

MANAGING PUBLIC INVESTMENTS

Experiences from Maldives

A series of several parallel white lines of varying lengths and thicknesses, all slanted upwards from left to right, creating a sense of motion and modern design.

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ECONOMY

Resident Population: 402,000 (2014)

GDP growth: 6.5 % (avg.)

Inflation: < 1 %

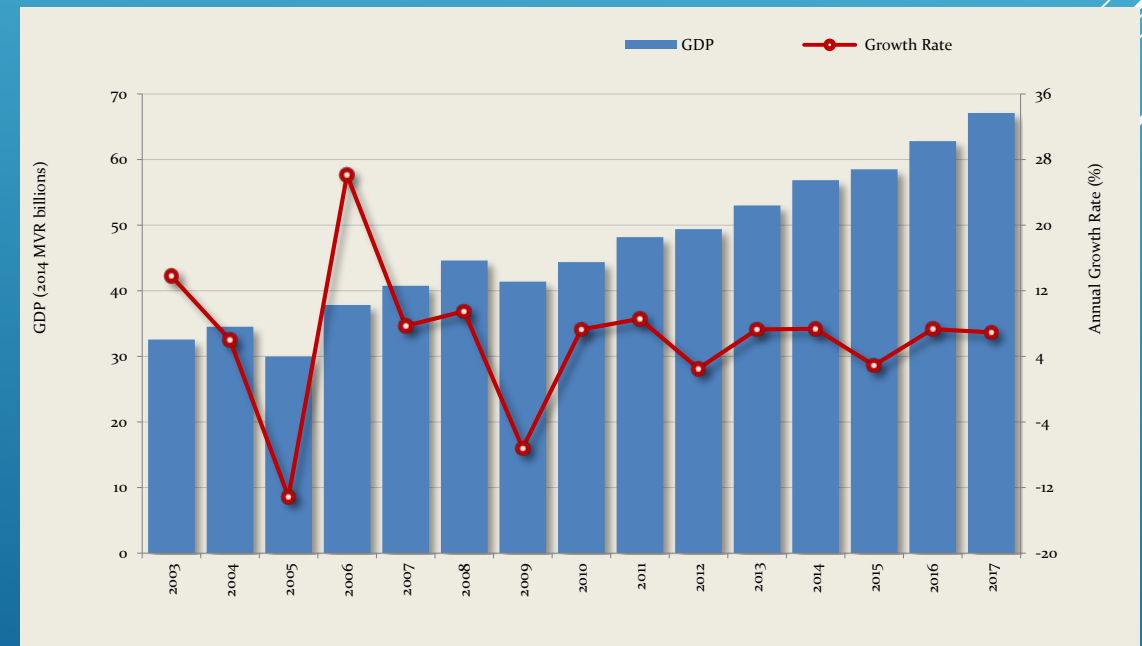
Public Debt: 59.8% of GDP (2019 est.)*

Current account deficit: 24% of GDP (2018)

Budget deficit: 5.7 % of GDP (2019 est)

* Excluding guarantees

GDP Growth, 2003-2017



Source: National Bureau of Statistics, 2018

OVERVIEW - 1

- A small island developing state with a small open economy, limited natural resources
- Highly dispersed among 187 small islands
- Extremely vulnerable to the impacts of climate change, unique challenges to infrastructure development
- Constitution mandates key social infrastructure to all inhabited islands, complicated and costly
- Basic services including water, electricity, schools, health centres, harbours present in all inhabited islands

OVERVIEW - 2

- Rapid urbanization – almost a third of the population living in the capital region
- Moved from low human development to high human development
- Public Investment averaged around 8 % of GDP between 2005-2015, quite volatile
- Public capital stock about 68 % of GDP in 2015
- GoM significantly scaling up infrastructure investment – about 35 % of GDP between 2015-2019

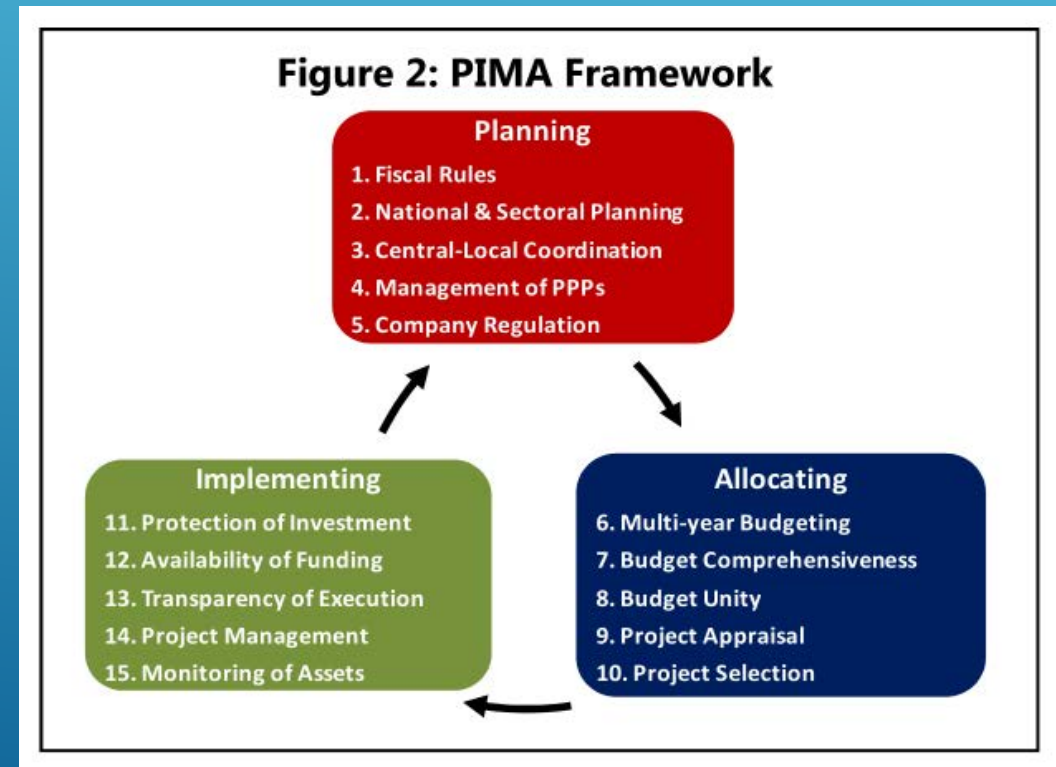
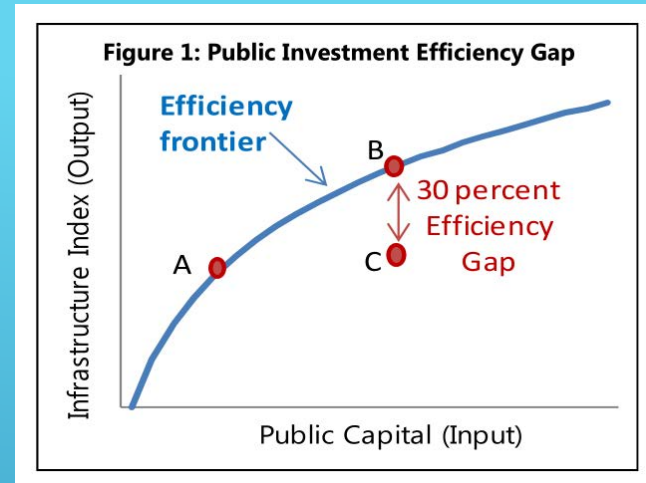
OVERVIEW - 3

- Infrastructure aims to promote growth, diversify the economy, helps to consolidate high level of services in key urban centres
- Challenges in rising debt levels 59.8 % of GDP in 2019
- Limited fiscal space, need to focus on efficient public investments and improve public investment efficiency
- Need to strengthen public investment management institutions to address this and close efficiency gap
- GoM requested IMF to conduct a Public Investment Management Assessment in December 2016

PIMA FRAMEWORK - 1

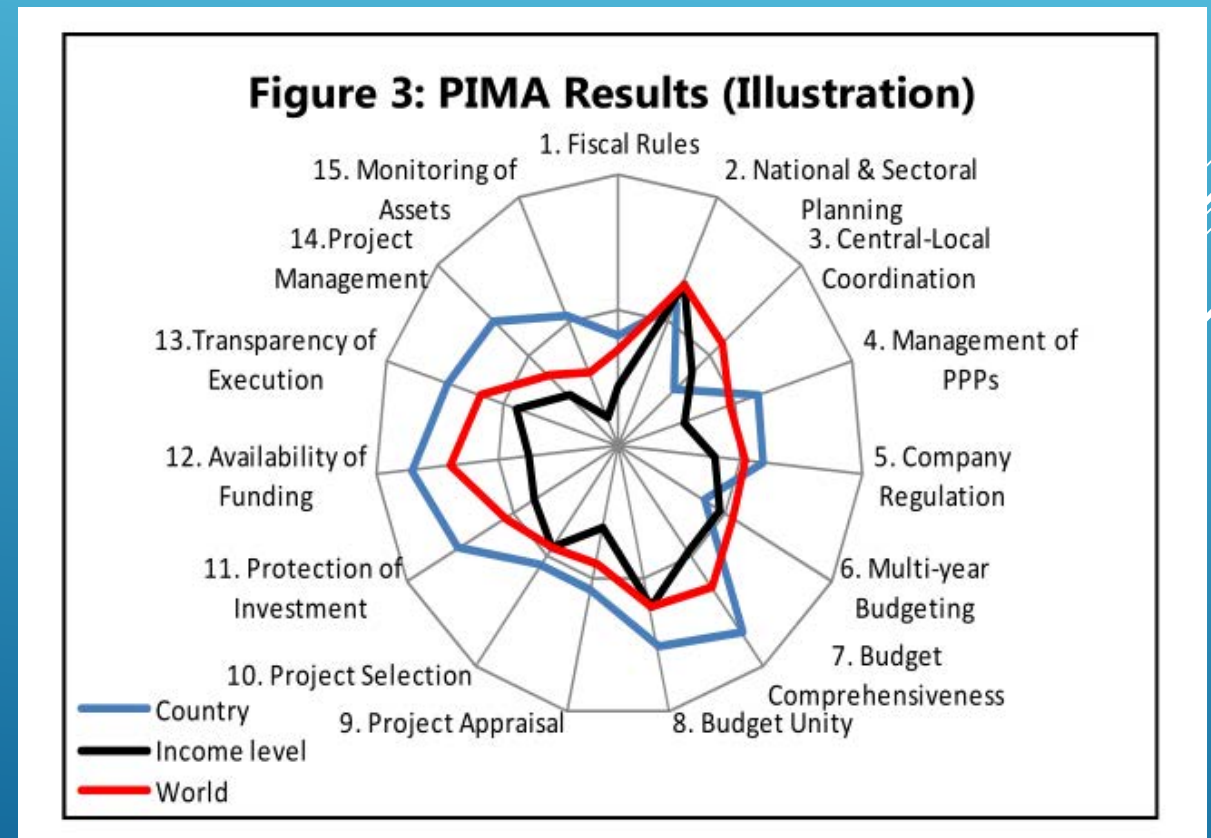
- Evaluates strength of PIM practices, looks at 15 institutions that shape decision making of public investment cycle
- countries lose about 30% of value of investments to inefficiencies in public investment process - Close the “efficiency gap”
- Helps to evaluate the “strength” of PIM practices

Provides a diagnostic of a country’s PIM system

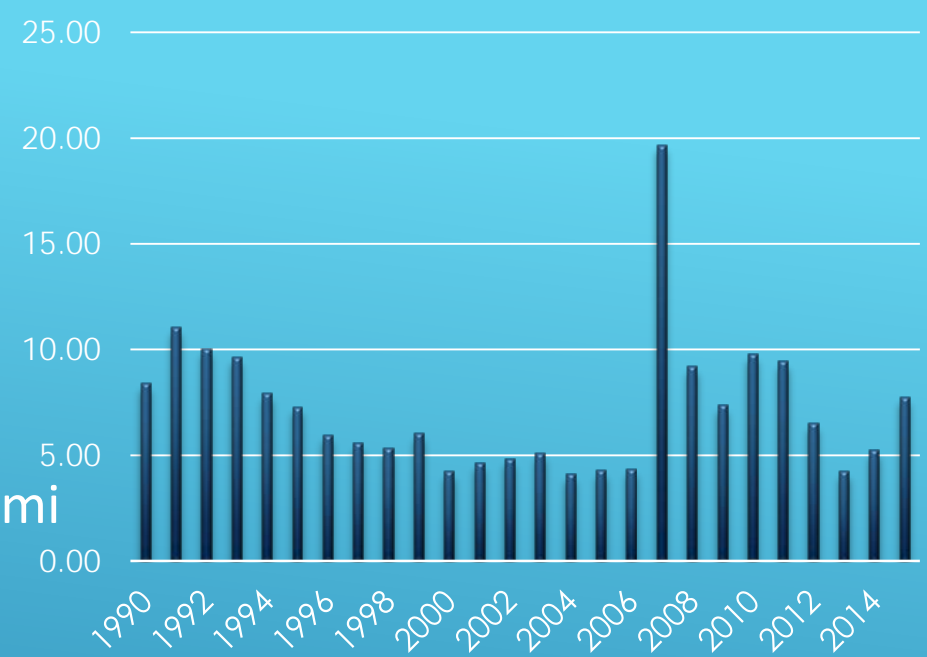


PIMA FRAMEWORK - 2

- Comprehensive framework – elements of macro-fiscal frameworks; integration of investment planning in medium-term budgeting
- More relevant – includes fiscal rules; project appraisal and selection; PPP oversight
- Accessible – results presented in summary charts; country comparisons



TRENDS IN PUBLIC INVESTMENT - 1



- Progressive decline from 1990s and early 2000s
 - *11 % of GDP in 1991 to 4% in 2004*
- Increased public investments following the 2004 tsunami
 - *Remained at around 8 % of GDP till 2015, now at around 10% of GDP*
- Significant increase in 2007 in the run-up to the first democratic election
- Delivery of major new infrastructure projects “mega-projects” in 2013 election manifesto
 - Expansion of international airport with new runway – about USD 1 billion
 - Building a bridge connecting the airport and capital – about USD 200 million
 - Tertiary hospital and diagnostic centre – about USD 140 million
 - Hulhumale phase II reclamation and revetment – about USD 75 million
 - Hulhumale phase II infrastructure & utilities – about USD 100 million

TRENDS IN PUBLIC INVESTMENT - 2

- Delivery of major new infrastructure projects “mega-projects” in 2018 election manifesto
 - Relocation of Male’ Commercial Port to Gulhifalhu – about USD 200 million
 - Building a bridge connecting the capital, the adjacent satellite island, the “new” commercial port and the industrial island of Thilafushi – about USD 460 million
 - Construction of 20,000 housing units (equity) – about USD 78 million
 - Development of a nation-wide public ferry transportation network – cost tbd
 - Development of 5 urban growth centres with high order of services – cost tbd
 - Development of 5 new domestic airports and upgrading of 1 international airport – cost tbd

OVERALL ASSESSMENT & KEY FINDINGS - 1

- Significant volatility – annual public and private investments fluctuated between 4 – 20 % of GDP over the past two decades
- Significant level of public capital stock accumulated over the last decade – about 68 % of GDP in 2015
- A very low level of PPP capital stock
- Growing debt, limited fiscal space, high current spending – about 37 % of GDP
- Financial risks associated with scaling up in public investments
- Public investment spending mainly focussed on social services – about 41 %, mainly health, education, housing, social protection etc
- An investment efficiency gap exists – about 50 % comparing to most efficient countries
- Effective management of planned infrastructure scale up to be ensured – strong link between PIM institutions public investment efficiency

SUMMARY OF ASSESSMENT- 1

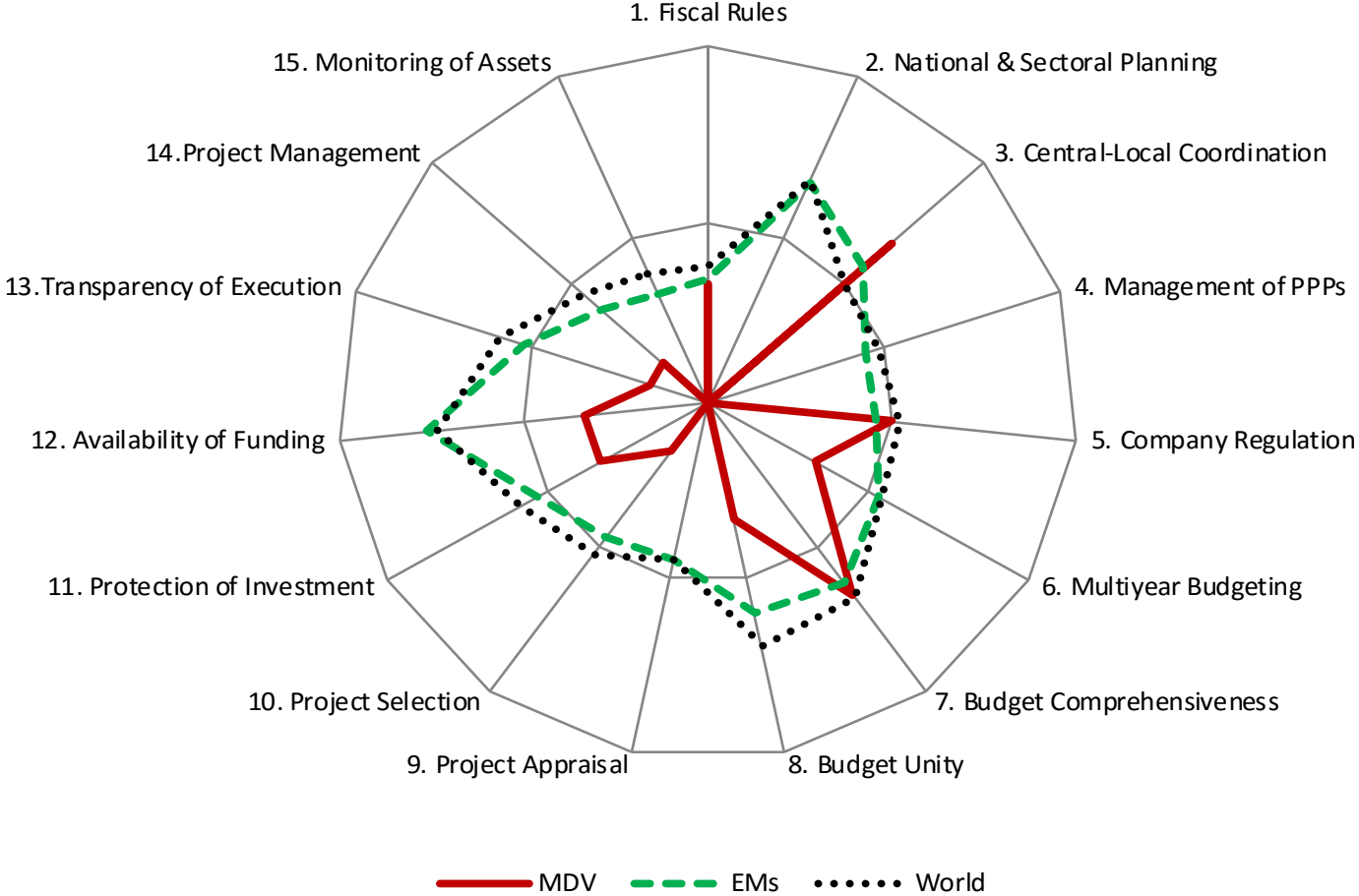
Phase / Institution		Institutional Strength	Effectiveness	Rec	
A. Planning	1	Fiscal rules	Medium: Permanent fiscal rules are in place but capital spending is not excluded from the budget balance rule.	Low: The target has not been achieved, and there is not a published path to meet the debt target.	
	2	National and sectoral planning	Low: No national strategy and very few sectoral strategies in place.	Low: No national planning process and and plans are costed	
	3	Central-local coordination	High: Local council's investment plans are planned together with central government.	High: Local council's do not borrow and their investment plans are mostly coordinated with central government.	
	4	Public-private partnerships	Low: There is no PPP framework or PPP strategy or criteria for entering into PPPs.	Low: Information on, and oversight of, PPP liabilities is relatively limited.	
	5	Regulation of infrastructure companies	Medium: Prices for the main public utilities are set by semi-autonomous regulators.	Medium: Some utility markets have private sector companies operating in them.	
B. Allocation	6	Multi-year budgeting	Medium The annual budget documentation contains multi-year projections of capital spending.	Low: Ceilings on capital expenditure are not set during the budget preparation process and full costs of projects are not disclosed.	
	7	Budget comprehensiveness	Medium: The budget presents a relatively comprehensive picture of capital investments.	Medium. Absence of consolidated information on capital investments weakens fiscal analysis. Some projects are started without a budget.	
	8	Budget unity	Medium: Classification captures current and capital. Capital and recurrent budgets are not prepared together and future recurrent costs are not budgeted for.	Low: Currnet expenditure recorded as capital. Lack of funding for operations and maintenance	
	9	Project appraisal	Low: Little central guidance on appraisal criteria, and no evidence of systematic cost-benefit analysis	Low: There is limited use of feasibility studies and risk analysis.	
	10	Project selection	Low: There are no published selection criteria or transparent processes for selection	Low: No pipeline of vetted projects for future funding consideration. This can result in lower and less efficient project selectin.	

SUMMARY OF ASSESSMENT- 2

Phase / Institution		Institutional Strength	Effectiveness	Rec	
C. Implementation	11	Protection of investment	Medium: Information on total project costs included in the budget. Virements subject to MOFT approval. Carry over not authorized.	Low: No appropriation act. Persistent under-execution of capital expenditure. Significant reallocation of expenditure during the fiscal year penalizing investment.	
	12	Availability of funding	Medium: Most donor funding in TSA, but no cash flow forecasts and financing of project outlays frequently subject to cash rationing resulting in significant delays in project implementation.	Low: Poor cash forecasting and management leading to the unavailability of cash for budget execution, leading to accumulation of arrears.	
	13	Transparency of execution	Low: Many major projects not tendered using the national tend board process; limited public access to procurement information. Project monitoring varied at line ministry level, limited external audit.	Low: Fragmented procurement procedures. At central level weak monitoring of physical progress and central monitoring by MOFT, audit findings not systematically analyzed.	
	14	Project management	Low: Project managers formally assigned, project adjustments do not require fundamental review, no ex-post evaluations conducted.	Low: In practice, project management relies on consultants. Significant cost overruns and delays experienced. Limited learning from failed projects.	
	15	Assets accounting	Low: Asset registers record moveable assets but not infrastructures. No reevaluation and depreciation of fixed assets. Surveys not conducted.	Low: Assets are not effectively, recorded, used and maintained.	

OVERALL ASSESSMENT

Strength of Public Investment Management by Institution



KEY RECOMMENDATIONS ¹

A. Investment Planning Institutions

- Two recommendations – on strengthening strategic guidance for planning and budgeting and improving the oversight of PI and related fiscal risks undertaken by non-budgetary institutions including SOEs

B. Investment Allocating Institutions

- Four recommendations – establishing a ceiling for PSIP, integrating capital and recurrent budget preparation including capital project selection, strengthening project appraisal process, improving capital project selection process including developing targeted selection and prioritization criteria

KEY RECOMMENDATIONS ²

C. Implementation Institutions

- Five recommendations – improving competitiveness and transparency of procurement process, strengthening project management and monitoring framework, developing a framework for ex-post evaluation, ensuring cash releases for PSIP spending are based on commitment controls and strengthening the capacity to improve PIM efficiency

Working closely with development partners and international financial institutions to implement the short and medium term recommendations

- IMF/SARTTAC provided TA in developing capital planning guidelines, advising on in-house project monitoring system and training line ministry staff in project appraisal
- WB Public Financial Management Project on PIM related areas

PRIORITY ACTIONS – STATUS ¹

- Strengthen role of Fiscal Strategy Statement in budget process – addressed in 2019
- Developing National Development Strategy and sector strategies – Strategic Action Plan based on Manifesto published, National Development Plan and National Spatial Plan being developed
- Develop SOE and PPP legislation – SOE legislation under consideration
- Establishing a ceiling for capital expenditure – ceilings for on-going and as well as new policy initiatives established in 2019
- Develop and apply a methodology for project appraisal and create a project pipeline – New guidelines being prepared
- Develop and publish criteria for the selection of projects – criteria developed based on strategic action plan, not published

PRIORITY ACTIONS – STATUS ₂

- Progressively increase the number of tenders using National Tender Board procedures – SOEs not yet all utilizing NTB procedures
- Create a comprehensive database of current and planned PI projects including full capital costs and future recurrent costs – in-house project monitoring system being developed
- Develop the regulatory framework for the management and monitoring of PI projects – guidelines still in the early stages of drafting
- Develop a comprehensive register of fixed assets – MoF initiative focused on movable assets, no progress on establishing a register of fixed assets
- Improve commitment control of PSIP spending – materials management module of SAP accounting system being implemented
- Improve cash management – new virement regulations adopted restricting virements from capital to current and between capital items

PRIORITY ACTIONS – STATUS ³

- Strengthen capacity of all actors involved in PIM – training sessions on project cycle and capital project guidelines held for line ministries in 2019, No training plan developed

*THANK YOU FOR YOUR
ATTENTION*

