

On Public Investment Efficiency

Sanjeev Gupta

Deputy Director
Fiscal Affairs Department, IMF

G-24 Technical Group Meeting
Cartagena, Colombia March 2016



Creating fiscal space for financing infrastructure



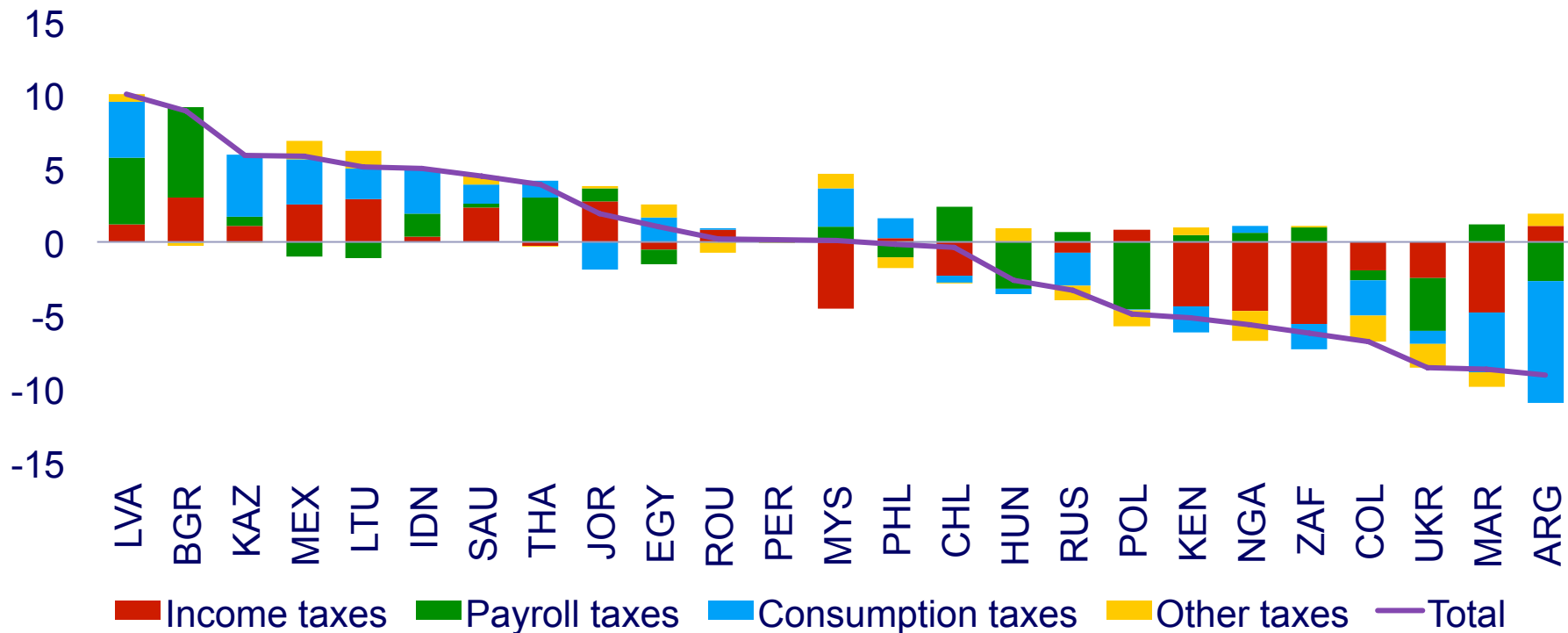
- ❑ Fiscal space remains under pressure in many countries
 - This is in part because domestic revenues have not kept pace with rising expenditures

- ❑ Fiscal space can be generated through:
 - Mobilizing more domestic revenue: Tax reforms, strengthening revenue administration
 - Strengthening efficiency of public expenditure—my focus is on this
 - Borrowing, but debt dynamics remain unfavorable in many countries

There is the potential for further revenue mobilization in a number of EMEs.



Selected Emerging Market Economies: Peer Comparison of Revenues¹
(Percent of GDP)



Source: Torres (2013).

¹ Figure shows differences between the conditional average estimated by Torres (2013) and actual revenues. A positive value means a country's revenue collection is below that of its peers.

Strengthening the efficiency of public expenditures can generate fiscal space



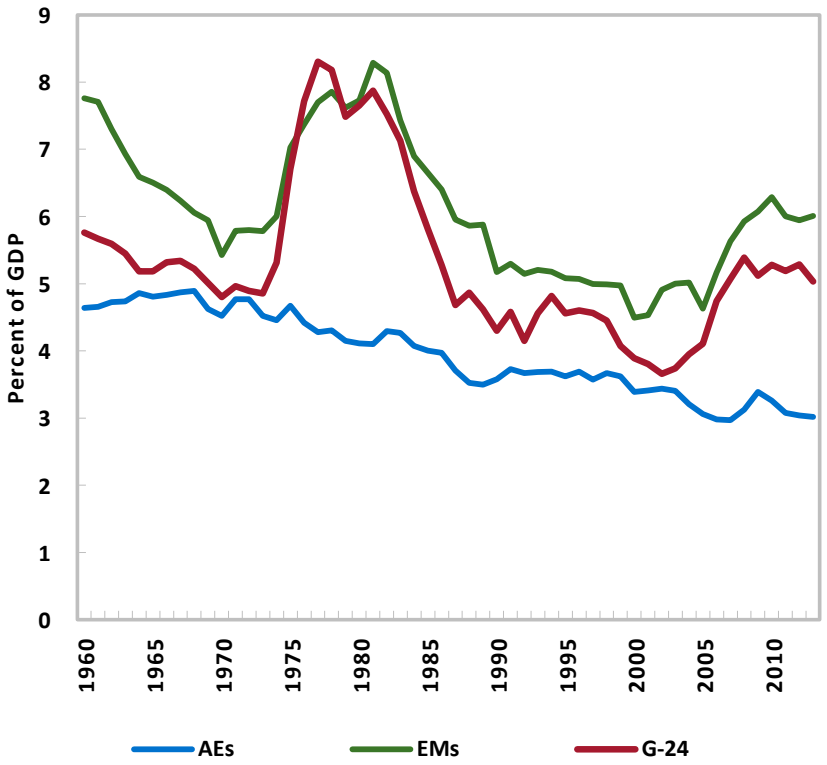
- Efficiency of public investment
- Strengthening the efficiency of social spending can unlock fiscal space to support more inclusive long-run growth
 - ➔ Improving health and education efficiency
 - ➔ Eliminating poorly targeted energy subsidies
 - ➔ Targeting social transfers to lower income households
- Containing growth in the wage bill as a share of spending

Public Investment has not fully recovered from historic lows

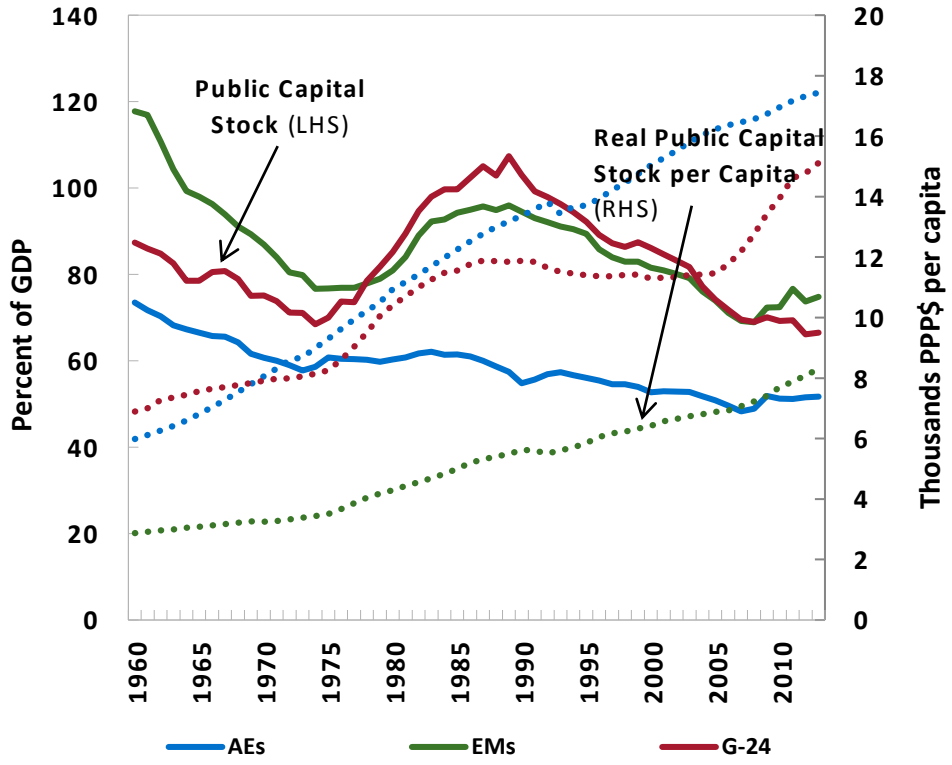
Public investment falling in advanced economies, but recovering elsewhere

Growth in the public capital stock has outpaced population but not output

Public Investment
(% of GDP)



Public Capital Stock

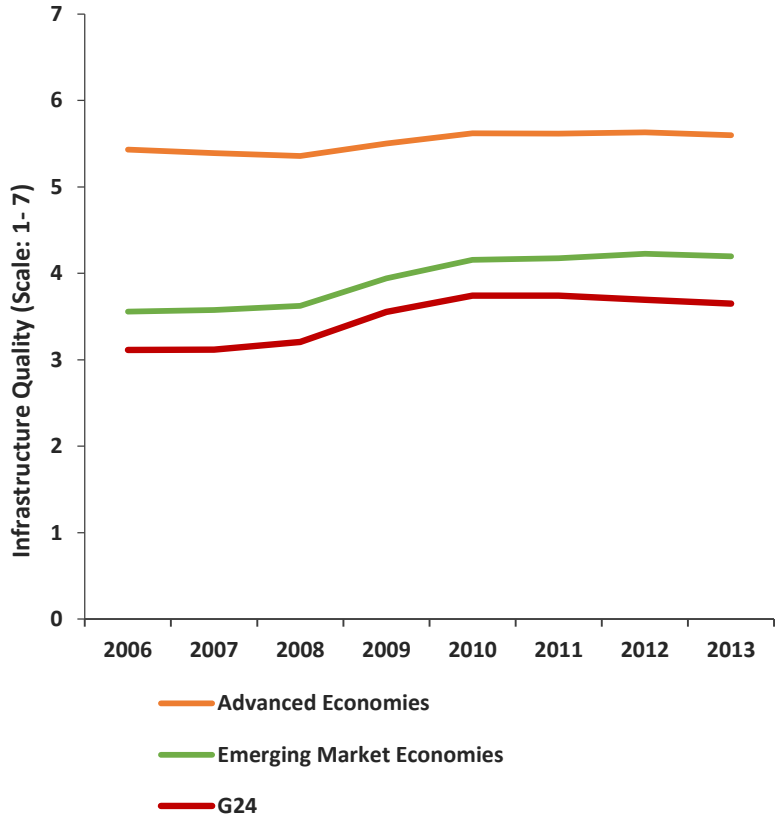


Large disparities remain in quality and access to infrastructure

Survey measures suggest some disparities in infrastructure quality between rich & emerging countries....

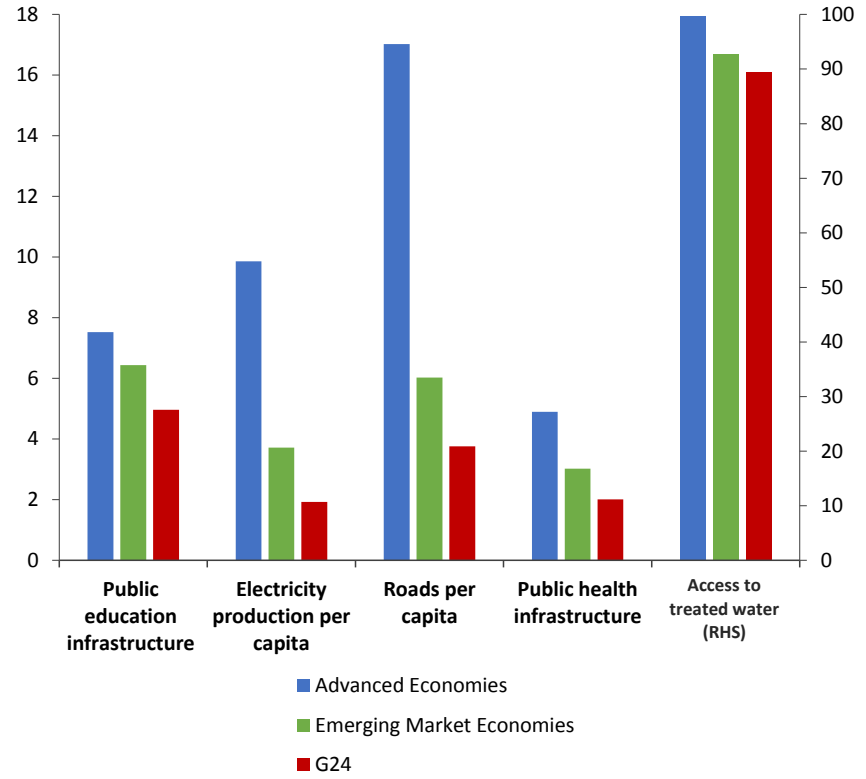
...and physical measures highlight the large and persistent disparities in infrastructure access & quality

Perceptions of Infrastructure Quality



Measures of Infrastructure Access

(Latest year)

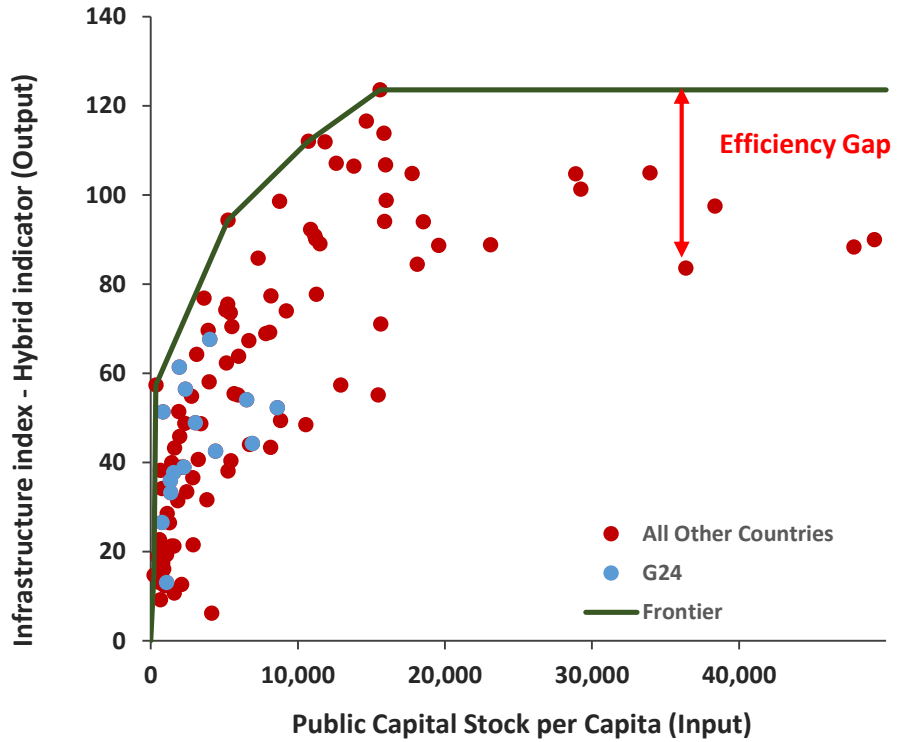


Public investment inefficiencies are sizeable; with about 1/3 of investment's potential impact being lost

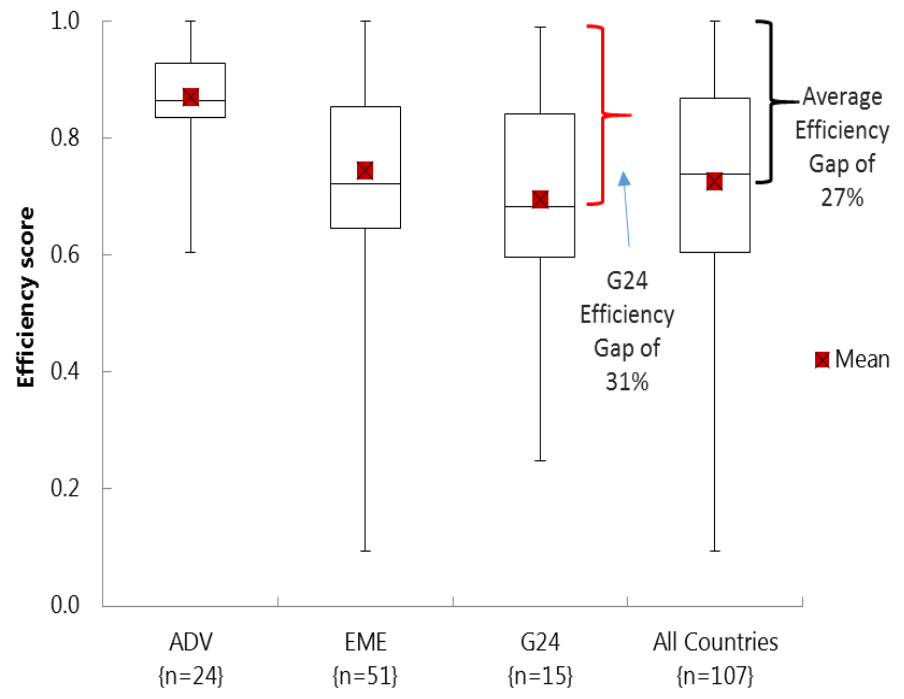
Large public investment efficiency gaps both across and within different income groups

Average country is 27% below efficiency frontier

Public Capital Stock and Infrastructure Performance

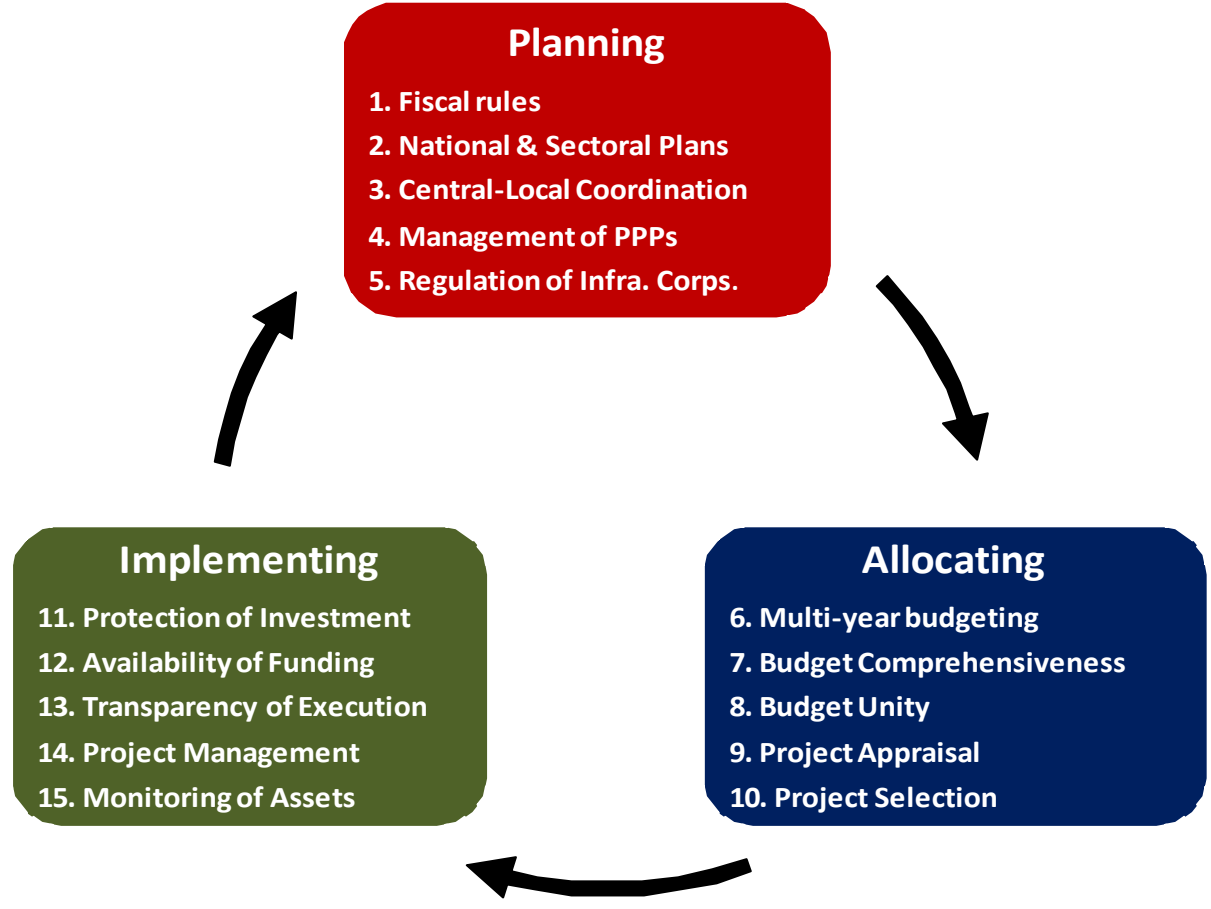


Public Investment Efficiency Index (PIE-X)



Strengthening public investment management can help reduce investment inefficiencies

*The **PIMA Framework**, a new diagnostic tool, evaluates 15 key institutions in 3 phases of the PIM process*





Study identified PIM areas for improvement: Advanced economies weakest in Planning phase

Stronger public investment management help to improve investment efficiency and productivity by ensuring:

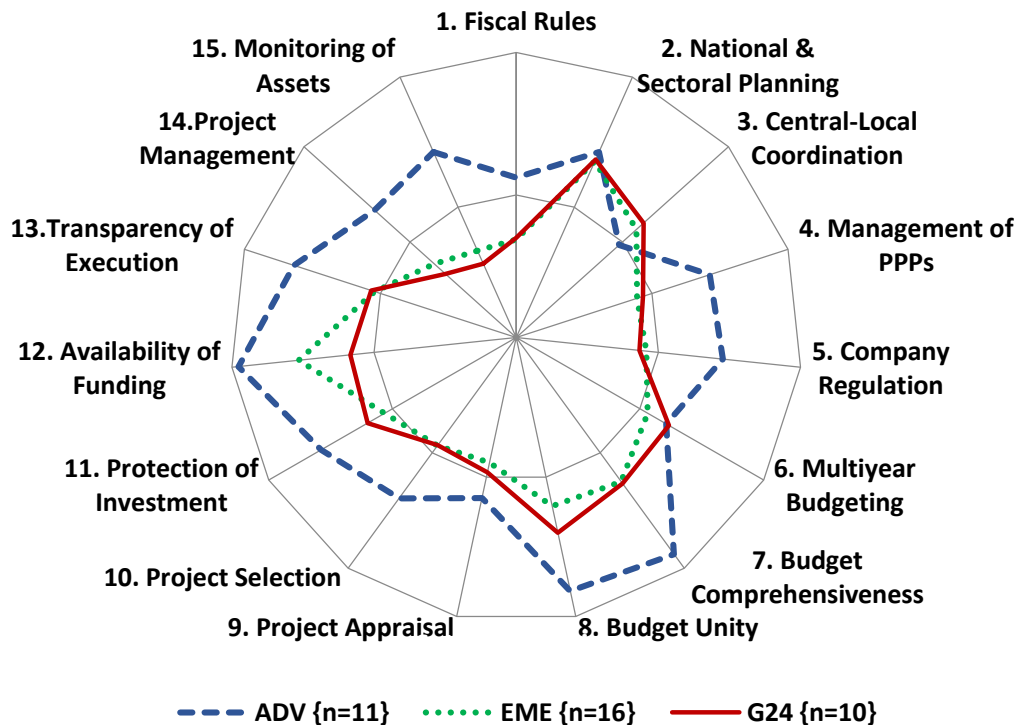
- Sustainable levels of total investment
- Stable allocation of investment spending between sectors
- Less underspending
- Lower levels of rent-seeking

To achieve these aims, reforms should focus on weaknesses:

- **All country groups:** multi-year budgeting and mgmt. of PPPs
- **Advanced economies (AE):** regulation of infrastructure corporations, central-local coordination, and fiscal rules
- **Emerging economies (EM):** budget unity, project appraisal, selection, procurement, and management
- **Low income developing countries (LIDC):** comprehensiveness of budget, availability of funding, and monitoring of assets

G-24 countries follow a pattern of strengths and weaknesses similar to emerging countries

PIMA Scores by 15 Institutions



Relative Strengths

- National & sectoral planning
- Central-local coordination
- Multi-year budgeting

Relative Weaknesses

- Fiscal rules
- Management of PPPs
- Company regulation
- Project management
- Monitoring of Assets

The G24 sample is composed of: (Africa) Algeria, Ethiopia, Ghana, and South Africa; (LAC) Argentina, Brazil, and Mexico; and (Asia) India, Philippines, and Sri Lanka



How can the IMF support to improve public investment management?

- **Technical Assistance**

- FAD currently engaged in more than 100 countries in public investment management (PIM) related topics
- FAD work with countries and other institutions to implement public investment management assessment (**PIMA**)
- FAD TA can assist countries designing and implementing PIM reform