A government’s provision of complementary public goods, such as roads and bridges, facilitates the development of markets leading to long-term economic growth. Private enterprise, by itself, is unlikely to provide such public works. Likewise, a government’s investment in social infrastructure, such as education and health, is critical, particularly for conflict-ridden populations deprived of adequate services as a result of war and violence. Scaling-up of public investment is also central to the development objectives of developing countries, particularly those left with rudimentary or badly damaged infrastructure from conflict and violence. This Governance Note offers lessons learned and responds to some of the questions often faced by World Bank teams when addressing infrastructure and public investment management (PIM) deficiencies in fragility, conflict, and violence (FCV) situations. Questions include: Is PIM in FCV different from other contexts? How can weak PIM capacity be addressed? What are the possible PIM starting points for spurring economic growth?

BACKGROUND
Public investments in FCV situations are usually inefficient and ineffective. They are often fraught with waste, corruption, and misappropriation and are highly concentrated in a small number of units or agencies, which may have weak institutional capacity. Thus, supporting better management of public investments is critical to rebuilding economic and social infrastructure, which is key to quickly restoring basic services and reestablishing the social contract and trust between the state and citizens. It can also foster opportunities for citizens to reap early peace dividends, thereby planting the seeds for long-term stability. Box 1 summarizes common features of PIM in context.

Box 1. Common Features of Public Investment Management in Fragile, Conflict, and Violence Situations

PIM systems in fragile and conflict-affected situations tend to exhibit the following features:

- **Preliminary Screening.** State capability to formulate a strategic direction is typically weak to nonexistent, with a proliferation of donors forming a parallel administration in an attempt to rebuild basic infrastructure. National strategy formulation is often constrained by the need to rebuild the social consensus shattered by the conflict. It can take many years to develop and put in place coherent and authoritative national strategies to guide donor-financed investment initially and then domestically financed investment.

- **Formal project appraisal.** Affected countries are characterized by weak capacity and an almost total reliance on donors, who finance a high proportion of all public investment. In the immediate post-conflict stage, donors tend to suspend or fast-track value-for-money studies, in part because the focus is on replacing infrastructure destroyed by war or disaster. Over time, the focus shifts to rebuilding the country’s public investment appraisal capacity.

- **Independent review of appraisal.** There is effectively no capacity for independent review of appraisal.

- **Project selection and budgeting.** A lot of aid is provided off-budget, and the attendant recurrent costs of donor projects are poorly integrated into the budget. As donor funding winds down, there are periodic, large, unplanned demands on the budget. Project selection can also be highly politicized when public investment is used to try to “buy peace.”

- **Project implementation.** There is a plethora of project implementation units and weak procurement capacity in relation to reconstruction needs. Efforts to reform procurement are quite common. Monitoring of project implementation is weak.

- **Project adjustment.** Authorities often rely on donor systems to trigger a review when projects run awry.

- **Facility operation.** Asset registers are absent. Often, difficulties are faced in reestablishing clear administrative responsibilities for asset ownership. Other difficulties include ineffective project hand-over arrangements, a mismatch between assets and needs, and insufficient funding for ongoing operations and maintenance.

- **Basic completion review and evaluation.** Little or no basic post-project review is apparent. Moreover, the country may lack a functioning Supreme Audit Institution or other auditing mechanism by which to independently conduct basic compliance checks on projects. This Middle East and North Africa (MENA) Quick Note is a response to some of the questions that Bank teams typically face when they plan to address infrastructure and PIM deficiencies in a FCV context. Questions include: Is PIM in FCV different from other contexts? How can weak PIM capacity be addressed? What are the possible PIM starting points for spurring economic growth?

Source: Rajaram (2014).
RATIONAL FOR INTERVENTION

Efficiency in capital expenditures is increasingly important in the face of public funding constraints in FCV countries. Many arguments for creating fiscal space are explicitly about the need to better manage scarce resources and boost public investment in physical assets, such as public or social (health, education) infrastructure that contributes to improvements in human capital. However, despite recent progress in improving the quality of public investment in some countries, challenges in core functions remain (see also World Bank 2017a). These challenges result in many poor or inappropriate projects being undertaken, repeated cost overruns, implementation delays, poor investment outcomes, as well as confusion and duplication of PIM roles, responsibilities, and processes, among other issues.

Today, the governments of FCV countries face the huge governance and financial challenge of rebuilding crumbling, war-torn infrastructure, as well as creating jobs—and maintaining peace and security. Key to rebuilding will be reducing the significant infrastructure deficit to grow these fragile economies. This challenge is compounded by weak governance and institutions. Hence, allocating scarce resources (natural, human, and capital) toward obtaining maximum social and economic benefits should be at the top of development agendas. To do this, FCV countries need PIM systems that perform well despite systemic capacity constraints. Governments should seek good-fit projects, rather than “best practice” projects, informed by their own development priorities.

In FCV situations, PIM must be adapted to the fragility cycle. This requires a differentiated approach in response to the fragility landscape. The approach to strengthening the PIM system is different for a state in deep fragility with weak institutions and poor governance compared to one in a state in transition with a peace agreement in place.

IMPORTANT SYSTEM STEPS

Regardless of the financing source of a public investment program, an adequate PIM system should include: (i) an assessment of the PIM system; (ii) the development of a PIM governance framework, including law and procedures for public-private partnerships (PPP); and (iii) the preparation of a three-year rolling PIM Action Plan, eventually moving to a Maximizing Finance for Development (MFD) Strategy when appropriate (see also Mousley et al. 2018). Where a full assessment is either not feasible or would not produce useful information, a one-off review of a project portfolio of recently completed projects or projects still in implementation can be a cost-effective and rapid way to identify much-needed improvements in the project planning and execution phase. Closer monitoring of project implementation can also generate useful information regarding the sources of weakness in the planning phase. These actions would go a long way to ensuring clarity and coherence in the PIM process, leading to a clear set of priorities for the coming three years. The Action Plan areas of focus and implementation would be differentiated depending on the fragility context of each country.

System and Process Assessments

The first step in addressing the weaknesses in the PIM system is to acquire a good understanding of it through an assessment. Where possible, it should identify strengths, weaknesses, and gaps in each stage of the whole-of-government process, including the PPP process as a subset of the PIM process and governance framework. It would cover the policies related to capital budgeting and PPPs. In many FCV countries, the PIM system is very limited or nonexistent and will need to be rebuilt from scratch. In other cases, undertaking the assessment can be hazardous or impossible because of the security situation. In the latter case, a simple survey filled out by local authorities or development partners in the field would suffice to acquire a better understanding of system priorities.

Where World Bank teams can conduct an in-country evaluation, a basic PIM assessment should combine analysis from the institutional structure, a process mapping, as well as the application of PIM diagnostic tools and indicators to provide an integrated review of the system’s performance. The assessment should also explain why the identified performance strengths, weaknesses, and gaps matter in the FCV context. The analysis should cover the linkages with the procurement and the wider public financial management (PFM) systems. The performance report should also rely as much as possible on the quantitative indicators collected or estimated as part of the data gathering for the assessment. With this information, the subsequent Action Plan must consider a business process re-engineering to help organizations rethink how they perform PIM functions to improve service delivery, reduce operational costs, and achieve desired results.

Country examples illustrate the important steps necessary for a functional PIM system.

Afghanistan: A preliminary PIM assessment was conducted in late 2017. A summary of the major gaps and recommendations was shared with the government, forming the basis for its PIM reforms. Under an effort led by the Ministry of Finance, PIM work is aligned with the Fiscal Performance Improvement Plan (FPIP), aimed at strengthening core governmental systems. Four key PIM issues were identified and must be addressed by the government: (i) separating the budget cycle from the project cycle; (ii) identifying the criteria to be considered in selecting high-quality investments aligned with the country’s development vision; (iii) upstreaming the harmonization of the PPP and public investment project (PIP) pipelines; and (iv) streamlining the institutional arrangements, systems, procedures, capacity, and management necessary for effective PIM.

Haiti: In 2014, a PIM assessment was conducted by the government to better understanding the strengths, weaknesses, and gaps in each stage of the PIM process. It revealed a fragmented PIM system exhibiting distinctive features and practices common to countries that are aid-dependent, such as weak appraisal capacity and reliance on donors to design good projects. There is insufficient support and basis for developing a sustainable and robust PIM system. Furthermore, domestically funded capital expenditures were not properly accounted, tracked, and reported, denoting a lack of accountability and
transparency as well as a potential risk of mismanagement of scarce public resources. These key areas are to be addressed by a PIM improvement project.

Iraq: A PIM assessment was conducted in 2015 in Iraq and led to three key recommendations. The policy and management weaknesses it revealed included low economic returns on the public investment portfolio, large capital budget allocations, and low levels of spending, partly as the result of poor project design, planning, and preparation. The assessment recommended: (i) improving the PIM system; (ii) implementing a solid system as government capital spending intensified, along with using significant domestic financing; (iii) installing a complete PIM training system to improve local capacity; and (iv) integrating the budgetary accounting system through the Iraqi Development Management Information System (IDMS), which is designed to become the information technology backbone of the PIM system. This step includes creating an IDMS interface within the Iraqi Financial Management Information System, with a unified governance framework for both PIP and PPP operations. The IDMS should contribute to improving and strengthening planning capacity as well as and prioritizing and making better informed investment decisions related to the federal government’s portfolio of projects. Also, it should improve the strategic allocation of resources, helping to solve budget integration issues.

Addressing the Governance Framework
When the public investment decision framework leads to the use of PPPs, the agency will use the PIM–PPP governance framework. FCV governments must strengthen it for managing public investments to improve the efficacy (each project must be verified for strategic fit to determine eligibility) and efficiency (each project must undergo an economic cost-benefit analysis) of the investment expenditure. This helps ensure they achieve the best possible results for the provision of goods and services. The decision to put in place a PIM governance framework should also encompass traditional PIP financing as well as a PPP process to determine project prioritization (based on cost-benefit analysis and expenditure efficiency), financing modalities (for example, on-budget or through PPPs), and continuous monitoring of the fiscal affordability of all projects.

A formal appraisal system for PIPs must provide the basis and conditions for the government to move ahead with only the most economically attractive and beneficial initiatives. It should allow for transforming investment ideas into PIPs and public investment decisions. In the short term, given the weak governance and capacity in FCV countries, governments should consider the PPP process. It requires conducting a risk analysis, which would provide a relatively quick infusion of capacity and potentially of financing, to meet immediate requirements when shoring up the economic and social infrastructure. Hence, as a priority in the early post-conflict years, FCV governments should consider putting in place the requisite institutions and capacity to contract with and manage PPPs.

FCV is becoming the new development frontier. By 2030, at least half of the world’s poor will be living in fragile and conflict-affected settings. Country examples illustrate FCV situations which are often protracted, multidimensional, cross border and impacted by transnational issues such as climate change, rising inequality, demographic change, new technologies, illicit financial flows, and violent extremism.

Afghanistan: A strengthened PIM system needs to include: (i) increasing investment spending by increasing both the budget share of infrastructure investments, where possible, and reorienting allocations to better performing projects; (ii) selecting investments likely to be the most effective for stimulating the economy and protecting particular social or vulnerable groups; (iii) helping accelerate investments between concept and implementation by building capacity to efficiently appraise proposals; (iv) improving the quality of investment spending by regular monitoring and evaluation (Ministry of Finance 2017); (v) focusing public investments on and facilitating the effective implementation of the 2017–21 Afghanistan National Peace and Development Framework; and (vi) strengthening capacity building in project preparation, appraisal, selection, and implementation.

Haiti: To address a fragmented PIM system, the assessment recommended clarifying the PIM regulatory framework for planning activities with clearly identifiable responsibilities encompassing all phases—from project identification to implementation and completion. This would also include the development and adoption of a new procedures manual, which would simplify existing, often cumbersome procedures.

Iraq: In 2015, the government adopted a PIM legal framework aimed at establishing a public investment decision-making process that covers project concept, pre-feasibility, feasibility studies, capital investment prioritization, financing modalities, project execution, continuous monitoring of the fiscal affordability of all projects, operations, and evaluations. This important step puts into place a formal, uniform, and consistent PIM process in Iraq, making it mandatory for all PIPs. In 2019, the federal government plans to prepare an integrated PIM and PPP governance framework aimed at facilitating MFD implementation.

Developing Action Plans
The PIM assessment led to the establishment of an Action Plan designed to strengthen the system. Given the weak institutional capacity and limited resources, the plan should include quick-win options where possible, particularly in the early phase of recovery. Recent evidence shows the process by which projects are delivered (e.g., scale, community involvement, and expertise of project managers) can be more important than simply 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 the

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2 World Bank estimate, using the FY19 Harmonized List of Fragile Situations. This estimate illustrates what poverty would be like if historical growth rates from 2006–15) continue into 2030.
registration process of projects by developing an Integrated Bank of Projects (IBP); (vi) establish project selection and prioritization criteria to be regularly revisited; (vii) formalize the use of relevant, key performance indicators; and (viii) improve PIP and PPP through project management (execution, monitoring, and follow-up) and evaluation of results.

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. Nongovernmental channels, such as nongovernmental organizations and the private sector (in PPPs), could speed implementation. It may also be as critical in the early days of a PIM system for policymakers, service providers, sectors, and civil society to reach consensus on immediate priorities. Again, the goals are to seek quick wins and invest in areas that clearly offer improvements in infrastructure and service delivery to inspire citizen trust and build a virtuous cycle of performance. Another practical way to quickly institutionalize PIM processes and build governmental capacity is for donor-financed projects to follow the PIM process. This allows for the establishment of processes and pilots that can eventually form the basis for legislation, thereby ensuring that laws codify processes that are already in practice and implementable.

Afghanistan: A preliminary PIM assessment was conducted by a World Bank team in 2017. Five key challenges were identified: (i) projects are being included in the budget (investment decisions) without a thorough process for project appraisal and selection at the pre-investment stage; (ii) the public investment pipeline is characterized by fragmented management into three distinct categories under different ministries; (iii) the project cycle should be separated from the budget cycle with a sufficient budget dedicated for budget preparation; (iv) clarity is lacking around the respective roles and responsibilities at the pre-investment stage; and (v) the project monitoring and evaluation process is weak. The ministries decided to continue the PIM and PPP reform with a two-pronged approach—a functional review of the institutional structures and related processes used, including the establishment of a PIM Directorate at the Ministry of Finance, and the strengthening of technical and human capacity across the government’s line ministries.

Implementing reforms in Afghanistan. The World Bank is supporting reform through three instruments: (i) the Incentive Program Development Policy Grant; (ii) the FPIP advisory facility; and (iii) PPP and the Public Investment Advisory Project. To further enhance PIM and PPP capacity building, the Ministry of Finance has expressed an interest in collaborating with the American University of Afghanistan to develop an ongoing curriculum to train government officials. Three aspects of the reform remain critical: (i) developing a consistent PIM and PPP governance framework at both the institutional and technical levels; (ii) upstreaming the harmonization of existing project pipelines; and (iii) initiating steps for the long-term sustainability of reform processes and capacity.

Haiti: The assessment led to a two-part Action Plan to improve the PIM system through a short-term set of quick-win activities, as well as a medium- to long-term set of actions to build a more sustainable system. The latter covers the formalization of the institutional setup and the strengthening of project evaluation, selection, programming, execution, and control. As a first step, priority was given to implementing basic elements of formal project selection and appraisal, execution, and control, such as the need for investment projects to: (i) advance only if they are mature enough; (ii) undergo monitoring (including physically); (iii) use scarce financial resources adequately; and (iv) be evaluated as required. The assessment and recommendations were included in the government’s PFM reform plan. They were used as a basis to rally the donor community and deliver a consistent message about the importance of these reforms.

Given the numerous weaknesses, the World Bank’s approach in the first year was to focus on building the basics, which included streamlining procurement processes, creating a system to store and monitor project information, and implementing a basic system to prioritize projects.

Implementing reforms in Haiti. The 2014 evaluation and the ensuing Action Plan assisted the government and donors in forging a more concerted and focused approach in their efforts to strengthen the PIM system. Recognizing that sequencing and selection of key activities is of utmost importance, the government and donors embarked on streamlining procurement processes to improve project implementation. In addition, the government employed a new mechanism and systems to better monitor project implementation, particularly financial information and an increase in oversight. Weakness was found in project appraisal and selection. Given donor assistance, project appraisal at this stage is mainly ensured by the donor community’s support while the system is being strengthened. Although more work remains, the government is slowly moving toward the creation of a network of professional planners to support PIM and the pursuit of development goals.

Iraq: The PIM decree includes improving public investment procedures and installing a complete PIM system. These actions and related activities are sequenced over the short term (2018) and medium term (2019–2020) implementation plans. In 2017, the Ministry of Planning established a PIM central unit that will oversee project appraisal and monitoring (World Bank 2017c). As a first step, it submitted to the Council of Ministers a list of projects consistent with government priorities. These projects will undergo a rigorous cost-benefit analysis before budget inclusion. For 2018, the plan called for improving capital investment project design, appraisal, and selection, and strengthening capacity in project design, appraisal, and selection. For 2019–20, the plan calls for: (i) improving the project registration process through IBP; (ii) enhancing project management (including execution, monitoring, and follow-up) and evaluation; and (iii) developing capacity in project design, appraisal, and selection.

Implementing reforms in Iraq. As Iraq strengthens its public
administration, the key priority is improving proficiency in PIM, PPP, and related areas that seriously undermine the ability of the government to deliver key public services. Regarding vulnerabilities in the functioning of the federal Ministry of Planning related to PIM activities, the government is gradually moving away from the traditional focus on capacity to a new analytical focus on capabilities. The former refers to the volume or scope of ministry inputs of an appropriate quality, whereas the latter is about converting that volume into actual performance. To address both urgent needs, such as training and performance at both the federal and regional levels, as well as the long-term requirement for planning and development, the ministry will conduct in 2019 a capacity needs assessment in all PIM and PPP areas of intervention. The Ministry of Planning of the Iraqi Kurdistan Regional Government has successfully completed a functional review of its PIM system.

SPECIAL CHALLENGES

Situations of active conflict, as in Afghanistan and Iraq, and prolonged fragility, as in Haiti, also raise specific PIM challenges that need to be addressed in PFM reforms.

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

Overcoming security challenges to implementation. In contested, insecure areas, access by public officials may be forbidden—impacting the ability to direct implementation, supervision, and evaluation of investments. This calls for specific provisions in contracting, such as community-based procurement or local content to promote market access by local entrepreneurs. Public works can also be designed with the specific purpose of creating local jobs. The risk of misuse of public investment in FCV situations adds to standard operational risks. Public facilities may be captured, and public funds may be extorted from contractors—a common practice to fuel wartime economies. In addition, property rights may be denied in the reconstruction process. Such risks call for the strengthening of political, governance, and fiduciary risk management.

Building peace by restoring the social contract. Ongoing conflicts reflect aggravated public distrust of government and social discord. The United Nations and World Bank joint report on *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* stresses that grievances prompted by “perceptions of injustice deriving from social, economic, and political exclusion” have “consistently recurred in violent conflict in various contexts.” The report identifies four main “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” (United Nations and World Bank 2018).

Public investments can help restore the social contract if they help address public grievances about lack of agency and equitable access to resources and services. This calls for an additional effort 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

PIM assessment in an FCV context should recommend the elaboration of a strategy to develop and gradually strengthen the PIM and PPP governance framework based on four key policy actions: (i) achieving economic growth and poverty reduction; (ii) balancing short-term priority actions and projects with strategic, medium-term concerns; (iii) ensuring that projects remain within the budget envelope with confirmed sources of financing, including for recurrent costs and operations and maintenance expenditures; and (iv) enabling policies that encourage the participation of the private sector when deemed appropriate.

PIM and PPP Governance Framework

- It is critical that PIM functions have one transparent entry point of PIP and PPP projects into the budget system. Without this, it is more difficult to maintain discipline of project identification and appraisal if poor-quality projects are permitted to proceed straight into the budget.
- Policymakers and affected communities should be encouraged to participate in public meetings to plan and implement PIPs directed at improving infrastructure and service delivery at the local level. Practical and needs-based solutions should be emphasized throughout the process.
- Accountability and oversight institutions are often absent in FCV countries. Newly rebuilt institutions should be encouraged to play their key role in demanding the proper selection and implementation of PIPs.

PIM and PPP Action Plans

- 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 investment choices (including quick wins) in all sectors, thus increasing the efficiency and effectiveness of the investment process.
- PIM improvements should contribute to the integration of all
line ministries and independent budget agencies in sectoral strategic plans, as well as procurement processes, budget approvals, and execution of public infrastructure projects. This will help establish a solid foundation for intersectoral coordination and budget integration in line with FCV country priorities.

• Procurement is a major aspect of every government business process and has a profound economic impact. Inefficiencies in the procurement system can have significant adverse effects at the macro level. They can also negatively impact the cost-benefit rationale of investment decisions. In addition, such inefficiencies can undermine accountability and citizen trust in government actions and development plans.

• 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 sources of financing and capital investment. The second is the impact that MFD can have on improved governance and partnerships for policy implementation. Utilizing the MFD approach can also lead to much-needed improvement and coordination between development partners. Effective collaboration and partnerships are even more critical in FCV countries. They can help leverage scarce resources to meet the challenges of rebuilding the country, increasing economic growth, promoting private sector development, and creating jobs.

REFERENCES


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Governance Notes captures knowledge derived from World Bank engagements and technical and financial assistance requests. The views expressed are those of the authors and do not necessarily reflect the views of the World Bank.

For more information, contact: askgov@worldbank.org