

IMF (East Afritac)
Regional Workshop on Public Investment Management
“Strengthening institutions for Public Investment”
November 28 to December 2, 2016
Kigali, Rwanda

I. BACKGROUND

1. Countries in the region have recently increased their public investment portfolio especially in the infrastructural areas of power generation, transport (air, rail and roads), power generation, telecom, water, and sanitation on the premise that it is bound to affect economic growth; the efficiency and productivity of the investments, notwithstanding.
2. Supreme audit institutions in the region have reported varying malpractices including the implementation of projects that have not been formally approved, project time delays, cost overruns, pending bills, projects not designed to meet objectives commonly referred to as “white elephants” and inadequate maintenance which hardly promote efficiency and productivity.
3. Efficient investment planning requires institutions that ensure public investment is fiscally sustainable and effectively coordinated across sectors, levels of government, and between public and private sectors. The allocation of capital spending to the most productive sectors and projects requires a comprehensive, unified, and medium-term perspective to capital budgeting, as well as objective criteria and competitive procedures for appraising and selecting particular investment projects. The timely and cost-effective implementation of public investment projects requires institutions that ensure projects are fully funded, transparently monitored, and effectively managed.
4. A review of the level, efficiency, and impact of public investment in the region would assist in developing specific measures for strengthening public investment management.
5. Toward this end, the IMF has developed a new Public Investment Management Assessment (PIMA) framework to assess the quality of public investment management practices. The PIMA measures the sufficiency and efficiency of public investment and the resulting economic growth¹. ***It evaluates 15 key institutions for planning, allocation, and implementing public investment*** which are a subset of the broader

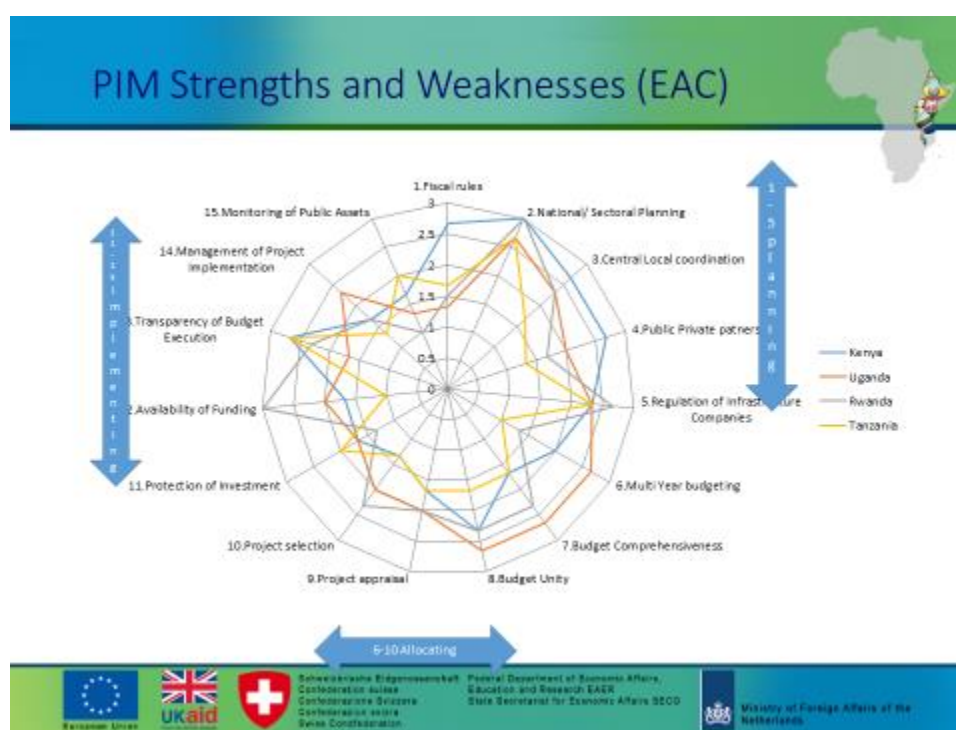
¹ Further details are available at: <http://www.imf.org/external/np/fad/publicinvestment/>

(continued)

framework of budget institutions that govern the public financial management process². The PIMA includes elements similar to other PIM diagnostic tools but provides a more comprehensive assessment of the public investment decision-making process at the planning, allocating and implementing stages.

AFE conducted a desk review of public investment in Rwanda, Kenya, Tanzania and Uganda which found that although the region performs generally well in planning, countries have fiscal rules and appraisal mechanisms that are not effective. Except for one country, the budgets do not comprehensively include all public investments. The assessment showed that the average percentage allocation of resources to public investment was fairly consistent with other regions except for deficiency in multiyear budgeting. The region performs poorly in project appraisal and selection and only two countries provide assurance for availability of funding for public investment and transparency in budget execution. All the countries seemingly do very poorly when it comes to monitoring project implementation. Figure 1 below summarizes the results of the desk review.

PIM Status in EAC- results of a desk review



² The PIMA methodology requires that for each of the 15 PIM institutions, three key design features are identified, each of which can be fully met, partly met, or not met. Based on how many of these key features are in place, countries are given a PIMA score of between 0 (no key features in place) and 10 (all 45 key features fully in place).

6. Strengthening of these institutions involves, among other initiatives, the upgrading of staff skills; instituting robust and transparent systems; enacting requisite laws to govern the budget process; instituting an accountability framework; providing political leadership, respecting the rule of law; and developing fiscal discipline.

7. Against this background AFE member countries in collaboration with IMF East Afritac have organized a regional workshop to be held in Kigali, Rwanda from November 28th to December 3rd to provide an opportunity for PIM practitioners to generate informed proposals on how to tackle endemic public investment management weaknesses.

II. WORKSHOP OBJECTIVES

8. The workshop seeks to strengthen the understanding of the senior officials on how public investment institutions influence fiscal and economic outcomes. It will provide a critical appraisal of the institutions that influence investment decisions through a review of the main factors that influence the development of investment institutions and systems over time. These include: the role played by investment institutions; appropriate checks and balances; integrated participation and the institutional inter-dependence in the investment process. At the end of the workshop, participants should be able to contribute in designing appropriate responses to the PIM challenges in their countries and validate the findings of the desk review.

III. PROPOSED WORKSHOP THEMES

9. The workshop will be delivered under the following themes:

Planning sustainable public investments.

10. Discussion under this theme will cover the following: i) how fiscal rules protect public investment and the issue of compliance; ii) why feasibility studies matter and understanding the concept of cost benefit analysis and cost effectiveness analysis; iii) the institutions and process for project appraisal; iv) regional, national and sector planning- a strategic comprehensive and consultative approach to public investment and the need to balance between central and local planning; and, v) the choice between traditional project execution and public private partnerships.

Effective Investment budgeting.

11. Discussions under this theme will cover: i) budgeting for capital projects including the definition of capital budgets, inclusive costing and forward budgets; ii) Project selection including the standard criteria for project selection, centralized review of major projects and developing an integrated bank of projects; iii) appropriating for

public investment including total project outlays, reallocations and carryovers on capital budgets.

Timely, cost effective project implementation.

This will cover i) predictability and availability of funding including procurement planning, cash flow projection and commitment, timely release of cash and incorporating donor funding in the Treasury Single Account; ii) project monitoring including performance reporting, project adjustments and ex-post review and evaluation of major projects; and iii) monitoring of public assets including surveys of public assets, recording of non-financial asset values and depreciation of fixed assets.

Self-assessment of PIM by participating countries.

Participating countries will present a self-assessment of the status of their public investment management against the initial findings. This will be followed by a validation of the scores through a plenary discussion.

Case Studies

The themes will be interspersed with case studies of projects from the region

IV. ORGANIZATION

12. The working language of the workshop will be English. The workshop objectives will be achieved through a mixture of facilitation methods, including expert presentation of the Public Investment Management Assessment tool (PIMA), peer learning and sharing of experiences via country presentations and group discussions. The workshop is intended to be highly interactive.

13. Each country team is requested to prepare, prior to the workshop, a presentation based on the attached PIMA questionnaire. Instructions for completing the questionnaire are also attached separately.

14. Country presentations will be followed by a question and answer session and commentary from panelists on relevance of scores, sources of information, actual practice as reported from relevant country documentation, lessons learnt from elsewhere and suggestions for moving forward. Options and solutions for improving PIM will be discussed.

15. Lastly, the facilitators will prepare each country's validated status and summarize a consolidated regional analysis of the PIM status. The consolidated

analysis will be included in the workshop report. All presentations, documents and notes will be made available electronically to participants.

V. TARGET PARTICIPANTS

16. The workshop aims to share experiences on the four key thematic areas to increase the participant appreciation of the impact each one of them has on PIM. Member countries should therefore include staff actively involved in project planning, budget preparation, execution, monitoring and reporting. Target departments include: (i) Planning (ii) Budget Department; (iii) Public Private Partnership unit (iv) Public investment management units and (v) the Treasury or Accountant General's Department. Each member country and the Revolutionary Government of Zanzibar will be expected to nominate four participants. South Sudan and Somalia will nominate 2 participants each.

VI. FUNDING AND ADMINISTRATIVE ARRANGEMENTS

17. East AFRITAC will fund and will make arrangements for return economy class air travel from the participating country to Kigali, Rwanda. East AFRITAC will arrange participants' transfers from/to the airport in Kigali and the Hotel. East AFRITAC will cover the cost of accommodation, breakfast and lunch and will arrange a social event during the workshop. Finally, the participants will receive a per diem to cover evening meals and out of pocket expenses of US\$ 45 per day. Please note that in case of illness or injury while attending the workshop, East AFRITAC does not pay for medical or travel insurance or for medical expenses or costs due to changes in travel itinerary etc. Participants will be expected to arrive in Kigali on or by Monday 28th November and to leave on/by Saturday 3rd December, 2016.

18. Nominations for the Workshop should be faxed or emailed to East AFRITAC not later than Friday, 14th October, 2016, using the nomination form attached. Before submitting their nominations, participants are expected to ensure that they have a valid passport and meet the visa requirements. All nominations and enquiries should be sent to the following workshop coordinators:

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The Public Investment Management Assessment (PIMA) Framework

Regional Workshop on
Strengthening Institutions for Public Investment Management

Kigali, Rwanda
November 28, 2016



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Outline of Presentation

- Background
- Key Elements of a PIMA Report
- Assessment Framework and Methodology
- Application of PIMA Results

Background

Infrastructure, Investment, and Growth

- Longstanding literature on the infrastructure gap, public investment, and economic growth
- WB, 1994, World Development Report
 - 1% increase in infrastructure stock associated with 1% increase in GDP, but...
 - Infrastructure investment often misallocated
 - Low priority projects
 - Technical inefficiency
 - Outright waste

Infrastructure, Investment, and Growth



- WB, 2010, Africa's Infrastructure – A Time for Transformation
 - Infrastructure contributed 99 basis points to GDP per capita growth from 1990 to 2005
 - Deterioration in power infrastructure retarded GDP per capita growth by 11 basis points over same period
 - Key recommendations include: strengthening the planning function of line ministries and addressing serious deficiencies in the budgetary process

Investment Quality and Fiscal Institutions



- IMF, 2014, World Economic Outlook
 - Increased public investment raises output, in short term through demand effect and in long term through supply effect, but...
 - These effects vary with, inter alia, the efficiency of public investment
 - Key priority is to raise infrastructure investment quality by improving public investment process
- IMF, 2014, Regional Economic Outlook, SSA
 - PFM considerations key in scaling up infrastructure investment

Public Investment Performance



- IMF, 2015, *Making Public Investment More Efficient*




- Efficiency – coverage and quality of infrastructure relative to level of public capital stock
- Productivity – rate of real economic growth relative to capital stock growth
- Performance – Efficiency and Productivity

Public Investment Performance



- Fiscal institutions influence public investment performance
- Established comprehensive framework for assessing fiscal institutions involved in public investment management – the PIMA
- Has since been piloted in more than 10 countries, including Mozambique, Cameroon, Ghana, Togo, Liberia



Key Elements of a PIMA Report



Four Main Sections

- Trends in Public Investment
- Efficiency and Impact of Public Investment
- Public Investment Management Institutions – The Assessment
- Reform Priorities and Recommendations

Trends in Public Investment



•Fiscal context, investment and capital stock

Figure 1.A. Kosovo: General Government Debt and Deficit (percent of GDP)

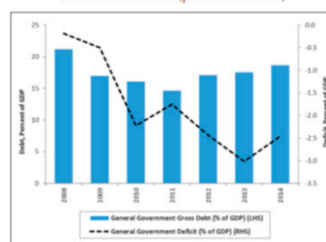
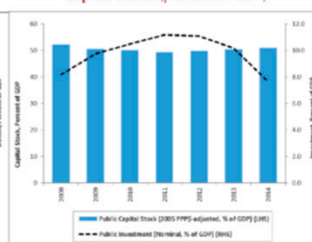


Figure 1.B. Kosovo: Public Investment and Capital Stock (percent of GDP)



Sources: WEO and staff estimates based on official data.

Source: Kosovo PIMA

Trends in Public Investment

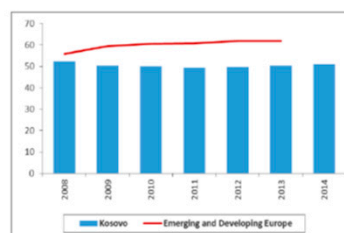


•Comparison with peers

Figure 1.E. Kosovo: Public Investment, Comparison with Peers
(2005 PPP\$-adjusted, percent of GDP)



Figure 1.F. Kosovo: Public Capital Stock, Comparison with Peers
(2005 PPP\$-adjusted, percent of GDP)



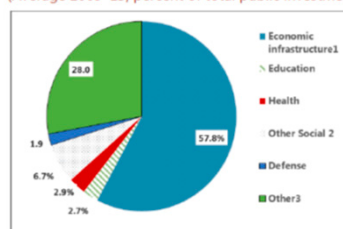
Source: Kosovo PIMA

Trends in Public Investment



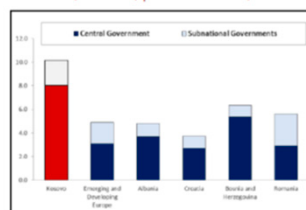
- Composition by function and level of government

Figure 1.H. Kosovo: Public Investment by Function
(Average 2009–13, percent of total public investment)



Source: Kosovo PIMA

Figure 1.J. Kosovo: Public Investment by Level of Government, 2013
(Nominal, percent of GDP)



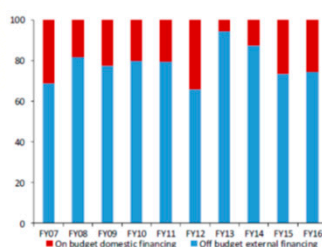
Source: WEO and staff estimates based on official data.

Trends in Public Investment



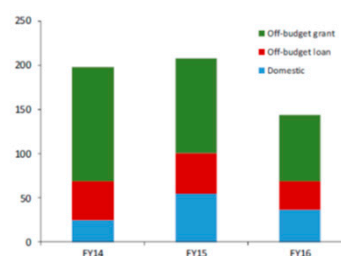
- Composition by source of funding

Figure 9. Liberia: Externally Financed Capital Expenditure
(Percent of total capital expenditure)



Source: Liberia PIMA

Figure 10. Liberia: Funding of Capital Expenditure
(Million USD)



Trends in Public Investment



• Investment by SNGs and SOEs

Figure 13. Liberia: Transfer from County Development Fund and Social Development Fund
(Million USD, percent of GDP (RHS))

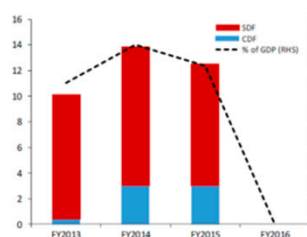
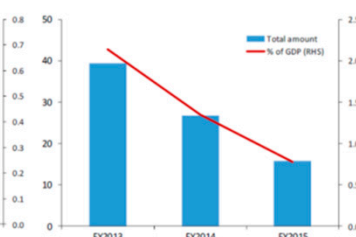


Figure 14. Liberia: Capital Expenditure of State-Owned Enterprises
(Million USD, percent of GDP (RHS))



Source: Liberia PIMA

Trends in Public Investment

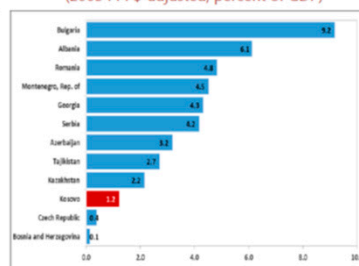


• Investment through PPPs

Figure 1.K. Kosovo: Public-Private Partnerships Capital Stock
(2005 PPP\$-adjusted, percent of GDP)



Figure 1.L. Public-Private Partnerships Capital Stock, 2013
(2005 PPP\$-adjusted, percent of GDP)



Source: Kosovo PIMA

Efficiency and Impact of Public Investment

• Efficiency frontier and efficiency gap

Figure 2.A. Kosovo: Efficiency Frontier, Physical Indicators (2008–14)

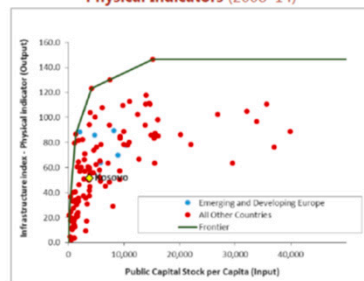
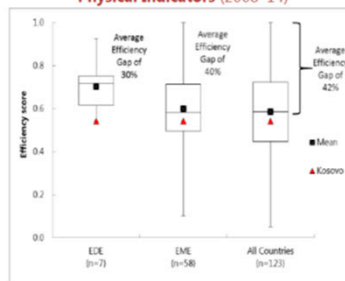


Figure 2.B. Kosovo: Efficiency Gap, Physical Indicators (2008–14)

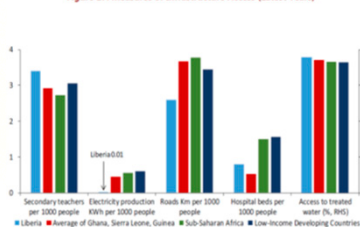


Source: Kosovo PIMA

Efficiency and Impact of Public Investment

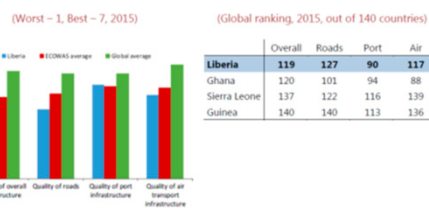
• Access and quality

Figure 17. Measures of Infrastructure Access (Latest Years)



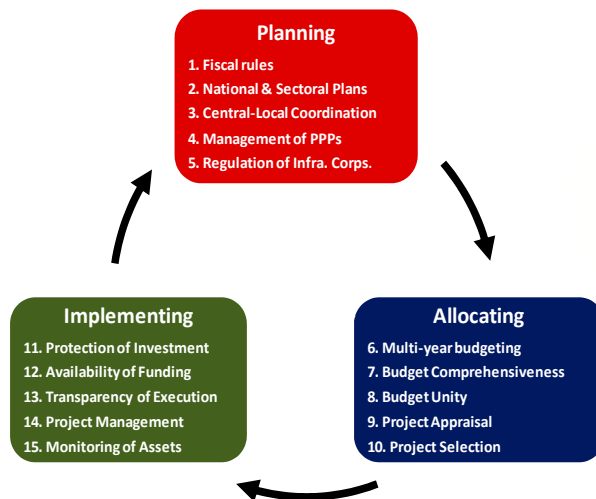
Source: Liberia PIMA

Figure 18. Quality of Infrastructure Scores



Assessment Framework

Stages of the Investment Cycle



Stages, Institutions, Dimensions



- 3 stages, 5 institutions each
- 15 institutions, 3 dimensions each
- 45 dimensions, 3 levels of attainment each:
fully met, partly met, not met
- Each dimension scored: fully met = 10, partly met = 5, not met = 0
- Each institution scored as mean of the scores of its three dimensions

Planning Stage



A. Planning Sustainable Levels of Public Investment

1. Fiscal principles of rules: Are there permanent fiscal principles or rules that support sustainable levels of capital spending?

1.a. Is fiscal policy guided by one or more permanent fiscal principles, or rules?

1.b. Do fiscal principles or rules protect capital spending over the short term or medium term?

1.c. Is there a target or limit for government liabilities, debt, or net worth?


2. National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?


2.a. Does the government publish national and sectoral strategies for public investment?


2.b. Are the government's national and sectoral strategies or plans for public investment costed?


2.c. Do sector strategies include measurable targets for the outputs and outcomes of investment projects?



Planning Stage 	
A. Planning Sustainable Levels of Public Investment	
3. Central-Local Coordination: Is there effective coordination of central and sub-national governments' investment plans?	
3.a. Are there limits on subnational government (SNG) borrowing?	
3.b. Is capital spending by SNGs coordinated with the central government?	
3.c. Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	
4. Public-Private Partnerships: Is there a transparent framework for the scrutiny, selection, and oversight of PPP projects?	
4.a. Has the government published a strategy for PPPs and issued standard criteria for entering into PPP arrangements?	
4.b. Are PPPs subject to value for money review by a dedicated PPP unit prior to approval?	
4.c. Is the accumulation of explicit and/or contingent PPP liabilities systematically recorded and controlled?	

Planning Stage 	
A. Planning Sustainable Levels of Public Investment	
5. Regulation of Infrastructure Companies: Is there a favorable climate for the private sector and SOEs to participate in infrastructure provision?	
5.a. Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	
5.b. Are there independent regulators who set the prices of economic infrastructure services based on objective economic criteria?	
5.c. Does the government oversee the investment plans of infrastructure SOEs and monitor their financial performance?	

Allocation Stage 	
B. Ensuring Public Investment is Allocated to the Right Sectors and Projects	
6. Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?	
6.a.	Is capital spending by ministry forecasted over a multiyear horizon?
6.b.	Are there multiyear ceilings on capital expenditure by ministry or program?
6.c.	Are projections of the full cost of major capital projects over their life cycles published?
7. Budget Comprehensiveness: To what extent is capital spending undertaken through the budget?	
7.a.	Is capital spending mostly undertaken through the budget?
7.b.	Are externally funded capital projects included in the budget documentation?
7.c.	Is information on PPP transactions included in the budget documentation?

Allocation Stage 	
B. Ensuring Public Investment is Allocated to the Right Sectors and Projects	
8. Budget Unity: Is there a unified budget process for capital and current spending?	
8.a.	Are capital and recurrent budgets prepared and presented together?
8.b.	Does the budget include appropriations of the recurrent costs associated with capital investment projects?
8.c.	Does the budget classification and chart of accounts distinguish clearly between recurrent and capital expenditure, in line with international standards?
9. Project Appraisal: Are project proposals subject to systematic project appraisal?	
9.a.	Are capital projects subject to standardized cost-benefit analyses whose results are published?
9.b.	Is there a standard methodology and central support for the appraisal of projects?
9.c.	Are risks taken into account in project appraisals?

Allocation Stage



B. Ensuring Public Investment is Allocated to the Right Sectors and Projects

10. Project Selection: Are there institutions and procedures in place to guide project selection?

10.a. Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?

10.b. Does the government publish and adhere to standard criteria for project selection?

10.c. Does the government maintain a pipeline of approved investment projects for inclusion in the annual budget?

Implementation Stage



C. Delivering Productive and Durable Public Assets

11. Protection of Investment: Are investment projects protected during budget implementation?

11.a. Are total project outlays appropriated by parliament at the time of the project's commencement?

11.b. Are in-year transfers of appropriations (virement) from capital to current spending prevented?


11.c. Can unspent appropriations for capital spending be carried over to future years?


12. Availability of Funding: Is financing for capital spending made available in a timely manner?

12.a. Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash flow forecasts?

12.b. Is cash for project outlays released in a timely manner?

12.c. Is external financing of capital projects integrated into cash management and the TSA?

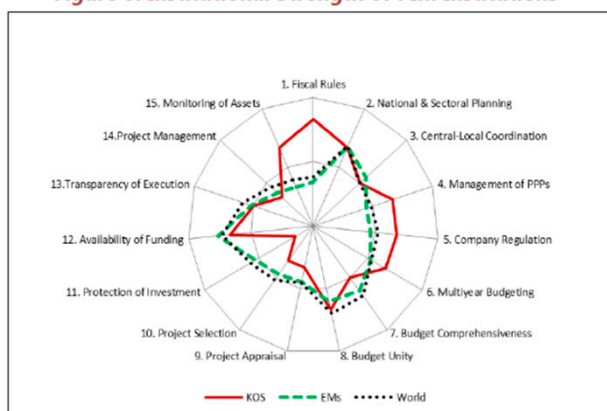
Implementation Stage 	
C. Delivering Productive and Durable Public Assets	
13. Transparency of Budget Execution: Are major investment projects executed transparently and subject to audit?	
13.a. Is the procurement process for major capital projects open and transparent?	
13.b. Are major capital projects subject to monitoring during project implementation?	
13.c. Are ex post audits of capital projects routinely undertaken?	
14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?	
14.a. Do ministries have effective project management arrangements in place?	
14.b. Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	
14.c. Does the government systematically conduct an ex post review and evaluation of a project that has completed its construction phase?	

Implementation Stage 	
C. Delivering Productive and Durable Public Assets	
15. Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?	
15.a. Are surveys of the stocks, values, and conditions of public assets regularly conducted?	
15.b. Are nonfinancial asset values recorded in the government balance sheets?	
15.c. Is depreciation of fixed assets captured in government operating statements?	

Spider Diagram Summary



Figure 0. Institutional Strength of PIM Institutions



Reform Recommendations



Annex III. Sequenced Action Plan

Recommendation	2016	2017	2018	Responsible Agency
1. Implement and publish the national strategy and consolidate and cost sector strategies	<ul style="list-style-type: none"> - Finalize national strategy - Take stock of all sector strategies - Develop framework for costing of sector strategies 	<ul style="list-style-type: none"> - Consolidate sector strategies and cost them - Extend the pipeline of projects and integrate with national strategy 	<ul style="list-style-type: none"> - Continue consolidate sector strategies and cost them 	MoF (Budget Department), MEI, OSP, BOs
2. Increase transparency of budget documentation by including PPPs and POE investments and the fiscal risks related to them	<ul style="list-style-type: none"> - Include an annex in the 2017 budget for PPPs and related risks - Include an annex in the 2017 budget for public investments in POEs 	<ul style="list-style-type: none"> - Include a statement of contingent liabilities related to PPPs and POEs in the 2016 financial statements - Develop IPSAS-based accounting and reporting standards for PPPs 	<ul style="list-style-type: none"> - Apply IPSAS-based accounting and reporting standards for PPPs in 2017 financial statements 	MoF (Budget Department, Treasury), PPP Unit, POE Unit in MED
3. Include on-going project obligations versus fiscal space for new projects, and project total cost and duration in the budget documentation	<ul style="list-style-type: none"> - Design of revised format for Table 3.2 and 4.2 and include in 2017 budget documentation - Enforce reporting of multi-annual commitments as required in the LPFMA - Disclose multi-annual commitments in 2017 budget - Present an analysis of fiscal space for new projects in 2017 budget 	<ul style="list-style-type: none"> - Disclose multi-annual commitments in an annex of the financial statements 2016 - Monitor multi-annual commitments through KFMIS 		MoF (Budget Department, Treasury) BOs

Application of Results

Implications of Results

- Ultimate aim is for results to inform reform plans and corrective action
- Still too early to assess impact, but...
- Commitment to implement action plan can form the basis for resource mobilization with other DPs
- Typically, PIMA missions teams include representation from the WB
- Two recent examples, Ghana and Liberia

Ghana's PIMA and the WB G-EMS Project

- WB approved Ghana – Economic Management Strengthening Project (G-EMS) in August 2016
- Project design informed by PIMA
- Component C – Strengthening PIM Capacity (US\$4 million)
 - Comprehensive PIM reform strategy and action plan
 - Improve regulatory and institutional setting for PIM (including development of PIM regulations under new PFM Act, operations manual, guidelines, templates)

Ghana's PIMA and the WB G-EMS Project

- Capacity building strategy for PIM (Public Investment Division, MDAs, SOEs)
- Strengthening the planning function (National Development Planning Commission) (including support to complete National Infrastructure Plan, development of national M&E system, strengthen capacity for project development/preparation)

Liberia's PIMA and new PFM RS



- One of only two countries to have granted approval for the PIMA to be published on IMF website
- PIMA recommendations to be fed into new PFM Reform Strategy, including
 - PFM RS will include section on Public Sector Investment Program (under thematic area for budget credibility to support service delivery)
 - Framework to inform budget priorities
 - Address process fragmentation in evaluation, design, costing, of both domestically and externally financed projects

Concluding Messages on PIMA



- The PIMA addresses an issue at the heart of economic development – institutional effectiveness in PIM
- Comprehensive framework for assessment of PIM institutions
- Ideally should involve other DPs
- Only effective when accompanied by strong national commitment to implement reform recommendations







Thank You



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Fiscal Rules – Dimensions and Levels 			
	Not Met	Partially Met	Fully Met
Is fiscal policy guided by one or more permanent fiscal principles, or rules?	There are no permanent fiscal principles or rules	Fiscal policy is guided by one or more permanent fiscal rules but they have not been adhered to over the last three years and there is no provision in the law allowing rules to be suspended in exceptional circumstances	Fiscal policy is guided by one or more permanent fiscal rules and they have been adhered to over the last three years or there is a provision in the law allowing rules to be suspended in exceptional circumstances.
Do fiscal principles or rules protect capital spending over the short term or medium term?	Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure	Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure, but these are expressed in structural terms	Capital spending is excluded from a target or limit for the balance (Golden Rule) or expenditure (Operating Expenditure Rule) or there is a floor on the overall level of capital spending
Is there a target or limit for government liabilities, debt, or net worth?	There is no target or limit for government liabilities, debt, or net worth	There is a target or limit for government liabilities, debt, or net worth	There is a target or limit for government liabilities, debt, or net worth with an automatic adjustment mechanism when the target is not being met





Fiscal Policy and Public Investment in the Context of the PIMA

Regional Workshop on
Strengthening Institutions for Public Investment Management

Kigali, Rwanda
November 29, 2016



Outline of Presentation

- Background
- The PIMA on Fiscal Rules
- Fiscal Rules Elaborated
- Examples from the Region and Beyond

Background

Infrastructure Investment and Fiscal Space

- Fiscal space is finite (where fiscal sustainability is the accepted objective)
- Need to scale up investment in infrastructure is real (and urgent)
- Challenge for policymakers lies in scaling up infrastructure investment
 - Within finite fiscal space
 - Without compromising fiscal sustainability

Infrastructure Investment and Fiscal Space

- Dimensions of the challenge:
 - Optimal level of investment consistent with fiscal sustainability (how much is available to invest)
 - Project selection to ensure optimal contribution to long term growth and fiscal trajectory (which projects should be invested in)
 - Financing options to ensure adherence to debt sustainability (how should these projects be paid for)

Infrastructure Investment and Fiscal Space

- Investment decisions will influence both numerator and denominator in fiscal indicators:
 - Numerator (fiscal balance, debt)
 - Denominator (GDP)

Implications for PFM & PIM



- Medium term fiscal framework, with embedded fiscal responsibility (i.e., fiscal principles/rules)
- Prioritized public investment program
- Project identification, appraisal, and selection
- Project financing
- Project implementation (i.e., avoidance of cost and time overruns, ensuring compliance with delivery specifications)
- Post-implementation asset (and liability) management

The PIMA on Fiscal Rules



Principal Policy Objectives



- Fiscal sustainability
 - Overall investment envelope should be determined within the context of a sustainable fiscal stance into the long term
- Protecting the investment envelope
 - To the extent possible, the investment envelope should be protected while safeguarding fiscal sustainability
- Debt sustainability
 - Financing choices should not compromise debt sustainability

PIMA on Fiscal Rules



1. Fiscal principles or rules: Are there permanent fiscal principles or rules that support sustainable levels of capital spending?

1.a. Is fiscal policy guided by one or more permanent fiscal principles, or rules?

Not met: There are no permanent fiscal principles or rules

Partly met: Fiscal policy is guided by one or more permanent fiscal rules but they have not been adhered to over the last three years and there is no provision in the law allowing rules to be suspended in exceptional circumstances


Fully met: Fiscal policy is guided by one or more permanent fiscal rules and they have been adhered to over the last three years or there is a provision in the law allowing rules to be suspended in exceptional circumstances.

1.b. Do fiscal principles or rules protect capital spending over the short term or medium term?

Not met: Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure

Partly met: Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure, but these are expressed in structural terms

Fully met: Capital spending is excluded from a target or limit for the balance (Golden Rule) or expenditure (Operating Expenditure Rule) or there is a floor on the overall level of capital spending

PIMA on Fiscal Rules


1. Fiscal principles or rules: Are there permanent fiscal principles or rules that support sustainable levels of capital spending?


1.c. Is there a target or limit for government liabilities, debt, or net worth?

Not met: There is no target or limit for government liabilities, debt, or net worth

Partly met: There is a target or limit for government liabilities, debt, or net worth

Fully met: There is a target or limit for government liabilities, debt, or net worth with an automatic adjustment mechanism when the target is not being met





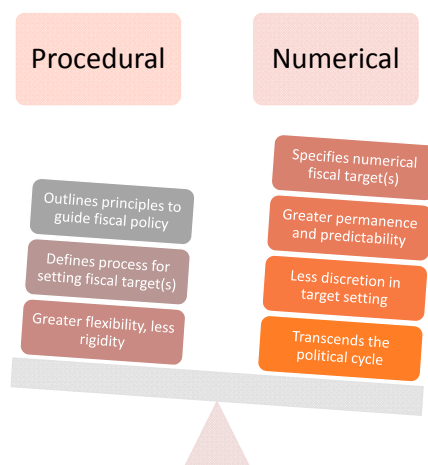
Fiscal Rules Elaborated

Definition and Key Characteristics

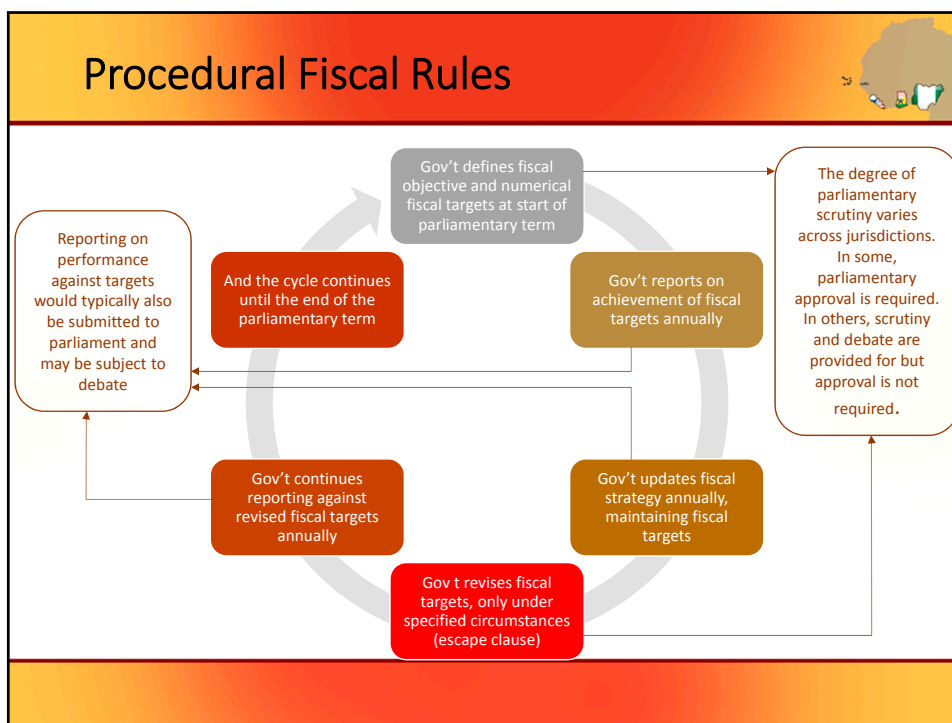


- A permanent constraint on fiscal policy, expressed in terms of a summary indicator of fiscal performance (Kopits and Symansky, 1998)
- Key characteristics
 - Stability (permanence) – applicable to the medium and long term, written into the law
 - Credibility – cannot be changed whimsically
 - Practicability – may include an escape clause under specified exceptional circumstances

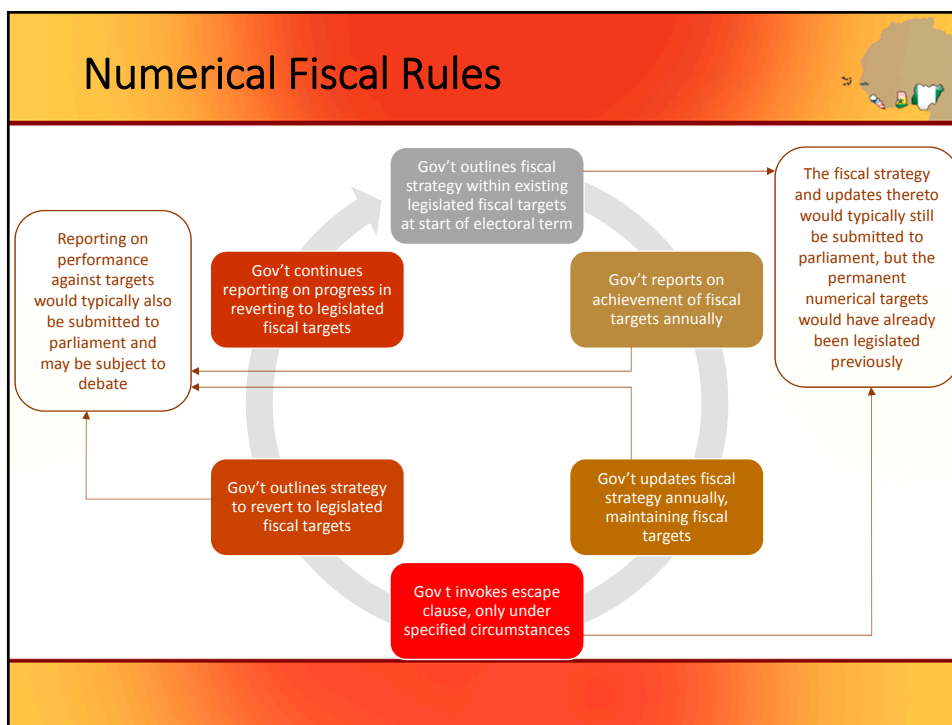
Types of Fiscal Rules



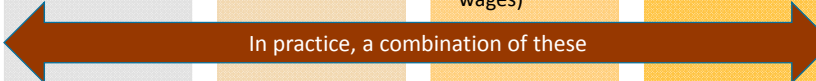
Procedural Fiscal Rules



Numerical Fiscal Rules



Types of Numerical Rules

Debt Rule	Budget Balance Rule	Expenditure Rule	Revenue Rule
<ul style="list-style-type: none"> Debt ceiling (absolute or percent of GDP) – sometimes disaggregated between domestic and external Also: Ceiling on government guarantees (contingent liabilities) 	<ul style="list-style-type: none"> Overall budget balance Structural or cyclically adjusted balance Balance over the cycle Overall balance (net of capital expenditure) – the Golden Rule 	<ul style="list-style-type: none"> Limit on total, primary, or current spending (absolute, growth relative to previous year, or percent of GDP) Also: Limit on specific categories of spending (e.g., wages) 	<ul style="list-style-type: none"> Ceiling (or floor) on government revenue Restrictions on spending windfall revenue
			

Supranational Rules

- International treaties also introduce supranational rules (e.g., EU Fiscal Compact, ECOWAS Convergence Criteria)

ECOWAS Convergence Criteria	
Primary	Secondary
<ul style="list-style-type: none"> Average annual inflation rate ≤ 5 percent Gross external reserves ≥ 6 months of import cover. Overall fiscal deficit (excluding grants) to GDP ratio ≤ 4 percent Central Bank financing of the budget deficit ≤ 10 percent of previous year's tax revenue 	<ul style="list-style-type: none"> Real interest rate > 0 percent Stable exchange rate Non-accumulation of domestic and external arrears and settlement of all outstanding arrears Tax revenue to GDP ratio ≥ 20 percent Wage bill ≤ 35 percent of tax revenue Internally funded public investment ≥ 20 percent of tax revenue



Examples from the Region and Beyond



Nigeria – Numerical Rule

- Fiscal Responsibility Act 2007:

Section 12. The estimates of:

(1) aggregate expenditure... shall not be more than the estimated aggregate revenue plus a deficit, not exceeding three per cent of the Estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year.

(2) aggregate expenditure for a financial year may exceed the ceiling imposed by the provisions of subsection (1) of this section, if in the opinion of the President there is a clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

Mauritius – Numerical Rule



• Public Debt Management Act as amended

Section 7

(2) Subject to this section, the total outstanding amount of public sector debt shall, at the end of each fiscal year, not exceed 60 per cent of the Gross Domestic Product (GDP) at current market prices for that fiscal year.

(3) Subject to subsection (4), the percentage referred to in subsection (2) shall, at the end of each fiscal year, be reduced so that at the end of the fiscal year ending 31 December 2018, the percentage shall not exceed 50 per cent and that percentage shall remain the ceiling for every subsequent fiscal year.

Mauritius – Numerical Rule



• Public Debt Management Act as amended

Section 7

(4)(a) Subject to paragraph (b), the requirements of subsection (2) or (3) shall not apply in case –

(i) of natural disasters or other emergencies requiring exceptional expenditure

(ii) where a large investment project in the public sector is deemed by Cabinet to be timely and prudent; or

(iii) of general economic slow-down requiring fiscal stimulus.

(b) Any rise in the percentage at the end of a fiscal year shall not exceed 2 per cent by reference to the percentage in respect of the previous fiscal year.

Mauritius – Numerical Rule



•Public Debt Management Act as amended

Section 7

(5) Where, in a fiscal year, there is an increase in percentage pursuant to subsection (4), the Ministry shall prepare a plan describing how, within the 3 fiscal years immediately following that fiscal year, the percentage of public sector debt to the Gross Domestic Product (GDP) shall be restored to the percentage referred to in subsection (3), and take steps to ensure that it is made public.

Jamaica – Numerical Rule



•Financial Administration and Audit Act as amended:

Section 48C. (1) Subject to subsection (2), the Minister shall take appropriate measures-

- (a) to reduce the fiscal balance to nil by the end of the financial year ending on March 31, 2016;*
- (b) to reduce the total debt to one hundred percent or less of the gross domestic product by the end of the financial year ending on March 31, 2016;*
- (c) to reduce the ratio of wages paid by the Government as a proportion of the gross domestic product to nine percent or less by the end of the financial year ending on March 31, 2016; and*
- (d) beyond the end of the financial year ending on March 31, 2016, to maintain or improve on the targets specified in paragraphs (a), (b) and (c).*

Jamaica – Numerical Rule



(2) The targets specified in subsection (1) (a) to (d) may be exceeded on any of the following grounds specified by the Minister by an order subject to affirmative resolution-

- (a) national security;*
- (b) national emergency; or*
- (c) any other occurrence that is severe in its impact on the economy.*

(3) An order under subsection (2) shall specify a new time schedule for the targets concerned and the measures for indicating how they will be met.

United Kingdom – Golden Rule



• Code for Fiscal Stability 1997-2008

- *Golden rule: over the economic cycle, government borrowing should not exceed net government capital formation, hence current spending should be financed by current receipts*
- *Sustainable investment rule: over the economic cycle, the ratio of net public sector debt to GDP will be set at a 'stable and prudent' level, defined by the Chancellor as no more than 40% of GDP*

Sierra Leone – Procedural Rule



•PFM Act 2016

Section 21

(1) When an election to the office of President of the Republic of Sierra Leone has taken place, the new Cabinet shall... specify in its first Fiscal Strategy Statement, the fiscal objectives to be applied in the next five years.

(2) Where the fiscal objectives have been specified under subsection (1), the Fiscal Strategy Statements of the subsequent five years shall include –
(a) an assessment of progress in achievement of the fiscal objectives; and
(b) a description of adjustments to be made towards achievement of the fiscal objectives.

(3) The fiscal objectives specified under subsection (1) may not be changed during the term of the President of the Republic, unless such change is made through the Fiscal Strategy Statement which includes an explanation of the reasons for the change.

Uganda – Procedural Rule



•PFM Act 2015

Section 5

(1) The Minister shall, not later than three months after the first sitting of Parliament after a general election, submit to Parliament for approval—

(a) a Charter for Fiscal Responsibility which shall provide—
(i) a statement indicating the measurable objectives for the fiscal policy for a period of not less than the next three financial years, which are consistent with the principles set out in section 4...

(2) The Minister shall publish the Charter for Fiscal Responsibility and the economic and fiscal update not later than one month after approval by Parliament or such a time as may be determined by Parliament.

Uganda – Procedural Rule



•PFM Act 2015

Section 7

(1) The Minister may, with the approval of Parliament, deviate from the objectives in the Charter for Fiscal Responsibility where Uganda experiences a natural disaster, an unanticipated severe economic shock, or any other significant unforeseen event that cannot be funded from the Contingency Fund or other funding mechanism provided in this Act or using prudent fiscal policy adjustments.

(2) The Minister shall within thirty days after deviation, publish a report in the gazette and on the website of the Ministry.

Concluding Thoughts



- Phased implementation
- MTFF (supported by MTDS) to determine sustainable fiscal and debt trajectory
- A procedural rule can be a useful first step to strengthening fiscal discipline, and improve transparency and predictability in fiscal policymaking
- Numerical rules aligned with existing supranational obligations (and compliance therewith) would be a good start



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Strengthening Public Investment Management

Session 2.2 : Project Appraisal


AFRITAC East/IMF Regional Workshop
 Rwanda, November 2016




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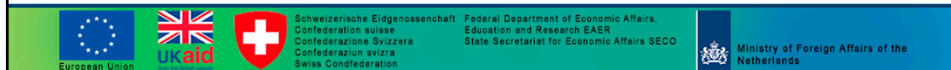
Objective of the Session

- PIM – Why it matters so much
 - Imperative for change
 - Challenges
 - Unified framework for PIM – 8 “must-have” features
- Project appraisal
- Independent review of appraisal
- Choosing between traditional versus PPP methods
- Towards a reform agenda



Imperative for change

- Consider the perspective of a finance minister in a developing country
 - Large new resource discovery and significant new fiscal revenues - \$\$ billions
 - Great opportunity this windfall offers to finance critical infrastructure and human capital investments to:
 - Alter the opportunities available for citizens of the country & enable private sector jobs and growing incomes for millions
- But...
 - Little institutional capacity to make the necessary decisions on sound economic principles
 - High risk of ad hoc and politically motivated investments that will not contribute to the development goals of the country



Imperative for change

- The Wealth of Nations (1776) – Adam Smith
 - *“The sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.”*



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Imperative for change

- Government provision of complementary public goods facilitates growth of markets and long-term economic prospects
- John Maynard Keynes (1936): Public investment is a tool of countercyclical fiscal policy, justifying public works programs during the Great Depression
- In the last 15 years interest in public investment has taken a new and interesting turn - governments complaining about capacity to undertake public investments under “macroeconomic stabilization programs” recommended by IMF to reign in growing budget deficits, debt and run-away inflation
- Cutting public investment led to a weakening growth prospects with adverse consequences for fiscal solvency



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Imperative for change

- A better approach would be to adopt a longer-term perspective:
 - Design of fiscal policy with a view to maximizing government net worth. Promote growth and development while preserving macroeconomic stability. Some general principles apply:
 - Cuts in public consumption are preferable to cuts in public investment, and a reallocation of resources from lower-efficiency uses to more productive uses is likely to be more long-term growth enhancing than raising additional revenue or borrowing to finance the same productive expenditure.
- However argument for public investment relies on the belief that resources invested translate into an equivalent value of public capital stock lowering the cost of production or distribution, benefiting overall growth of the economy



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Imperative for change

- Main measure is rate of economic or social return from public investment (i.e., increase in public capital stock)
- However this rate of return depends on the effectiveness of the management of the public investments including:
 - Budgeting and execution
 - Operation and maintenance of the public asset
- Cost-benefit analysis usually assumes a frictionless process of project implementation – if quality of PIM is low, and if resources are wasted or corruptly misdirected, it is likely that the realized rate of return will be low or negative
- Without efficient management of public investments, investment spending is unlikely to be fiscally sustainable and would not promote growth and development



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Challenges

- At this stage in Africa's development it is non-negotiable to build PIM capacity – "invest in investing" to address a range of inefficient practices that have huge economic and social costs:
 - Bureaucratic delays that lead to underspending capital budgets such as sponsoring line ministries subjected to review by ministry of planning and/or finance – lack of effective interagency coordination
 - Corrupt practices that divert public resources into private pockets
 - Cost and time overruns highlighting management weaknesses as well as underestimating costs due to optimism bias of planners



Challenges

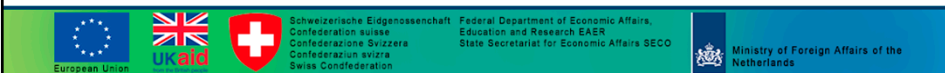
- Public investment projects involve multiyear processes and significant planning, coordination, financing, procurement, and contract management
- Weak budgeting systems that may result in funds being diverted by new priorities or reduced due to fiscal shocks
- Projects may also be driven by political considerations and therefore may be subject to different criteria and timelines
- Key staff turnover can lead to loss of focus and momentum
- Contractors may run into unexpected technical and financial challenges
- Large infrastructure project often involve site acquisition, population resettlement and environmental safeguards



Opportunities

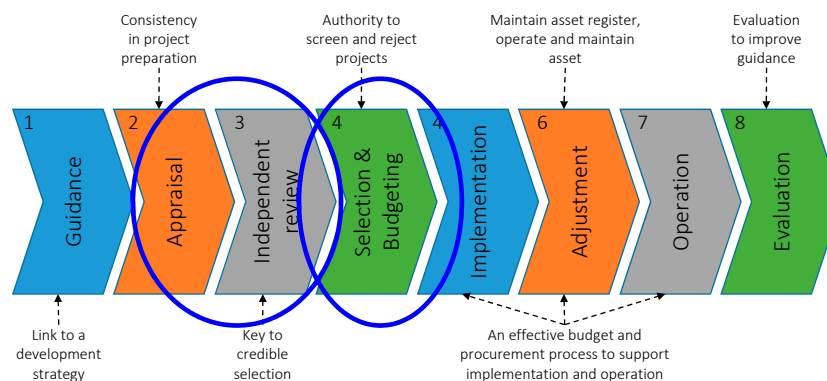
- Effective PIM systems require alignment of capacities and incentives to improve project design and selection as well as technical and administrative capacity for project implementation
- PIM effectiveness and efficiency can be attained through good project selection and design and good implementation – Progressively moving PIM outcomes to A in top left cell

PIM outcomes typology		
Project selection	Project implementation	
	Well executed	Poorly executed
Good projects	A	C
Poor projects	B	D

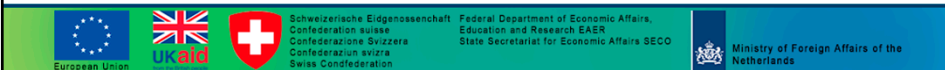


Unified framework for PIM – 8 “must haves”

- 8 essential features for achieving PIM efficiency



Source: Power of PIM, World Bank, 2014



Project appraisal – Introduction

- 1st must-have feature – An appropriate institutional arrangement to ensure that all major project proposals receive a “first-level screening” to ensure that time is not wasted in more-detailed appraisal
- May be delegated to line ministries and spending agencies
- Projects that meet the first screening test should be subject to appraisal of their viability
- Rigorous project appraisal acts as screening mechanisms to prevent inappropriate and inefficient projects from getting into the project cycle and gaining political support and momentum that can make them difficult to stop at later stages



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Project appraisal – Introduction

- Project appraisal is a key tool to enhance wealth creation through designing, selecting, and implementing public sector projects with positive net benefits to an economy
- Project appraisal can achieve this by:
 1. Screening out “white elephant” projects that have large draws on the capital and current budgets without providing any significant benefits
 2. Designing projects in terms of technology, scale, timing, organization, ownership, financial arrangements to maximize net economic benefits
 3. Ensure proper costing & financing of the investment phase of a project to allow completion within time & budget



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Project appraisal – Introduction

4. Ensure self-financing projects are financially viable and that non-self-financing projects will have adequate budget support over their operational
5. Ensure the risks of a project are diversified or allocated to those parties that can absorb them at lowest cost
6. Ensure equitable distribution of gains & losses
 - o Private partners get a reasonable return with incentives to perform and bear risks without capturing any unintended large surplus
 - o Any low-income groups targeted by poverty alleviation projects capture most of the benefits
 - o Any groups suffering major costs such as through resettlement or environmental damage, are compensated



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Project appraisal – Feasibility analysis

- Regulated set of project preparation steps:
 - Prefeasibility analysis
 - Feasibility study
- Must be independently evaluated before a project can be approved for funding
- Prefeasibility focuses on alternatives and to assesses early on if the project is feasible before undertaking full-fledged feasibility
- Feasibility study takes prefeasibility analysis further including:
 - Compiling all relevant data, refining project outputs and outcomes, outlining and analyzing in depth the selected alternative for achieving project objectives



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Project appraisal – Feasibility analysis

- Undertaking various background assessments including environmental and social impact analysis.
- Identifying an optimal option for preliminary design helps to narrow the scope of a project
- As part of feasibility analysis, projects undergo more rigorous scrutiny of their cost-benefit estimates or cost-effectiveness
- Governments should have formal and well-publicized guidance on the technical aspects of project appraisal appropriate to the technical capacity of ministries



Project appraisal – Feasibility analysis

- Guidance should describe:
 - Techniques of economic evaluation appropriate to the scale and scope of the projects – larger projects requiring more rigorous tests of financial and economic feasibility and sustainability
- Appraisal process should consider project proposals of different scales and take into account the key macro, sectoral, and project-specific uncertainties such as inflation, cost overrun, change in output, and key input prices, etc.
- New investments should occur only when rehabilitating existing assets as cost-effective as undertaking investment in a new asset



Project appraisal – Feasibility analysis

Key Components of Feasibility Analysis	
Prefeasibility study	Feasibility study
1. Data gathering (geographic, climate, socioeconomic, and technical)	1. Compilation of all relevant data
2. Identification of project alternatives	2. Alternative technologies for project
3. Major risks (including institutional and budgetary)	3. Detailed estimate of costs and benefits for a selected alternative
4. Comparison of alternatives (engineering, socioeconomic costs and benefits)	4. Preliminary design
5. Recommended project alternative	5. Detailed risk assessment
6. Preliminary estimate of project costs and benefits	6. Detailed sustainability assessment
7. Regulatory requirements	7. Environmental impact assessment
8. Identifying information for social impact assessment	8. Social impact assessment



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Project appraisal – Feasibility analysis

- Full-fledged feasibility assessment with complex techniques of cost-benefit and cost-effectiveness analysis are sometimes poorly developed and implemented despite best intentions
- Therefore emphasis on basic elements of project appraisal initially:
 - Need for a project is well justified
 - Project's objectives are clearly specified
 - Broad alternative options to meet the project's objectives are identified and comparatively examined
 - Most promising option is subject to detailed analysis
 - Project costs are fully and accurately estimated; and
 - Project benefits are assessed qualitatively to justify costs



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Project appraisal – Main stages

- Stage 1 – Prefeasibility
 - Screening out clear losers before major design costs are incurred or political commitments
 - Considering the major design elements in a project (technology, scale, timing, location, organization, ownership, and so on)
 - Identifying where the major uncertainties in the available information lie in order to target subsequent information gathering



Project appraisal – Main stages

- Stage 2 – Feasibility
 - Additional surveys, studies, testing, and so forth should be conducted to reduce the uncertainty in key factors determining the viability of the project
 - Approval after feasibility appraisal moves projects forward for financing and inclusion in the budget.
 - Approval based on projects with the highest net present value (NPV) to the economy that can be financed
- Stage 3 – Detailed blueprint
 - Detailed design of project includes engineering specs and construction designs as well as plans for procurement
 - Basis for final budgets and contracting



Project appraisal – Analytical requirements

- Demand or market analysis is key to estimating the economic impacts, benefits, and financial revenues
- Technical or engineering analysis is the basis of technology and scale selection, planning the construction phase, and costing the construction and operations
- Organization, ownership, human resources, and financing brings in questions of the appropriate organizational home of the project (government, public authority, nongovernmental organization, or private sector); the allocations of risks and incentives to make the project most efficient; labor requirements and availability; and the financing options



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Project appraisal – Analytical requirements

- Financial analysis (including internalized risks and environmental costs) is key to assessing the financial viability and default risks as well as, in the case of public sector projects, the demands on future government budget revenues
- Economic analysis (including external risks and environmental costs) determines the net benefits generated by the project to all stakeholders in the economy – determinant of the economic wealth creation (or destruction) expected from a project
- Distributional analysis disaggregates the net economic benefit to reveal the net benefits or costs expected by all key stakeholders



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Project appraisal – Cost benefit and cost effectiveness analysis

- Example of project appraisal/cost-benefit guidelines in advanced economies issued by governments:
 - Handbook on Benefit-Cost Analysis (Australian Government 2006)
 - Canadian Cost-Benefit Analysis Guide (Government of Canada 2007)
 - Guidance on the Methodology for Carrying Out Cost-Benefit Analysis (EC 2006).
 - Guide to Cost-Benefit Analysis of Investment Projects (EC 2008).
 - Cost Benefit Analysis Primer (Government of New Zealand 2005).
 - The Green Book: Appraisal and Evaluation in Central Government (HM Treasury, United Kingdom 2003).
 - Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs” (U.S. OMB 1992).
 - “Guidelines for the Appraisal & Management of Capital & Expenditure Proposals in the Public Sector” (Government of Ireland 2005)
 - Rwanda...



Project appraisal – Cost benefit and cost effectiveness analysis

- Net benefits of investments are judged in terms of Net Present Values (NPVs) and internal rates of return (IRRs) from financial and economic perspectives
- In making comparisons between mutually exclusive projects or optimizing the net benefits from a project design, the NPV is the appropriate criterion
- In practice, this criterion needs to be considered in conjunction with any significant externalities, costs of risks, or distributional considerations that may not have been captured in the values entered into the economic costs and benefits of the project



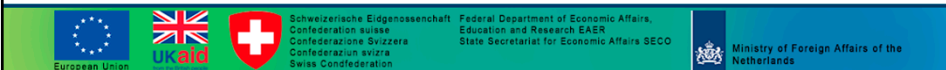
Project appraisal – Cost benefit and cost effectiveness analysis

- In cases where the benefits are difficult to value, cost-benefit analysis (CBA) is typically reduced to CEA. CEA is used to measure the cost per unit of service or, less frequently, outcome of a program
 - E.g., in the case of a vaccination program, CEA can be used to estimate the cost per added quality-adjusted life years gained
- CBA typically gets applied to two basic categories of project
 - Self-financing or commercial projects
 - Non-self-financing or budget-supported projects



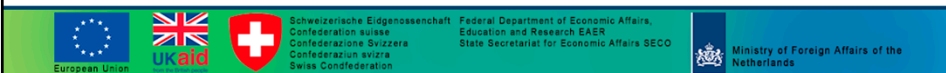
Project appraisal – Cost benefit and cost effectiveness analysis

- *For self-financing or commercial projects:* include regulated price sectors and concession arrangements for private participation in the supply of utilities and infrastructure.
 - Determination of financial viability is critical
 - Also key to estimating the bids from private firms expected to participate in a public-private partnerships or supply a service at a regulated price.
- *For non-self-financing projects,* financial sustainability is key issue – What is the feasibility of future budget support to the operation and maintenance of such projects?
 - This determination requires an identification of the future surplus revenues to support the project. Without such a determination, the future service delivery and corresponding economic net benefits are at risk.



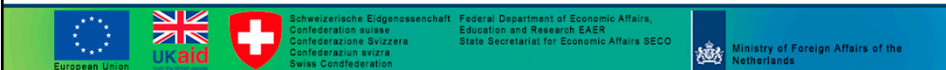
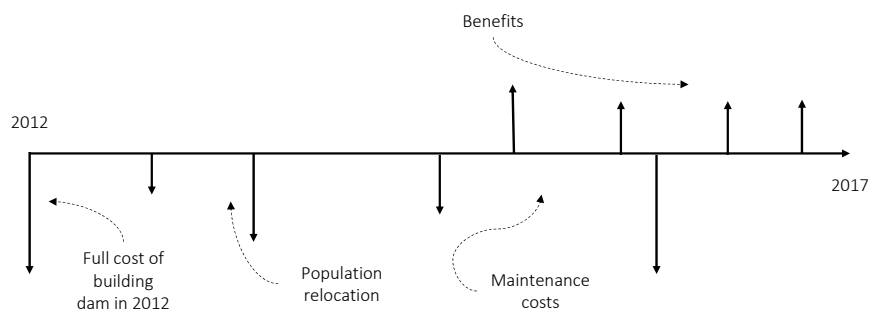
Project appraisal – Cost benefit and cost effectiveness analysis

- Cost-effectiveness analysis is often used in everyday life, and it is easily presented to and understood by policy makers
- As a measure of technical efficiency, it expresses a result in terms of the cost of achieving a specific objective:
 - E.g., number of lives saved in terms of the cost of a dam to prevent flooding. At its most simple, it can reveal projects that generate the “biggest bang for the buck”
- However typically CEA results only allow for comparisons between projects of a very similar nature
- Difficult to compare a water project vs an agriculture project
 - E.g., if the comparison made is between number of lives saved per dollars spending on flood mitigation vs kilograms of additional rice grown per dollar



Project appraisal – Cost benefit and cost effectiveness analysis

- Assuming certainty, a conventional cost-benefit analysis is illustrated below:



Project appraisal – Cost benefit and cost effectiveness analysis

- The previous figure illustrates costs and benefits to society of a dam project in 2012 to prevent flooding and store water
- Arrows above the horizontal timeline represent values of projected benefits; those below represent costs (financial and social)
- It is standard to show costs and benefits as accruing at the end of each year
- The example assumes certainty (or at least high confidence) about the value of future benefits and costs...risk analysis vital
- Future values of costs and benefits are normally discounted back to the present obtain the net present value of the project



Project appraisal – Cost benefit and cost effectiveness analysis

- The textbook decision criterion for conventional cost-benefit analysis is invariably given as net present value needing to be greater than zero, implying that the present value of social benefits must exceed that of social costs
- Despite a number of shortcomings, cost-benefit analysis remains the main rigorous analytical tool available in terms of assessing issues such as the relative merits of different projects and strategies
- In particular, it affords policy makers an unambiguous decision tool by requiring that the present value of benefits to society as a whole exceed the present value of social costs incurred



Project appraisal – Risk assessment

- A useful categorization of risk and uncertainty is illustrated below with regard to climate change issues:

	Known consequence or probability	Unknown consequence or probability
Known event	I. “Known unknowns” (e.g., rising ocean temperatures may increase the intensity of cyclones, but the frequency of occurrence is not known)	II. “Known knowns” (e.g., increased local temperatures for longer periods will affect crop cycles)
Unknown event	III. “Unknown knowns” (e.g., an indigenous person knows of a rare pest that will thrive in a warmer climate but has not told the responsible authorities about it)	IV. “Unknown unknowns” ([ex post only] e.g., sewer pipes have been corroded due to reduced water flow due to “permanent” drought)



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Project appraisal – Risk assessment

- Known unknowns
 - Availability of funding due to fiscal shocks, donor issues (mitigation: speed in implementation)
- Known knowns
 - Cash flows (Mitigation: Ensure funding authorities are signed-up, guarantees are in place, strong contracts)
 - Availability of technical capacity (Mitigation: Proper tendering procedures and choice of modality – PPP vs. traditional)
 - Ability to actually construct and implement projects (Mitigation: Effective project management)
- Unknown knowns
 - Information on risks is available but not generally perceived (Mitigation: Strong research for CBA, consultation locally and with experts)



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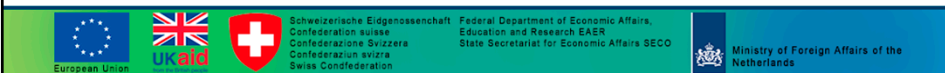
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Independent review of appraisal

- Sound practice to subject project appraisals to an independent review to check any subjective, self-serving bias or optimism bias
 - Underestimated costs and overestimated benefits – can skew investment decisions
- Can be performed by the ministry of finance or by a designated specialized agency or a university or a policy research institute at arms-length - more credible
- Donor-financed projects – upstream aid coordination can help channel resources to priority areas but project should be subjected to the same appraisal stages
 - Clarity of specific responsibilities is important. A multiplicity of players with unclear accountabilities can overburden the appraisal system
 - Formal set of delegations is necessary to keep minor projects from clogging up the appraisal



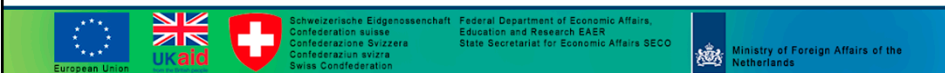
Choosing between traditional and PPP methods

- PPP are promoted because:
 - Better VFM by taking advantage of creativity and efficiency in implementation of private sector
 - Lack of financial and technical resources in government
- PPP justified because of perception of offering more efficiency and can bring in additional resources/easing fiscal constraints
- However these are based on assumptions that are not always valid:
 - Competitive markets for finance and civils
 - *Effective identification and implementation* of projects
 - Optimal risk transfer is possible
 - Ability to prepare good projects and agree on strong contracts
 - Address fiscal challenges (Free money?)



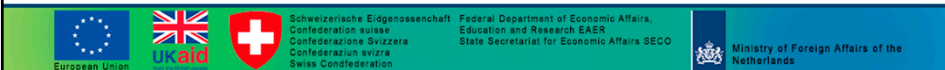
Choosing between traditional and PPP methods

- Fiscally a principal key to initiating PPP projects is to confirm that govt can maintain the same level of fiscal efficiency and sustainability as through conventional means
 - However its complex to calculate how much private funding or govt liability will be efficient and sustainable
- Need for a unified framework to assess VFM (i.e., efficiency) between PPPs and conventional approaches across project cycle
 - Need to be consistent in decision-making with a focus on VFM
 - Issues that skew decision
 - Legal and institutional set-up
 - Range and complexity of VFM tests for PPPs vs conventional



Choosing between traditional and PPP methods

- Issues that skew decision (cont.)
 - Roles in procurement of Parliament, MoF, PPP unit, implementation agents
 - Accounting standards that differ between public/private
 - Political preference for or against PPPs
- Supporting optimal risk transfer
 - Effective identification, pricing and allocation of risk
 - Risk must be allocated to the party best able to manage it involving trade-off and proper incentives (e.g., demand risk)
- Avoiding unmanaged fiscal risks and improving transparency
 - Strengthening procedure and control for PPP commitments
 - Properly costing cost of maintenance and operations of conventional projects



Towards a reform agenda

- For aid-dependent countries
 - Strengthen appraisal capacity to selection and design of projects to reduce “low quality” projects from being budgeted
 - Strengthen control of donors – leverage them, minimize tendency to be pulled in different directions
 - Strengthen coordination of intra-government between different agencies responsible for recurrent and development budget
 - Unified appraisal both of government and donor projects with the view of the whole pipeline of all investments – independent review of donor project appraisals where these are already done
 - Where there is still not enough demand/appetite for more robust appraisal and improved project preparation – focus on interventions that can **improve chronic poor project execution**



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City of Derry Airport










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Key Statistics

- Approximately 450k passengers per annum
- Some seasonal component
- But limited catchment area
- No cargo
- Light aircraft / training school / flying club
- Good standard of airfield regulatory compliance and navigational aids
- Close to 2 x World Heritage Sites (tourism potential)



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The Problems that needed to be Resolved

- Loss-making
- Large ongoing subvention that consumed 11% of the City's total budget every year
- Constant calls on capital which could not be afforded – runway works required
- Lack of ideas to drive growth
- General belief and acceptance that politicians and public officials were not the best people to run an airport



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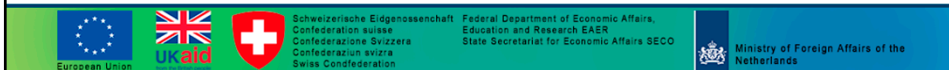
Managing Stakeholders

- Politicians
 - Officials
 - Airport Staff
 - Labour Unions
 - Local businessmen
- Also:** Media and 'armchair airport CEOs'



Competing Objectives and Motivations

- The dreaded 'P' word
- Difficult to get total agreement on what to do
- But 'something had to be done'
- Required hard work – shuttle diplomacy
- Needed to manage consultants too



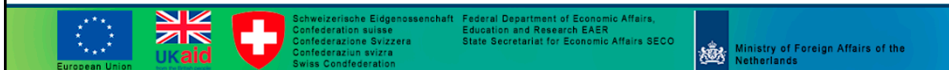
Did the Airport Have a Future At all??


- Economic Assessment
- Independent
- Cost Benefit Analysis
- Peer Reviewed by non vested interests
- Small positive net benefit to the local economy
- Cross border issues



(Finally Agreed) Objectives of the Owners

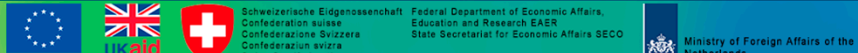

- Keep the airport open for commercial flights
- Reduce subvention short term / eliminate it long term
- Maintain and increase number of routes and number of passengers
- Improve commercial revenues
- Maintain regulatory compliance at all times



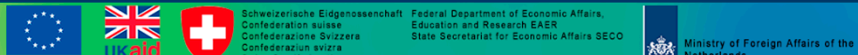


SO WHAT HAPPENED NEXT?

What would you have done?

**After an option assessment workshop
it was agreed that the only feasible
option to achieve all this was to bring
in a private partner on the agreed
condition that it would follow a
competitive process**



Market Test

- Were the objectives the chosen option possible?
- Only one way to find out
- Discuss in a non binding but transparent way which bidders might be interested in principle and what conditions might apply
- If the stakeholders 'needs' aren't possible – walk away
- If the 'needs' are possible but the 'wants' aren't – find out what might be possible
- Take findings back to the owners and stakeholders



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What we found out....

- Moderate interest in the opportunity
- Seen to be 'too small' by most operators / investors
- Concern about dominance of one airline
- A lot of speculative interest from aviation consultants / real estate developers / local businessmen
- How many of these were likely to pitch in with bids that would be of interest to the owners???
- Had already agreed that unless at least **three serious expressions of interest** could be identified, the private sector involvement would be discounted



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Technical / Legal Issues to consider 1

- **Consider separation of land from operations** - retain control over the land assets; simpler to address termination of a services provider
- **Identify critical / non-critical areas of land** - i.e. what must be used for "airport purposes" / what can be used for "airport related development" / and what can be used for other "non-airport" revenue or capital generation - balancing airport operations and future development with maximization of value capture from other areas
- **Car parking** - always an issue; most revenue for smaller airports comes from the passenger throughput - so car park revenues and concessions are important revenue streams

Contractual structure - the key questions are around how much the public sector is willing to cede "control" over the assets / operations balanced by its long term strategic objectives for the airport and the region



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Technical / Legal Issues 2

Service spec and standards – say what you want and don't over-specify standards (gold-plating)

Performance regime - align the service provider's financial incentives with the Authority objectives (e.g. reduce subvention / enhance income generation from concessions or car parks / increase routes / retain as a strategic asset for enhancing economic and social benefits in a region etc

Employees –often public sector employees have beneficial pensions provisions - always a sensitive issue and potentially a big issue

Regulatory environment - licenses - who will be the license holder?

Governance regime - balance to be struck between public sector's desire to have some "influence" (proportionate to their "economic interests") and the private sector's wish to have control over decisions so as to enable speedy decision making and protect the performance of their investment

Termination events - how can the contract be terminated? When and on what grounds etc? Think about the practicalities - transitional / handover arrangements. A plan is essential as you will need to address all the same issues: pensions, insurances, licenses etc all over again but this time having a disgruntled incumbent provider rather than a keen bidder!

Compensation on termination - a possible problem depending on what capex etc the provider has invested they may be entitled to compensation even where they are in breach etc;



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Evaluation Criteria

Award Criterion	Weighting %	Weighting %
Business Plan		
Quality and credibility of:		
• route development/aeronautical revenue plan	20	
• commercial development/revenue plan	10	
• capex and opex projections	10	40
Reduction & elimination of subvention		
• NPV of bid		30
Staff and pension arrangements		
• Quality and credibility of staffing arrangements}		
• Quality and funding of pension arrangements}		10
Acquisition Plan		
• Strength and commitment to acquire (measured by certainty of timing, capacity to complete, value of consideration)	10	
• Conditionality	5	15
Council profit share		
• Operating phase	2.5	
• On subsequent sale	2.5	5



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Procurement

- Structured intentionally to attract as many early stage bids as possible, with as much flexibility around the bidders' possible offerings as possible - with a view to short-listing two or three appropriate bidders. The owners were open to suggested solutions from the market and so did not wish to be overly prescriptive
- Selection of a preferred bidder (PB) was possible quite quickly through careful calibration of objectives and evaluation criteria
- The strategy was to move into the negotiation stage with a PB as early as possible so as to enable further development with the PB - This had the advantage of allowing more time to draft the most appropriate legal and commercial solution; the downside was that post-PB some of the competitive tension is lost
- **Post - PB stage** - timeline was planned for 3 months but was not met (6 month overrun) - due largely to a dispute around labor issues



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Was everyone satisfied with the outcome?

- Traffic increased then declined somewhat. Presently stable.
- New routes were announced
- Investments were made by the private partner
- Commercial revenues were improved
- Subvention reduced by 40% = less cost to the taxpayer and...
- Derry City Council can now plan the City Budget with more certainty
- So far.....objectives more or less being achieved



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Strengthening Public Investment Management

Session 3.1 : Budgeting for Capital Projects

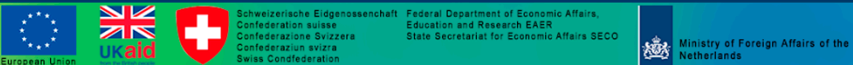
AFRITAC East/IMF Regional Workshop
 Rwanda, November 2016

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Objective of the Session

- Overview of capital budgeting
- Current good practices
 - Integrated budgeting
 - Project appraisal linked to the budget process
- Towards a reform agenda



Overview of capital budgeting – Why

- Capital budgets in governments have multiple roles:
 - As instruments of fiscal policy
 - To improve the net worth of government, particularly in the area of economic infrastructure
- Usually achieved through greater reliance on debt financing than conventional sources of revenue
- Governments have introduced capital budgets to serve these objectives as a way to reduce deficits and shift the composition of spending to investment to improve potential in the economy



Overview of capital budgeting – Why

- A key challenge in government budgeting is to define an appropriate balance between current and capital expenditures
- Budgeting for government investment is often not well integrated into the formal budget preparation process
- In the absence of properly organized capital budgets, governments resort to borrowing without due consideration of the sustainability aspects, assets are inadequately maintained, and major projects suffer from overall poor management and performance



Overview of capital budgeting – Definition

- The United Nations' *System of National Accounts* and the IMF's *Government Finance Statistics Manual 2001* prescribe how a government's consumption and investment activities should be separately recorded in the budget and in accounting records
- Capital spending is generally about physical assets with a useful life of more than one year and includes:
 - Capital improvements or the rehabilitation of physical assets that enhance or extend the useful life of the asset
 - Repair or maintenance, which assures that the asset is functional for its planned life
 - Capital spending is sometimes equated with investment or development spending, where expenditures have benefits extending years into the future.



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Overview of capital budgeting – Definition

- Under UN & IMF definitions, governments may include physical assets for government use (for example, office buildings), physical assets of a public good nature that enhance private sector development (for example, roads, water systems), and intangibles (for example education, research).
- Every government establishes a cut-off point to distinguish capital from current expenditures
- For budgeting purposes, the relevant distinction is between capital and current (or operating) expenditures
 - Current expenditures are purchases of assets to be consumed within one year, regardless of expenditure size.
 - Small capital expenditures (for example, less than US\$25,000) are often regarded as current, regardless of the fact that it could be consumed over a period longer than one year



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Overview of capital budgeting – Key stages

- Stages of budgetary management of public investment

Project cycle	Budget cycle
Pre-commitment	<ul style="list-style-type: none"> Strategic objectives/strategies Planning/detailed objectives Project appraisal Financing options Budgetary allocation
Post-commitment	<ul style="list-style-type: none"> Procurement Project management Budget monitoring and control
Post-commitment	<ul style="list-style-type: none"> Asset management Performance measurement
After any stage	<ul style="list-style-type: none"> Ex post evaluation



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Current good practices – Integrated budgeting

- Even though it is useful to distinguish between capital and recurrent spending in the budget, it does not necessarily call for dual budgeting
 - Capital and recurrent spending need to be considered separately for some purposes:
 - Capital-specific procedures are needed for asset procurement, project management, monitoring, disposal
 - Or other purposes they need to be considered together:
 - For planning and budgeting purposes
 - Projects need to be appraised in terms of both capital and operating costs



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Current good practices – Integrated budgeting

- Organizing the budgeting function
 - It is common in many countries (e.g., South Africa) for the section in the ministry of finance, that is familiar with ministry/sector activities, to deal with both capital and current spending (except mega projects)
 - For each spending program, the budget of capital and current expenditure is developed together
- Presenting the budget
 - See PDF – Estimates of National Expenditure (South Africa)



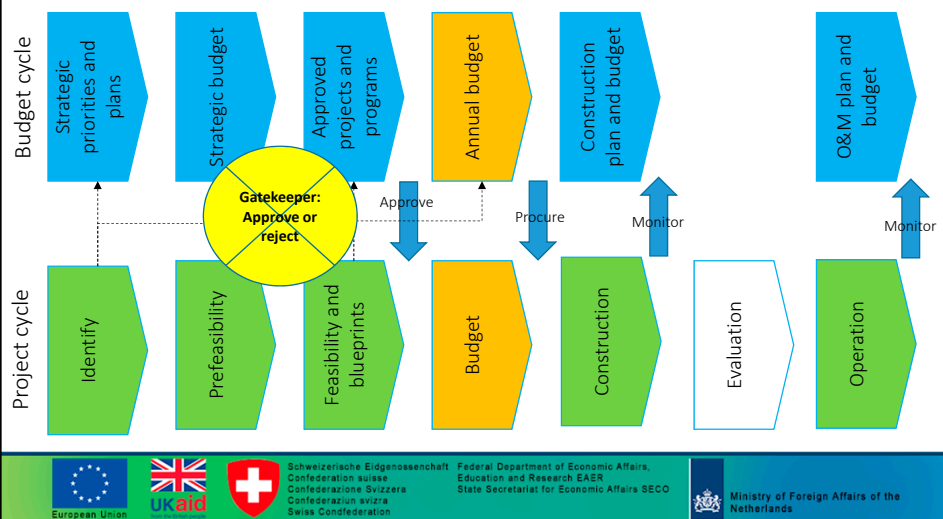
Current good practices – Integrated budgeting

- The budget systems of countries with a high degree of integration between current and capital expenditures exhibit several key features:
 - A single (combined) annual budget law and appropriation process
 - Clear, and unified, responsibilities for budgetary preparation and implementation
 - Existence of effective and widely employed investment appraisal techniques
 - Unified budget presentation, with supporting classification and accounting systems
 - Budget planning and management techniques within individual spending agencies that encourage and enable good use of financial resources



Current good practices – Project cycle linked to budget process

- Interdependencies, overlaps, and synergies between the stages of the project and budget cycles as shown below:



Current good practices – Project appraisal linked to budget process

- Essential that the process of appraising and selecting public investment projects is linked in an appropriate way to the budget cycle
- Fiscal framework and the annual budget need to establish envelopes for public investment (aggregate and/or sectoral basis)
- Critical that budgetary process that ensures recurrent funding to operate and maintain existing assets
- Efficient investment also depends on whether the recurrent budget adjusts to reflect the impact of capital project
- Additional costs may be incurred to maintain and operate existing assets – How will these costs should be funded
- See PDF for reflecting the forward costs of investment projects and fiscal framework alignment



Towards a reform agenda

- Key budget system reforms to facilitate increased demand for quality appraisal and capital budgeting:
 - Improved transparency in the capital investment
 - Strict adherence to project approval rules
 - Program-based budgeting (i.e., performance)
 - Variable length authorization and appropriations for major projects
 - Medium-term Budget Framework
 - Integrated budgets with related background procedures



Towards a reform agenda

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Public Private Partnerships (PPP)


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Points for Policy Makers to Consider from the Start

- **There is no such thing as a PPP project intrinsically, only Public Investment Projects that may or may not be implemented using a PPP methodology**
- PPP cannot convert a bad project into a good one
- PPP should not be used as an accounting trick but as a more effective and efficient method of delivering a Public Investment Project
- Governments must develop the skills that enable it to identify fiscal risks and contingent liabilities that come with PPP projects
- Unrealistic expectations (on skills required, schedule, budget for project preparation, affordability,) will cause problems and, eventually, disappointment with the results
- **PPP should not be considered a 'parallel process' to PIM**



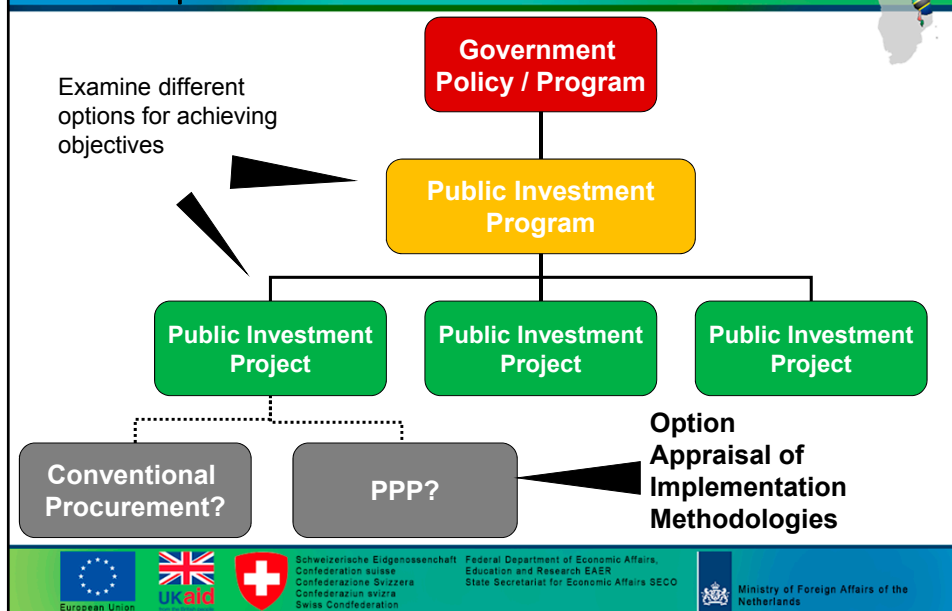
Why Project Proposals might normally be Rejected

- The nation can't afford it
- The project doesn't address a strategic need
- The project has not been prepared adequately
- The costs outweigh the benefits
- The proposing authority does not have the capacity to implement the project
- The project may be a good one but it is not a priority when compared to other good projects

PPP will not change any of these factors



When should you Consider PPP Implementation?



Challenges for **Governments** in Evaluating the PPP Option

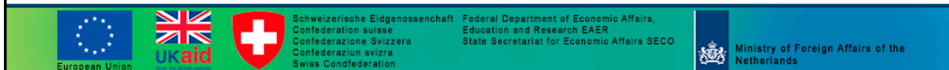
- **More projects than bidders / having to compete for investment**
- Knowing the requirements of Bidders/Investors and Lenders
- Being able to demonstrate a statistical need for the proposed project
- Exceptional level of project preparation is expected
- Understanding the bidder environment / competitive field
- Being aware of and understanding value for money issues
- Prepared to consider state guarantees or not?
- Would the additional **fiscal risks of PPP** be acceptable?
- Access to appropriate skills in order to implement a PPP methodology
- Not all investment projects are suitable for PPP in terms of:
 - Type of investment opportunity (sector)
 - Size of investment



Basic **Bidder** Requirements Regarding the Project

Remember: No bidders / investors = no PPP implementation

- Does the Authority know what it's doing?
- Does the Authority have competent advisers?
- Clarity on the speed and efficiency of decision making process
- Clear objectives from the Authority
- Long-term Operate & Maintain Contract - this is the core business of most interested parties
- Design control over new assets
- Operational control of the resulting business



Pre-feasibility and Feasibility Studies...(PPP)

- Both contain the answers to a series of questions – these are usually templated and feature in Regulations
- In the framework of a good PIM system, these questions should be the same for all project proposals
- **However some additional questions concern PPP:**
 - Is the project feasible as a PPP? Market test results required
 - Fiscal Risks – analysis required
 - Value for Money compared with conventional implementation



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Qualitative Test 1

- **Indicators of suitability for PPP procurement**
 - Contractual fixed price with economically sustainable inflation index
 - Long term predictable need
 - Long term solution preferred (whole life costing)
 - Stable policy and legal framework
 - Private sector can manage risks and be responsible for delivery of services and effective risk allocation is feasible
 - Performance related payment mechanism can be easily developed
 - Private capital at risk
 - Private finance can be raised without unacceptable fiscal risks to the government
 - Big enough (investment cost) to justify procurement costs
 - Competitive bidding market
 - Authority capable and skilled team



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Qualitative Test 2

■ Indicators of unsuitability for PPP procurement

- Project/service requirements are likely to undergo significant change
- Demand/solution not inherently long term
- Risk of obsolescence (usually technology based)
- Too small (although advice should be taken)
- Too complicated / complex
- Authority is inadequately skilled in PPP and external support cannot be funded
- Private finance would involve unacceptable fiscal risks or guarantees
- No track record of project type elsewhere
- No identifiable potential bidders or investors



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Value for Money Assessment (Quantitative) (so-called Public Sector Comparator)

- A benchmark of the estimates of costs for the entire project if it was to be implemented conventionally
- It is important that future operational and maintenance costs are included in the estimates
- The principle challenge is to estimate the value of risks transferred to the private company



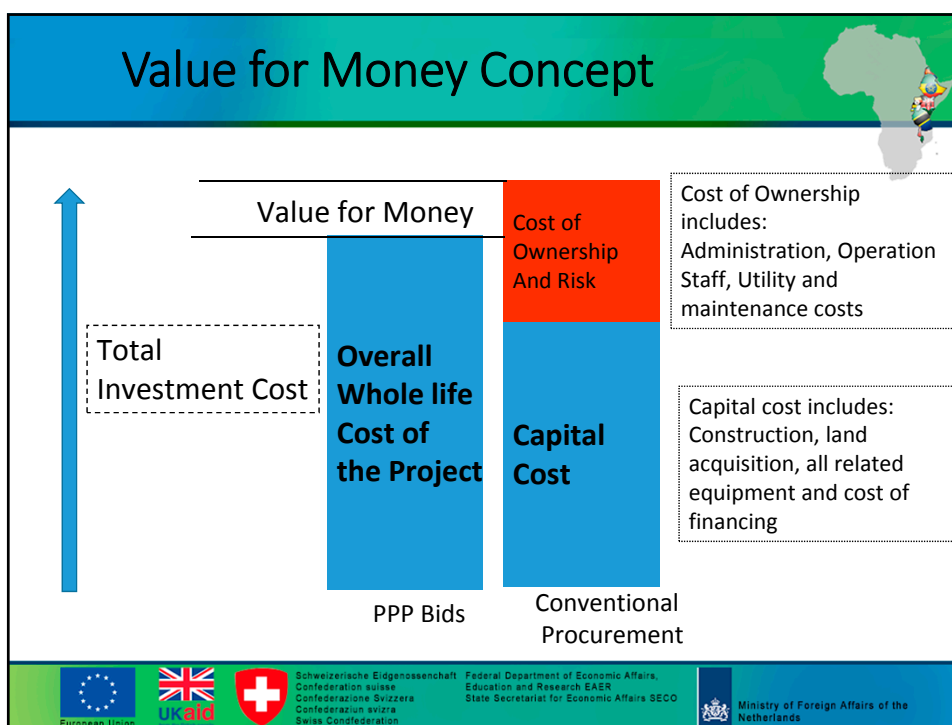
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Value for Money Assessment – Important to Remember

As with all appraisal work.....

- All estimates should show calculations and assumptions so that they can be checked independently
- The practice of 'case-making' should be avoided. In a PPP situation, this usually involves having decided that '*the answer is PPP*' and creating evidence to support that bias

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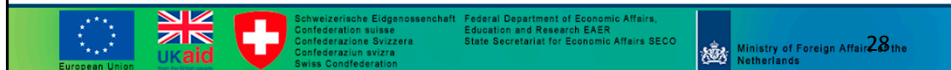
Value for Money Assessment (so-called Public Sector Comparator)

- The Public Sector Comparator (PSC) was developed in the UK in the 1990s and included a qualitative assessment as well as the quantitative one and has been copied by many different countries
- However the UK assessment is now focussed mainly on qualitative assessment after serious criticisms from the National Audit Office about the quantitative part



Fiscal Responsibility in PPP Projects

- **Governments often turn to PPP implementation when fiscally constrained:**
 - Defers the short/medium term demand for capital funding
 - Projects can be 'announced' and started when otherwise they may not because of capital constraints
 - Benefits accrue as they are being paid for
 - Seen as a means of converting capital expenditure in to current expenditure
 - Some models of PPP transfer responsibility for payment to the user
- **Fiscal Responsibility in PPP means:**
 - Affordability of Direct Commitments
 - Public Debt Management
 - Managing Contingent Liabilities (CLs)



When considering Risks in PPP Projects, Fiscal Risk can appear un-important.....

- Private companies are rightly concerned about the apportionment of risks that may affect them
- As far as they are concerned Fiscal Risk will always be the government's responsibility so therefore not of concern to them
- From the private sector perspective, the more Fiscal Risk the better

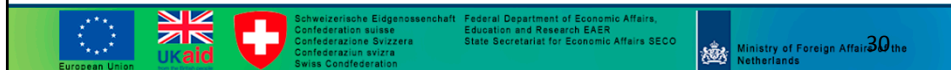


Types of Fiscal Commitments in PPP Projects (1)

'Up-front' Commitments (Direct Commitments)

Examples:

- Capital contributions to support the project's viability
- Related works, land acquisition, utilities and services (as conditions precedent)



Types of Fiscal Commitments in PPP Projects (2)

Ongoing Commitments (Explicit Liabilities):

Examples:

- Availability Payments
- Any other form of **non 'User-Pays'** arrangement that is based on the amount of usage for example 'Shadow Tolls'
- Operational Subsidies



Types of Fiscal Commitments in PPP Projects (3)

Contingent Liabilities

Summary of Types:

- Guarantees connected to risk sharing
- Credit guarantees
- Termination payments
- Force majeure compensation payments
- Environmental / ground contamination warranties



Contingent Liabilities - Examples

1. Guarantees connected to risk sharing

The government commits to compensate the private party for loss in revenue should a specified risk deviate from a contractually specified level. The most common are:

- Demand falling below a specified level, or outside a specified range
- Exchange rates

2. Credit guarantees

The government guarantees repayment of some or all of the debt of the project company if it defaults on the debt, regardless of the reason

3. Termination payments

The government commits to pay an agreed amount should the contract be terminated due to default either by the private party or by the government

4. Force majeure compensation payments

The government commits to compensate the private party for damage or loss due to certain specified force majeure events.

5. Environmental / ground contamination warranties

The government underwrites the cost of clean-up of any historical pollution or contamination on the site



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Key Questions for Assessment

■ When a proposal is not a User Pays PPP, the key questions are:

1. What are the direct fiscal commitments under a PPP arrangement? (by year)
2. Are they affordable ?
3. What is the estimated impact on the Public Debt?
4. What are the CLs in the draft contract?
5. Are the CLs necessary in order to make the deal investable / bankable?
6. If not, can they be avoided or minimized?
7. What are the consequences of those CLs materializing?
8. Are there any open-ended CLs?
9. How will the risks be monitored?



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Further Reading on Fiscal Risk in PPP Projects

- IMF: PPP Fiscal Risk Assessment Model (P-FRAM)

<https://www.imf.org/external/np/fad/publicinvestment/pdf/PFRAMmanual.pdf>

- World Bank: Fiscal Risk Assessment –

www.worldbank.org/en/topic/publicprivatepartnerships/brief/ppp-tools



Consequences 1: Mexico Toll Roads

- In the early 1990s, the government decided to award 52 concessions on 6,000 km of toll roads.
- The key award criteria was 'shortest concession period' so that the state could take control as soon as possible. Tolls were high as a result.
- Alternative free routes were available and drivers decided to take them instead of the new roads.
- Most of the toll road operators quickly got into financial difficulties.
- A sharp currency devaluation caused sharp increases in debt service payments on foreign loans
- The government had to take over 23 concessions and assumed USD 7.7 billion in debt as a result.



Consequences 2: Vasco da Gama Bridge, Portugal

- Awarded in 1994 at a cost of US\$1.1billion
- An existing bridge was included in the concession for a period of 33 years.
- The plan was that the tolls for both bridges would be harmonized at \$2 per crossing and together that would pay for the new bridge.
- An initial increase in the existing 60cents to 90 cents caused violent protests amongst commuters and the government had to back down, avoiding toll increases
- The government had to make substantial compensation payments to the consortium to make up the shortfall



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Consequences 3: Izmit Water Concession, Turkey

- A water concession contract for USD890.6m
- A 'take or pay' arrangement was agreed
- Construction permitting issues delayed construction by 2 years
- The price of water was so high that both industrial users and neighbouring municipalities refused to buy water from the plant, but the purchase of water had been guaranteed by the government
- The government stopped paying the contractor, the project defaulted
- The government and the private company went through international arbitration, which the government lost
- The government had to pay the consortium USD1.9 billion
- The dysfunctional experience was also instrumental in convincing the operator to exit the PPP market



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Consequences 4: Inverness Airport, Scotland

- A new terminal building at a cost of GBP9.6m
- The deal agreed to pay the consortium GBP3.50 for every passenger that passed through the airport
- This made the airport a 'high cost airport' and constrained the management's ability to offer low cost deals to attract new business.
- Nevertheless payments to the private company had covered the cost of construction after only 6 years
- The government decided to invoke its right to voluntary termination – it cost them GBP36 million to do so – almost 4 times the original cost of constructing the new terminal in the first place.



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Fiscal Risk is managed like any other risk

- **Avoid where possible**
- **Transfer**
- **Mitigate**
- **Estimate impacts prior to contract agreement**
- **Record Fiscal Risks from all PPP Contracts**
- **Continue to Assess / Adjust / Monitor at appropriate intervals**



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Thank you


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Project Design and Selection

Martin Darcy

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Different Types of Public Investment Project

- **New Projects:** providing a service or facility that does not currently exist
- **Rehabilitation Projects:** necessary to prevent increasing deterioration of existing assets or to return a facility to its original condition.
- **Replacement Projects:** replacing worn out assets. For example, these projects may include replacement of old sewer lines or decaying schools.
- **Mandated Projects:** required as a result of laws passed by the government. For example, projects that are required to alleviate environmental hazards or to reduce risks to public health and safety.
- **Expansion Projects:** projects or facilities that expand a department or agency's current service area. An example would be the expansion of a water system into an area that presently does not have service.
- **Efficiency Projects:** to make service delivery more efficient through the use of technological improvements or other means. Generally these projects should increase revenues or be accomplished without requiring additional operational resources such as manpower or annual funding.



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Why some Project Proposals should be Rejected

- The nation can't afford it
- The project doesn't address a strategic need
- The costs outweigh the benefits
- The project has not been prepared adequately
- The proposing authority does not have the capacity to implement the project
- The project may be a good one but it is not a priority when compared to other good projects

How do we find out?..... Through the process of Appraisal and Selection



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How to Plan and Prepare a Good Public Investment Project

First: Do not waste precious resource on preparing projects that:

- a) Can never be realistically achieved
- b) Are of no value to the nation
- c) Might be considered 'White Elephants'

The best way to achieve this is through a mandatory pre-screening filter system that only allows feasibility studies on proposals that pass through this filter

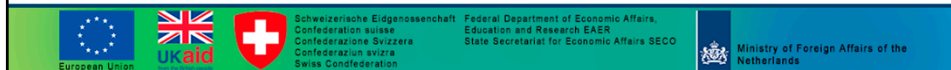
- Easily developed and implemented through templates
- Focuses internal resources on the best prospect proposals

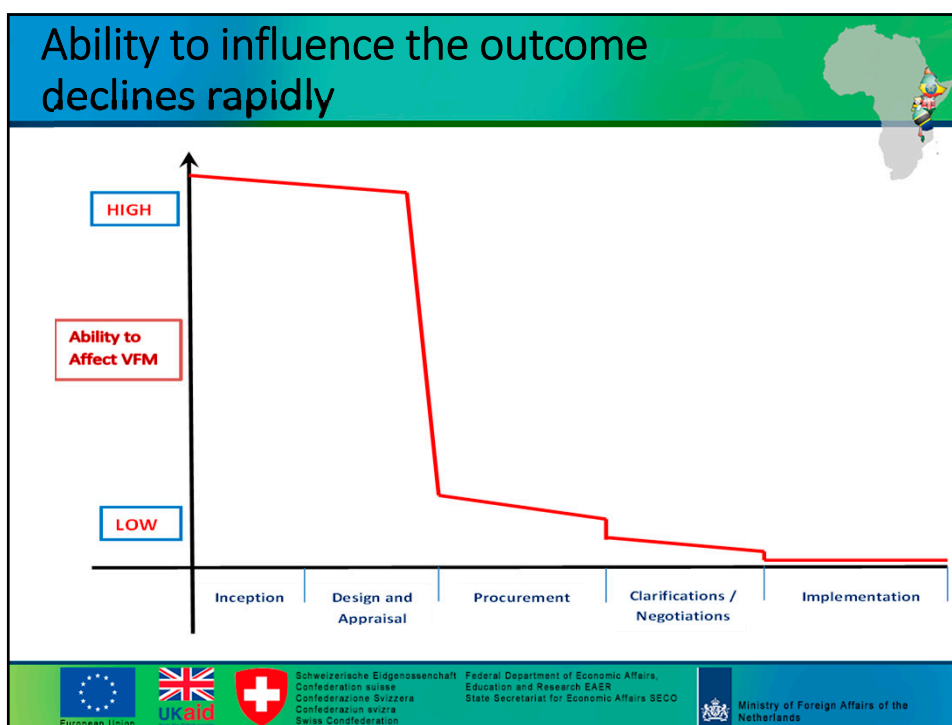


The Most Important Thing to Remember in the Project Cycle

- The initial design and preparation work on a project has the most profound effect on the outcome of the project
- This is the part of the project cycle that determines everything else that follows
- This is the place where success or failure is born
- Your ability to influence the outcome of the project is at its greatest at this point. It will decline dramatically after that.
- Attempts to change after this point can be costly in both time and money

Therefore the time and effort spent at this stage should be considered an investment in the quality of the resulting project





Simple Project Planning – Asking and answering the right questions

- What is the problem that needs to be resolved?
- Why should the government do anything? / Can non-government actors fix the problem? What would be the consequences of doing nothing
- What will a solution look like?
- How will we know when we have been successful?
- How will this project contribute to the social and/or economic development of the country?
- What options are there to achieve the outcomes desired?
- What is the best (most efficient/effective) way to achieve the desired objectives?
- Is this the best use of the resources identified?



Contents of Pre-feasibility and Feasibility Studies

- Both contain the answers to a series of questions
- Ideally these should be templated for consistency in the system
- In the framework of a good PIM system, these questions should be the same for all project proposals
- **Some additional questions concern PPP (as previous)**
- A Feasibility Study is a detailed version of a Pre-feasibility Study – only conducted if the Pre-feasibility Study is approved
- **Who completes a Feasibility Study?....Discuss**



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How to Design a Project – Step 1

Step One – Describe the problem:

- Use whatever data you can to quantify the scale of the problem – the more data the better
- Be sure that it is a problem that should be fixed by the government rather than individuals or private companies
- Be sure that this is the root cause of the problem rather than just a symptom



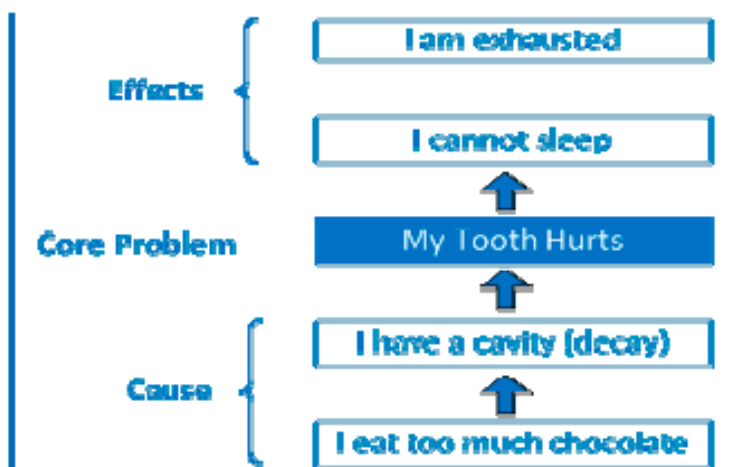
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...be sure to identify the cause as well as the symptoms....



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How to Design a Project – Step 2

Step Two – Define the Project Objectives:

- What are our objectives? Or in other words: What are we trying to achieve?
- Have similar objectives been set in similar projects that could be adapted for our project?
- How might our objectives and outcomes be measured?
- Are our objectives defined in such a way that progress toward meeting them can be monitored?
- What factors are critical to success?
- What targets do we need to meet? By when?
- What outcomes would demonstrate a successful project in the future?



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How to Design a Project – Step 3

Step Three - Identify and Describe the Options for Implementing the Project:

- Identify and discuss a wide range of alternative implementing options for consideration
- Also identify the effects of not acting at all
- Stakeholders should be invited to a workshop during which work to date on identifying the need for the project and its objectives should be developed further. At this workshop, various implementing options should be presented and discussed against these objectives with the aim of a general consensus on the best way forward



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Examples of strategic and operational options include:

- Varying time and scale – gradual implementation;
- Options to rent, build, lease or purchase
- Different combinations of capital and recurrent expenditure
- Refurbishing existing facilities instead of building new ones
- Changing locations or sites
- Co-locating or sharing facilities with other parts of government
- Provision of the service or operation by the private sector, e.g. Public Private Partnership (PPP)
- Using IT to improve delivery, as part of wider organizational changes
- Varying the balance between outsourcing and providing services or retaining expertise in-house
- Varying the quality requirements
- Better implementation of existing measures or initiatives; and
- Information campaigns.



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How to Design a Project – Step 4

Step Four - Detail the costs, benefits, risks and other relevant impacts:

Do we have all the information required to design the project?

- Conduct an appraisal of the options relevant to the size of the proposed project
- Analyze the costs, benefits, and risks associated with each of the options.
- Prepare a risk template which examines all the possible things that could go wrong AND how such events will be managed



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How to Design a Project – Step 5

Step Five - How will the Project or Program be Funded:

This question relates to both capital expenditure to completion and also the annual running (recurrent) costs:

Capital:

- Who will fund this? Have all capital items been included.....?
- Central Government / Local Government / Development Partner / Private Sector / A combination of these?

Recurrent Costs:

- Have the costs of staff / equipment / utility / maintenance / supplies been accounted for?
- Is this affordable in the present budget?
- Will the project mean that recurrent budget allocations need to be increased in future years?



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How to Design a Project – Step 6

Step Six - Identify the Preferred Option:

Which of all the identified options offers the **best balance** of the following issues:

- Maximise Value
- Maximise Benefits to the Users or Beneficiaries
- Minimize Risk
- Capacity to Implement



How to Design a Project – Step 7

Step Seven - Identify arrangements for managing, monitoring and evaluating the project:

- Project Implementation includes:
 - Overall Project Plan with Start / finish dates and key milestones along the way.
 - Key dependencies should be identified – including a cash flow required to fund the projects
 - Procurement Plan: what needs to be acquired and by when
 - What measures will be taken to monitor the progress of the project?
 - How will the results be measured?



Techniques for Appraising Projects

- Cost Effectiveness Appraisal – for small projects = ***Basic Appraisal***
- Multi-Criteria Appraisal – for medium sized projects = ***Intermediate Appraisal***
- Cost Benefit Analysis – for the largest projects = ***Full Appraisal***

The amount of appraisal time should be proportionate to the value and scale of the proposed project

Governments often determine the financial thresholds for each Technique sometimes through a Regulation



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Two Important Things to Remember about Appraisal

- **Assumptions:** all the estimates and assumptions used to make the Assessments should be recorded along with the source of the data used
- **Avoid so-called 'Case-Making':** Case-making is the practice of deciding what the answer to a question is before analysis, and then finding enough data to support this pre-determined conclusion. It is bad practice and should be avoided



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Cost Effectiveness Appraisal (CEA)

- A simple technique for the smallest projects
- The most widely used Technique in most countries (there are a greater number of smaller projects)
- Aims to discover the best value means of achieving a given set of outcomes
- Compares the relative costs of the various options available for achieving a particular objective
- ALL costs – capital and recurrent – should be taken into account
- **Example:** In a healthcare scenario the question might be: Of all the options available, what is the least amount of (dollars) to save one life?



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Multi Criteria Appraisal (MCA)

- A Technique used as a decision making tool
- Brings structure and transparency to the judgements on how options compare with each other by measuring factors that cannot be expressed in financial values
- The assessment criteria should be entirely linked to the objectives of the project
- The impact(s) of each option on the objective(s) are given a score. The option with the highest score wins.
- MCA is usually best done in a 'workshop' environment with stakeholders in the project



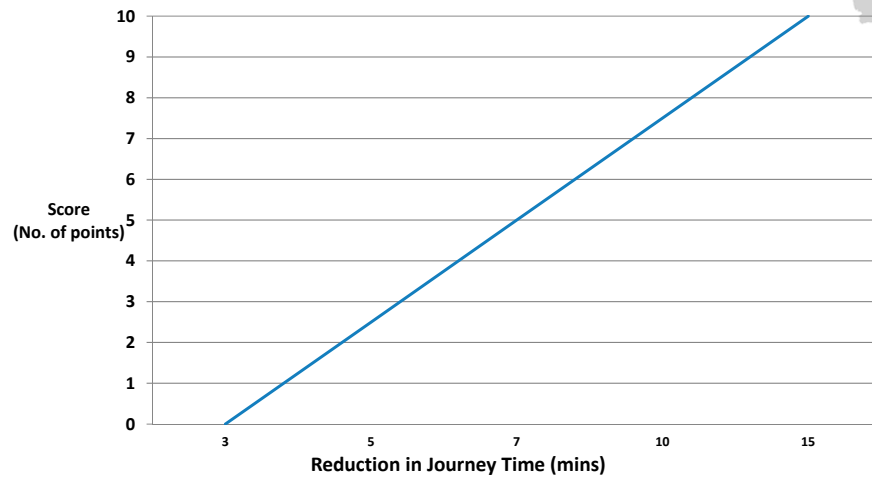
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MCA – Example of single impact scoring



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MCA – Example of how Scores can be calculated

Score	Costs	Score	Benefits
-3	Significant negative impact	3	Significant positive impact
-2	Moderate negative impact	2	Moderate positive impact
-1	Slight negative impact	1	Slight positive impact
0	No negative impact	0	No positive impact



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MCA – Example 1 of Multi-Criteria Impact Scoring

Scores out of 10 / Maximum Score = 40

Criteria	1	2	3	4	TOTAL SCORE
Option					
A	5	4	7	7	23
B	6	7	7	6	26
C	7	6	4	7	24
D	3	6	5	6	20
E	5	3	5	5	18

Option B appears to be the best choice



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MCA – Example 2 of Scoring Applied

Criteria (based on project objectives)	Option 1		Option 2		Option 3		Option 4	
	Cost	Benefit	Cost	Benefit	Cost	Benefit	Cost	Benefit
Poverty reduction	-3	1	0	2	0	3	0	1
Attract jobs to the area	-3	1	0	2	0	3	0	1
Ease of implementation	0	0	0	0	-1	0	0	2
TOTAL	-4		4		5		4	

This shows Option 3 as the best option



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Cost Benefit Analysis (CBA)

- Mainly for the large projects (for example: infrastructure)
- In the absence of capacity to undertake these studies in central government, external experts should conduct this type of analysis in conjunction with the proposing authorities
- All costs (capital and recurrent) are estimated over the expected operational life of the project
- All benefits are estimated (social and economic) over the same period
- The costs and benefits are adjusted using a 'Discount Rate' (usually set by Ministry of Finance) to a present day value so that they can be compared. This value allows comparison with other competing projects.
- Usually projects with costs that are greater than the benefits should not be funded by the government



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Not only Social and Economic Appraisal... don't forget also to appraise.....

- Environmental Impacts
- Technical Solution
- Commercial / Procurement Strategy
- Management / Implementing Capacity
- Risk in the Project



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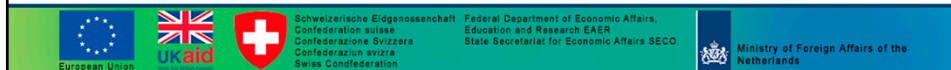
Risk Management

- Not a 'once-off' exercise but an ongoing discipline that covers the entire project's design and implementation
- Create and Maintain a Risk Register
- Not an administrative exercise but a valuable tool that helps identify and prevent problems that can harm the project's outcomes



Ways to identify Project Risks

- Statistical analysis of previous projects
- Project team input (which can take the form of interviews, brainstorming sessions)
- Stakeholder and sponsor input
- Risk management workshops



Risk Strategies

• Avoid

- Identify early in the project. For high level risks that need to be avoided. Avoidance by altering requirements, obtaining more information, improving communications, or bringing in external expertise

• Transfer

- Does not eliminate a threat, just makes another party responsible for managing it

• Minimise / Mitigate

- involves reducing the probability and/or the impact of risk threat to an acceptable level by making contingency plans

• Accept

- For risks that cannot be avoided, transferred or minimised. For low level risks only. Contingency reserves for cost and schedule should be built in to the project



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Probability of Risk - Example

Assessments should be made of the Probability of each Risk occurring.....

Probability of Risk Occurrence	Probability Score	Description
Very High	0.90	Risk event expected to occur
High	0.70	Risk event more likely than not to occur
Probable	0.50	Risk event may or may not occur
Low	0.30	Risk event less likely than not to occur
Very Low	0.10	Risk event not expected to occur



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Impact of Risk - Example

Assessments should be made of the Impact of each Risk occurring.....

Project Outcomes ↓	Very Low 0.05	Low 0.10	Moderate 0.20	High 0.40	Very High 0.80
Cost	Insignificant impact on cost	< 10% cost impact	10-20% cost impact	20-40% cost impact	> 40% cost impact
Schedule	Insignificant impact on schedule	< 5% schedule impact	5-10% schedule impact	10-20% schedule impact	> 20% schedule impact
Scope	Barely noticeable	Minor areas impacted	Major areas impacted	Changes unacceptable to sponsor	Product becomes effectively useless
Quality	Barely noticeable	Only very demanding applications impacted	Sponsor must approve quality reduction	Quality reduction unacceptable to sponsor	Product becomes effectively useless



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Risk Score

Probability x Impact = Risk Score

- High Score means high risk and demands close attention
- Risk scores offer a means of prioritization
- A 'traffic light' system for visualizing risks in the project risk register is often used to draw attention to **high** and **medium** risks
- **Remember:** risk scoring is not a once-off exercise as both probability and impacts can (and often do) change throughout the project cycle



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Importance of Independent Checking

- All the best PIM systems globally now have this feature
- A quality assurance mechanism
 - **Academia** - 'Peer Review'
 - **Private Sector** - 'Quality Control' or 'Due Diligence'
 - **Government Sector** - ??? Should be no different in their approach to Quality Management
- Appraisal is done by humans → humans make mistakes:
 - Mathematical
 - Incorrect assumptions
 - Unrealistic assumptions
 - Outdated data
 - Deliberate mistakes?
- Checking independently reduces the incidence of mistakes → avoids unnecessary expense → improves project outcomes
- **DISCUSSION:** Who should do this?
What do we mean by 'Independent' ?



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Selection and Budgeting Good Practice

Good Practice Essentials

- Comprehensive guidance on requirements for accepting proposals
- Top Down and Bottom Up approach
 - ↓ Government needs to decide the overall capital spending envelope and its allocation across each MDA
 - ↑ Annual indicators of capital spending ceilings for each MDA
 - Forces them to consider their own capital requirements and prioritize
 - Avoids 'wish-lists'
 - Should avoid too many projects competing for attention
- Budget or Chart of Accounts should differentiate between capital and recurrent spending



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Roles of Ministries of Finance in Selection

- Devise and enforce Selection Criteria with appropriate guidance to assist MDAs in the preparation of good proposals
- Public Investment Planning
- Advise government on fiscal space and projected demand for capital
- Advise MDAs on consequences of Top-Down decisions
- Create and maintain Project database / pipeline
- Final Gatekeeper
- Scrutinize / review all projects demanding capital alongside external experts for larger proposals



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Synchronize with the Budget Cycle

- New Projects need adequate time to be appraised and reviewed if mistakes are to be avoided
- Budget cut-off time for submissions should allow for review and for consideration by the Cabinet
- Budget Laws should be passed before the start of the Budget Year otherwise:
 - Uncertainty will prevail in multi-year projects causing delays
 - Makes under execution / inefficient allocation of budget resources more likely

Hurried or last minute selections are a recipe for problems



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Project 'Pipelines' / Database

- A centralized database of all projects being assessed for future selection is considered good practice
- Housed at ministries of finance (sometimes economy / PIM Agency Planning Agency)
- Unique Project Reference Number.....**discuss**
- It should not be possible to select a project unless it has arrived at a certain 'check-point' on the database – avoids 'parachuting' projects
- Database / Pipeline should be reviewed annually for:
 - **Continued relevance**
 - **More up to date data / assumptions**
- Should be cleaned-up regularly and projects that have no possibility of funding outside of a 7-10 year horizon should be removed
- Projects in which assumptions have changed should be returned to MDAs for re-appraisal
- Manageable numbers / realistic stock of future projects!



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Public Investment Planning

- Multi-year nature of investment projects demands a medium term perspective
- Multi-year fiscal forecasts can provide the basis for identifying medium-term capital allocations – this should provide the essential information for capital investment planning
- Each MDA (or as a minimum the ones with the largest capital requirements) should assess its ongoing and future capital requirements on a rolling basis on a (suggested) 10 year horizon
- Implementation plans / expenditure profile for each project need to be checked for consistency with proposed allocations
- A structured Public Investment Programming tool can be used as a decision making tool by the Ministry of Finance and the government in the process of setting budget allocations
- Such a tool can identify peaks and troughs in future investment capacity and provide an early warning system to the government of potentially unaffordable ambitions in future years. An example of this is demonstrated in the sample worksheets



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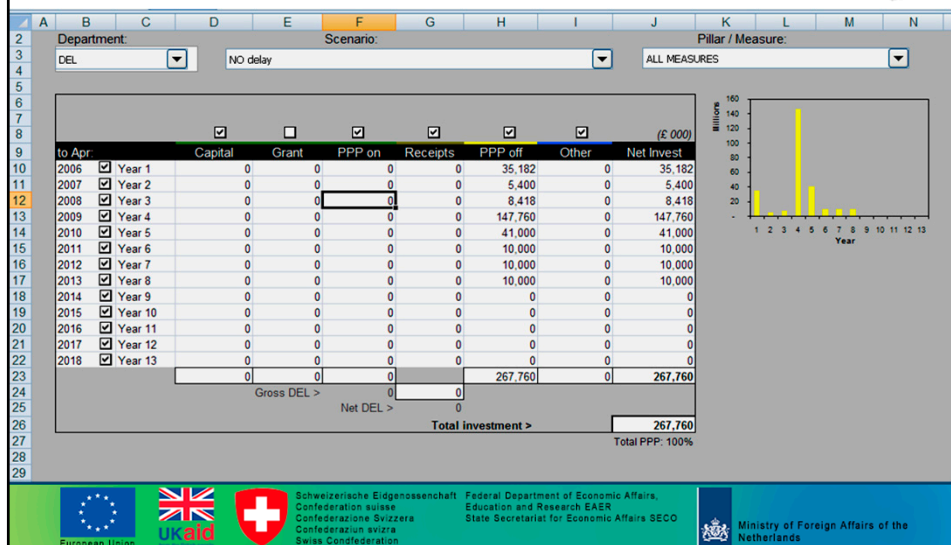
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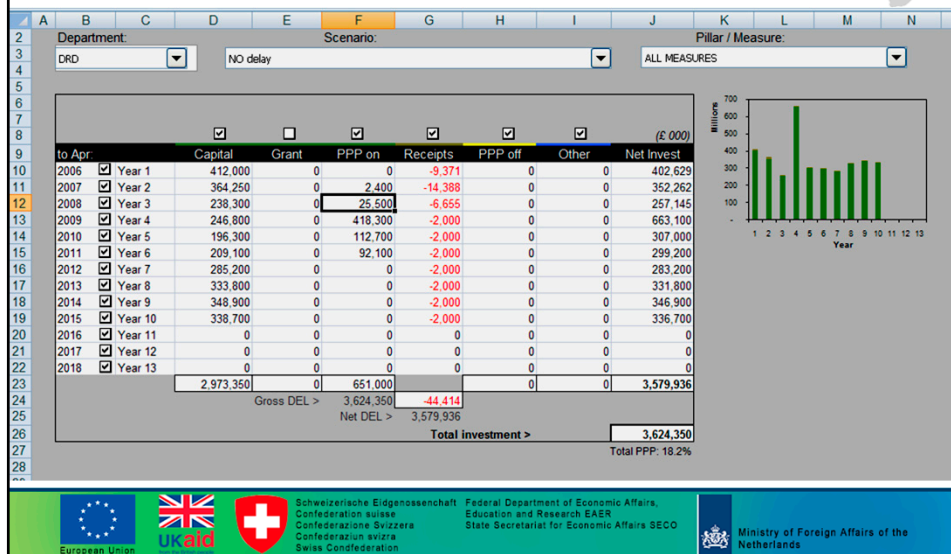
Public Investment Planning Tool (Chart 1)

Investment Plans of MDA #1



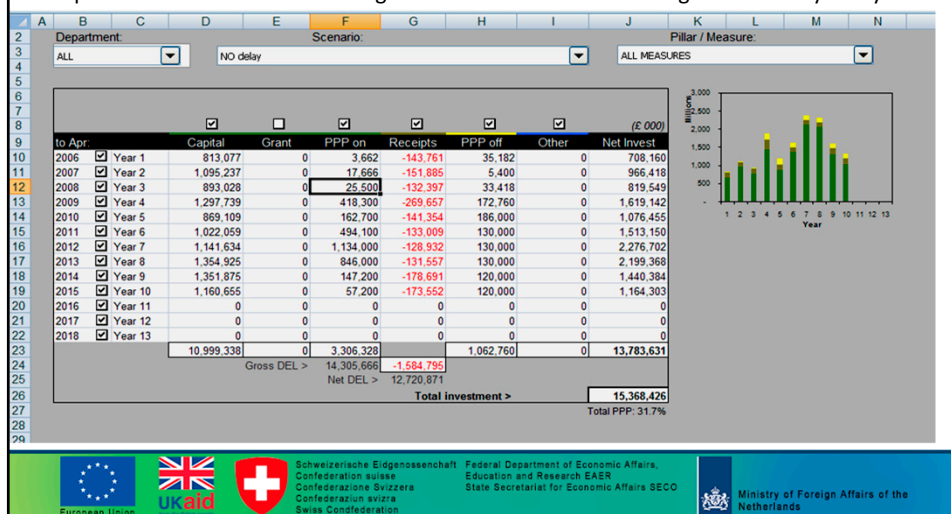
Public Investment Planning Tool (Chart 2)

Investment Plans of MDA #2



Public Investment Planning Tool (Chart 3)

Chart 3 below shows the aggregate of all MDAs investment requirements over the multi year period. The chart shows that whilst overall there are pressures on the budget in Year 4, there is less pressure in Year 3 thus enabling some investments to be brought forward by one year.



Hierarchy of Projects for funding prioritization – good practice countries

1. Finish the projects that have already been started unless there is compelling evidence to support their abandonment
2. New Projects that are mandated through the law or by regulations
3. New Projects that fulfil an economic or social objective that are already part of the pipeline or database

*Only New Projects that have been fully appraised and checked should be funded.

*Only New Projects that have a clearly thought out implementation plan with demonstrable capacity should be funded.

Selection Criteria and Budgeting Summary

- **Criteria for selecting projects should be:**

- Transparent
- Objective
- Clear

- **Multi-year expenditure planning:**

- Predictability, Affordability and fiscal sustainability (extra checks for PPP)
- Top-down budget planning
- Adequate financing for selected projects, including ensuring priority allocations to already on-going projects
- Recurrent cost-implications should be included in all project proposals – and then reviewed (reality check)

- **Ensuring flexibility in project implementation:**

- Where possible the budget process should allow making multi-year commitments, but subject to effective control from the Ministry of Finance
- In-year and End-of-year Flexibility



Thank you



Common Starting Points for Countries wishing to Reform their PIM Systems

- Do the Simple things better
- Try to focus on Priorities
- Try to focus on quality rather than quantity
- Do not expect to do everything in-house
- Learn lessons from previous success and failures



Thank you





International Monetary Fund - IMF
Regional Technical Assistance Center
 Building Macroeconomic Capacity in East Africa


IMF East AFRITAC



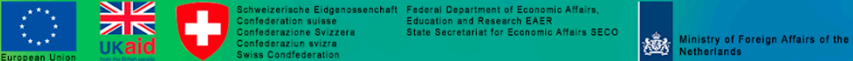
East Afritac Regional PFM Workshop Strengthening Public Investment Management Session 4.1: Project Execution

December 1, 2016
 Kigali, Rwanda

East AFRITAC Facebook page
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Role of Procurement in Major Capital Projects



Importance of Procurement for Investment

- Estimates in OECD countries procurement amounts to 12% GDP
- In developing countries typically higher than OECD countries.... and
- Public Investment accounts for 75-80% of procurement in these countries
- Procurement therefore plays an instrumental role in leveraging good cost-benefit returns on investment and supports a key element of the implementing institutions for Public Investment Management
- However, procurement often does not receive adequate attention, and is more often geared towards compliance with rule based objectives rather than securing most efficient and economic acquisition



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Procurement Environment

- Public investment entails a mix of simple and more complex procurement (Simple more commodity purchase in style)
- Traditional procurement managed with compliance in mind, based on regulations, rules and controls
- More modern methods provide management standards and ethics and professional norms, which facilitate procedural and management discretion and judgement aimed at achieving best procurement outcomes
- Is about obtaining the best price for adequate/appropriate quality – not best quality per se. Not cost-beneficial to specify quality and features beyond what is required
- Poor governance results in sub-optimal results which reinforces the rules based approach to the detriment of obtaining the most effective overall procurement outcome

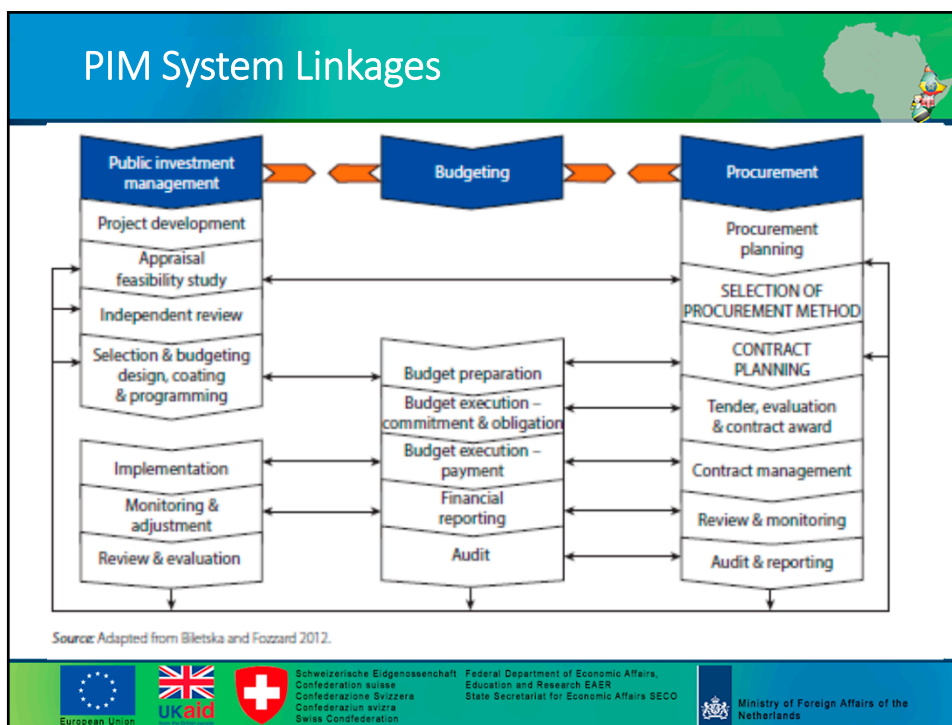
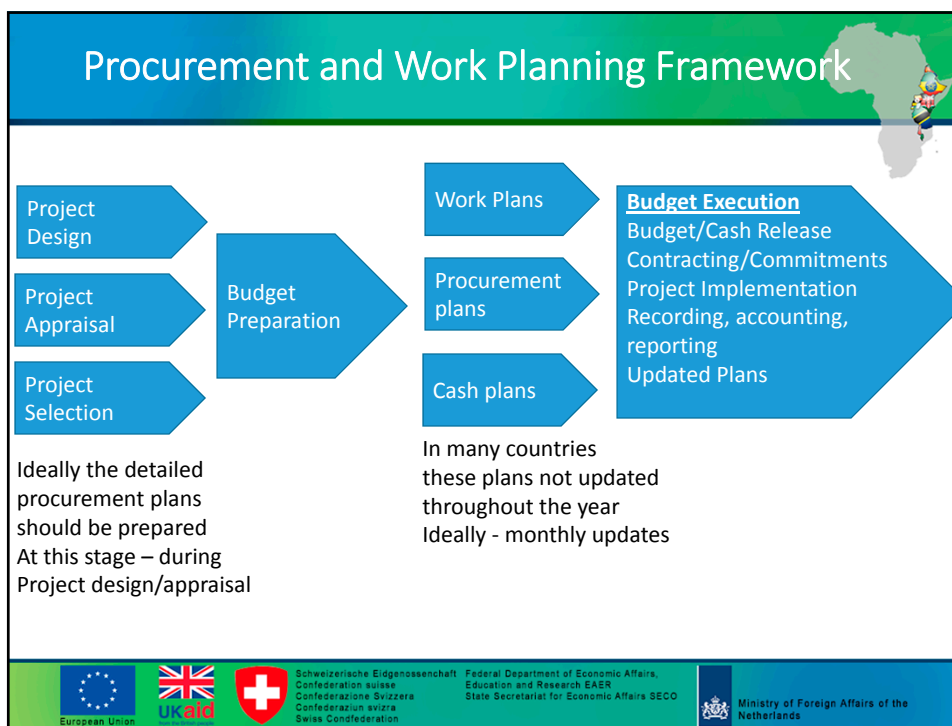


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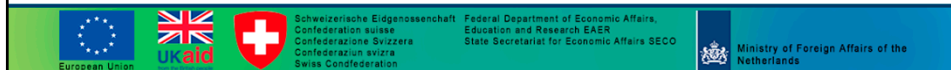
High Level Stages of Procurement

- Pre-Procurement (planning and preparation)
- Procurement (tendering and contracting)
- Post Procurement (contract management and implementation)



Pre-Procurement

- A good procurement plan which is derived from the project plan is a critical element in effective management
- Ideally procurement planning should be initiated in parallel to project design and appraisal
- Objective is to employ a procurement method which provides the procurement outcomes at the lowest cost for the acceptable quality
- Note: Best quality is not always required
- Clear concise technical specifications, not too detailed, but detailed enough to facilitate full understanding of the requirement, so bids are comparable



Procurement Planning

- Typically in the region, detailed procurement planning takes place after budget appropriation – this delays implementation and reduces absorption of funds allocated for investment
- This means that the procurement process is not initiated for several months and contract is awarded very late in the year
- The reason for this is lack of certainty and predictability that funds will be allocated in the budget (budget credibility and cash shortfalls)
- The cycle repeats itself every year which contributes to cumulative slippage and ultimately underinvestment
- Why can't procurement planning take place prior to commencement of the year in which it is planned? Uncertainties!



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Other Upstream Challenges

- Uncertainty of funding
- Especially with externally funded projects
- Need for satisfying conditionalities
- Lengthy timeframes for approvals and no-objections
- Inadequate funding (as determined during the procurement process)
- Breaking down projects below thresholds in order to bypass rules and additional layers of scrutiny, or in endeavor to fast-track procurement
- Selection of wrong procurement method, e.g. single stage instead of two stage bidding, for very complex projects can ultimately lead to lengthier procurement or even failed procurement



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Procurement Scheduling

- Be realistic in terms of how long procurement takes
- Learn lessons and start procurement earlier in light of lengthier procurement timelines
- Sometimes 2 stage bidding can actually be quicker (complex projects)
- Use a matrix/template to schedule the procurement stages and lead times:
 - Preparing bid detailed specifications and documents
 - Issuing of tender
 - Minimum bidding response times
 - Various stages of sign-off (external, e.g. WB can take long)
 - Contract award and signing
 - Contractor mobilization, etc.



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Procurement Process

- Overly strict and inflexible regulations lengthen procurement processes but are perceived as a necessary evil to deal with low levels of (procurement) governance
- Poor governance impacts on prices and therefore the cost-benefit
- Poor downstream performance also impacts on procurement and ultimately the cost-benefit equation, e.g. where government is a known bad payer, bidders pad the prices
- Unrealistic non-technical specification, e.g. insistence on domestic content when there is no in country capacity – increases risk, hence prices and denies most cost effective overall procurement choice
- Complaints delay contract award and implementation



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Contracting (Award and Signing)

- Checks made to ensure availability of budget funding **BEFORE** signing the contract
- Importance of committing the budget funds when contract signed
- Usual practice commitment made when (stage) invoice is received; this is already too late
- If contract is not comprehensive and water-tight can lead to proliferation of change orders and additional costs for works, which were envisaged to be part of the contract
- This can arise accidentally or deliberately, e.g. to overcome budget constraints or to avoid retendering new works
- Proper unambiguous specification of requirements and respective contractual responsibilities is paramount



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Contract Management and Implementation

- Projects/contracts often experience rampant cost overruns and change orders
- They are a result of inefficient contracting and execution
- Ceilings on level of variations should be set in the contract and based on the limits established in the procurement regulations
- Typically a maximum of 15% and full justification should be provided, along with impact on projects rationale, costs and outputs (14b)
- Full justification given for not undertaking as separate procurement – reasons often flimsy
- Check budget before any contract variation and update commitments and contracts database




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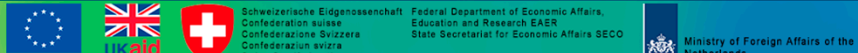

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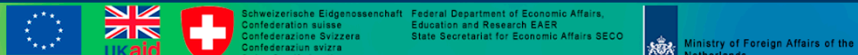


Cash Management and Budgetary Control

What is Effective Cash Management?

- Effective cash management is having the right amount of money in the right place at the right time to meet the government's obligations in the most cost-effective way (Storkey, 2003)
- Effective cash is based on robust projections of cash inflows and outflows
- Revenue projections should be based on realistic trends rather than a profile of the budget (especially where there is a history of over optimistic revenue budgets)
- Cash forecasting is not have same precision as accounting but must be reliable and provide a good indication of expected flows
- Cash management enables decisions on short term borrowing for liquidity purposes



Importance of Cash Management

- Without effective cash management, funds are not available when needed
- Often resort to cash rationing (reactive rather than proactive) and too-tight time horizons for commitments do not reflect lead times
- Causes delays in implementation
- Results in escalation of payment arrears and contractors inflate prices to cover the additional financing costs, inconvenience and risk
- Problems typically stem from poor budget credibility and poor cash forecasts (annual and monthly revised cash plans)
- Cash forecasts and plans fail to recognize all ongoing commitments and their due dates so committing funds for major projects becomes a problem



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Cash Forecasting and Planning

- Starting point is the annual cash plan
- Major problem where MDAs just divide budgets by 12
- Some recurrent expenditures may be smooth and even throughout the year but capital expenditures rarely are – expenditures are large and very uneven **BUT** they can be projected with reasonable degrees of accuracy based on contract schedules and commitment profiles of due dates
- Revenue projections based on the budget and revenue targets rather than recent trends on collections, known seasonality, etc.
- Mid year budget reviews to assess the status but this is already too late for proper timely corrective action for effective implementation of the investment budget
- Inflows and outflows with projected net cash balances – monthly, weekly/daily for immediate month
- Balancing against policy for liquidity short term borrowing and maintenance of the cash buffer (for short term shocks)



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Cash Forecasting and Planning

- Additionally the annual cash plans often not updated on a regular basis, e.g. monthly (12a) – countries extending the time-horizon in the laws
- Limited use of variation (error) analysis projected versus actual cash flows, to continually improve quality of cash forecasts and predictability of available funds
- Better use can be made of information in IFMIS, if it is comprehensive and covers all transactions including DP funded projects
- Committing the expenditures properly in IFMIS should record the expected due dates - not just defaulting to 30 day due date where lead time is known to be (say) 120 days
- Important not to overlook reimbursement of retention monies – not effective use of cash to have these funds in separate accounts



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Timely Release of Cash for Projects

- How do you ensure efficient and timely release of cash for projects?
- It starts with formulating a credible (affordable) budget but does not end there
- Corrective action must be taken quickly where problems are identified
- If the revenue budget cannot be realized then something else has to give: extra borrowing; revise expenditure plans and budget
- Similarly there may be an unexpected event requiring reprioritization of spending (e.g. national disaster) – can provide a contingency in the budget
- Often, the first decision considered is to postpone/delay nationally funded capital expenditures



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Timely Release of Cash for Projects

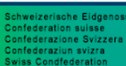
- It is important to have timely release of cash for effective implementation of the budget
- If cash is not available when payments are due, it can result in the following:
 - Late payment penalties
 - Delays in project implementation (ongoing and starting new projects)
 - Contractors load bids to compensate for known late payments which impacts on the cost-benefit rationale
 - Lack of cash available to meet all commitments results in cash rationing
 - Inevitably, payment arrears proliferate
- Effective (proactive) cash management is fundamental to avoiding these problems



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Approval to Spend

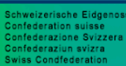
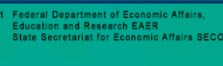
- In advanced countries the budget appropriation is often the full approval to spend, as budgets are credible, and inflows and outflows predictable
- Due to cash shortage problems many countries have a subordinate level of approval before allowing commitment and spending – the commitment ceiling (or warrant, AIE, etc.)
- This budget release should not be confused with the cash release, as the timings for making commitment and need for cash for settlement are different
- However, ultimately government must have adequate cash to back the commitment ceilings on an aggregate annual basis
- In knowledge that revenue estimates will not be realized – manage releases on a monthly basis – far to short to plan and commit



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Approval to Spend

- Ideally the commitment ceiling should be for the whole year so that budget managers have predictability in implementing projects
- In practice, uncertainties and un-predictabilities have resulted in shorter time horizons to the ceilings: 6 monthly; quarterly and even monthly
- Monthly is much too short a time frame for timely recording commitments and often results in commitments made outside the system and not being recognized appropriately at the time of their incurrence (12a)
- The result is cash rationing which distorts the spending patterns and exacerbates cash forecasting inaccuracies
- Process should facilitate committing and spending



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Commitments and Expenditures

- Contracts and projects often committed once (stage) invoice is received – this is too late. Contractual obligation exists as soon as contract signed
- No contract should be signed without first checking for availability of budget annually and were relevant over the medium term (MTEF)
- The timings of the obligations can be recorded in IFMIS, in accordance with payments schedules, and updated according to latest progress
- IFMIS can support draft commitments for future years – this provides ability to report on multi-year commitments and ensures they are not overlooked in medium-term budgeting process



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Commitments and Expenditures

- Could consider making annual budget releases and commitments only for projects and large scale contracts if there are concerns
- If not Need to extend time-horizons on ceilings to minimum quarter and commitments must be first call on ceilings
- Contract variations often “fall under the radar” but they impact availability of funds and following should be undertaken:
 - Must check for budget funds **BEFORE** signing any contract variation and where necessary secure reallocation or supplementary
 - Update cash forecasts to reflect the revised payments schedules
 - Update the schedule of commitments in IFMIS for the remainder of the contract



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What is TSA and its Role?

- The Treasury Single Account is not usually a single account per se as the name implies
- It is usually a structure of accounts whereby the monies in different accounts are treated as if in one account
- This can be achieved via use of virtual sub-accounts within a main header account at the bank; use of zero balancing accounts where balances are swept back to TSA on a daily basis; or other similar means
- Streamlines and supports effective cash management as it provides a consolidated view of all cash resources
- No idle cash balances sitting in separate accounts which can deprive availability of cash where it is needed at the right time on other projects



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Establishing the TSA

- Need comprehensive inventory of all government owned bank accounts and start moving them to the central bank
- Institutional importance of the TSA - PIMA (12c): (i) DP Funds in commercial banks outside TSA; (ii) DP Funds in central bank outside TSA; (iii) External financing integrated fully into TSA;
- First step is to move the DP bank accounts to central bank
- Balances can then be more easily aggregated for calculation of overall cash position
- Need to build DP confidence in the country systems generally and the TSA specifically before they consent to their funds coming under the TSA
- The principle is to identify the efficacy of spending through project codes and source of funds code rather than through use of separate bank accounts
- DP funds are usually one of the later areas to be brought into the TSA



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Recording and Accounting for Investment Capital



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Recording and Accounting for Assets

- Few countries in region account on accrual basis and therefore do not report non-financial assets in the balance sheet (15b)
- Similarly the operating statements do not reflect depreciation of fixed assets (15c)
- Traditionally financial officers maintain registers for smaller asset categories of fixed assets but not infrastructure assets
- Whilst engineers may have records of infrastructure assets, often there is no consolidated picture for use by financial officers, and there is no regular and systematic survey, including age profile and condition (15a)
- Many countries in region now planning move to accrual accounting which will require comprehensive report of capital stock



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Recording and Accounting for Assets

- Under the cash basis of accounting used by most countries in the regions, capital investment is expensed, so in year investment is usually recorded well but not the capital stock
- Under the cash basis of accounting non-financial assets can still be presented in the notes to the financial statements in memorandum form
- Reconciliation of opening and closing stocks of assets in memorandum records important stepping stone to accrual accounting and full disclosure in annual statements
- IFMIS can assist through use of relevant modules: fixed assets; contracts management and project accounting
- Costs recorded as work in progress (long term asset) then capitalized once complete and operationalized



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Reporting on Assets

- Recent Fiscal Transparency Evaluation (FTE) reports highlighting the gaps in information on non-financial assets
- In response to FTEs governments now compiling the information, which will be a pre-requisite for moving to accrual accounting as part of EAC harmonization
- Life cycle costs, including maintenance and operating costs: important to identify ensure adequate financing for the whole capital stock (8b)
- Well structured charts of accounts in most countries clearly defining economic item categories for recurrent and capital expenditure (8c) also good program structure
- Surveys and revaluation of assets – need engineers and financial officers working in unison



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Additional Materials for Consideration

Efficient implementation

- Rules for budget adjustments should give incentives for realistic initial capital cost estimates. Cost overruns during project implementation should be partly covered by reallocation within ministry's existing budgets. In the case of real cost reductions, ministries should be allowed to retain part of these.
- Capital investment project proposals should only be considered when they include a detailed disclosure of the expected operating costs, indicating how these will be accommodated within existing resource envelopes or making an explicit proposal for additional financing of the operating costs.
- Capital investment project proposals should only be considered after the ministry has explained how it will fully cover the maintenance of its existing capital stock.
- Governments should avoid excessive targeting of capital expenditures for budget cuts. Decisions on budget cuts should be based on the medium-term budget and take full account of future expenditure pressures as a result of under-funding.
- There should be project completion reports for all capital expenditure projects. These should form the basis for cross-sectoral analysis and methodology development, and for continuous improvements in the investment process.



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Additional Materials for Consideration

V. CONCLUSION

- The earlier recommendations for achieving budget integration in low-income countries could be critical for success. However, obtaining the necessary results could take the LICs several years. In summary, an effective capital budgeting process should form an integral component of a sound over-all budgeting system. A well-designed public financial management system supports each aspect of the system, including capital spending. Good multi-year planning furthermore supports overall fiscal balance, with more stable spending patterns for ministries and programs, and for their capital planning and execution. Good budget execution and procurement will enable timely, within-budget completion of projects (assuming good program and project management). Financial management information systems will support the financial and program management needs of the executive, ministries of finance and economy, spending ministries and program managers.³³ In addressing these aspects, LICs should continuously aim to improve not only their capital budgeting processes, but also their public financial management systems overall.



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International Monetary Fund - IMF
Regional Technical Assistance Center
 Building Macroeconomic Capacity in East Africa



IMF East AFRITAC




Strengthening Institutions for Public Investment Management

Session 4.2 : Strengthening Project Monitoring and Evaluation


December 1 2016
 Kigali Rwanda

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Session Outline




- Understanding Project Monitoring and Evaluation
- M&E Planning
- Developing a Monitoring System
- Reporting of project performance.
- Challenges in implementing M&Es




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Understanding Project Monitoring and Evaluation



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IF MONITORING DOES NOT LEAD TO

ANALYSIS

- AND THEN TO
- DECISION MAKING
- (ADAPTATIONS)
- IT IS
- **USELESS**



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Why monitor?

- What gets monitored is more likely to get done.
- If you don't monitor performance, you can't tell success from failure.
- If you can't see success, you can't reward it.
- If you can't recognize failure, you can't correct it.
- If you can't demonstrate results, you can't sustain support for your actions.



What is M&E?

Monitoring is the routine process of data collection and measurement of progress toward project objectives.

It is the continuous, systematic and critical review of operations in order to measure their evolution and adjust them according to circumstances and project's objectives.

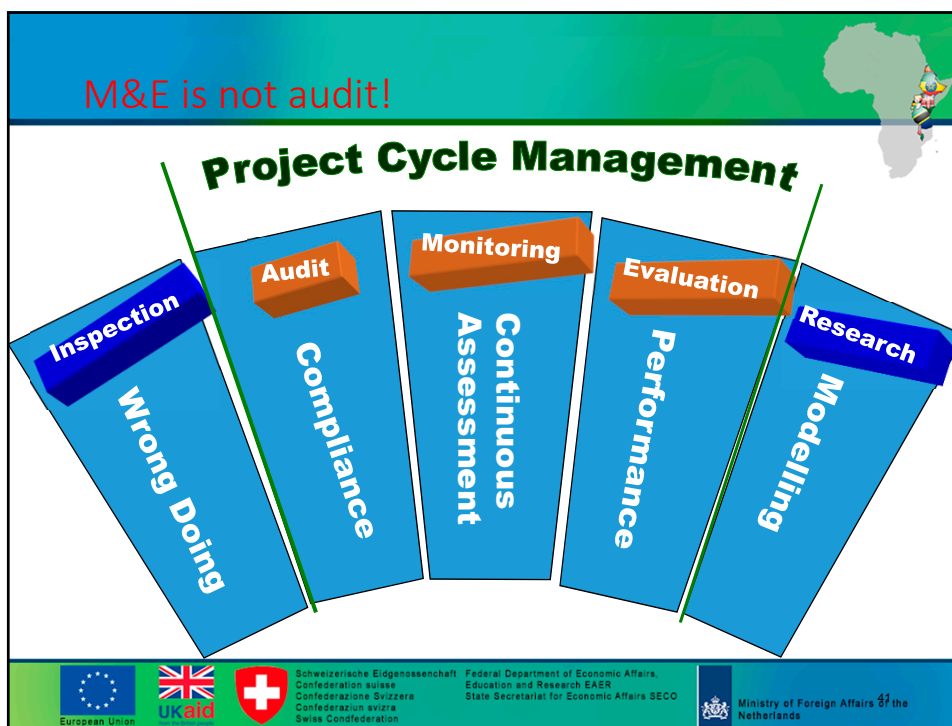
- It is an on going activity in order to ensure activities are taking place according to standards and to find out weaknesses and gaps within the project implementation process.
- Monitoring involves the team that is implementing the project

Evaluation is the use of social research methods to systematically investigate achievement of a project's results

- Done after the end of the project (or at mid term) to find out the weaknesses and the results of the project.
- Evaluation helps you figure out if you can carry out the same activities in the future and to establish weaknesses and strengths
- Evaluation usually involves external people

- Evaluation is a one-time event (happens at the end of the project)
- Evaluation is results based (???) measures the results through indicator





Benefits of M&E?

- Monitoring compares **intentions with results** (what we wanted to happen and what actually happened)
- It **guides** project revisions, verifies target methodology and whether benefits are reaching the **intended beneficiaries**.
- It checks the **relevance** of the project to the needs.
- It **enhances** transparency and accountability.
- It takes place at **different stages** during the entire project process.

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The Essence of Monitoring

- It aims to answer the question “**did we deliver?**”
- It **clarifies** program objectives, **Links** activities and their resources to **objectives**, **Translates** objectives into performance indicators and **sets targets**, Routinely **collects data** on these indicators, **compares** actual results with targets
- Reports progress to managers and **alerts them to problems**
- Gives information on **where a project is** at any given time (**or over time**) relative to respective targets and outcomes. Focuses in particular on **efficiency**, and the use of resources.
- **It is descriptive** and may not be able to explain why a particular problem has arisen, or why a particular outcome has occurred or failed to occur.
- Deals with questions of **cause and effect**. Assesses or estimates the **value, worth or impact** of an intervention and is typically done on a **periodic basis**



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The Essence of Evaluation

- Evaluation is a **corporate responsibility** for accountability
- It answers the question “**What has happened as a result?**”
- Why intended results were or were not achieved, **Assesses** specific casual contributions of activities to results, **Examines** implementation process, **Explores** unintended results, **Provides** lessons, **highlights** significant accomplishments or potential and offers recommendations for improvement
- **Provides** evidence of why targets and outcomes are or are not being achieved and addresses **issues of causality**.
- Is an important **contributor to building knowledge** and organizational learning



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Why Evaluate?

- The aim is to determine **relevance and fulfilment of objectives**, as well as **efficiency, effectiveness, impact and sustainability** of a project.
 - It involves the **objective assessment** of a project, its design, implementation and results.
 - Determines if there any **replication or gaps** left in the project due to **a lack of coordination**?
 - What was achieved by the project in terms of **targeted intervention**?
 - Were the results delivered in the **least costly manner** possible?
 - To what extent has the intervention achieved its **objectives**?



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When is it done?

Evaluation is done at different phases:

- **Before** an initiative is planned. This is called a pre-appraisal or baseline
- **During** an initiative. Typically mid-way through, to check how it is going, whether it is still the right thing to be doing.
- At the **close** of an initiative. To determine whether the intended actions have been completed, and what different it has made.
- Some time after the initiative. Change is often slow, so it may be necessary to **evaluate some years** after to look at the effects.
 - *E.G. education- build a school, train teachers, provide meals. Aim=increased enrollment of kids- this may happen 6 months, 1 year or more down the line.*

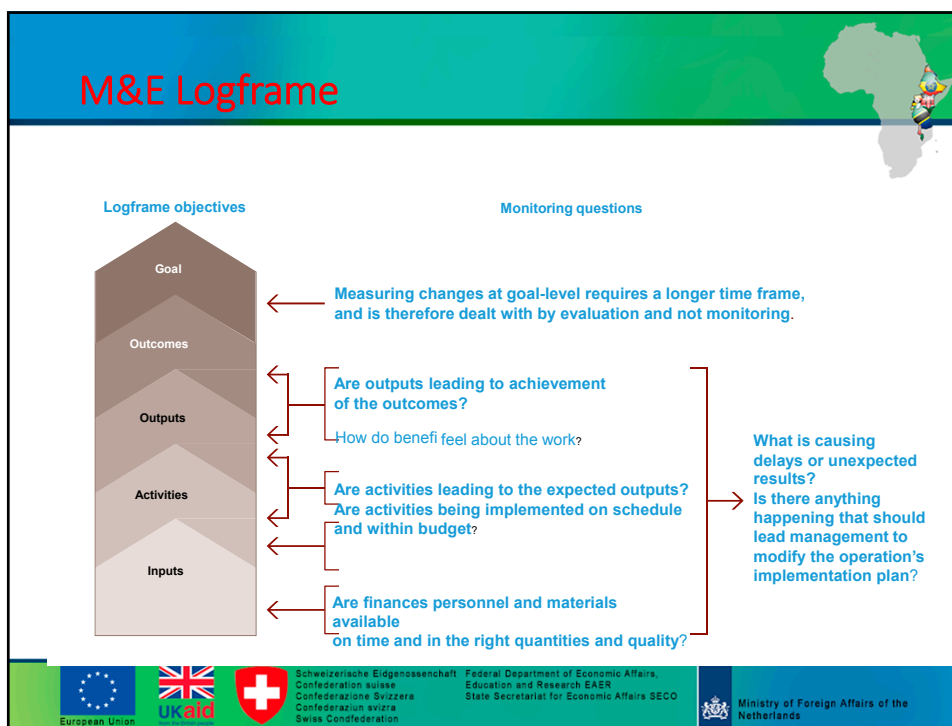


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The practice of Monitoring




- In practice, it covers a wide range of activities and requires data collection, but data collection is not synonymous with monitoring
- Monitoring also implies analysis and use of the data
- Generally, the level that records information should be able to use it
- Designing data collection systems with this principle in mind helps improve chances that the data will be collected carefully and put to use.

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The Monitoring Logic




- **Data about** **intended achievements and baseline**
- **is compared with ... Data on**
 - **actual achievements**
- **to identify...**
 - **Significant deviations from plan**
- **as a basis for... identification of**
 - **problems and opportunities**
- **to identify...** **Corrective act**


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How is evaluation done?




What methods are used?

- **Desk review** of relevant documents (project documents, annual reviews, donor-specific, etc)
- **Key informant interviews:** with key partners and information stakeholders both at central and field levels. Drawing on specific check-listed questions
- **Focus group discussions:** internally and external parties both at central and field levels. Gaining consensus on key issues.
- **Sample surveys:** of effects and impacts of initiatives as and where necessary

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Summary Comparison Between M&E

Item	Monitoring	Evaluation
Frequency	Regular, ongoing	Episodic
Main action	Keeping track/oversight	Assessment
Basic purpose	Improving efficiency Adjusting work plan	Improve effectiveness, impact, future programming
Focus	Inputs/outputs, process outcomes, work plans	Effectiveness, relevance, efficiency, impact, sustainability
Information sources	Routine systems, field visits, stakeholder meetings, output reports, rapid assessments	Same plus Surveys (pre-post project) Special studies
Undertaken by	Project managers Other Stakeholders	External evaluators Funders

Adapted from UNICEF, A UNICEF Guide for Monitoring and Evaluation: Making a Difference, New York, 1994, p. 57 the
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M&E Planning

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M&E Plan

- The plan is a managerial tool that specifies the schedule, resources, responsibilities, for your M&E activities (data collection, data quality control, reporting, dissemination and use of data)
- By identifying in advance the **intended results** of a project and how we can **measure progress**, we can better manage a project and determine whether **a difference** has genuinely been made for the beneficiaries concerned



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Good practices in planning Monitoring

- Monitoring data should be well-focused to specific audiences and uses (**only what is necessary and sufficient**).
- Monitoring should be systematic, based upon **predetermined indicators and assumptions**.
- Monitoring should also **look for unanticipated changes** with the project and its context, including any changes in project assumptions/risks; this information should be used to **adjust project** implementation plans.
- Monitoring needs to be **timely**, so information can be readily used to inform project implementation.
- Whenever possible, monitoring should be **participatory**, involving key stakeholders – this can not only reduce costs but can build understanding and ownership.
- Monitoring information is not only for project management but should be shared when possible with **beneficiaries**, donors and any other relevant stakeholders.



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Planning M&E

- Expectations Management
 - Define what the objective is
 - Define what success means
 - Highlight variability and key risk factors
 - Highlight design assumptions which are made
- Scope/ schedule management
- Identify interdependency- critical path activities
- Value management- critical success factors



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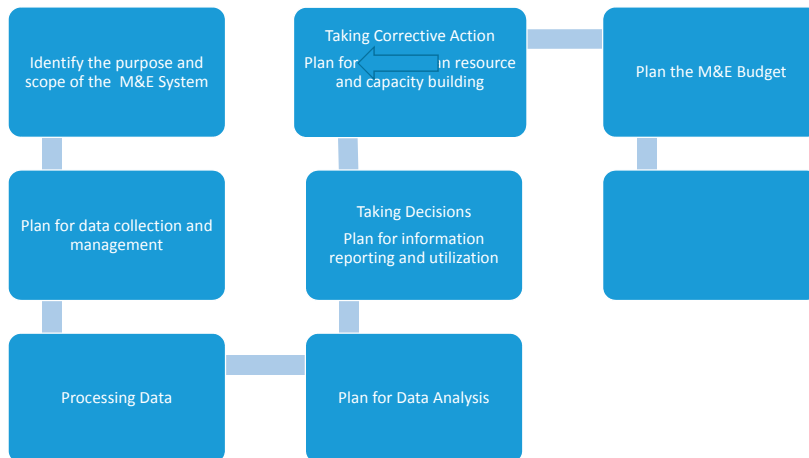
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Six steps for Project Monitoring and Evaluation



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M&E Questions

• Monitoring questions

- What is being done?
- By whom?
- Target beneficiary?
- When due?
- How much?
- How often?
- Additional outputs?
- Resources used? (Staff, funds, materials, etc.)



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Monitoring Plan Tool

Objective	Intervention	Indicator	Target (Projected Result)	Means of Collection	Frequency	Responsible Party



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How to Use the Tool

- 1st Column – insert your pre-determined time bound objective
- 2nd Column – insert your pre-determined Intervention and the associated Result Chain Factor
- 3rd Column – list 2 or more of the indicators you selected for the specific intervention-results chain factor set. Try to include an outcome indicator as well as process indicators.
- 4th Column - insert a performance target for each indicator – e.g. quantitative estimate of expected result
- 5th Column – insert the Means (HOW) you will gather the information
- 6th Column – insert the Frequency of data collection (WHEN)
- 7th Column – Insert the name of the party/agency/person who will be primarily responsible for collecting/ reporting the information






M&E Questions

- Evaluation Questions?
 - Is the content of the intervention or the activity being delivered as planned?
 - Does the content of the intervention or the activity reflect the requisite standards?
 - Have the intervention achieved the expected results?




Evaluation Plan Tool

Objective	Intervention	Indicator	Target (Projected Result)	Means of Collection	Frequency	Responsible Party

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We need Indicators to take measurements

- **Markers** that help to measure change by showing progress towards meeting objectives
- Observable, measurable, and agreed upon as valid markers of a less well-defined concept or objective
- Indicators differ from objectives in that they address **specific criteria** that will be used to judge the success of the project or program.


Type of indicators

- Input/Process (**Monitoring**)
- Outcome / Impact (**Evaluation**)

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What Is a Good Indicator?

- **Valid:** Measures the effect it is supposed to measure
- **Reliable:** Gives same result if measured in the same way
- **Precise:** Is operationally defined so people are clear about what they are measuring
- **Timely:** Can be measured at an interval that is appropriate to the level of change expected
- **Comparable:** Can be compared across different target groups or project approaches



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Criteria for Indicator Selection

- **Consistent** with project design—measure the desired result
- **Useful**—contributes to project design, management, and evaluation
- Available
- Affordable



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Standard Indicators

Where possible, a project should select standard indicators:

- They have been tested for validity and reliability.
- They allow comparison between projects or sites.
- They are able to “cover” more than one element.
- Indicators that help make decisions. (Basic activities that you need to monitor to judge if you are implementing activities as planned)



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Developing a Monitoring system



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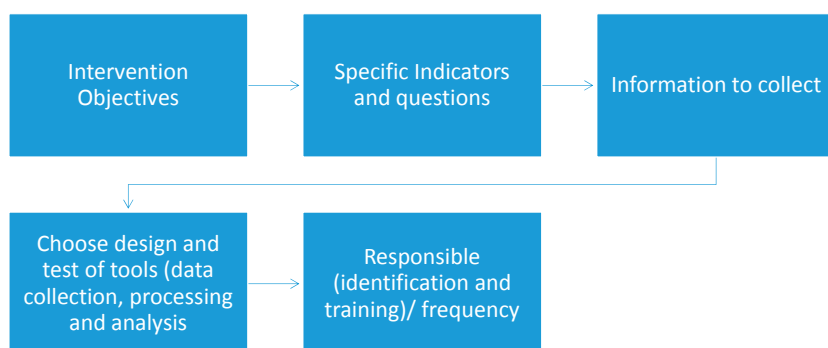
MONITORING SYSTEM

This is a set of tools to measure indicators.

- Includes observation, sampling, questionnaires
- The monitoring system should provide information for evaluations



Building a monitoring system



Planning a Monitoring System

1. What should be monitored?

- Keep information requirements to a bare minimum
- Collect info that will be most helpful to those who will use it

2. How?

- Select methods to track indicators/report on progress
 - Observations, interviews, routine reporting, sentry sites
 - **Piggyback** on existing data collection systems
 - Both formal/informal and quantitative/qualitative methods
 - Decide how information will be recorded systematically and reported clearly
 - Consider the time and skills of those who will collect the data
 - Pretest new monitoring instruments



Planning a Monitoring System


5. Consultation and Training

- Discuss the monitoring program with a representative group from each level before it is put into effect
- Provide training to those who will be using the monitoring systems


6. Prepare a workplan

- for each year
- listing the main activities to be carried out, their output, timing and parties involved






Reporting of project performance




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- “Are we doing things right?”
(Monitoring)
- “Are we doing the right things?”
(Evaluation)



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Example M&E stakeholder assessment table*

Who	What	Why	When	How (format)	M&E Role/Function
Project management	Project reports	Decision-making and strategic planning	Monthly	Indicator tracking table, quarterly project reports, annual strategic reports	Manage M&E system
Project staff	Project reports	Understand decisions and their role in implementation	Monthly	Weekly field reports, indicator tracking table and quarterly project reports	Collect monitoring data—supervise community members in data collection
Headquarters and/or secretariat zone	Annual project information	Organizational knowledge sharing, learning and strategic planning	Annual	National reporting system format	Review and feedback on report
Donor	Donor progress reports	Accountability to stated objectives	Quarterly	Donor reporting format based on indicator tracking table and quarterly project reports	Review and feedback on report
Communities (beneficiaries)	Community monitoring checklist	Accountability, understanding and ownership	Monthly	Community monitoring checklist	Monthly collect and report on project data in checklist
Implementing (bilateral) partner	Project reports	Accountability, collaboration, knowledge sharing and conserve resources	Monthly	Quarterly project reports with feedback form	Review and supplement project report narrative with feedback/ input
Local partner	Annual project information	Knowledge sharing, learning, promotion	Annual	Format based on indicator tracking	Review and feedback on report

Challenges in implementing M&E



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Challenges in M&E planning and implementation

- Data scarcity and inaccuracy (access to both primary and secondary)
- Lack of skills
- Poor funding to M&E
- Determination of relevant objectives
- Definition of accurate milestones and indicators
- Determination of critical success factors –targets,



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The challenge of measuring impact

- ***The measurement of impact is challenging, can be costly and is widely debated.***
- Involves longer-term changes (months or years)
- Difficult to attribute

Any Examples?



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THE IMPORTANCE OF MONITORING & EVALUATION

- Monitoring and evaluation (M&E) helps those involved with any type of projects to assess if progress desired is being achieved.
- By monitoring progress against defined goals, a project manager can assess what is working and what is not, and from there can determine what changes should be made to a project. This in turn makes it possible to improve the way things are being done in the project organization.
- Internally, measurable results can justify continued funding and clarify the "return on investment" of development efforts to the government .
- Externally, the results of M&E can demonstrate commitment to and competence in development, and thus help a government maintain its rating with the public. This makes the government make sound decisions concerning major projects undertaken and to know where to invest.
- Participating in M&E is an opportunity to influence the design and execution of development projects.
- By providing feedback on whether projects are achieving aims in line with community needs and desires, M&E is a powerful accountability mechanism.



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UKaid



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Conclusions?



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Monitoring Public Assets

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Indicators of Good Practice (PIMA)

- Comprehensive asset surveys are conducted regularly by the government
- Balance sheets include all or most nonfinancial assets, which are revalued regularly
- Depreciation of fiscal assets is recorded in operating expenditures based on asset-specific depreciations



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Comprehensive asset surveys are conducted regularly by the government

(Fixed, non-financial assets)

Isn't this just more bureaucracy?

What are the benefits?

- Important to know what the government owns:
 - Specific types of assets
 - Land and buildings
 - Infrastructure assets
 - Plant and Equipment
 - Heritage assets
 - Value of the assets
 - Scope....? Initially this is a grand undertaking therefore...
 - Central government only? Municipalities?
 - Thresholds??



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Making efficient use of government assets

- What do you do with the information you gather?
 - Condition of the asset (Asset Condition Survey)
 - Assess the continued need to own
 - *Plus.....transparency and open accountability towards citizens***
- Output = Asset Management Plan
 - Government Estate Strategy
 - Identify opportunities for collaborative working / co-location = opportunities for reduced running costs / realizes smart procurement opportunities
 - Sale of surplus assets / receipts that can be re-invested = recycle redundant or under-utilized assets into new and more productive ones
 - Some government assets have commercial exploitation opportunities

Fully utilize what you already own before investing in something new = efficiency



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Recording and Accounting for Assets

- Few countries in region account on accrual basis and therefore do not report non-financial assets in the balance sheet (15b)
- Similarly the operating statements do not reflect depreciation of fixed assets (15c)
- Traditionally financial officers maintain registers for smaller asset categories of fixed assets but not infrastructure assets
- Whilst engineers may have records of infrastructure assets, often there is no consolidated picture for use by financial officers, and there is no regular and systematic survey, including age profile and condition (15a)
- Many countries in region now planning move to accrual accounting which will require comprehensive report of capital stock



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Recording and Accounting for Assets

- Under the cash basis of accounting used by most countries in the regions, capital investment is expensed, so in year investment is usually recorded well but not the capital stock
- Under the cash basis of accounting non-financial assets can still be presented in the notes to the financial statements in memorandum form
- Reconciliation of opening and closing stocks of assets in memorandum records important stepping stone to accrual accounting and full disclosure in annual statements
- IFMIS can assist through use of relevant modules: fixed assets; contracts management and project accounting
- Costs recorded as work in progress (long term asset) then capitalized once complete and operationalized



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Reporting on Assets

- Recent Fiscal Transparency Evaluation (FTE) reports highlighting the gaps in information on non-financial assets
- In response to FTEs governments now compiling the information, which will be a pre-requisite for moving to accrual accounting as part of EAC harmonization
- Life cycle costs, including maintenance and operating costs: important to identify ensure adequate financing for the whole capital stock (8b)
- Well structured charts of accounts in most countries clearly defining economic item categories for recurrent and capital expenditure (8c) also good program structure
- Surveys and revaluation of assets – need engineers and financial officers working in unison



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