB's PFM Systems
Strengthening Project

Mozambique

WB/DFID 3-year program with the
government to strengthen PIM

Infrastructure Governance & the IMF



PIMAs refers to countries that have PIMA assessments (44) or are in the pipeline (11).

Other IG related activities include PIMAs follow-up missions, Fiscal Transparency Evaluations (FTE) and Public Private Partnerships Fiscal Risk Assessment Model (PFRAM) missions.

Infrastructure governance: a private sector perspective

- **To what extent can better infrastructure governance benefit private investors?**
 - **Investment environment**
 - Better investment planning through asset lifecycle approach
 - Improved risk allocation and mitigation strategies
 - **Project development**
 - Better project identification and preparation
 - Feasible cost recovery plan: user fees vs. public funding
 - Contractual standardization
 - **Procurement**
 - Competitive and transparent tendering
- **Can private investors help to improve infrastructure governance?**

Thanks!

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