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THEMATIC FACTSHEET

The Increasing Importance of Public Investment Management

SECO Divison
Macroeconomic support (WEMU)

Key partner agencies
IMF, World Bank

WEMU country projects
Colombia, Mozambique, Serbia, South Africa, Tunisia

WEMU regional and global programs
Climate Action Peer Exchange (CAPE), Southeast Europe (SEE) Fund

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What is Public Investment Management (PIM)?

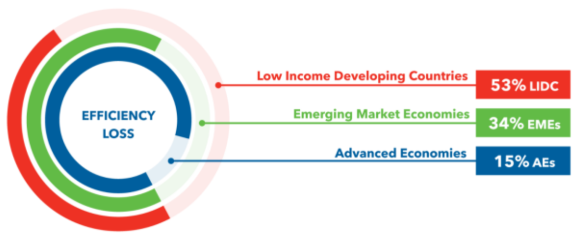
Public Investment Management (PIM) is a subarea of Public Financial Management (PFM), i.e. the management of government revenues and expenditures. PIM is a term used to describe the management of a specific kind of government expenditures, i.e. **long-term capital expenditures** as opposed to current expenditures with a shorter time horizon (of usually one year, aligned with the annual budget cycle). These expenditures create an asset, whose expected duration exceeds one year and often refers to **public infrastructure**, such as airports, roads, railways, ports, water and sewage, power, gas, telecommunication, schools or hospitals. PIM goes beyond the procedures for financing new infrastructure and includes the **planning, operation, maintenance, monitoring and evaluation** of public infrastructure.

Why Is SECO Engaging in PIM?

Public infrastructure is a **key driver of inclusive economic growth** and the **reduction of poverty**. It connects markets, facilitates production and trade, and creates economic opportunities for work and education. Public infrastructure is a significant part of the government's **service delivery responsibilities** and, thereby, plays a major role in **improving the livelihood of citizens**. It can further reduce pollution (e.g. by investing in climate efficient infrastructure), build resilience against climate change and natural disasters (e.g. by ensuring infrastructure is adequately maintained) or contribute to income and gender equality[1] (e.g. a new metro line with secure lighting can improve women's use of public transport).

However, creating quality infrastructure is a critical challenge for a majority of countries. Public infrastructure ought to be well-planned, well-implemented, resilient, and sustainable. In reality, investments in public infrastructure **are oftentimes inefficient**, particularly in developing countries. Studies have shown that a unit in public investment spending only translates into half a unit of value in the corresponding physical asset (see Figure 1).[2] Strengthening PIM practices can **reduce this efficiency gap considerably**; with largest payoffs in developing countries.[3]

Figure 1: Inefficiencies in public investment across income levels. In low-income developing countries, a unit in public investment spending translates to only half a unit of value in the corresponding asset. *Source: IMF, 2021.*



[1] IMF 2021. Well Spent. How Strong Infrastructure Governance Can End Waste in Public Investment.
[2] Allen at al. 2016. The International Handbook of Public Financial Management.
[3] IMF 2015. Making Public Investment More Efficient.

Existing PIM processes and systems bear a lot of optimization potential, making PIM a **crucial intervention area to strengthen PFM systems** as a whole. **Strong infrastructure governance**, i.e. strong public sector institutions in planning, allocating and implementing public investments in infrastructure, is critical to **improve efficiency** in public infrastructure spending. In addition, it also contributes to **macroeconomic and fiscal sustainability**. This is particularly important for countries with high debt levels, low revenue collection, and little fiscal space.[4]

Given the budgetary significance of public investments and against the backdrop of the Covid pandemic, exploiting the potential resulting from strong infrastructure governance becomes even more important to bring countries back to their **pre-crisis growth trajectories.** Accordingly, SECO is increasingly integrating capital expenditure and public investment management in its PFM programs.

How Does SECO Identify and Address PIM Weaknesses?

The specific weaknesses in managing public infrastructure investment differ from country to country. As part of its intervention planning, SECO builds its work upon **evidence-based diagnostic tools** such as the Public Infrastructure Management Assessment (PIMA) or the Public Expenditure and Financial Accountability (PEFA) to identify key weaknesses in the system. While the PIMA evaluates infrastructure governance in particular, the PEFA is a broader tool assessing strengths and weaknesses of a PFM system, also including indicators to evaluate the PIM processes of a given country. SECO then leverages these diagnostic tools in the **policy dialogue with the government** to identify reform priorities and to ensure that new PFM projects are designed to match with those **reform priorities**.

After having identified the key weaknesses of PIM in a particular country and having discussed the reform priorities of the government, SECO engages in **capacity building or technical assistance interventions** along those priorities. Because subnational entities are mainly in charge of public service delivery including infrastructure services, it is important that SECO projects in the area of PIM do not only target the national level, but also the **subnational entities**. A **lack of capacities or inefficient use of funds** at subnational level can hamper effective service delivery. Further, due to the frequent dependence of subnational entities from national government fiscal transfers, **enhanced coordination** between the different levels of government is a critical element in improving PIM practices and systems.

The existing project portfolio in the thematic area of PIM consists both of **bilateral support** to individual countries as well as of contributions to **regional and global programs** (see Annex 1).

How Does SECO Ensure Coordination of the PIM Work?

SECO ensures coordination of its PIM interventions both internally and externally. Internally, this coordination happens between the two thematic divisions, i.e. the Macroeconomic Support Division and the Infrastructure Financing Division. While the approach and scope of the Macroeconomic Support Division is laid out in this factsheet, the Infrastructure Financing Division complements that work by applying a **sectoral approach** to infrastructure management. Externally, the policy dialogue around PIM is mainly catalysed through the **G20 Infrastructure Working Group,** in which Switzerland participates.

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[4] IMF 2019. Public Investment Management Assessment. Strengthening Infrastructure Governance.

Annex 1: Overview of SECO's PIM Engagement

Global

Global intervention: Through its engagement in the CAPE global program, SECO ensures that climate-aspects are taken into consideration when assessing public investment systems. For instance, SECO supported a climate-informed framework for a subnational PIM diagnostic tool that has been piloted in India and Vietnam.

Implementing partner: World Bank

Project name: Climate Action Peer Exchange (CAPE)

Regional

Southeast Europe: The SEE Fund is active in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. It provides capacity development in the area of revenue administration and PFM reforms, including a specific focus on PIM. It has delivered five PIMAs over the past and addresses the identified weaknesses through individual country support based on the provided evidence.

Implementing partner: IMF

Project name: Southeast Europe (SEE) Fund

Bilateral

Colombia: As a part of a broader PFM project aimed at improving public service delivery, SECO promotes the strengthening of subnational public investment capacities. The project supports the design, selection, implementation, operation and evaluation of public investment projects, strengthens the coordination for investment between the national and subnational governments and contributes to successful implementation of regional investment projects.

Implementing partner: World Bank

Project name: Support to the PFM Reform Process in Colombia

Mozambique: A project on PFM capacity development supports – inter alia - the development of a more credible capital budgeting, including multiyear budgeting of public investment. It aims at strengthening the processes for strategic planning and allocation of resources for investment activities to promote greater spending efficiency and prioritized budget allocation for projects with greater economic and social impacts. A PIMA will provide the basis for subsequent capacity building support.

Implementing partner: IMF

Project name: Swiss Subaccount, PFM Capacity Development Project

South Africa: Within the Procurement, Infrastructure Management and Knowledge Management (PINK) project in South Africa, the component on infrastructure management supports the development of an infrastructure delivery management system and its implementation in eight pilot municipalities. This system is designed to identify the need for infrastructure over multiple planning horizons, to evaluate the merits of infrastructure investment proposals, to support procurement and delivery of infrastructure, and to sustainably manage infrastructure within an integrated infrastructure asset management framework. Similar support is provided to South Africa's metropolitan municipalities through the City Support Program with the World Bank.

Implementing partner: Ecorys, World Bank

Project name: Procurement, Infrastructure Management and Knowledge Management (PINK), City Support Program (CSP)

Serbia: Through the Strengthening Accountability and Fiduciary Environment (SAFE) Trust Fund, Serbia has received support in developing an improved framework and methodology for PIM, including e.g. the development of guidelines on project portfolio monitoring, a training strategy for PIM practitioners or the establishment of a PIM oversight and coordination unit. SECO now considers providing additional support to Serbia through a follow-up project to provide implementation support for the aforementioned framework (e.g. through capacity building and change management support) and supporting the role-out of this framework to the subnational level.

Implementing partner: World Bank

Project name: Strengthening Accountability and Fiduciary Environment (SAFE)

Tunisia: The large PFM and financial sector program in Tunisia includes a specific component on PIM. The support addresses each element of the public investment chain, i.e. project identification, selection, monitoring, evaluation and steering by providing technical assistance. Specific activities include for example to improve the quality of project feasibility studies or to strengthen the organisation and technical capacity of the existing public investment selection committee.

Implementing partner: World Bank

Project name: Moussanada Multi-Donor Trust Fund