PUBLIC INVESTMENT MANAGEMENT (PIM) IN CONTEXTS OF FRAGILITY, CONFLICT & VIOLENCE (FCV) - PART 2

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PIM/PPP Action Plan: The PIM Assessment resulted in the establishment of an Action Plan to strengthen the system. Given weak institutional capacity and limited resources, the Plan should include quick-win options where possible, particularly in the early recovery phase. Evidence shows that the process by which projects are delivered (scale, community involvement, expertise of project managers, etc.) can be more important than getting projects built quickly. This is an important balancing act to consider. A well-sequenced short-, medium- and long-term PIM Action Plan can be organized as follows: i) Formalize the institutional setting (establishing management functions inside the PIM cycle); ii) Develop capacity building in project design, appraisal and selection; iii) Improve capital investment project design, appraisal and selection; iv) Enhance the legal and regulatory framework of the PIM system; v) Improve process registration of projects via an Integrated Bank of Projects (IBP); vi) Establish regularly revisited project selection and prioritization criteria; vii) Formalize use of key performance indicators; and viii) Improve PIP-PPP in project management and ex-post evaluation.

In the early days of reconstruction, it is critical that the PIM Action Plan identify appropriate policies to ensure some quick results, such as project prioritization, and the use of external donor financing, which could expire if not used quickly. It could also include use of non-governmental channels, such as NGOs and the private sector (in PPPs) to speed implementation. It will also be critical in the early days of a PIM system that policy makers, service providers, and civil society reach a consensus on immediate priorities. Again, the goal will be to seek quick wins, and invest in areas that clearly offer improvements in infrastructure and service delivery, thereby inspiring citizen trust and building a virtuous cycle of performance. Another practical manner of quickly institutionalizing PIM processes and building governmental capacity is for donor-financed projects to follow the PIM process. This allows for the de-facto establishment of processes, even in the absence of detailed de-jure legislation and sub-legislation. Such de-facto processes and pilots can eventually form the basis of legislation, thereby ensuring that legislation codifies processes that are already in practice, and hence implementable.

- Afghanistan: A preliminary 2017 PIM assessment was conducted by a World Bank team. Five key challenges emerged: 1/ Projects are included in the budget (investment decisions) without a thorough process for project appraisal and selection at the pre-investment stage; 2/ The public investment pipeline is fragmented into three distinct categories: a) small projects (under US$5.0 million) managed by the Ministry of Economy (MoEc); b) Large projects (above

1 The authors work in the World Bank’s Governance Global Practice.
2 Project selection processes should take into consideration the importance of distributional outcomes from public investment. Evidence shows that public investment can incite conflict if it fuels contestation or perceived disparities across ethnic/factional lines.
US$5.0 million) managed by the MoF/Policy Department (PD); and c) PPP projects managed by the MoF/Central Partnership Authority (CPA); 3/ The project cycle should be separated from the budget cycle with sufficient funding for budget preparation; 4) Roles and responsibilities at the pre-investment stage are unclear; and 5) There is weak project M&E. Based on the 2017 preliminary PIM-PPP Assessment, the MoF/PD + CPA and MoEc decided to continue the PIM-PPP reform with a two-pronged approach, including: i) Functional review of institutional structures and processes used, including establishing a PIM Directorate at the MoF/ Deputy Minister for Policy’s office; and ii) Technical and human capacity strengthened across line ministries.

Implementation of PIM reforms: The World Bank is supporting this reform through three instruments: 1) The Incentive Program Development Policy Grant (IP DPG); 2) the Fiscal Performance Improvement Plan (FPIP) advisory facility; and 3) the PPP and Public Investment Advisory Project (PPIAP). To further enhance PIM-PPP capacity building, MoF is interested in collaborating with the American University of Afghanistan (AUAF) to develop a curriculum to continuously train government officials. Three aspects of the PIM-PPP reform remain critical: a/ Developing a consistent PIM-PPP Governance Framework at the institutional and technical levels; b/ Upstreaming the harmonization of existing project pipelines; and c/ Measures for long-term sustainability of reform processes and capacity.

- **Haiti**: The assessment led to a two-part Action Plan to improve the PIM system through short-term quick-win activities, and medium- to long-term set of actions to build a more sustainable system. The latter covers the formalization of the institutional setup, and strengthening of project evaluation, selection, programming, execution and control. As a first step, priority was on implementation of basic elements of formal project selection and appraisal, execution and control, such as the need for investment projects to: 1/ Advance only if mature enough; 2/ Undergo monitoring (including physically); 3/ Use scarce financial resources adequately; and 4/ Be evaluated ex-post as required. The assessment and recommendations were included in the government’s PFM reform plan. They were used to rally the donor community and deliver a consistent message on the importance of these reforms. Given numerous weaknesses, the Bank in the first year focused on the basics, including: 1/ Streamlining procurement, 2/ Creating a system to store and monitor project information, and 3/ Implementing a basic system to prioritize projects.

- **Iraq**: The PIM decree includes improvements to existing public investment procedures and the installation of a full PIM system. These actions and related activities were sequenced over the short-term (2018) and medium-term (2019–2020). In 2017, the Federal Ministry of Planning established a PIM central unit through a ministerial order. The unit will oversee project appraisal and monitoring. As
a first step, this central unit submitted to the cabinet a project list consistent with government priorities. These will be subject to rigorous cost-benefit analysis before inclusion in the budget. For 2018, the plan called for improvements in capital investment project design, appraisal and selection; and capacity strengthening in project design, appraisal and selection (Phase 1). For 2019–2020, the plan is: i) Improvement in the project registration process using the Integrated Bank of Projects (IBP); ii) enhancing project management (execution, monitoring, follow-up) and ex-post evaluation; iii) developing capacity in project design, appraisal and selection (Phase 2).

Implementation of PIM reforms: As Iraq strengthens its public administration, the key priority is to improve proficiency in PIM/PPP and related areas that currently seriously undermine the Government’s ability to deliver key public services. Regarding existing vulnerabilities in the functioning of the Federal MoP on PIM activities, the government is gradually moving away from the traditional focus on “capacity” to an analytical focus on “capabilities”. The former refers to volume or scope of MoP inputs of an appropriate quality, the latter is converting that volume into actual performance. To address current urgent needs, such as training and performance at the federal and regional levels, and the long-term requirements for planning and development, the federal MoP will conduct in 2019 a Capacity Needs Assessment (CNA) in all PIM/PPP areas of intervention. In December 2018 The MoP of the Iraqi Kurdistan Regional Government (KRG) successfully completed a functional review of its PIM system.

Impact of PIM in FCV Contexts: Situations of active conflict, as in Iraq and Afghanistan, and prolonged fragility, as in Haiti, also raise specific PIM challenges for PFM reforms:

Addressing tensions between short-term stabilization & long-term development: In the short term, public authorities need to “buy peace” for stabilization purposes. This objective may inform planning, including spatial distribution of public investments and needs to be among the selection criteria. Perceived injustice in intergroup allocation of public investments should also be considered. The impact of public investment on fragility and ongoing conflict needs to be factored into feasibility studies and risk assessments. Public investments in contested, in-conflict areas risk exacerbating antagonisms and could be targeted.

Overcoming security challenges to implementation: In contested, insecure areas, access by public officials may be forbidden — impacting implementation, supervision and evaluation of investments. This calls for specific contractual provisions, such as community-based procurement or local content (to promote market access by local entrepreneurs). Public works can focus on local jobs. The risk of misuse of public investment in FCV situations adds to standard operational risks. In this regard, public facilities may be captured, and public funds may be extorted from contractors to fuel wartime economies. Also, property rights may be denied during reconstruction. Such risks call for strengthened political, governance and fiduciary risk management.

Building peace by restoring the social contract: Ongoing conflicts reflect as much as aggravate public distrust of government. The joint United Nations-World Bank report on Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict (2018) stresses that grievances due to “perceptions of injustice deriving from social, economic, and political exclusion” have “consistently recurred in violent conflict in various contexts” with “arenas of contestation which involve what groups care about in their relationships with each other and with the state and thus what they tend to fight over — access to power, land, and resources, equitable delivery of services, and responsive justice and security”. Public investments can help restore the social contract — provided they help address public grievances about lack of
agency and inequitable access to resources and services. This calls for efforts to include citizen engagement in project preparation and implementation, as well as oversight and evaluation (through social auditing, for example). Beyond promoting active stakeholder participation, it is critical to support and secure government responsiveness to public concerns, including through government communications in response to public grievances.

**KEY LESSONS LEARNED:**

**Assessment:** A PIM Assessment in an FCV context should recommend a strategy to develop and gradually strengthen the PIM–PPP governance framework based on four key policies: i) economic growth and poverty reduction; ii) balancing short-term priority actions and projects with strategic, medium-term concerns; iii) ensuring projects remain within budget with confirmed financing, including for recurrent costs and O&M expenditures; and iv) enabling policies encouraging the private sector.

**PIM–PPP Governance Framework**

- It is critical that PIM functions have one transparent entry point of PIP–PPP projects into the budget system. It is more difficult to maintain discipline in project identification and appraisal if poor-quality projects are permitted entry straight into the budget.
- Policy makers and affected communities should participate in public meetings to plan and implement public investment projects for improving infrastructure and service delivery at the local level.
- Accountability and oversight institutions are often absent in FCV countries. Newly rebuilt institutions should be encouraged to play their key role in demanding proper selection and execution of public investment projects.

**PIM–PPP Action Plans** should also take into consideration the following lessons:

- Technical and institutional improvements in PIM must go together.
- In the early years of rebuilding, the focus can be on building a consensus around national priorities and developing strategies for public investment to define priority areas and guide investments (including quick wins) in all sectors, to increase the efficiency and effectiveness of the investment process.
- PIM improvements should contribute to the integration of line ministries and independent budget agencies in sectoral strategic plans, procurement processes, budget approvals and execution of public infrastructure projects. This will help establish a solid foundation for inter-sectoral coordination and budget integration.
- Procurement is a major aspect of every government business process and has a profound economic impact. Inefficiencies in procurement can have significant adverse effects at the macro level. They can also negatively impact the cost–benefit rationale of investment decisions. These inefficiencies can undermine accountability and citizen trust in the government.
- Maximizing Finance for Development (MFD) should play an important role as a “change driver” during the implementation process based on two aspects. The first is the incentive that the MFD approach can provide for policy reforms and new financing tools to address market failures that may impede the mobilization of new financing. The second is the impact that MFD can have on improved governance and partnerships for policy implementation. Utilizing the MFD approach can lead to improvements and coordination between development partners, especially critical in FCV countries. Partnerships can help leverage scarce resources to meet the reconstruction challenges, spur economic growth, promote private sector development, and jobs.

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