Sustainability in Public Investment Spending

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Discussant Comments
Outline

• IMF paper – broad comments
• Pros and cons and contrast with Bank’s PIM approach
• Country experience (Korea, Philippines, India)
• Conclusions
Broad Comments on IMF paper

• IMF paper on Public Investment Efficiency
  • Provides important new data on trends in public investment and capital stock
  • PIE-X - Attempts to measure efficiency of public investment relative to a frontier
  • PIMA –
    • Broadens the PIM framework to cover fiscal rules, central-local coordination on plans and investments, regulation of infrastructure companies
    • Makes explicit some budgeting features (medium term budgets)

• Paper concludes that some elements of the framework are less complementary to core PIM – fiscal rules, plans, central-local coordination, multi-year budgeting, company regulation

• What PIMA provides is more an assessment of broader budgeting issues (multi-year, comprehensive, non-dual budgets, assured availability of funding) and less of a focus on key aspects of PIM
The WB’s PIM framework - “must have” functions
Proposed PIMA has pros and cons

**Positive**

- Provides a simple description (plan, allocate, implement)
- Overlaps and complements WB’s existing 8-functions PIM framework
- Makes explicit enabling budgeting needs for good PIM
- Integrates PPPs
- Cautious in its claims – small sample of countries

**Negative**

- Loss of focus on key challenges of PIM
- Missing key institutions – independent review, systemic evaluation
- Some anomalies in results across groups
- Disagree that LIDCs should only focus on project implementation
Korean experience – an important PIM case

• The evolutionary timeline is valuable because it highlights value of:
  • Linking long term plans to the investment strategy
  • guidance for project appraisal – supplemented by pre-appraisal by independent actors to avoid conflict of interest/optimism bias/strategic misrepresentation – significant efficiency gains
  • Integration of PPPs into PIM approach
  • Tracking implementation – total project cost management
  • Re-assessment of feasibility – a unique feature
  • MTEF only in 2004 – not a necessary condition for good PIM
  • Crossing the river by feeling the stones - a gradualist approach that addresses identified problems and builds suitable capacity
  • More sophistication only when system is ready to apply new methods
Philippines case

• Relative to 7 East Asian comparators, Philippines ranks in the bottom half for infrastructure quality

• But this appears to be an issue of the level of public investment (av.2.7% GDP) – in terms of wasteful spending Thailand is worse

• Fiscal constraints to increased infrastructure spending

• Wishlist approach to PIP – weakens selection

• Poor coordination/lack of accountability for project implementation

• Focus on use of PPPs to address infrastructure needs

• Tollway study illustrates need for cost-benefit analysis
Indian case

• Level of public investment (central 1.2% and states 2.7%) seems very low for national infrastructure needs

• And significant share (46%) of central investment seems to be related to defense, with limited impact on infrastructure for growth

• Divergent view on PPPs – some have touted it as a strong supplement, but view presented at this conference appears less optimistic

• A partial view on PIM – significant volume of “stalled projects” – suggests land acquisition hurdle is major handicap

• Both management and financial constraints to public investment
Conclusions

• Focus on PIM institutions is long overdue
• Welcome IMF paper but much work remains to be done to develop a robust but portable universal diagnostic focused on PIM
• Institutional reform is difficult but achievable
• PIM improvements could yield a double dividend – better infrastructure as well as more financing