Managing Public Investment Spending During the Crisis

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Context

- This presentation is based on a Note in the IMF's Special Series on COVID-19 by Eivind Tandberg and Richard Allen "Managing Public Investment Spending During the Crisis", May 19, 2020.

- The Note considers both cuts in investment that could be made during the initial response to the crisis (e.g., to finance emergency spending on health and support for vulnerable groups) and the role of public investment to boost the recovery.

- The IMF's Fiscal Monitor in Fall 2020 will include a section on policy issues relating to public investment for the recovery and an analysis of investment trends post-COVID.

- FAD are planning a How-to-Note on public investment during the recovery, building on the analysis in the Special Note.

Public investment during fiscal adjustments

Public investment is attractive for both spending cuts and boosts in support of economic recovery

- Largely discretionary, lumpy with most spending concentrated over a few years
- Make a substantial contribution to economic activity, especially in low-income countries
- 2017: public investment to GDP was 3.2 percent in advanced economies, 4.8 percent in emerging market economies, and 7.5 percent in low-income developing countries

Countries facing financial stress very often resort to cutting or postponing public investment

- As impacts are long-term, projects do not necessarily benefit from strong and vocal constituencies

Increases in public investment are common elements in fiscal stimulus programs

- Boosting long-term economic growth in addition to supporting demand and employment in the short and medium term

Objectives of Public Investment Adjustments - Trade-offs

Objective	Short term	Medium term (Recovery Phase)
Efficiency:	Cuts should target investment projects with lower benefits (economic and social) compared to costs. The costs and benefits of the whole portfolio should be reassessed.	Resources should be allocated to spending with higher benefits (economic and social) compared to costs.
Equity:	The impact of the cuts on different groups or sectors of the economy should be consistent with established political priorities.	The impact of investment projects on different groups and sectors should be consistent with established political priorities.
Effectiveness:	Cuts should contribute to fiscal adjustment of the required magnitude and timing.	Increased investment spending should contribute to an overall fiscal stimulus of the required magnitude and timing over the medium term.

Short-term spending cuts – Some challenges

Ad hoc, across-the-board cuts are quite common in crisis situations but will generally fail to recognize project-specific differences

- Spending on investment already incurred and other sunk costs are lost when projects are cancelled prior to completion

It is difficult to assess the full costs of project postponement and cancellation

- Spending cuts may have unintended or unknown impacts

Cuts in capital maintenance and reconstruction may be very costly

- Significant loss of asset values compared to maintenance costs

Spending cuts will often require coordination across different levels of government

- Public-private partnerships (PPPs) are often bound by contracts with provisions that are difficult or expensive to change

Short-term spending cuts – Recommendations

There should be a structured mechanism for decision making on major infrastructure cuts

- Final decisions will typically be taken by ministers, but should be based on technical advice

Postponing or cutting projects or altering specifications will require governments to negotiate changes with their contractors (traditional procurement) or partners (PPPs)

- Need clarity in the decision-making process and a procedure that allows parties to resolve potential disputes

Robust decisions will require comprehensive and consistent information about the public investment portfolio

- Existing reporting and oversight mechanisms should be utilized, if needed supplemented by survey of implementation status and remaining costs of major projects

To ensure transparency and accountability, an information portal on public investment would be very useful

Short-term spending cuts – Illustrative Decision Matrix

Status / Decisions	Postpone	Cancel
Project approved, not initiated	Yes	Yes
Project initiated, less than 10 % of cost incurred	Yes	No
Project under implementation, B/C of completion >1.5	No	No
Project under implementation, B/C of completion <1.5	Yes	No
Project under implementation, B/C of completion <1.0	Yes	Yes
Additional considerations		
High employment creation	No	No
Significant synergies with other projects	Yes	No
High cost of project cancellation (beyond B/C)	Yes	No

Public investment for recovery - Recommendations

Develop and maintain a pipeline of suitable public investment projects

- If no existing pipeline, a framework for expedited appraisal should be established
- Done by existing institutions or task force comprising experts from key sectors

Projects should be adequately appraised prior to selection

- The appraisal framework should be applied to all existing projects as well as new proposals
- The arrangements should include clear criteria for the selection of projects

The fiscal stimulus program should be anchored in a credible and realistic medium-term fiscal policy and framework

- Estimates of fiscal space for infrastructure should guide decisions
- Project selection should be based on specific projections for full lifetime costs

Capacity constraints should be identified and addressed at an early stage

- Including constraints in procurement systems, or in access to capital, labor, and materials

Public investment for recovery - Recommendations

Capital maintenance projects should play an important role in the investment program

- Maintenance and capital repairs projects are by nature flexible and can be easily expanded
- Can be replicated across SNGs through an earmarked capital grant scheme

Adequate management for PPP projects will be even more relevant in the aftermath of COVID-19

- In the absence of effective fiscal management they can lead to waste and inefficiency
- May increase fiscal risks and advance projects with poor or negative economic value

Procurement mechanisms should be reviewed to ensure timely and effective realization of the selected investment projects while maintaining transparency

- Procurement bottlenecks should be identified and remedied during the preparation of the fiscal stimulus program

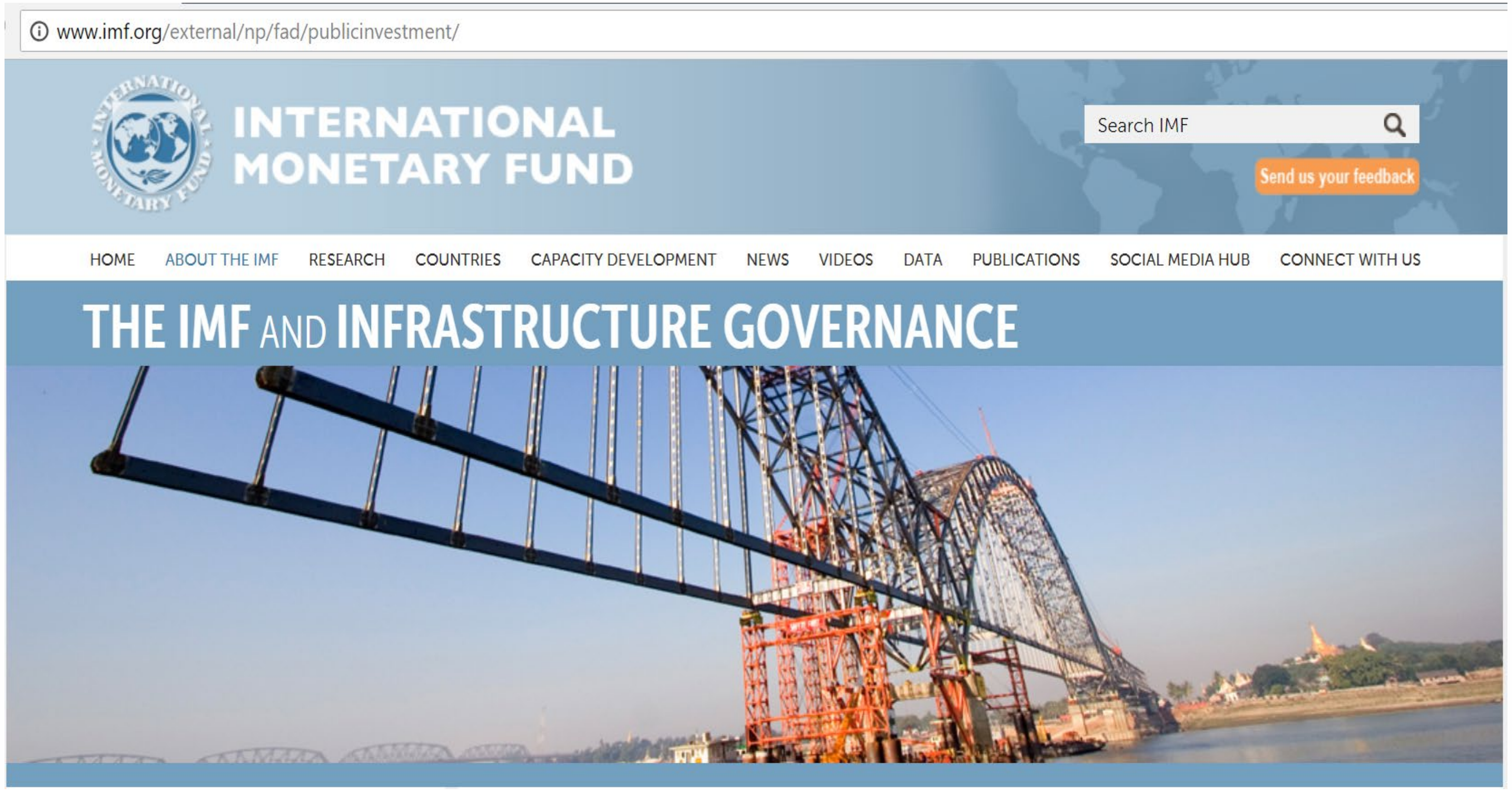
Effective mechanisms for project monitoring and reporting, and for escalation and resolution of implementation issues should be put in place.

Public investment for recovery – Selection criteria

Principle	Illustrative criteria
Timely	Possible to implement the projects in the required timeframe A significant share of projects should be available for immediate implementation
Targeted	High benefit/cost ratio (B/C >1.5) Additional positive impacts (beyond B/C estimate): ▪ Economic ▪ Social ▪ Environmental High employment creation potential Significant synergies with other projects, including SNGs and private sector Leverage concessional financing
Temporary	Projects with strong long-term growth impact but limited long-term fiscal impact They should not require significant funding beyond the fiscal stimulus period

www.imf.org/publicinvestment

https://www.imfigeur.org/



Thank You