



Improving Public Investment Efficiency

Transforming Natural Resource
Revenues into Development Assets

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Outline

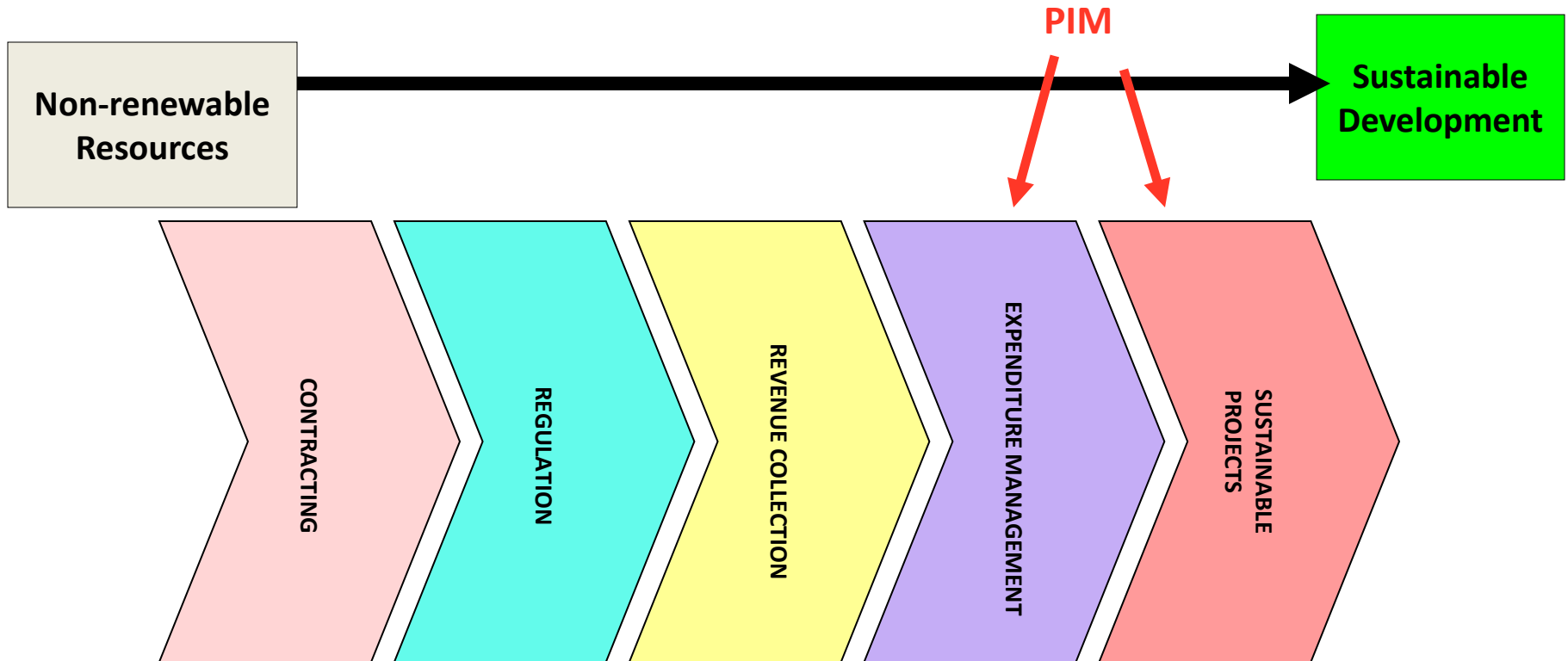
1. Why Public Investment Efficiency Matters (1)
2. Why Efficiency is Elusive (6)
3. A Pragmatic approach to a PIM system to improve efficiency (4)
4. Conclusions (1)

1. Why Public Investment Efficiency Matters

- Public investments could enable fiscal policy to provide
 - long term growth impact
 - Replace natural wealth with public capital
- But only if:
 - good decisions on investment choices are made, and
 - assets are efficiently created, operated and maintained
- Natural Resource revenues can be large and can be wasted unless minimal Public Investment Management (PIM) measures are established quickly
- Hence the need to “invest in investment management capacity”

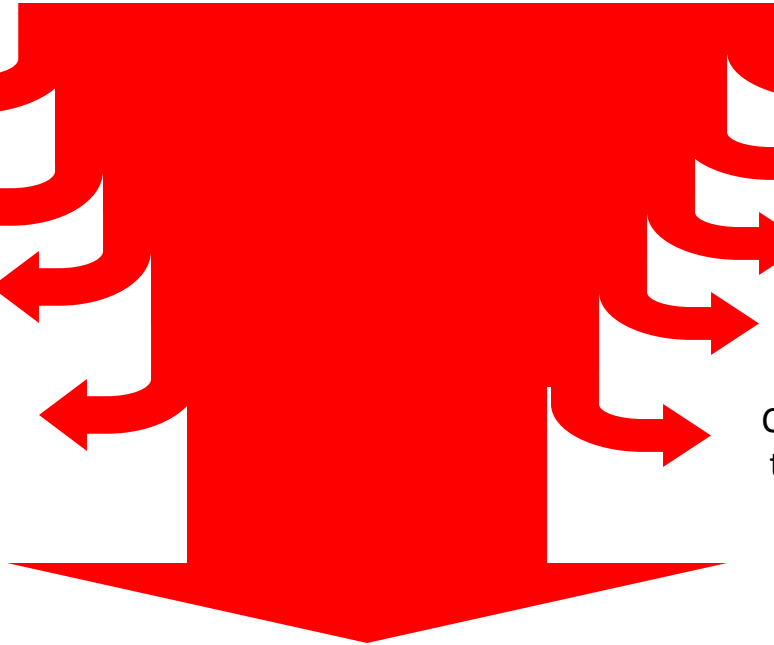
2. Why Efficiency is Elusive

A value chain perspective – each link is vulnerable to poor governance



2(a) The First Challenge: Minimizing Revenue Leakages

Potential State Resource Revenues



Incompetence in contracting

Corruption in contracting

Inefficient company provision of social services

National company withholds revenues from government

Sub-optimal time path

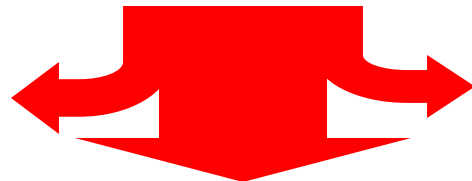
Corruption in contracting

National company inefficiency

Poor national company investments

Corruption in transfer of revenues to national government

Central Treasury Resources



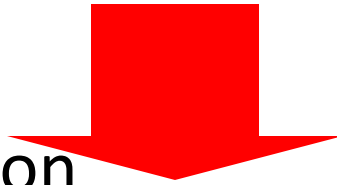
Public Service Wage Increases

Subsidies

Investible Revenue

Source: Adapted from William Ascher, Claremont McKenna College

2(b) Second Challenge: Inefficient Public Investment



- **Poor Project Selection**
 - Wasteful “white elephant” projects
 - “Political” projects to placate regional demands
 - Lack of economic screening of projects (costs may exceed benefits)
- **Poor Project Implementation**
 - Poor budgeting
 - Corrupt procurement
 - Delays in project completion
 - Cost-overruns
 - Incomplete projects
- **Failure to operate efficiently and maintain assets**
 - Often no register of public assets

Defining Public Investment Efficiency

Investment Execution/Operation → Investment Selection ↓	Well executed and operated	Poorly executed and/or operated
Good projects	A ★	C
Poor projects	B	D

'A ' would be the ideal outcome

But most end up
as D or C

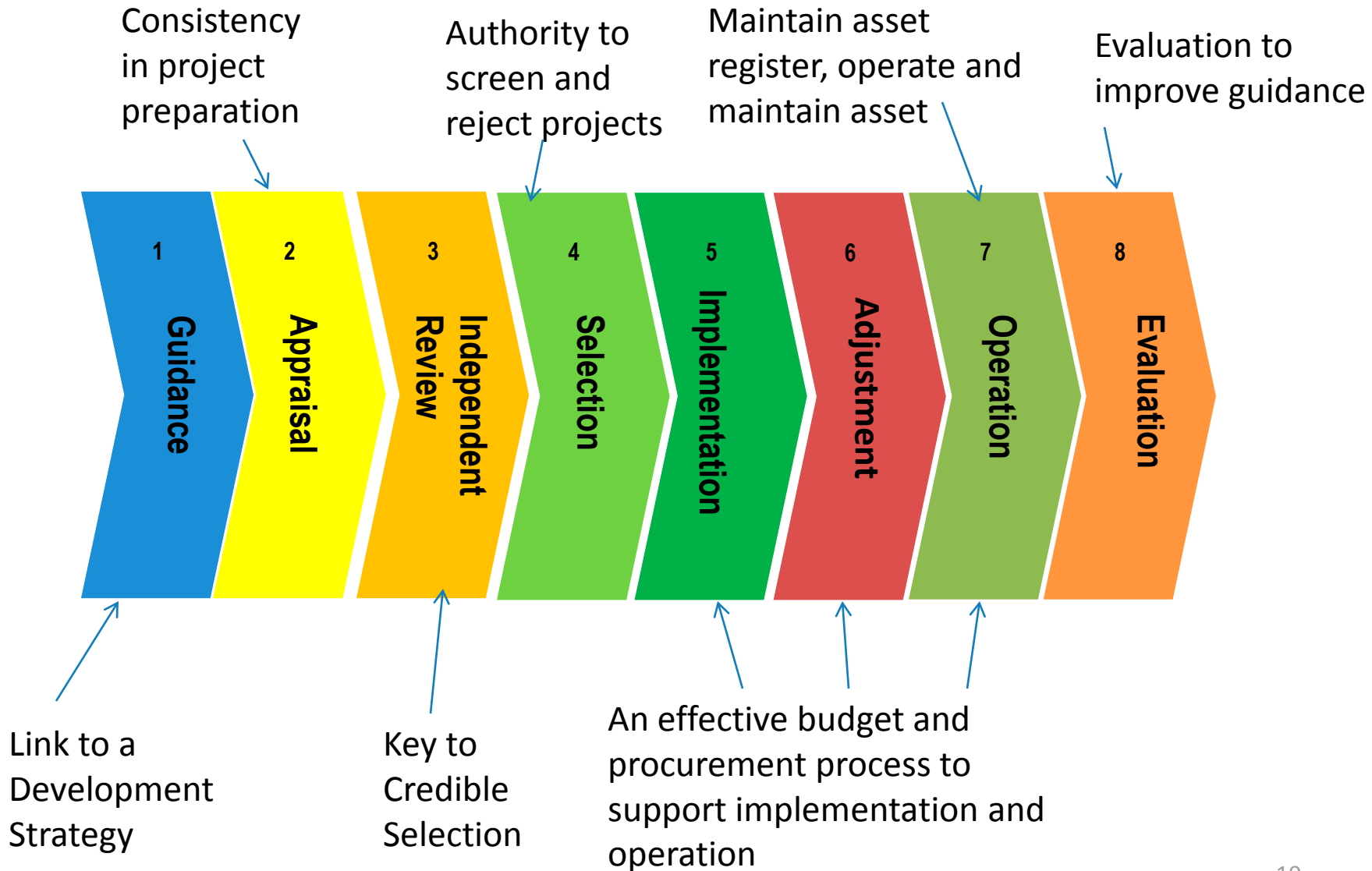
The quality of governance is critical

- A significant endowment of natural resources affects how elites behave and govern
- Natural resource revenue in “resource dependent” economies dilutes accountability to citizens
- “Regime maintenance” through control over rents drives politics and governance – not economic development
- Different stages of the extractive industry value chain then become sources of leakage through corruption, poor decisions, and mismanagement
- Public sector institutions are then unable to perform key functions, including efficient public investment
- Recognizing this problem is necessary but not sufficient to avoid the resource curse

Given the politics, what can be done?

- Governments and citizens need to recognize the mutual interest in effective investment management for long term development
- International and domestic partnerships can demand better governance of the value chain
- Adherence to norms such as EITI, Publish What you Pay, Natural Resource Charter, etc. can help
- But specific actions to strengthen institutional arrangements around public investment management is critical

3. Key elements of a Public Investment System

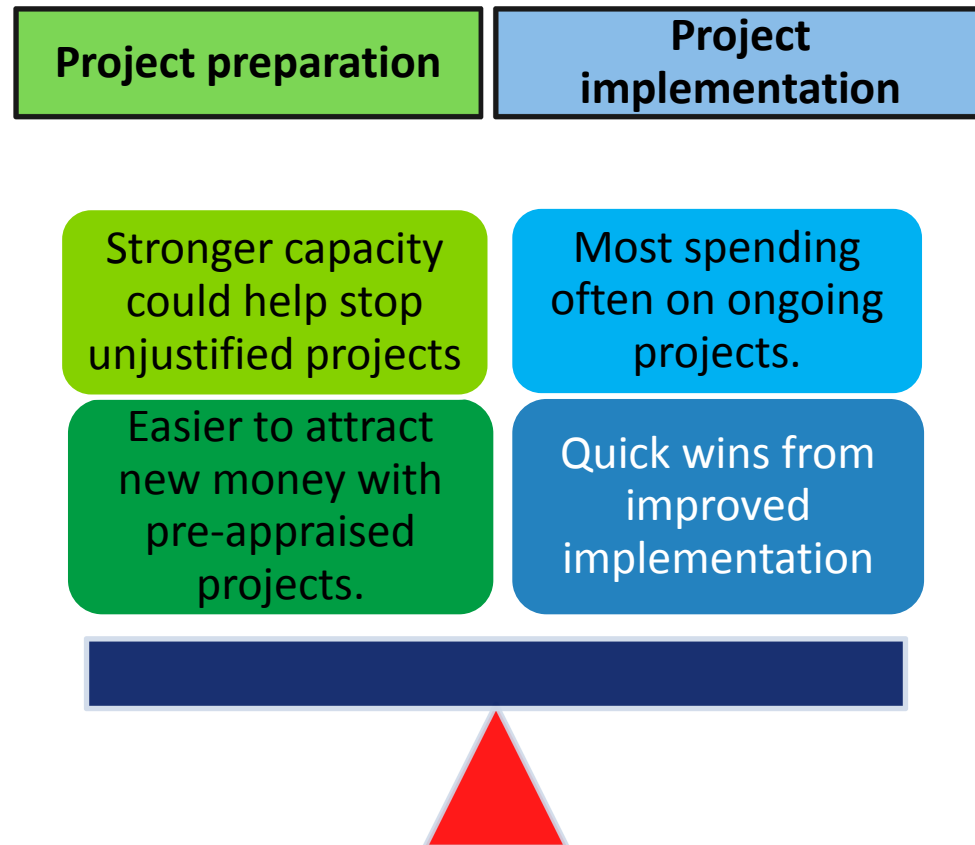


The basic PIM system can be adapted

- The eight aspects of a PIM system offer a framework to improve the efficiency of public investment
- Capacity can be enhanced around this system over time and scaled to different capacity contexts
- But it does require establishment of the authority and discipline in key institutions and political commitment to follow the system
- A key requirement is to **establish gate-keeping authority** to reject ex ante poor projects – avoid the large wasteful projects
- **Independent project review** can be contracted to support review of proposals and inject credibility
- Tracking the rate of completion of projects is a simple mechanism to enhance investment efficiency. Public reporting can enhance incentives for ministries to improve performance.

Prioritization of PIM actions:

target the link with greatest impact on efficiency



PIM is a key area of reform in many countries

- **Vietnam:** 13 percent of GDP in public investment seen to be hampered by poor implementation. Priority therefore to improve implementation.
- **Equatorial Guinea:** With investment constituting well over 50 percent of government expenditure, government is seeking to improve project selection process and implementation capacity.
- **Ghana:** Non-concessional borrowing tied to resource revenue puts a premium on careful project selection as a priority.
- **Guinea:** Surging revenues. Proposed Sovereign Investment Fund with focus on governance framework, investment criteria and implementation capacity.

4. Take-Away Messages

- Efficient investment of resource revenues is key to economic development
- Pragmatic adaptations to establish a basic system for managing public investments can yield large gains in efficiency and development outcomes
- Politics and governance often undermines efficient investment – collective action (citizen engagement, adherence to good governance norms, international support) will be critical to overcoming this hurdle