



Making Public Investment More Efficient

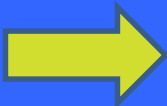
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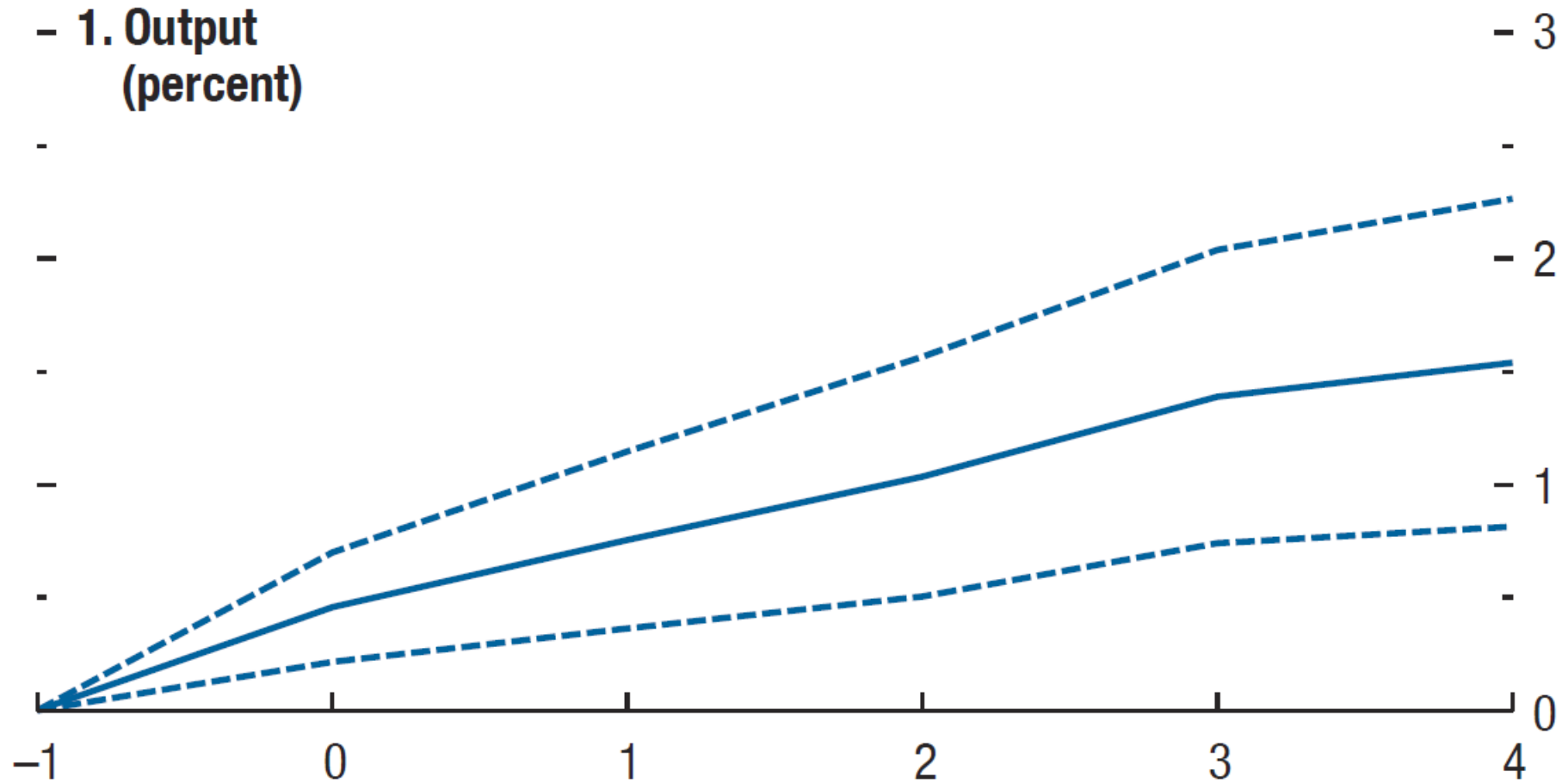
ICRIER – 7th Annual G20 Conference, New Delhi
September 14, 2015

Outline

G20 emphasis on quality of public investment

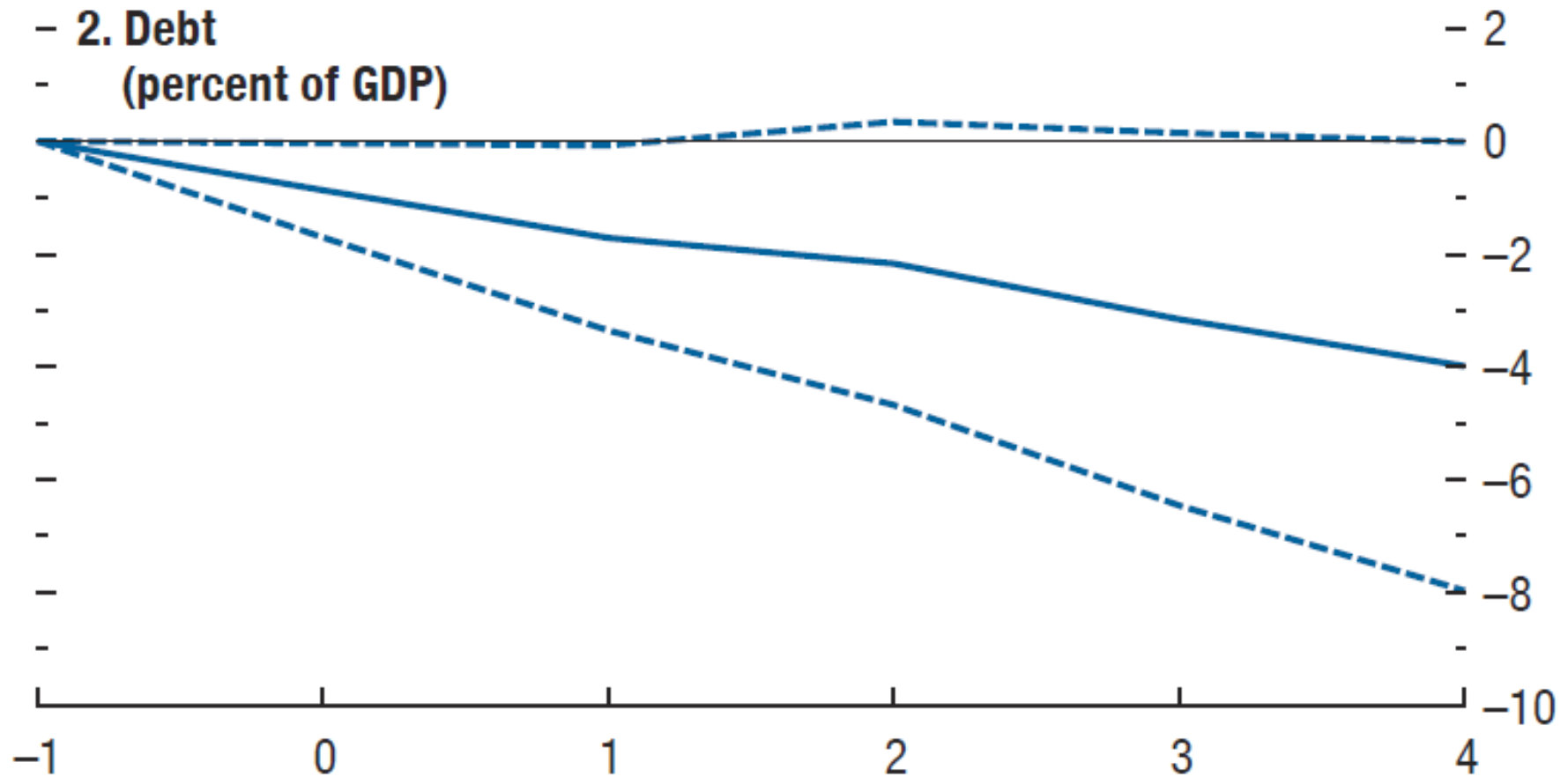
1. Recent IMF work on public investment (PI)
 - Ch 3 of Oct 2014 WEO (www.imf.org/WEO)
 - June 2015 paper (<http://bit.ly/1VV3a4b>)
2. We know macro outcomes improve with PI
3. But efficiency of PI Management (PIM) matters a lot
4. What drives PIM efficiency?
 Public finance institutions

Public investment generally boosts output...



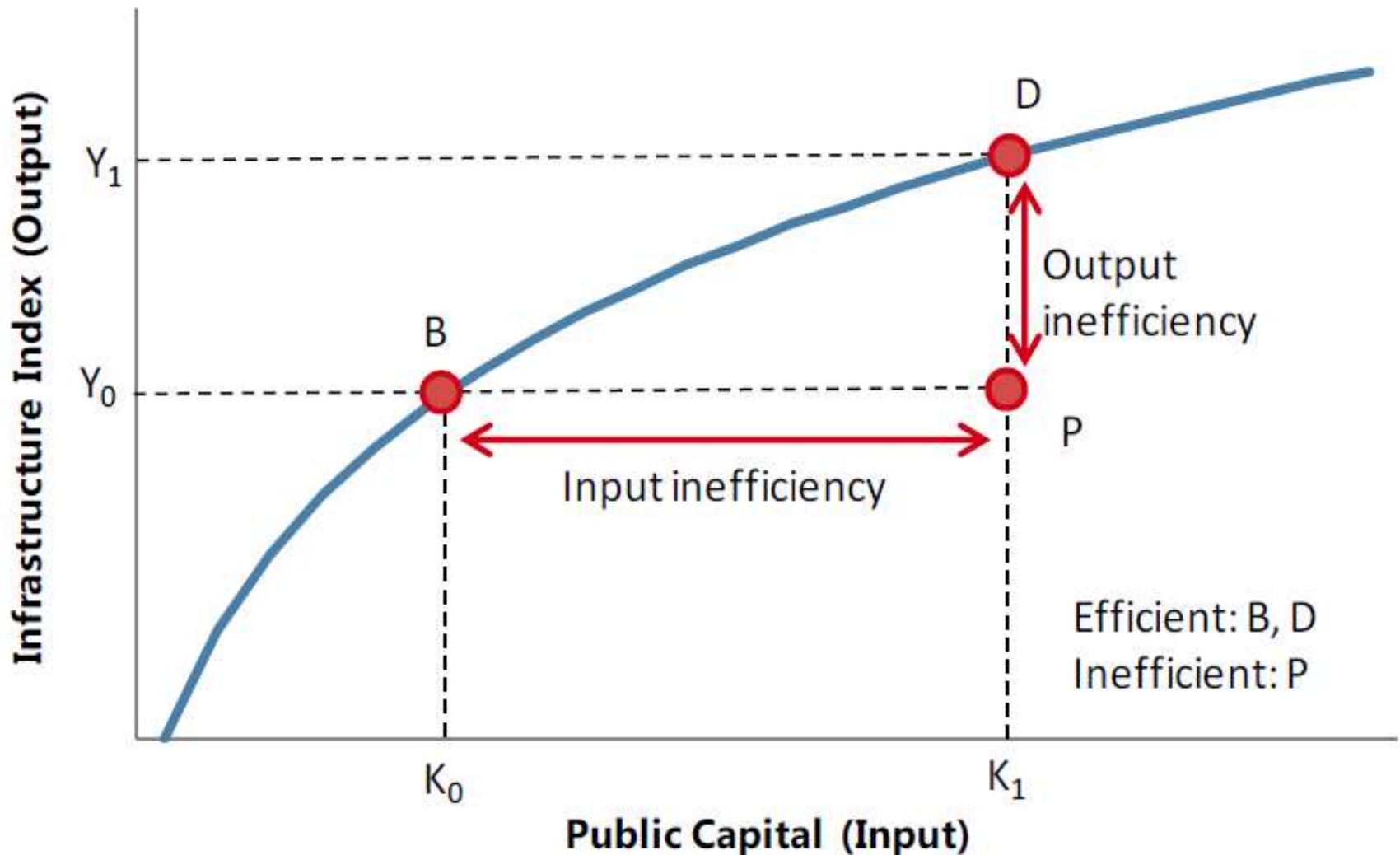
Source: Oct 2014 WEO. Data are for advanced economies. Simulates effect on GDP of unanticipated 1% of GDP public investment shock

... and reduces public debt levels

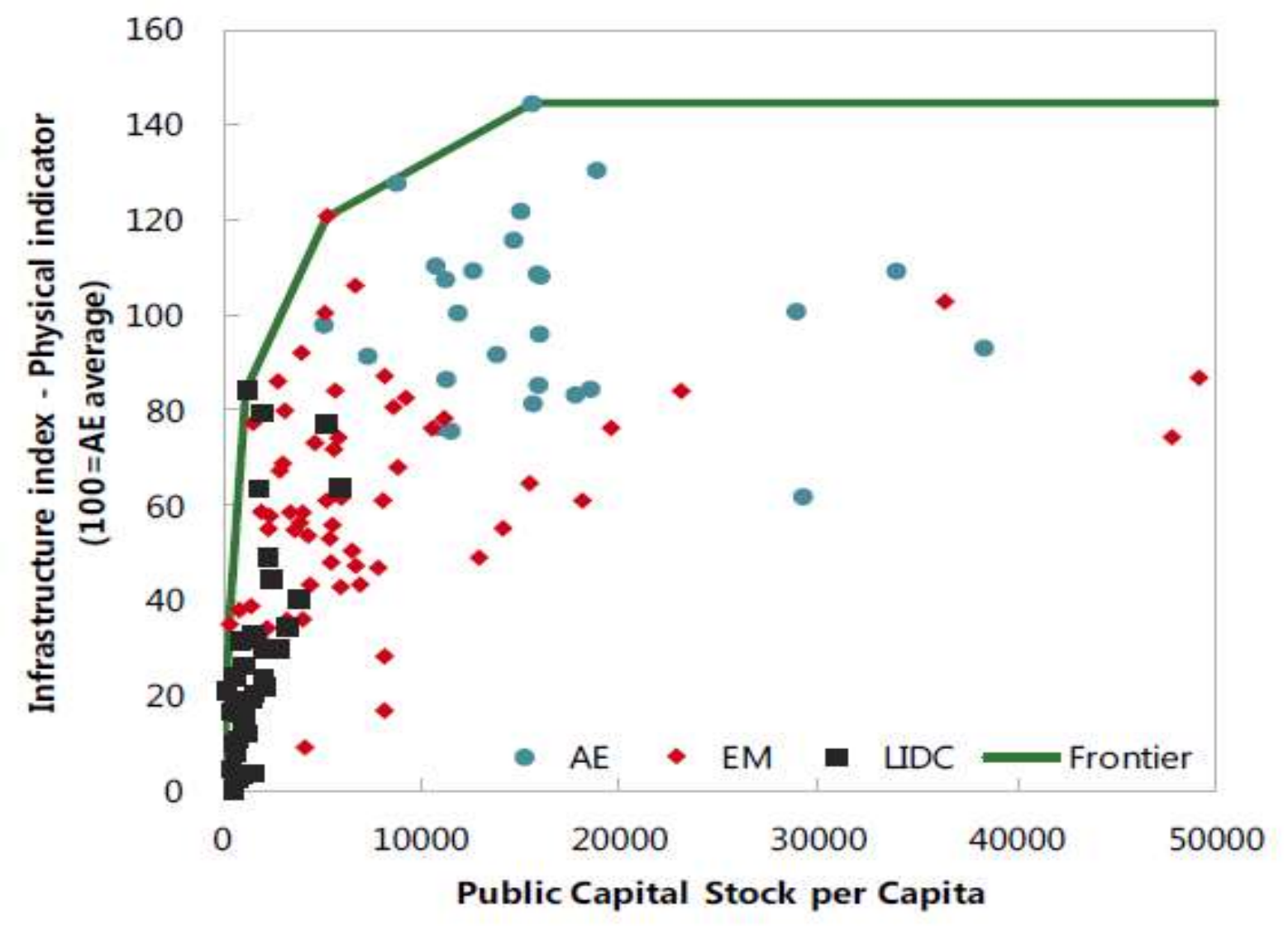


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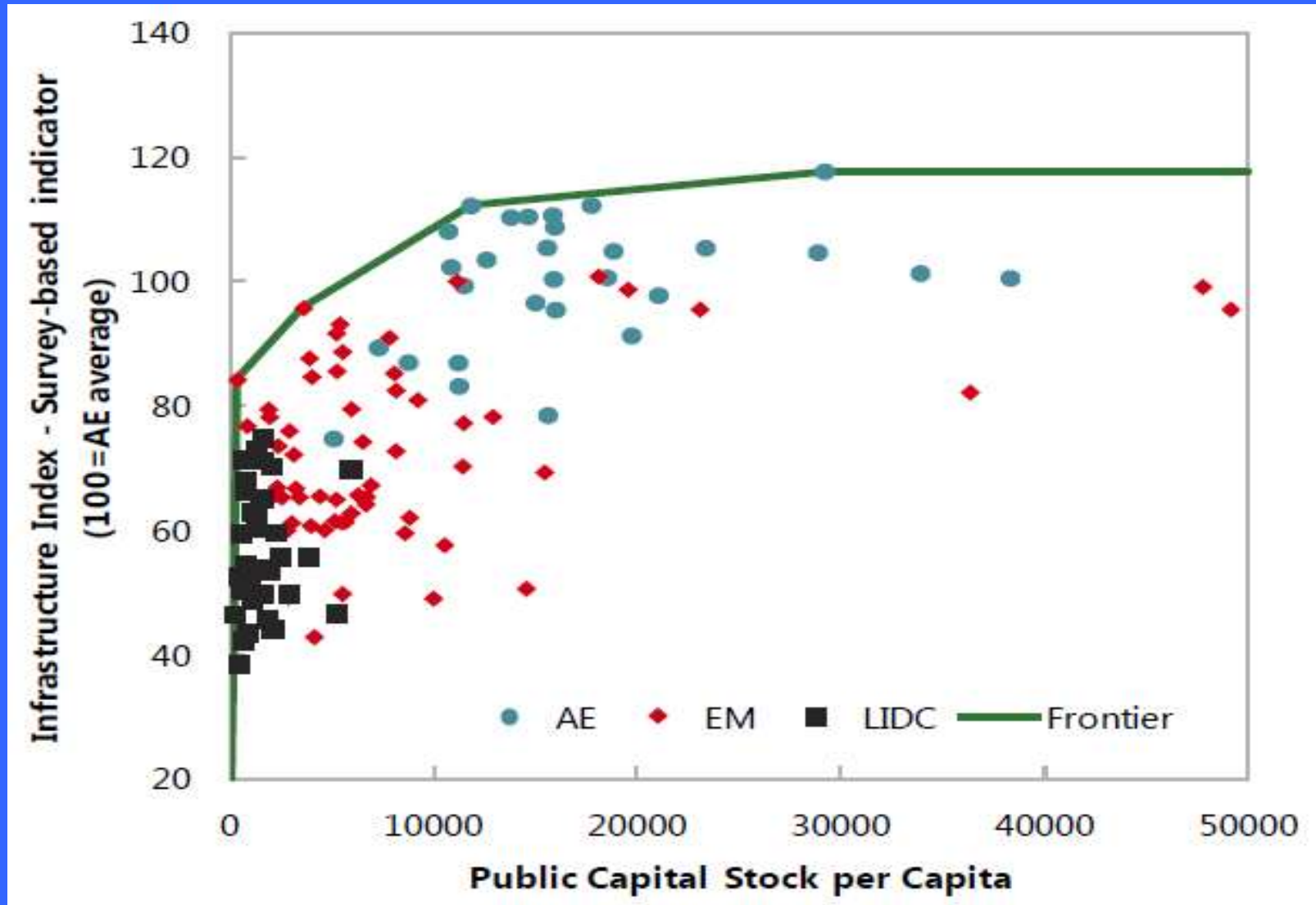
What do we mean by PIM efficiency?



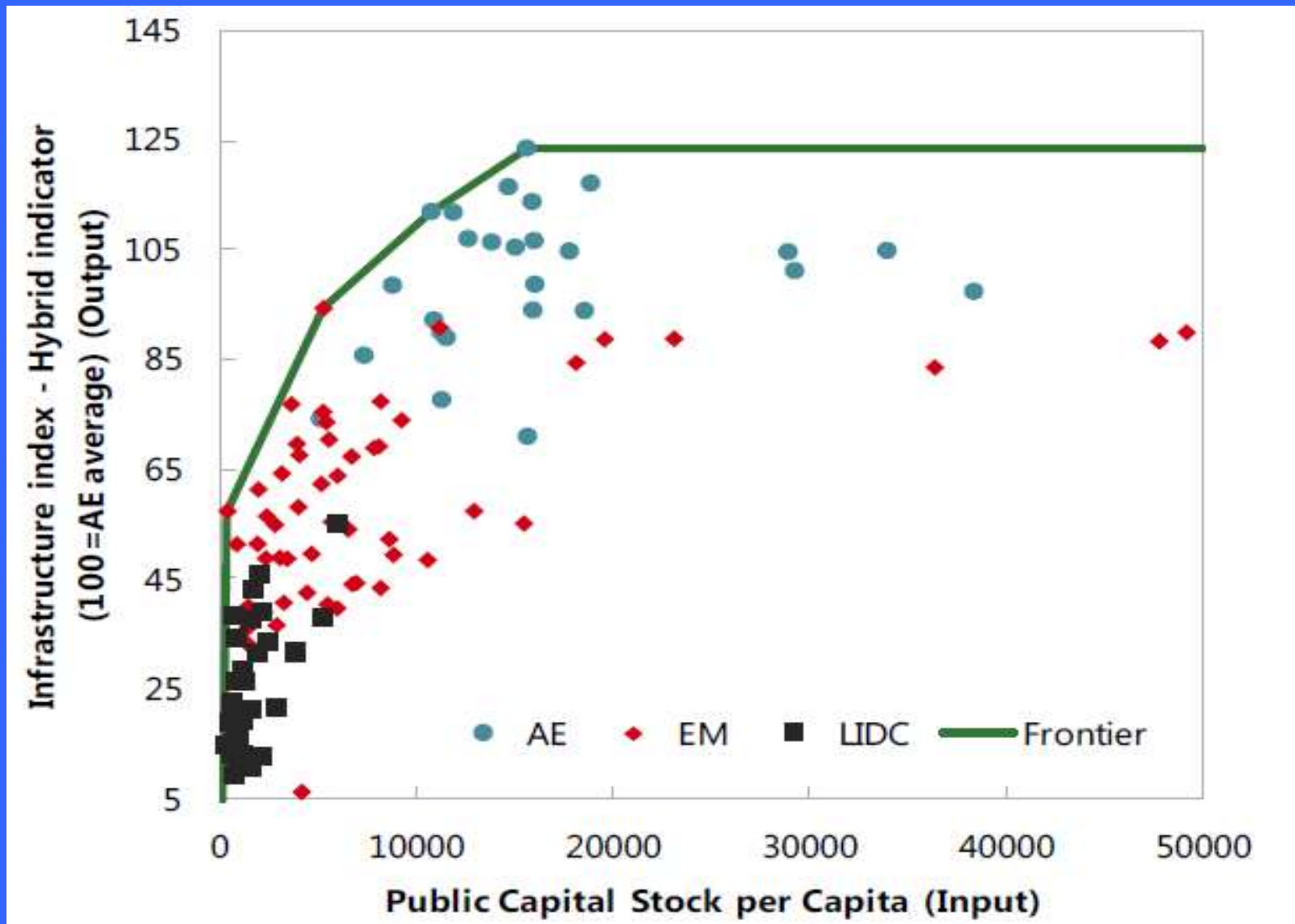
Public Investment Efficiency (physical indicator)



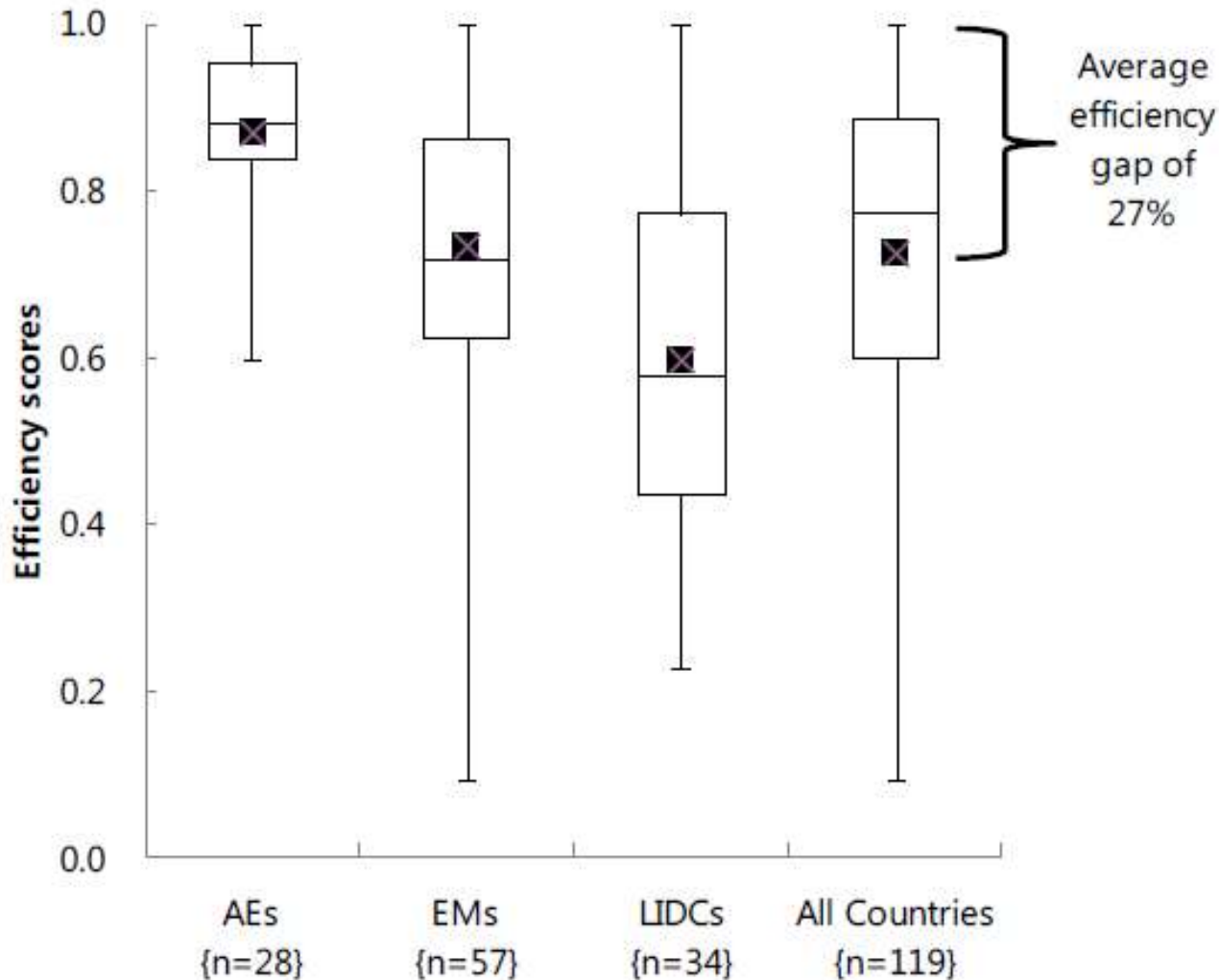
Public Investment Efficiency (survey-based indicator)



Public Investment Efficiency (hybrid indicator)



PIM efficiency gaps are large



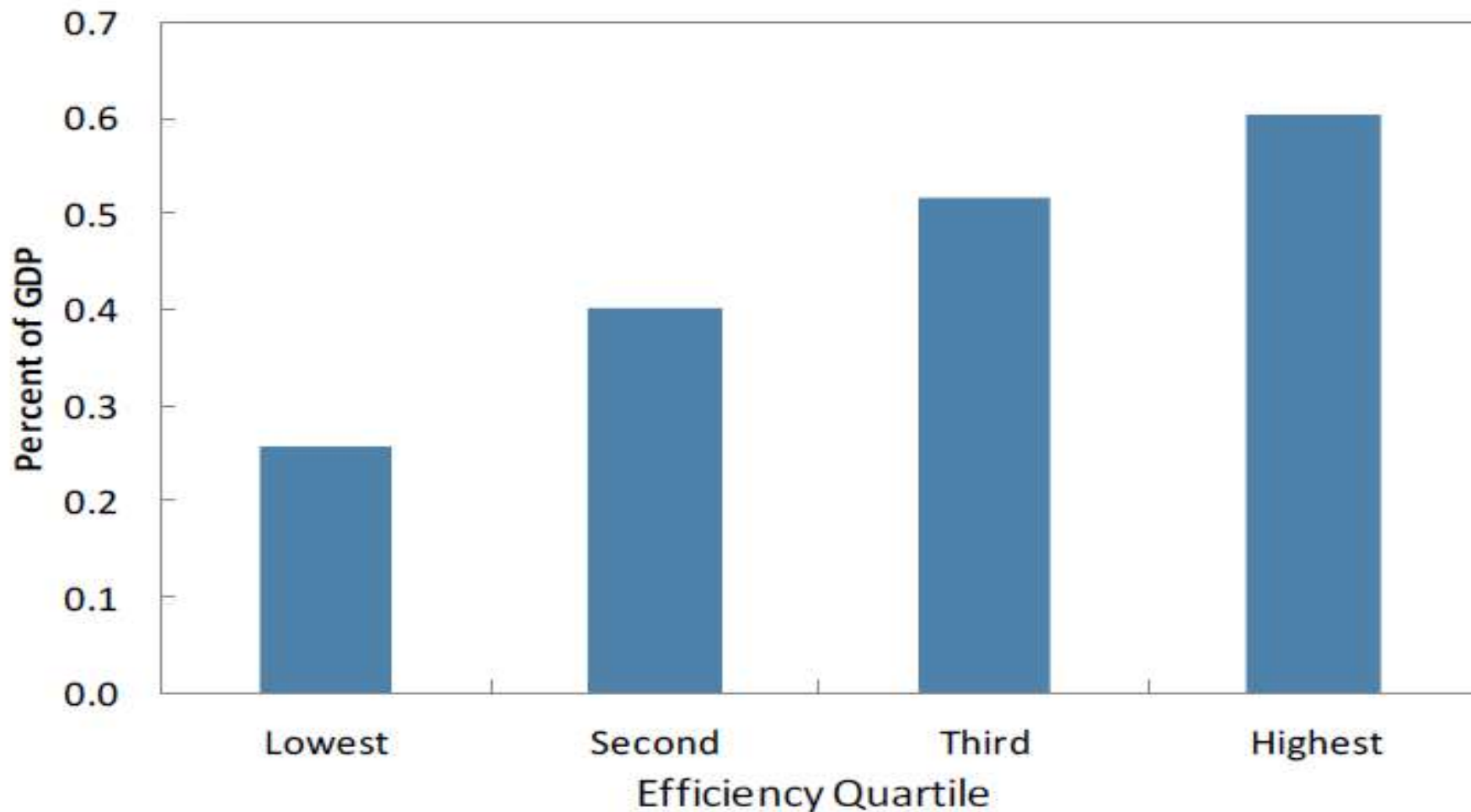
Average efficiency gaps:

Advanced economies (AEs)
13 percent

Note variation among emerging markets (EMs)
27 percent

Low-income developing countries (LIDCs)
40 percent

PIM efficiency yields higher growth “bang” for the public investment “buck”



Impact on output level after 4 years of a 1 percent increase in PI, by efficiency group

How can we judge PIM efficiency?

Planning institutions

- Ensure public investment is fiscally sustainable, and coordinated across sectors, levels of government, and with private sector

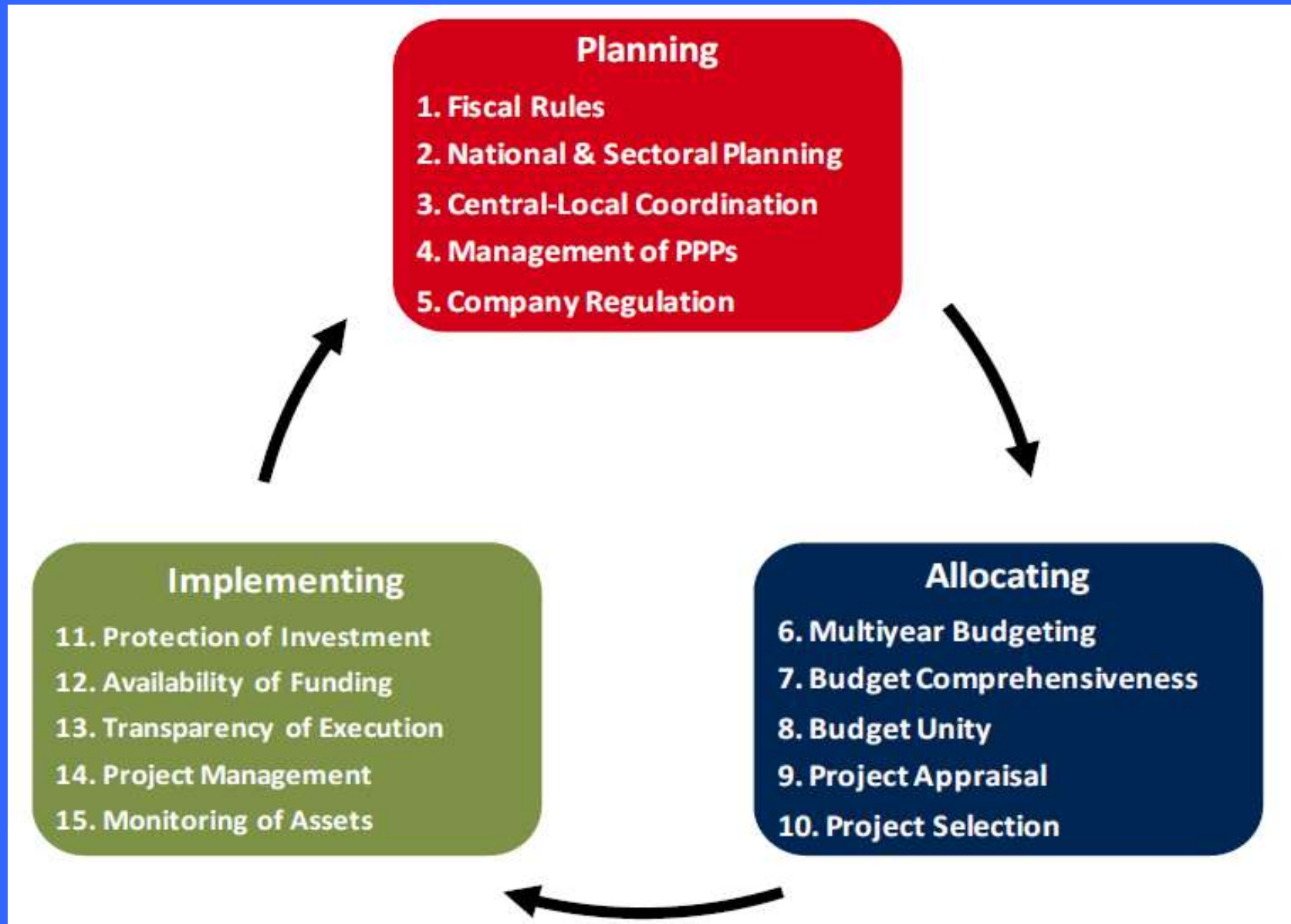
Allocating institutions

- Ensure capital spending goes to most productive sectors, integrating current and capital budgets in medium-term perspective, while preserving unity/integrity of budget

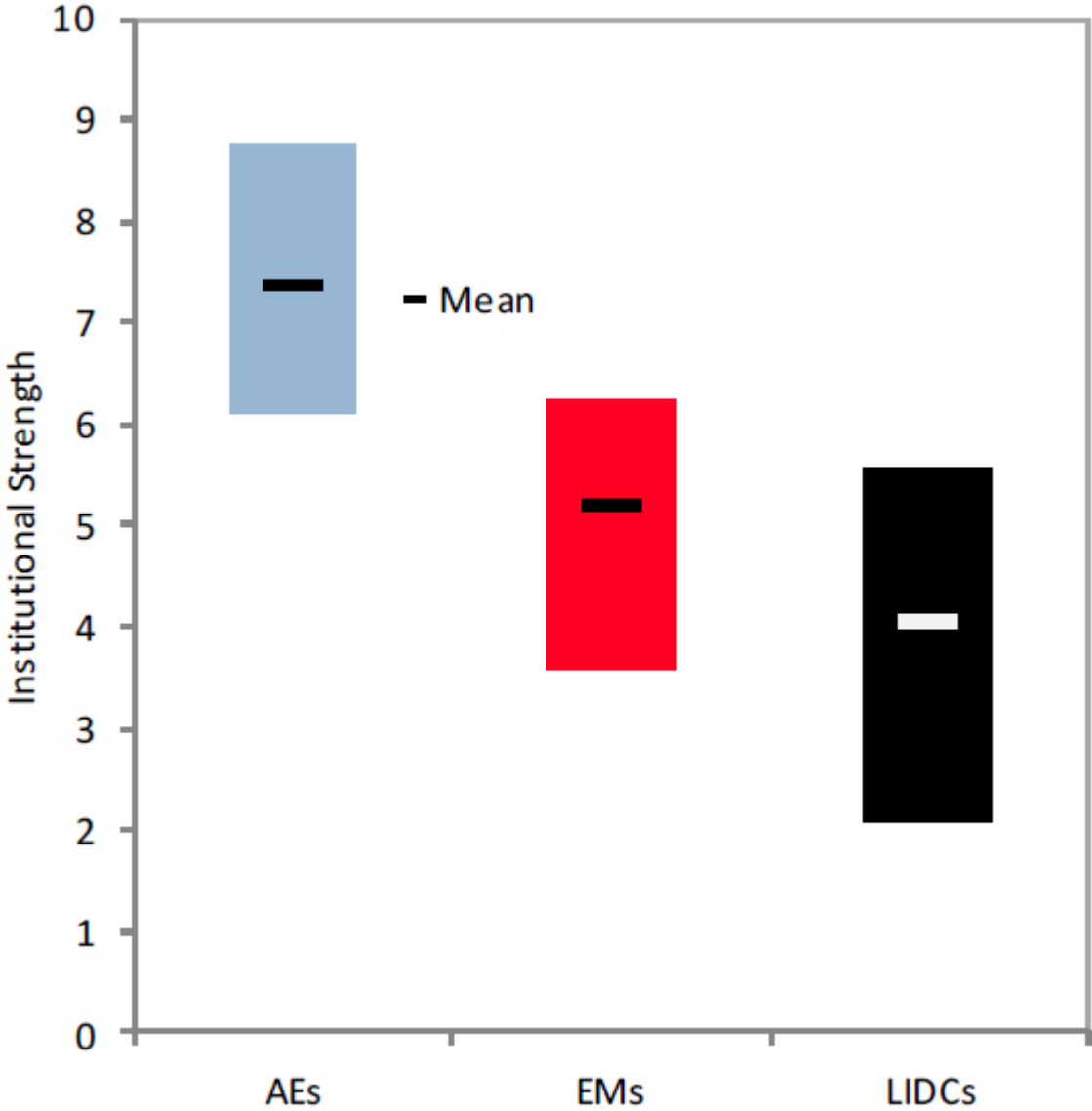
Implementing institutions

- Ensure timely, cost-effective delivery of PI projects

Assessment framework for PI management



PIM Assessment (PIMA) scores—sample of 25 countries



Advanced economies (AEs):

Finland, Germany, Japan, Korea, Spain, UK, US

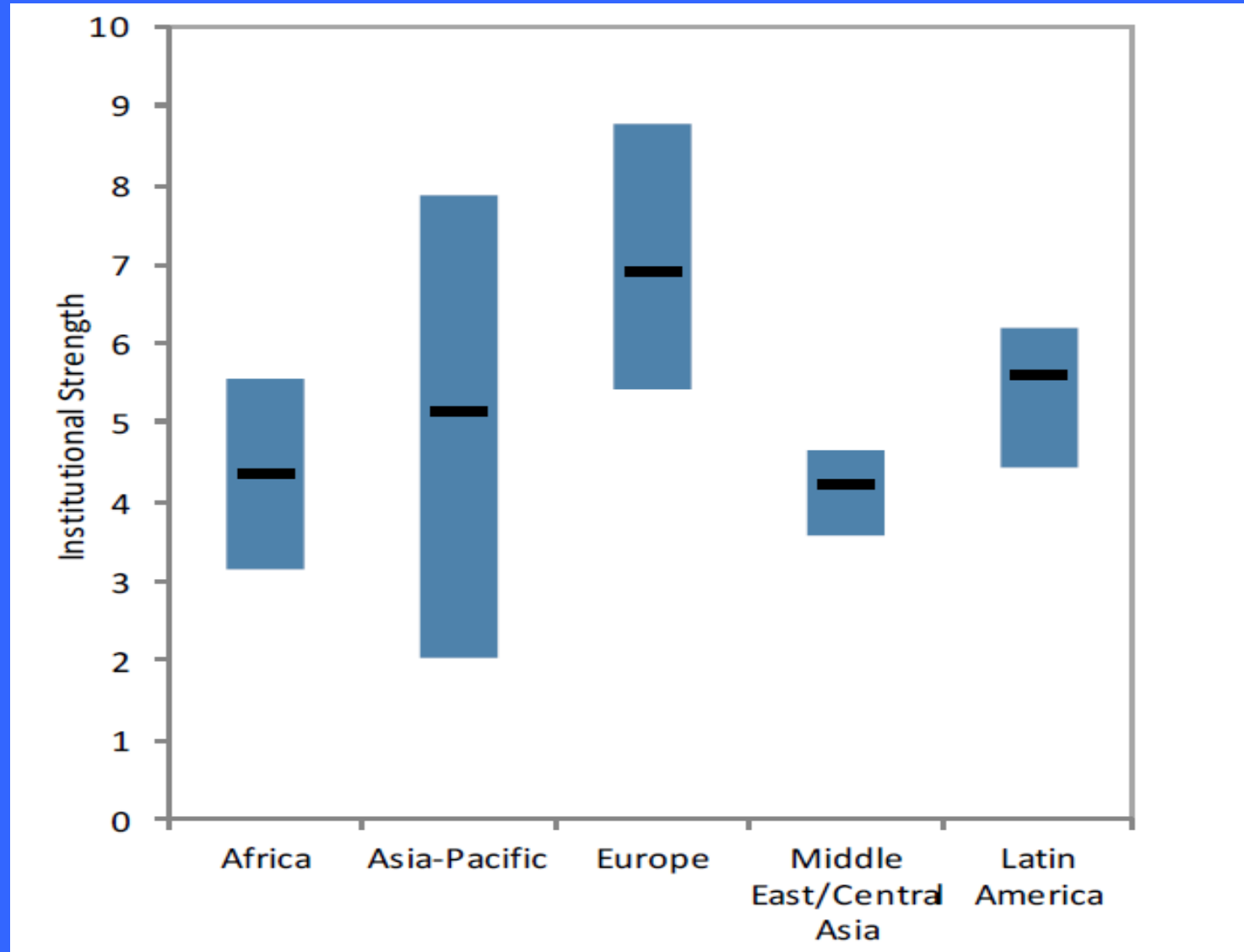
Emerging markets (EMs):

Algeria, Brazil, Chile, India, Jordan, Philippines, Qatar, Romania, South Africa

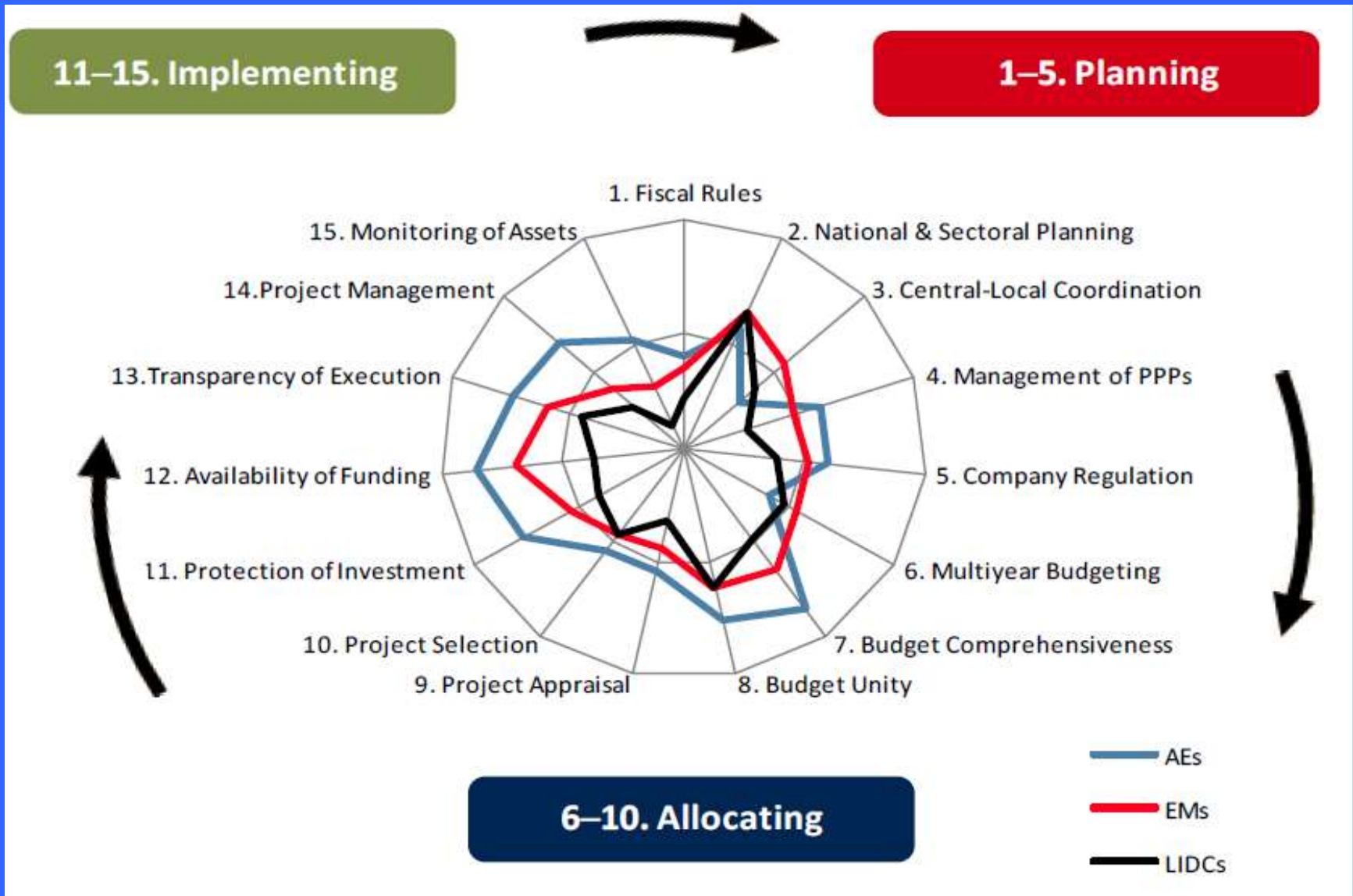
Low-income developing countries (LIDCs):

Bolivia, Cambodia, Ethiopia, Ghana, Nepal, Niger, Senegal, Sri Lanka, Uganda

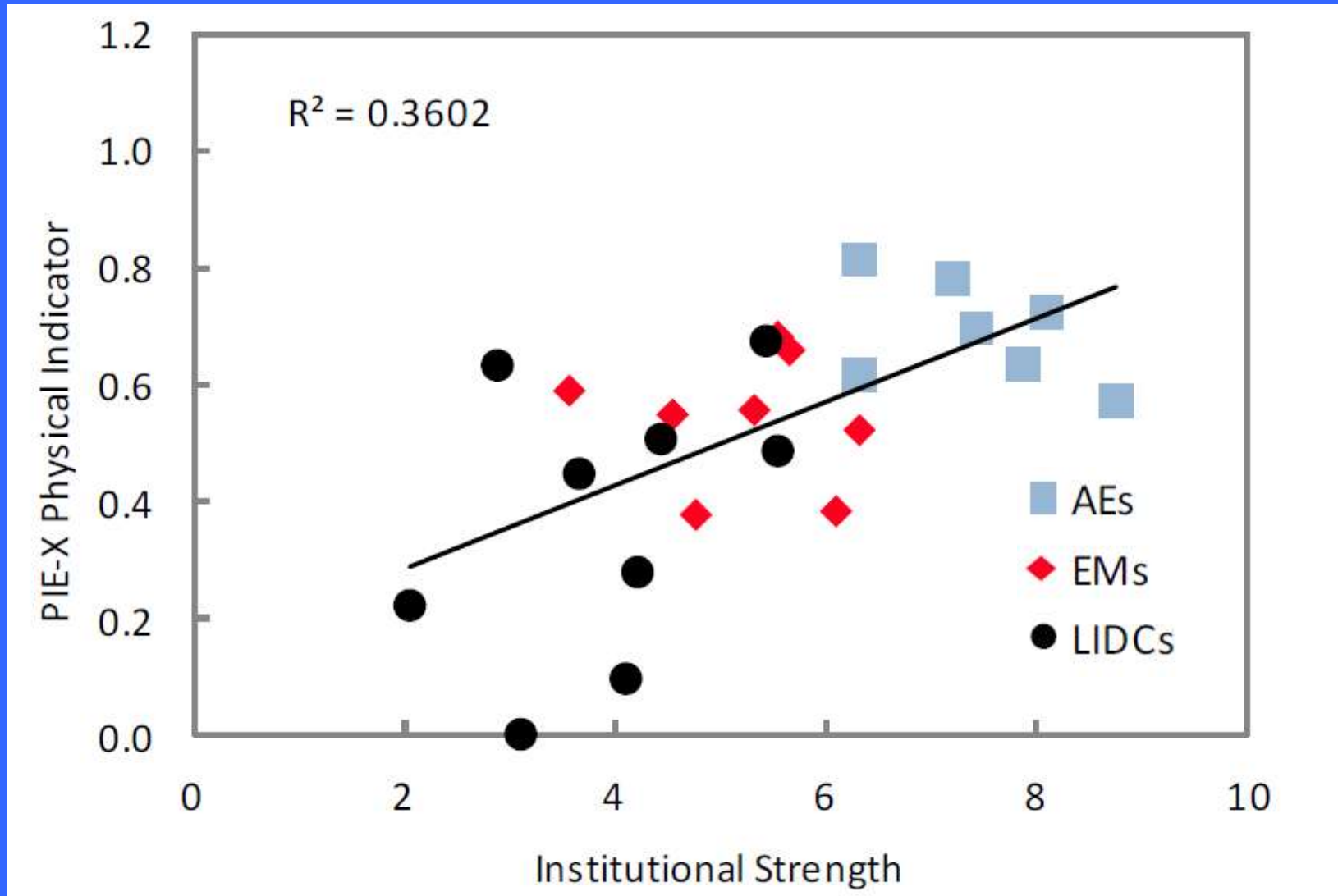
PIMA scores by region



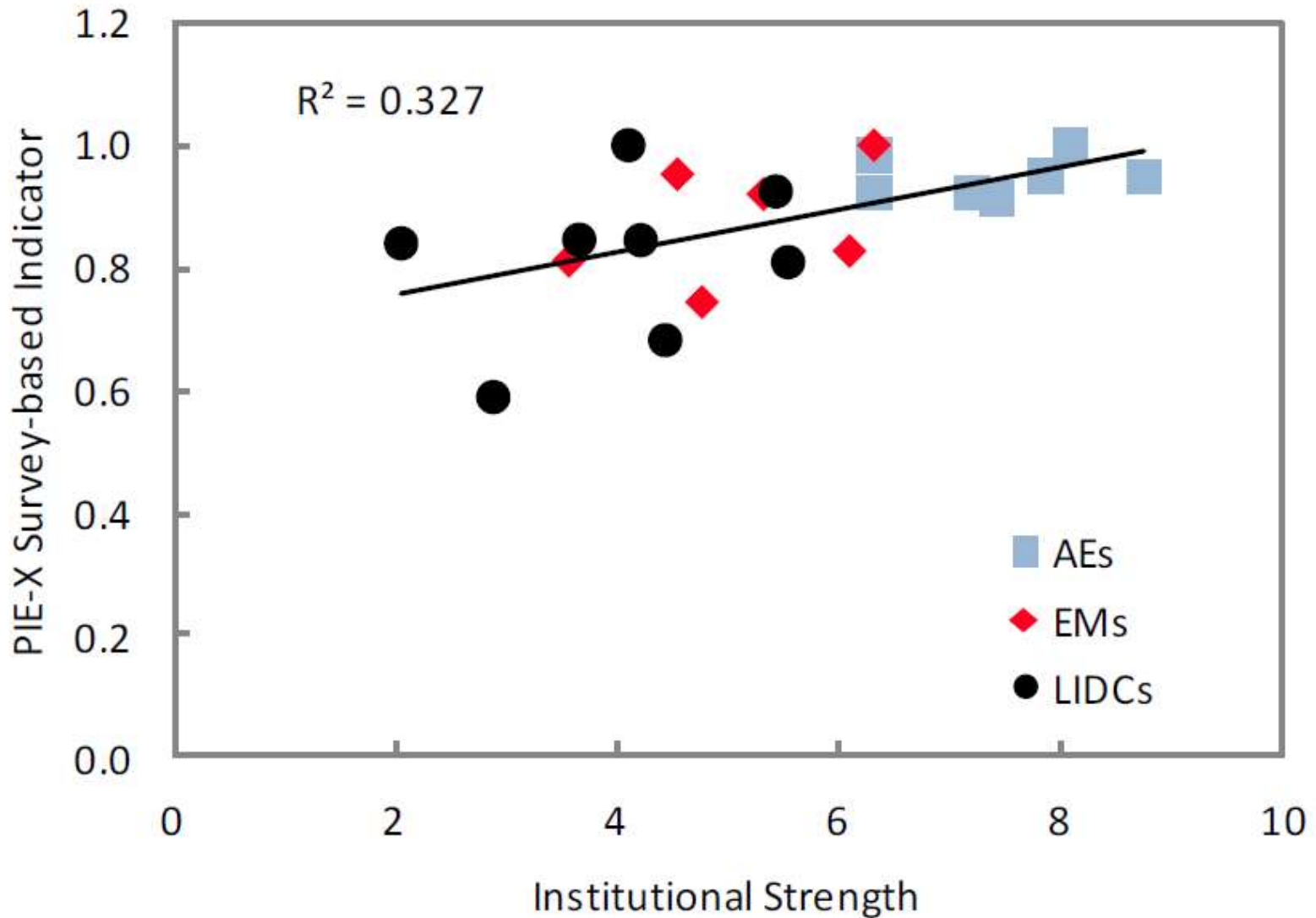
PIM institutional strength increases along the investment cycle (but not uniformly)



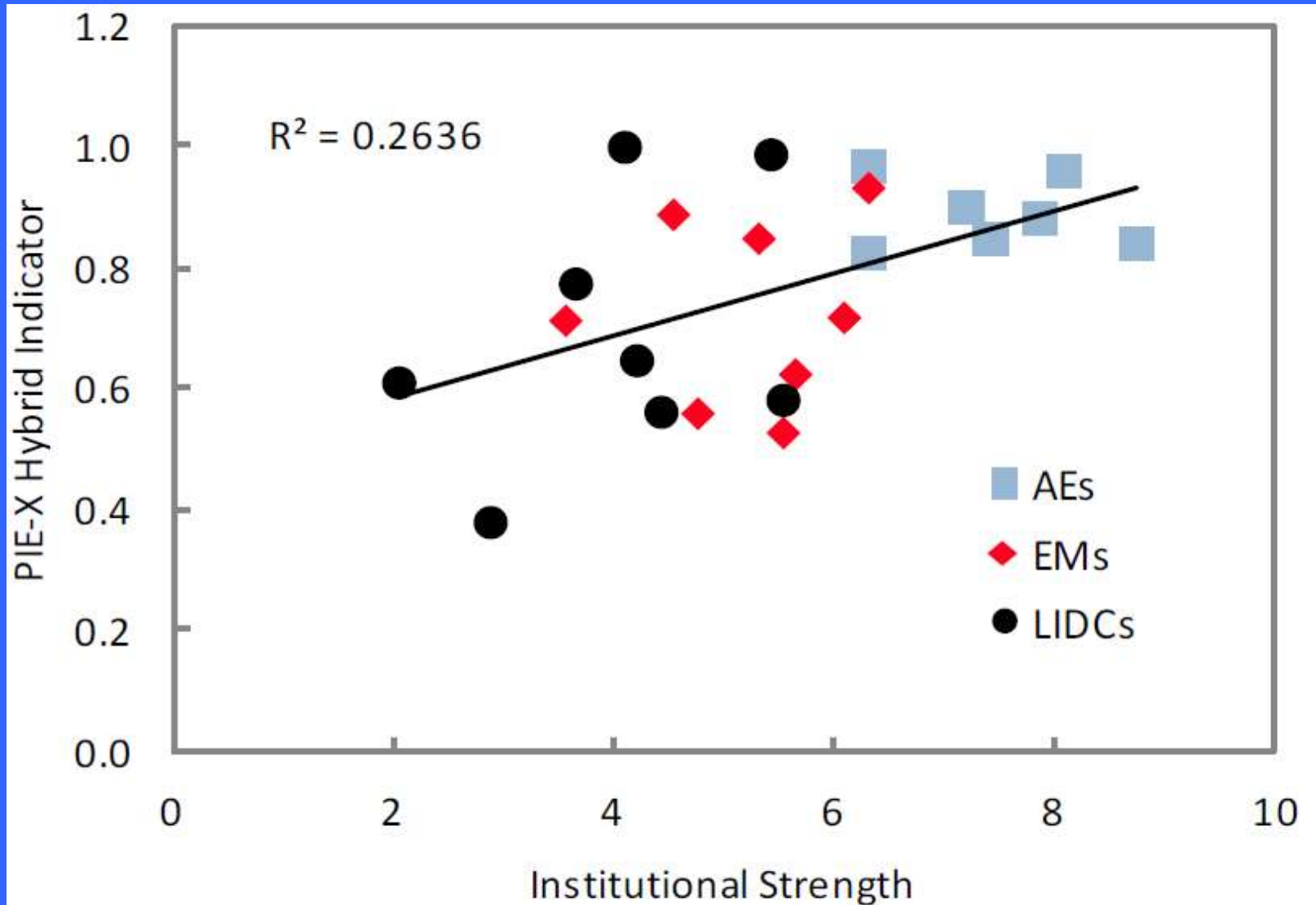
PI efficiency (physical indicator) rises with PIMA score



PI efficiency (survey-based indicator) rises with PIMA score



PI efficiency (hybrid indicator) rises with PIMA score



Conclusions

Public investment (PI) boosts growth

- May even pay for itself

PI efficiency strengthens the growth effect

- Stronger PI efficiency could even double the impact on growth from a boost in PI

PI management institutions boost PI efficiency

- IMF Fiscal Transparency Evaluations (www.imf.org/fiscaltransparency)
- PEFA assessments (www.pefa.org)

Thank you



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