



Assessing Public Investment Management

EUROPE, IRELAND AND CLIMATE CHANGE

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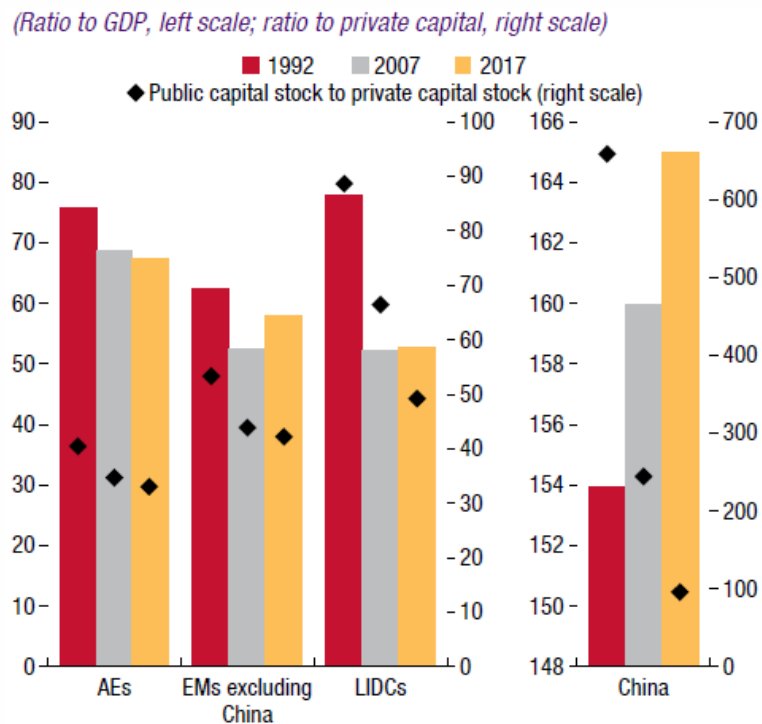
Fiscal Affairs Department

Assessing Public Investment Management

- **Public investments – trends, efficiency and scaling up**
- **Public Investment Management - Europe**
- **Public Investment Management - Ireland**
- **Climate change and Public Investment Management**

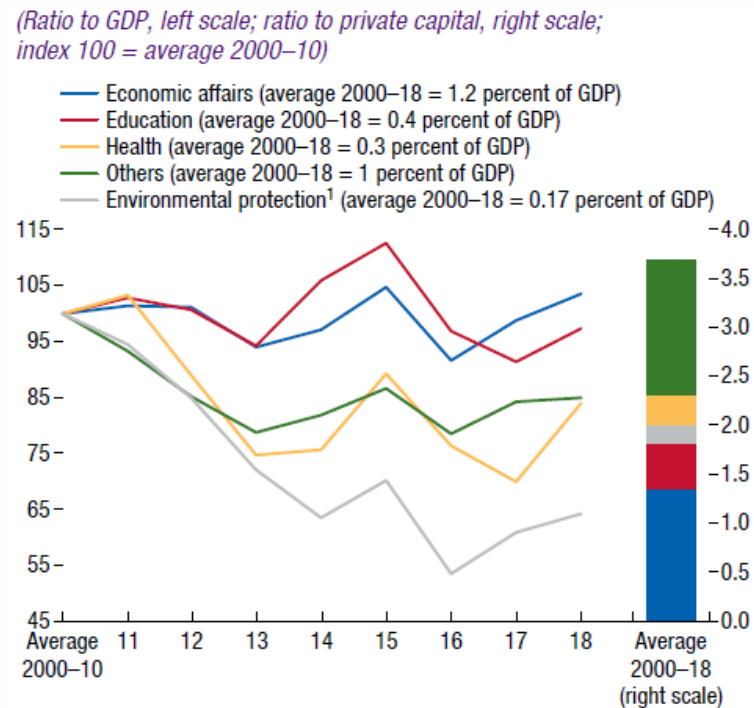
Public investment supports economic development

Public capital stocks/GDP



Source: IMF Investment and Capital Stock Dataset.
 Note: The high ratio in low-income countries could hide statistical issues with the construction of a stock variable by cumulating flows, especially with inefficiencies in public investment management systems (Gupta and others 2014). "Public investment" refers to gross fixed capital formation by the general government. AEs = advanced economies; EMs = emerging markets; LIDCs = low-income developing countries.

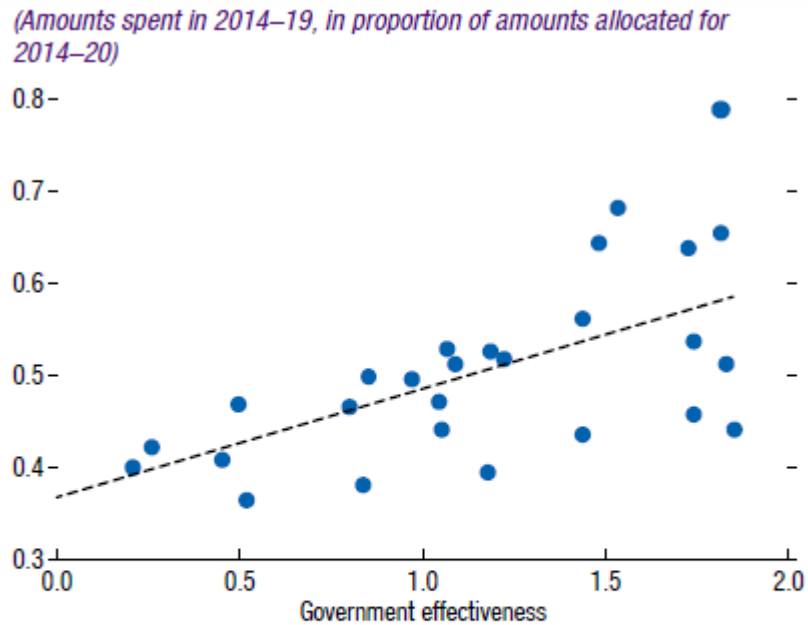
Public investment/GDP in AE and EME



Sources: Organisation for Economic Co-operation and Development; and IMF staff estimates.
 Note: Public investment refers to gross fixed capital formation by the general government. "Others" includes general public services, defense, social protection, housing, and so on.
¹Covers waste management, protection of biodiversity, and so on.

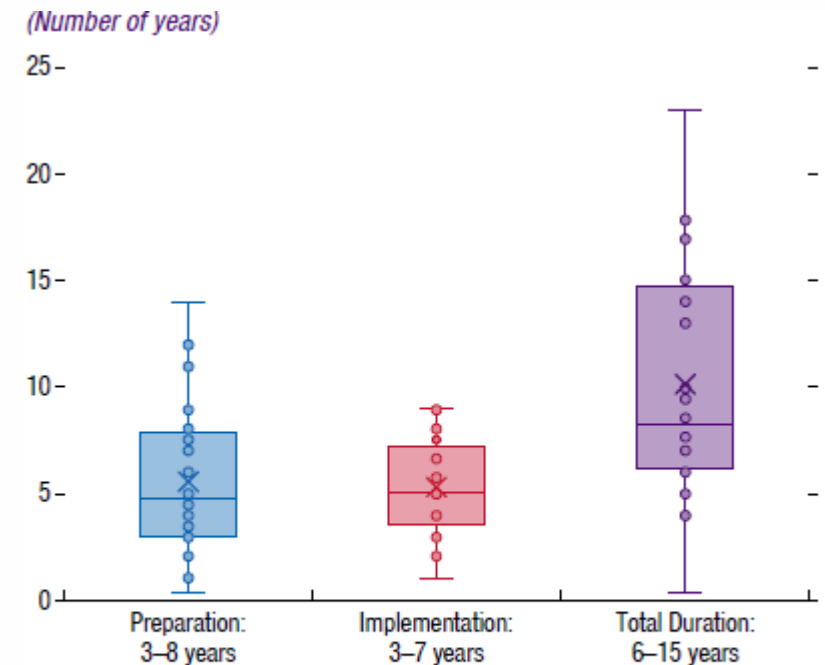
Developing public investment ambitions into public infrastructure takes time

Government effectiveness and speed of execution in Europe



Sources: European Structural and Investment Funds; World Bank Worldwide Governance Indicators; and IMF staff calculations.
 Note: The figure shows the correlation between the World Bank government effectiveness index and the speed of national implementation of projects financed by European Structural and Investment Funds. Instrument for Pre-Accession Assistance not included.

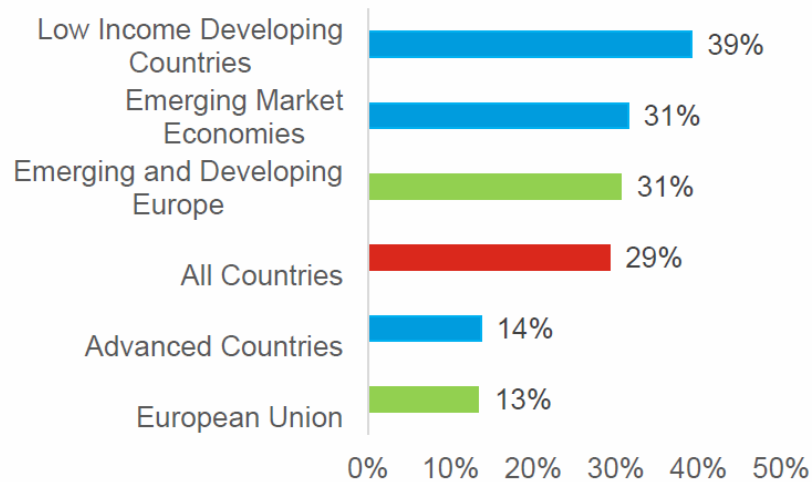
Duration of infrastructure projects



Sources: IMF staff calculations based on Klakegg, Williams, and Shiferaw 2016; Avellan, Cavalcanti, and Lotti 2019; and GIH 2019.
 Note: The figure shows the range of duration of infrastructure projects, distinguishing between the preparation phase and the implementation phase.

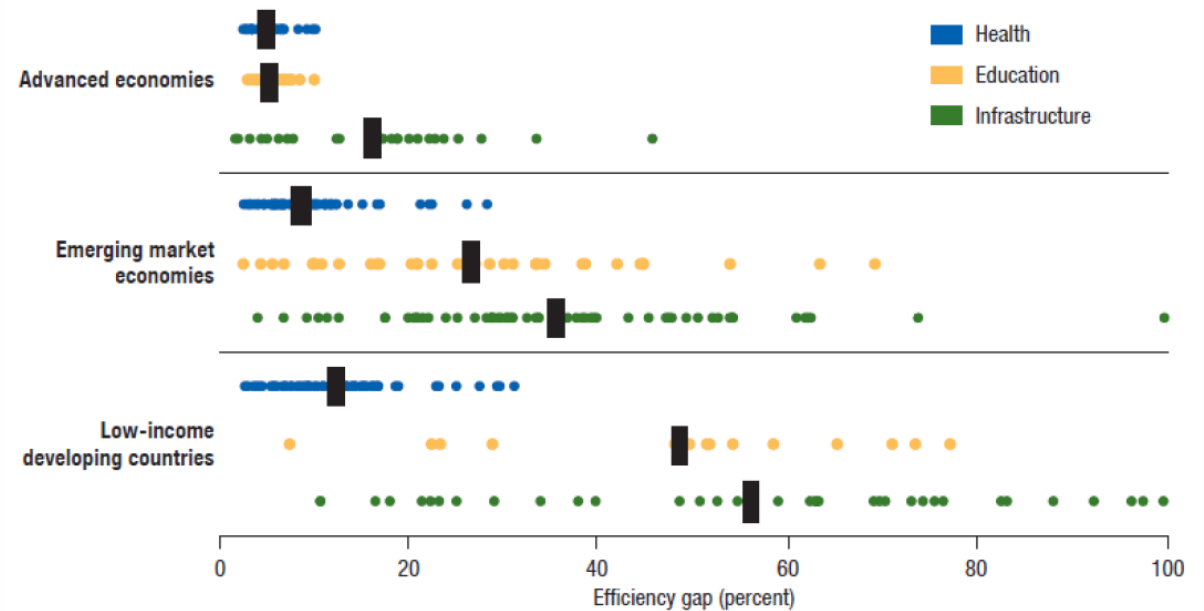
And resources allocated to public investments are often lost to inefficiency

Average efficiency loss in public investment management in the EU is lower than other regions



Source: IMF staff estimates

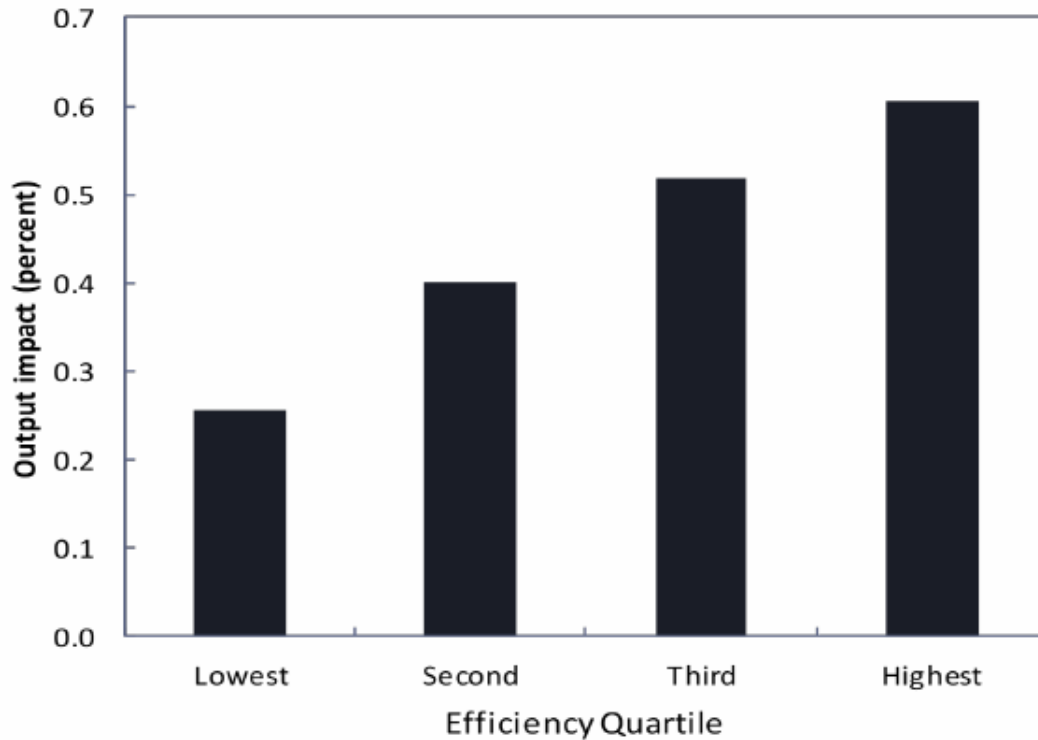
Spending efficiency of infrastructure lags in all income groups



Source: IMF World Economic Outlook April 2021

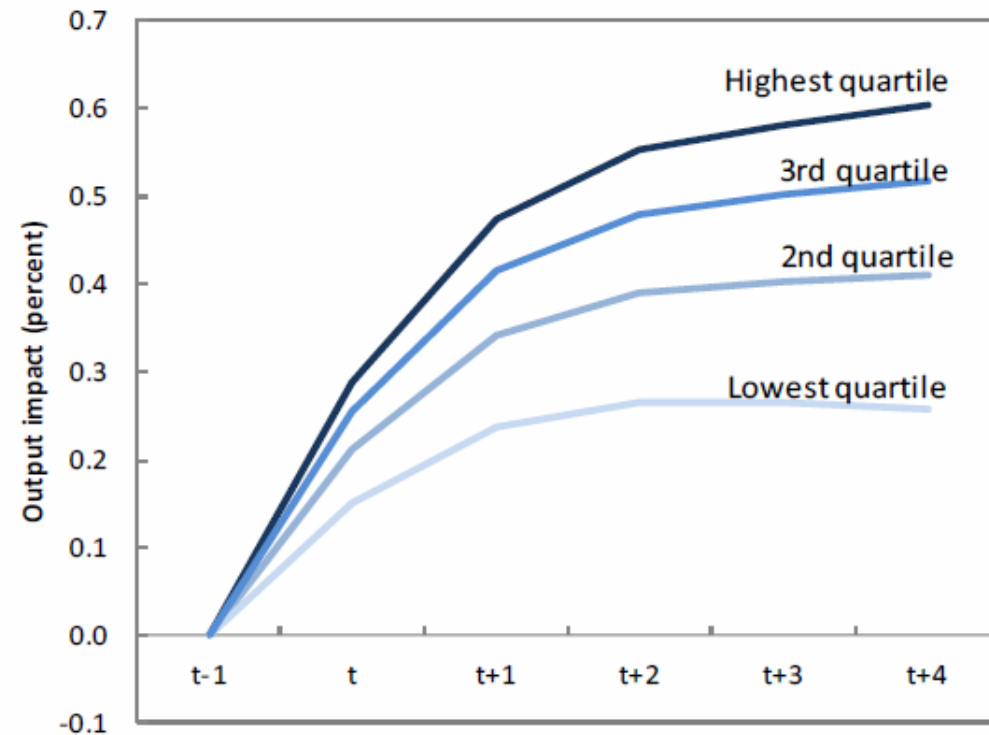
Less efficient public investment translates to lower growth impact

Impact on output after 4 years of a 1 percent of GDP increase in investment



Source: IMF Staff estimates.

Profile of output impact of a 1% of GDP increase in public investment by efficiency group

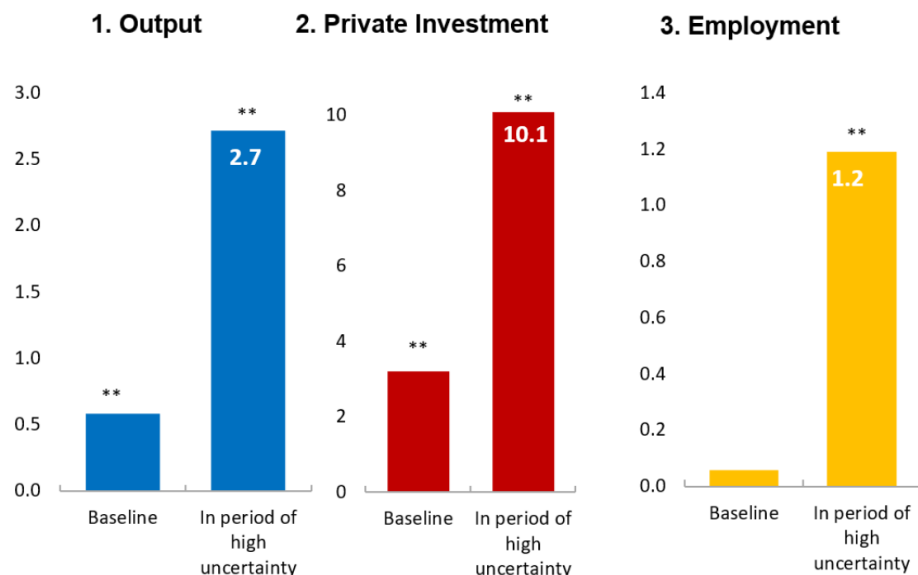


Public investment during post-crisis recovery

The amplifying effects of public investment

In periods of high uncertainty, increasing investment by 1 percent of GDP boosts growth by 2.7 percent, private investment by 10 percent, and employment by 1.2 percent after 2 years.

(impact, in percent deviation from baseline, of a 1 percent of GDP increase in public investment)



Source: IMF staff estimates.

Note ** denotes statistically significant coefficients at the two standard deviation confidence interval.

In the [Fiscal Monitor 2020](#), the IMF provided guidance to government to scale-up investments in a timely and efficient manner during the pandemic:

- Prioritize maintenance spending and existing projects.
- Identify a pipeline of projects that can be carefully appraised and ready for implementation for the coming 24 months.
- Developed a pipeline with a longer horizon for more complex projects that address new priorities following the pandemic, and that increase resilience to crises and climate change.
- Strengthen the procedures for selection and procurement of public investment projects.

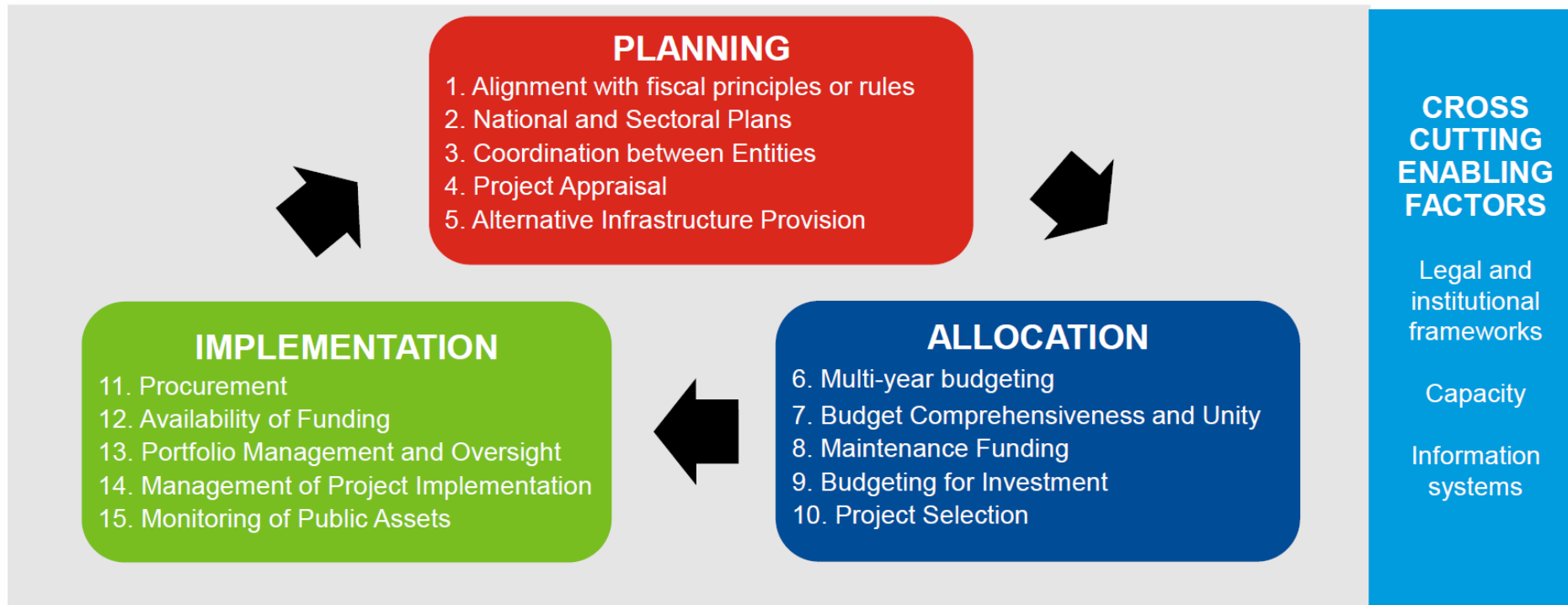
Project outcomes are more often disappointing, and short- and long-term fiscal multipliers are lower, in countries with weak public investment management practices.

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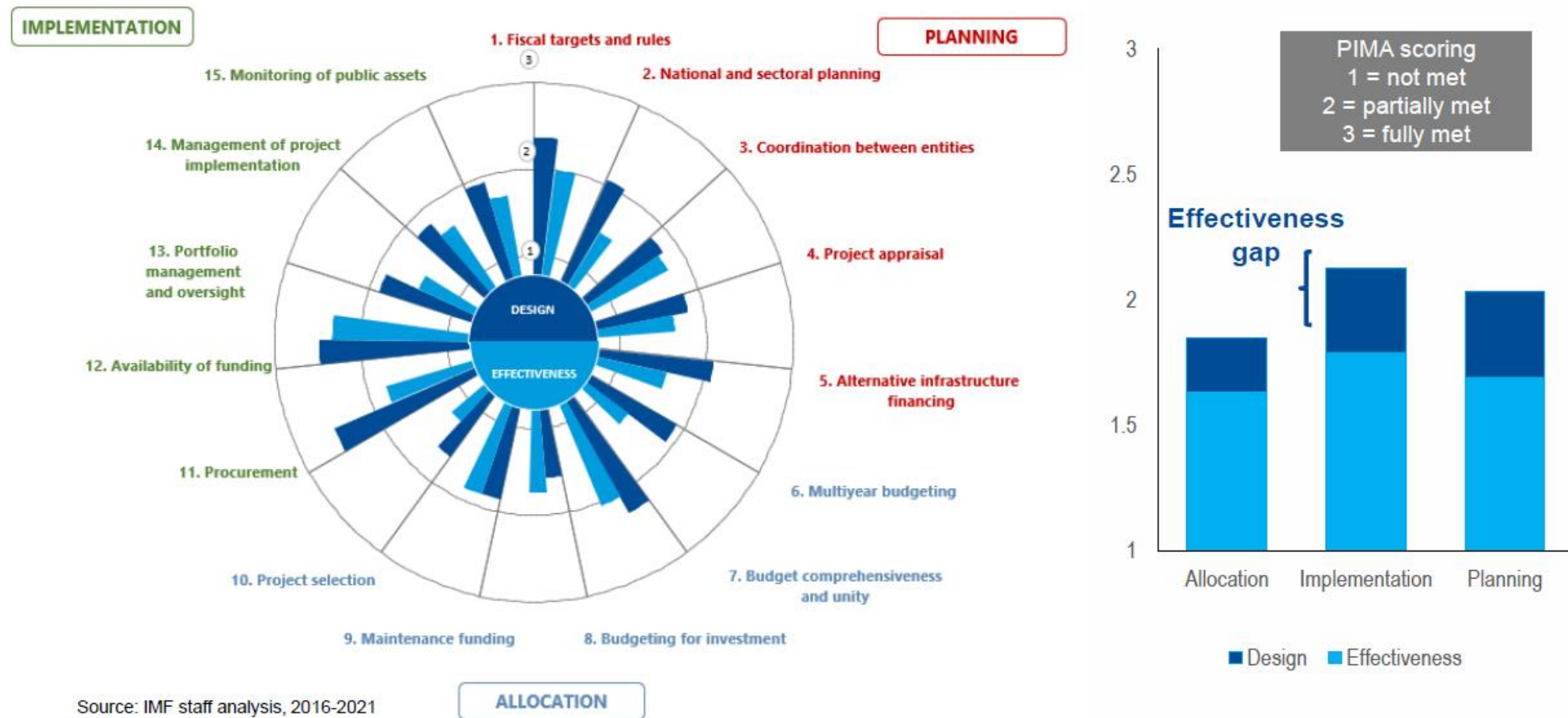
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The IMF PIMA is a comprehensive framework for assessing infrastructure governance – 71 PIMA’s thus far

The Public Investment Management Assessment (PIMA) covers 15 institutions across the investment cycle... and three cross cutting enabling factors

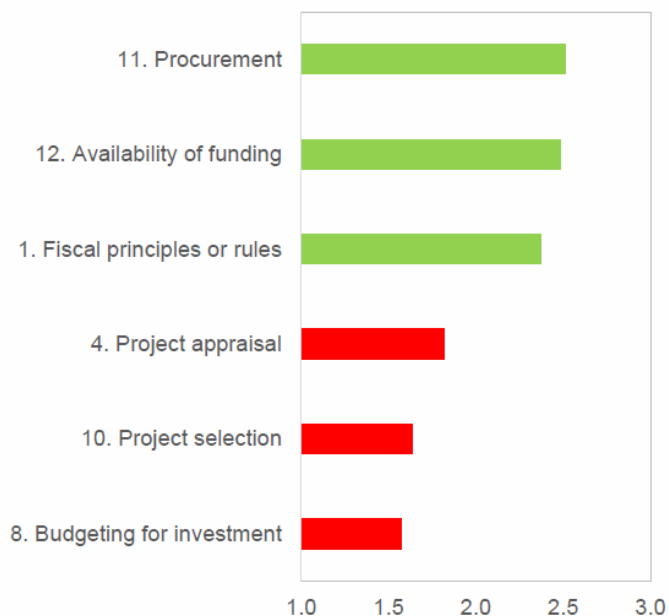


Design of institutions is stronger than their effectiveness in practice in Europe



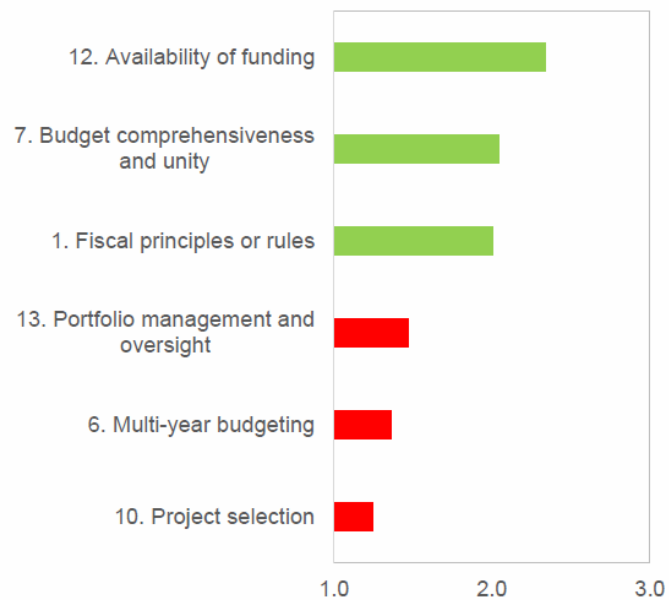
Institutional scores in European PIMAs (14 PIMAs so far)

Average score for design



Source: IMF staff analysis, 2016-2021

Average score for effectiveness



Source: IMF staff analysis, 2016-2021

For Member States

- **EU Rules and requirements** boost performance eg procurement, external audit
- **Low absorption rate of EU funds** is a common challenge:
 - overhang of unfinished projects from the previous funding cycle;
 - late setting of funding priorities and rules;
 - EU approval processes initially and in execution.
- More recent members can have the added burden of parallel systems established during the accession period.

A review of European PIMA reports identifies some common challenges

Challenges with project appraisal

- Lack of unified project pipeline, sometimes competing pipelines.
- Rigorous technical, economic and financial analysis
- Standard methodologies and central support
- Coverage of risk in appraisal

Challenges with project selection

- Central review of appraisal before budget decision-making
- Standard selection criteria
- Pipeline of appraised projects

Challenges with multi-year budgeting and investment planning

- Forecasts by sector/ministry
- Multi-year ceilings by sector/ministry
- Publication of costs of major projects

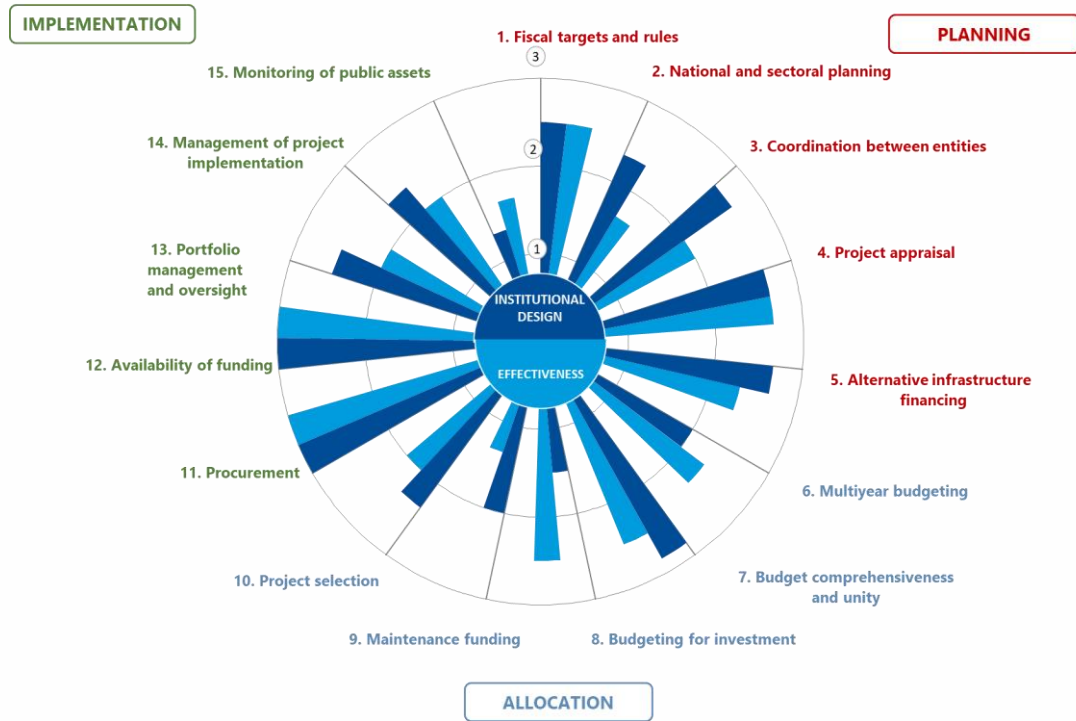
Challenges with portfolio management and oversight

- Monitoring during implementation
- Reallocations between projects
- Ex-post reviews and improvement

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Public Investment Management Assessment Ireland – 2017



The IMF Infrastructure Governance website contains download links to all public PIMA reports, and offers information about IMF's Role in Infrastructure Governance and its assessment tools. See <https://infrastructuregovern.imf.org/>

Overview of recommendations - 2017

Some Examples

Planning Phase

- Fiscal rules support public capital formation and PCs are well-regulated with relatively strong PIM practices.
- Weaknesses revolve around various sector strategies with low coordination, weak results frameworks and limited cost estimates.
- Spending on PPPs should be brought more firmly within the fiscal envelope.

Allocation Phase

- Multi-year budgeting implementation has improved allocation of project resources.
- Planning process is inadequately linked to funding decisions
- Project appraisal and selection would benefit from improved methodological rigor and learning across sectors.

Implementation Phase

- Funding for ongoing projects remains stable under fiscal consolidation; good project management practices.
- Need for stronger management of assets (including prioritizing maintenance spending).

Phase / Institution		Institutional Strength	Effectiveness
A. Planning	1	Fiscal rules	Good: European fiscal rules, including structural balance and debt reduction targets are broadly complied with. Medium: A wide array of national and sector strategies are published, but loosely connected to DPER's capital plan and not well costed.
	2	National and sectoral planning	Medium: Borrowing by local governments is restricted by law, but SNGs have little flexibility in their spending envelope or choice of projects. Medium: Information on capital projects, costs and performance targets in the NSP/sector/SOE plans is of varying specificity and quality.
	3	Central-local coordination	Medium: Decisions on investments by local governments are largely formula-driven from the center, though there are consultations with central departments. Medium: Overall spending on PPPs has increased considerably, as allowed by the current fiscal rules.
	4	Public-private partnerships	Good: PPPs are regulated by a comprehensive framework of laws and procedural guidelines, aligned with international good practice. Good: Foreign companies account for a high market share, three-quarters of the public companies publish their financial reports
	5	Regulation of infrastructure companies	Good: Infrastructure markets are either open to international competition, or operate as well regulated domestic monopolies. Medium: Ceilings are not always adhered to, as increased revenues and fiscal space are allocated. No public reporting of lifetime project costs or benefits.
B. Allocation	6	Multi-year budgeting	Medium: Medium-term capital expenditure ceilings are in place, though medium-term forecasts are patchy, and no information of major projects is included in the budget. Medium: Information on PPP and SOE investments is published separately from the main budget documents.
	7	Budget comprehensiveness	Good: Data on capital spending by extra-budgetary funds is limited, with EU-funded spending included in the budget, and investment by Public Corporations is well managed. Medium: Data on spending on individual investment projects is fragmented; little information on maintenance spending.
	8	Budget unity	Good: Estimates of capital and recurrent spending are well integrated in the budget, and follow a GFS/ESA-compliant classification. Good: Standard appraisal methodologies are consistently applied for major projects. Effective ongoing capacity building. Non-publication of appraisals is an issue.
	9	Project appraisal	Good: Economic appraisal using standard methodologies, which include risk analysis is required for all projects >€20 million. Central support provided by the Irish Government Economic and Evaluation Service (IGEES). Medium: Reviews during budgeting are cursory and not attentive to changes in project scope and cost; application of selection criteria is not transparent.
C. Implementation	10	Project selection	Medium: DPER reviews all economic appraisals, but limited external input. Selection criteria exist, but are not unified. Pipelines exist at department/sector level. Good: Strong legal institutions ensure continuity of funding for ongoing projects, even during severe fiscal consolidation, and the virement facility is used exceptionally.
	11	Protection of investment	Medium: Capital outlays are appropriated annually; virements between capital and current expenditure are subject to DPER approval; carryover of up to 10 percent is allowed. Good: Cash forecasting and cash management are well executed across government, with timely release of funds.
	12	Availability of funding	Good: The legal/procedural basis for cash management is comprehensive, and well aligned with international good practice. Medium: C&AG's office focused on financial rather than performance auditing; departmental monitoring works well; active monitoring at DPER level is under-developed.
	13	Transparency of execution	Medium: Open and competitive procurement in line with EU directives; monitoring largely performed at department level; no ex post audits of individual projects. Medium: Fundamental review of projects is very infrequent. Non-publication of post-project reviews is not good for lesson-learning and transparency.
	14	Project management	Good: Project management structures and guidance are well established, including rules for adjustments and fundamental review; post project review mandatory for major projects. Medium: Mixed ownership of state infrastructure assets leads to confusion over responsibilities, and is a major challenge to asset management. CSO compile estimates of capital stock and depreciation.
15	Assets accounting	Low: A comprehensive asset survey is not carried out, but data are available for some sectors. No information on infrastructure assets in financial accounts.	

Reforming Public Investment Management in Ireland

Much has been and is being done

Aligning investment and planning

- Project Ireland 2040 and the Delivery Board, National Development Plan and Investment Framework

Enhancing project and programme governance

- National Investment Office, Public Spending Code, External Assurance Process.

Managing and monitoring investment

- Construction Sector Group, Investment Tracker

Developing Public Sector Capacity

- Commercial skills Academy, InfraNet, Irish Government Economic and Evaluation Service

Forthcoming planning and legal reforms

- Planning and Development Act, Compulsory Purchase law, Planning and Environmental Court, , Digital Agenda

.... Ireland is an international good practice for PIM-reforms

Ireland's next ramp-up in public investment

- Good approach to analyze public investment in an economic context.
- Strengthens the link between the economy – public investments and the budget.
- Supports the planning and coordination institutions of a PIM framework, and supportive to the role of the Department of Finance.
- Focus on increasing “Value for Money”, including an assessment of progress made with the PIMA recommendations. Examples:
 - The Public Spending Code does not require investment planning, appraisal, and management techniques.
 - No comprehensive costing of maintaining and rehabilitating existing capital stock to prevent degradation.
 - No comprehensive register of infrastructure assets



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Public investment and climate change

- A shift toward green public investment is needed
 - to mitigate greenhouse gas emissions.
 - to build climate change resilient public infrastructure.
- Public investment is key to the recovery from the pandemic.
- Climate change mitigation and adaptation add to urgency and complexity to PIM reforms.

Hence, the **new IMF Climate-PIMA framework**



to: Fotocam by Getty Images

Climate Public Investment Management Assessment - C-PIMA

Climate-aware planning

- Is public investment planned from a climate change perspective?

Coordination between entities

- Is there effective coordination of decision making on climate change-related public investment across the public sector?

Project appraisal and selection

- Do project appraisal and selection include climate-related analysis and criteria?

Budgeting and portfolio management

- Is climate-related investment spending subject to active management and oversight?

Risk management

- Are (fiscal) risks relating to climate change and infrastructure analyzed, incorporated in budgets and managed according to a plan?

Diagnostic: Assess institutional readiness and gaps in PIM against the backdrop of climate change challenges.

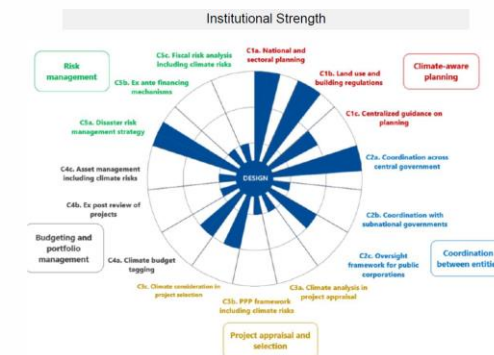
Institutions. Support the development of institutions for addressing climate-related risks in infrastructure planning and investment.

Roadmap. Identify reform actions and explore capacity development support from the IMF and other organizations.



Countries lose over one-third of potential benefits from infrastructure investment due to inefficiencies. Strong infrastructure governance can reduce more than half of these inefficiencies. The IMF can help countries strengthen infrastructure governance.

[Learn more about the IMF's Role in Infrastructure Governance](#) →





Thank you

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