THE POWER OF PUBLIC INVESTMENT MANAGEMENT
Transforming Resources into Assets for Growth

COUNTRY CASE STUDY

Public Investment Management in Latin America and the Caribbean: Institutions under Evolution

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2013
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This work has benefited greatly from the exchange with Directors of Public Investment of Latin American countries, in the scope of the Network for Public Investment co-managed among the UN-Economic Commission for Latin America (CEPAL), the Inter-American Development Bank (IADB) and the World Bank. I also appreciate the cooperation and comments received from Ricardo Martner and Eduardo Aldunate at CEPAL. Several colleagues at the World Bank have provided useful comments and suggestions, including Diego Dorado, Kai Kaiser, Jay-Hyung Kim, Murray Petrie, and Ha Vu.

This case study is one of a number of country cases in the Public Investment Management Series. The country case studies accompany the volume, “The Power of Public Investment Management: Transforming Resources into Assets for Growth”, World Bank (2014), and apply a common methodology to assess PIM systems globally.
LATIN AMERICA & THE CARIBBEAN

Over recent decades many countries of the Latin America region have set up specialized processes and mechanisms for public investment management. Initially created as isolated systems, they are now being further integrated with enhanced budgeting processes and financial management systems. In this process, Ministries of Finance and planning entities have emerged as the two key agencies taking on critical functions in the investment cycle. The on-going consolidation of institutional arrangements is being challenged through the increasing involvement of subnational governments, not least since they also are increasingly promoting PPP arrangements that require considerable regulatory capacities. More recently, countries are promoting results-oriented management and multi-year planning which can provide new impetus to strengthen public investment management. This is required as infrastructure gaps remain significant across urban and rural areas, and further efforts are required to enhance expenditure efficiency at both national and subnational levels of government. In the future, increased attention and asymmetric treatment of subnational governments is required to address the existing and possibly widening infrastructure gaps in light of uneven capacities.
## Selected Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BPIN</td>
<td>Banco de Programas y Proyectos de Inversión Nacional (in Spanish) (Colombia)</td>
</tr>
<tr>
<td>CEPAL</td>
<td>United Nations Economic Commission for Latin America</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IADB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>IFMIS</td>
<td>Integrated Financial Management and Information System</td>
</tr>
<tr>
<td>LAC</td>
<td>Latin America and the Caribbean Region</td>
</tr>
<tr>
<td>MIDEPLAN</td>
<td>Ministry of Planning (Chile)</td>
</tr>
<tr>
<td>PAC</td>
<td>Growth and Stability Pact (Brazil)</td>
</tr>
<tr>
<td>PIP</td>
<td>Public Investment Plans</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnerships</td>
</tr>
<tr>
<td>SIAF</td>
<td>Sistema Integrado de Administración Financiera (Peru)</td>
</tr>
<tr>
<td>SIGOB</td>
<td>Sistema Nacional de Evaluación de Gestión (Colombia)</td>
</tr>
<tr>
<td>SIGMA</td>
<td>Sistema Integrado de Gestión y Modernización Administrativa (Bolivia)</td>
</tr>
<tr>
<td>SIIF</td>
<td>Sistema Integrado de Información Financiera (Colombia)</td>
</tr>
<tr>
<td>SISIN</td>
<td>Sistema Nacional de Inversión Pública (Bolivia)</td>
</tr>
<tr>
<td>SNIP</td>
<td>Sistemas de Inversión Pública (in Spanish)</td>
</tr>
<tr>
<td>WEO</td>
<td>World Economic Outlook</td>
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</tbody>
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4. Summary and Outlook
Over recent decades many countries of the Latin American and Caribbean (LAC) region have set up specialized processes and mechanisms for public investment management (PIM). Several institutional models of PIM systems have been developed, tested, and refined, but progress in achieving infrastructure improvements and expenditure efficiency has been uneven. Thus, the quest for strengthening public investment management is ongoing; in fact, it is increasingly recognized not only as a key factor for service improvements, but also as a driver for economic growth and ultimately poverty reduction.

The prominent and significant role of public investment became evident during the economic crisis of 2007–08. Not only did the crisis reveal how public investment can jump-start and maintain economic growth, but also that it can act as a drag on the economy, particularly when it is poorly managed and executed. This most recent episode also underscored the role of public investment as a fiscal policy variable: some governments responded to the crisis with fiscal adjustment plans that entailed a cut down of investment spending; other countries implemented fiscal stimuli and recovery plans that rested on increased and more rapid execution of investment spending. The latter approach in particular required an improved appraisal process, as well as strengthened execution and implementation of projects. But because of increased pressure to rapidly execute programs, in many cases, several steps of the investment cycle turned out to be cumbersome and added to delays, highlighting the need for further efforts to ensure the proper functioning of PIM systems. Challenges beyond the recent crisis will require such efforts because the region will face continued pressures to address existing—possibly widening—infrastructure gaps, given the anticipated population growth in the next decades.

Therefore, the Latin America region can provide valuable lessons for countries faced by similar challenges, even with its extremely diverse landscapes, not only of country settings—ranging from aid-dependent to advanced economies—but also of institutional arrangements for PIM. Against this backdrop, this chapter can provide only a snapshot summary of the main institutional aspects of PIM in Latin America as well as the core aspects of some of the ongoing institutional reforms. As will become clear, there are no set models for institutional arrangements for public investment, but each economy must undertake a gradual process of continuous efforts to align roles and responsibilities across different levels of government, set up systems and procedures, and ensure different public and private investment modalities are well aligned. The emerging lesson is that this will require constant adjustment and fine-tuning as new challenges arise.

To this end, this chapter first recaps the main facts regarding infrastructure gaps and spending trends. It then covers the main institutional arrangements of PIM systems and their evolution, organized under four core aspects: the different roles played by finance ministries in planning entities, the relationship between financial management and PIM information systems, the role of subnational governments under increased decentralization, and multi-year planning and results-oriented management. The chapter closes with a summary emphasizing critical factors that might trigger and facilitate the continued strengthening of PIM.
Infrastructure Gaps and Investment Trends: The Quest for Expenditure Efficiency

Although each LAC country is different, access to infrastructure services across the region is above the world average in many key sectors (table X.1); it is comparable to the average of countries in Eastern Europe and Central Asia in some sectors, and, particularly in telecommunications, electricity, water and sanitation, the region is in a more favorable position than many countries in Asia or the Middle East. However, the disparities within individual countries are an unresolved challenge, often particularly accentuated and unequal across urban and rural areas (World Bank 2013).

Table X.1 Access to Infrastructure Services by World Region

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>EAP</td>
<td>8.9</td>
<td>49</td>
<td>105</td>
<td>91</td>
<td>66</td>
<td>90</td>
</tr>
<tr>
<td>ECA</td>
<td>5.1</td>
<td>65</td>
<td>157</td>
<td>100</td>
<td>84</td>
<td>96</td>
</tr>
<tr>
<td>LAC</td>
<td>3.6</td>
<td>79</td>
<td>125</td>
<td>93</td>
<td>79</td>
<td>94</td>
</tr>
<tr>
<td>MNA</td>
<td>4.3</td>
<td>59</td>
<td>105</td>
<td>90</td>
<td>88</td>
<td>89</td>
</tr>
<tr>
<td>SAR</td>
<td>6.7</td>
<td>31</td>
<td>72</td>
<td>62</td>
<td>38</td>
<td>90</td>
</tr>
<tr>
<td>SSA</td>
<td>4.6</td>
<td>36</td>
<td>54</td>
<td>31</td>
<td>31</td>
<td>61</td>
</tr>
<tr>
<td>World</td>
<td>2.7</td>
<td>52</td>
<td>103</td>
<td>79</td>
<td>63</td>
<td>88</td>
</tr>
</tbody>
</table>

Source: Andres, Biller, and Herrera Dappe (2013); telecom access, IEA 2010.

Notes: a. Telecom access = the number of fixed and mobile lines. b. Improved sanitation = household connection to a public sewer, a septic system, pour-flush latrine, simple pit latrine, or ventilated improved pit latrine. c. Improved water = household connection, public standpipe, borehole, protected dug well, protected spring, or rainwater collection. EAP = East Asia and the Pacific; ECA = Eastern Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and Northern Africa; SAR = South Asia Region; SSA = South-South Asia.

As well, during years 2000 and 2010, the average public investment spending of Latin American countries was 5.8 percent of GDP, slightly less than the world average of 6.5 percent GDP (figure X.1). Particularly noteworthy are the significant differences across countries: Brazil and Chile spend about half of what is invested by Mexico or Colombia. However, resource-rich countries like Bolivia and Venezuela can afford to spend four to five times as much as Brazil. Importantly, however, such comparisons need to recognize the different starting points for infrastructure quality and given levels of expenditure efficiency. At the same time, these averages conceal the fact that
Public investment can be subject to important up-and-down swings across years. As mentioned, PIM is a key fiscal policy variable; this in turn implies frequent upward or downward adjustments.

**Figure X.1   Public Investment in LAC and ROW, % of GDP, 200–10**

![Bar graph showing public investment in LAC and ROW as a percentage of GDP from 200 to 2010, with data points for various countries and the world average.]

*Source:* IMF 2011.

*Note:* Public investment is defined as gross public fixed capital formation in the general government sector, excluding public corporations. ROW = rest of the world.

In the meantime, not all these efforts have translated into better infrastructure spending and quality of public services. At least, using surveys as a reference, the LAC region has a mixed track record with improving quality of infrastructure. Results of the World Economic Forum (WEF) survey of business leaders (WEF 2012) highlights that the region, although it has improved the quality of infrastructure, has not yet reached the quality levels of OECD countries as a whole (figure X.2).
These increased efforts to improve spending are particularly needed as new infrastructure gaps are likely to arise in the future. In 2013 the population of LAC is 617 million, but it could grow up to 902 million by 2050 (UN-DESA 2013). This will add substantially to the demand for public services in sectors such as water, energy, and roads. This can add further pressure to improving quality, and even imply backward steps if it is not matched with increased efficiency.

Efforts to improve efficiency in spending require higher outputs with existing resources. But given the size of the infrastructure gaps highlighted in table X.1, it is clear that traditional sources of finance need to be supplemented with new sources of equity and debt finance, as well as by a lower cost of sovereign borrowing, to be achieved through improved market environments (Andres, Biller, and Schwartz 2013), among other efforts. The region is already using public-private partnerships (PPP) to a larger extent—driven by the goal of tapping into additional resources during the economic crisis—and it is likely that such PPP arrangements will play an even larger role in the future (PPIAF 2012). However, given earlier achievements in terms of infrastructure coverage, when purely measured in absolute amounts, the required additional investments and financing needs are likely to be smaller compared to other world regions (figure X.3).
Figure X.3: Annual Infrastructure Spending Requirements in the Developing World by 2020


These future efforts to address infrastructure gaps and increase efficiency in spending must be conducted against the backdrop of several decades of continuous change and adjustments under way. Further strengthening of processes and institutional arrangements cannot ignore past history and already ongoing reforms.

The Evolution of PIM Institutional Arrangements

In recent decades, PIM has been undergoing considerable change. The 1960s were driven by a heavy emphasis on planning. In contrast to many of the rolling plans adopted today, during those years Public Investment Plans (PIP) established a fixed horizon of four to six years. Although in retrospect they were very rigid instruments, they constituted a first step forward by establishing projects as separate units of analysis and management.

In the context of the 1970s debt crisis, LAC countries recognized that public investment needed to play a more dynamic role. Project banks were created that provided either a pool of project concepts requiring further appraisal, or a bank of already-appraised projects ready for funding through the budget. Project banks were instituted as a way to react more rapidly to scale up investment and thereby spur growth, although keeping project information up-to-date proved costly and challenging in many cases.

Project banks, while often still rudimentary, constituted the origins of proper PIM systems: Sistemas de Inversión Pública (“SNIP,” in Spanish) were created during the 1980s. However, these years were characterized by fiscal adjustment, given expansive fiscal policies and ensuing debt problems in many countries. The SNIPs established a specialized process for public investments aiming to cover the whole investment cycle. This was a significant improvement over many of the still largely informal processes existing in many countries. However, under tightening fiscal
constraints and resource limitations, the emphasis was placed largely on controlling the aggregate level of investment spending, and less on ensuring proper ex ante appraisal of investment projects or on ensuring the most efficient execution.

As specialized systems, the SNIPs were also created as isolated systems—in other words, they were disconnected from other resource management systems, particularly those related to budget and financial management, that had been introduced at the same time. In the context of first-generation reforms, Treasury Single Accounts were put in place to improve cash management; these efforts were accompanied by systems for financial management as governments endeavored to increase oversight, efficiency, and transparency in resource use. In some countries, system efforts also entailed procurement, and also to a lesser extent, asset management.

But as much as the SNIPs provided a significant step forward as a specialized process, their limited integration with other resource management systems proved problematic in the long run. As became evident later, they constituted a bottleneck not only for improved resource management but also for the strategic planning with which countries started experimenting during this period. This in turn required increased oversight and closer alignment of planning and budgeting, including PIM. Against this backdrop of institutional evolution, different arrangements and models have emerged.

Roles and Responsibilities in the Investment Cycle

The two entities that emerged with a key role in public investment in many countries of Latin America are finance ministries and planning entities. This is shown clearly on the map of departmental responsibilities along the eight steps of the public investment cycle framework promulgated by Rajaram et.al. (2010) (table X.2). It bears noting that a process-oriented mapping along the investment cycle, as this framework proposes, is not the only nor exclusive way of assessing institutional arrangements. In fact, it is diametrically opposed to the early models of PIM promoted by the UN Economic Commission of Latin America (ECLAC) during the 1980s and 1990s. As underscored by CEPAL (2002), these early approaches were based on four elements: (1) legal framework; (2) methodology for identification, formulation, presentation, and evaluation of projects; (3) institutional capacities; and (4) information systems (Project Banks). Nevertheless, by proceeding with the Rajaram model, the following institutional arrangements and “models” can be identified:

- **Ministry of finance as the single lead entity.** This “model” is used by Argentina, El Salvador, Honduras, Mexico, Panama, and Peru. However it also bears noting that in some countries, although the finance ministry leads investment management, it has an internal division into budget and planning that does not always have a strong relationship between both areas.

- **Divided role of planning entities and Ministries of Finance.** This “model” is used by Bolivia, Brazil, Chile, Colombia, and Ecuador. A special arrangement is applied in Guatemala and Nicaragua where the planning entity is part of, or constitutes, a specialized unit of the presidency.
Table X.2  Models of Public Investment Management

| Main steps in the investment cycle  
(based on Rajaram et al. 2010 Framework) | Ministries of finance | Ministries of planning | Executing agencies |
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1: Investment guidance, project development, preliminary screening</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step 2: Formal project appraisal</td>
<td>(Role of finance ministry under unified model)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Step 3: Independent review of appraisal</td>
<td></td>
<td>Does not apply</td>
<td></td>
</tr>
<tr>
<td>Step 4: Project selection and budgeting</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step 5: Project implementation</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Step 6: Project adjustment</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Step 7: Facility operation</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Step 8: Basic completion review and evaluation</td>
<td>(Role of finance ministry under unified model)</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

It becomes clear that investment guidance, project development, and preliminary screening (Step 1) are traditionally undertaken by planning entities. However, in the early 2000s some LAC countries eliminated their national planning entities (Ecuador and Peru), in which case this role was often fulfilled by the sectoral lead agency (ministries or others). The region’s backlash to planning is only gradually being overcome, and new efforts at planning associated with results-oriented management and policy-making capacity are being put in place.

Formal project appraisal (Step 2) can be either in the hands of the planning entity or, in a unified model, the responsibility of the finance ministry. However most of the countries give this responsibility to executing and sector agencies. Independent reviews (Step 3), as applied in some countries of the Organisation for Economic Co-operation and Development (OECD), are done only sporadically and in very few countries (Chile, Argentina is initiating), and for large-scale projects only. However, some countries endeavor to put in place “objective”—if not specifically “independent”—reviews: Colombia, Guatemala, and Venezuela let their planning agencies conduct the revision (quality assurance) of projects prior to granting the go-ahead.

Project selection and budgeting (Step 4) is the responsibility of finance ministries. However, the selection process usually involves close interaction with sectoral ministries, establishing an iterative process between these two entities. This can challenge effective gate-keeping, which rests on the assumption that only fully appraised projects are being selected for funding.

Responsibilities for project implementation, adjustment, and facility operation (Steps 5–7) are usually under the aegis of the executing agency. However, the monitoring of execution—both financial and physical—often remains challenging: given that systems coverage is limited (discussed in the next section), there are limited possibilities and/or limited incentives to formally communicate and record such changes in project design and execution. Most countries in LAC do not use systematically formal thresholds, like those applied in Chile and Korea, which trigger reappraisals once expenditures or implementation times exceed planned targets. However, it is also true that some countries—among them Colombia and Peru—require formal reappraisals if a
project changes its objectives, if there are cost-overruns (20 percent in the case of Colombia), or if there are extensions in the duration of the project.

There are two models for basic completion review and evaluation (Step 8). This can be under the remit of planning entities, but this responsibility usually belongs to finance ministries in a unified model. In general terms, efforts at ex-post evaluation are limited. However, it is also clear that new efforts for results-based management can increase the demand and opportunities for strengthened ex-post evaluation. Chile perhaps provides the most robust ex-post evaluation approach applied in LAC to date, offering many lessons for countries around the world.4

Although there are few comparable indicators, LAC countries are at different stages of institutional strength across the eight steps of the investment cycle. These variable starting points to a large extent will determine the way forward. By and large, and irrespective of differences across countries, most progress in institutional development exists in the planning and appraisal stages, where countries have been undergoing iterative processes of improved appraisal in the various sectors. It is clear that, given such different starting points, new efforts soon have to more emphatically encompass the implementation and execution stages. Not only did these prove cumbersome during the recent crisis and execution of fiscal stimulus plans, but the risk, more importantly, is that if such improvements do not occur, well-designed projects will be poorly implemented. This deficient implementation could pose a dilemma in many LAC countries. To avert or mitigate such risk, it is important to further strengthen financial management and information systems for PIM since they can play an important role in this effort.

Financial Management and PIM Information Systems

Countries in LAC have a particular history in the implementation of integrated financial management systems (IFMIS) and their public investment systems (SNIP, in Spanish). In most cases, these two systems were initially developed in isolated fashion from each other, limiting possibilities for improved oversight.

However, these systems have evolved. As shown in table X.3, countries exhibit not only different advances in the integration of these systems, but also different modalities in how the integration with the budget process is ensured. Reflecting advances up to year 2010, countries like Brazil, Chile, and Colombia have put the following changes in place: (1) interfaces of their financial management systems with the SNIP and (2) adoption of a single project code in both systems. These changes facilitate tracking and identification of projects throughout the budgeting and investment cycle.

Progress in this area is uneven, however. By 2010 countries like Costa Rica and Guatemala had not advanced at all with IFMIS and SNIP systems. But there are noteworthy exceptions: in Honduras the project code for social investments is used in the financial management system, but not for other investments. This reflects partial advances in critical sectors, which are often externally funded.
Table X.3 Integration of Public Investment into Budget Processes, 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Interface IFMIS vs SNIP</th>
<th>Single project code in IFMIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Colombia</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Chile</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Guatemala</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Honduras</td>
<td>yes</td>
<td>yes (social investments)</td>
</tr>
<tr>
<td>Paraguay</td>
<td>no</td>
<td>yes (in execution stage but not at pre-investment level)</td>
</tr>
<tr>
<td>Perú</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Bolivia</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Uruguay</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>

Source: Data from CEPAL Survey 2009–10 (CEPAL 2010).

Against this backdrop, it is clear that there are different degrees to which investment expenditures are captured (“coverage”) by national investment systems (Contreras, Cartes, and Pacheco 2010). Not all countries have ensured that public investment is treated in an institutionalized and formal process in all steps of the project cycle. Percent of coverage in the national investment systems in some LAC countries is as follows:

- In Colombia all Central Government investment is covered, although different systems are being used (see box X.1); however, the percentage of included expenditures is much lower with regard to subnational governments.
- In the Dominican Republic about 90 percent of Central Government investment is covered, while subnational governments became part of the system only as of 2009, hence coverage is fairly limited.
- In Peru 80 percent (2009) of public investments of the central level are covered by the SNIP, while the proportion is 97 percent at the regional level and 76 percent at the level of district and provincial municipalities.
- In Mexico about 76 percent of federal investments (2009) are covered.
- In Guatemala only about 48 percent of central government investments are covered.

Box X.1 Use and Functions of Information Systems: Colombia and Bolivia

In 2006, Colombia implemented the so-called SUIFP (Sistema Unificado de Inversiones y Finanzas Públicas), which aligns and synchronizes the information managed by all projects in all four stages: preinvestment (or BPIN: Banco de Programas y Proyectos de Inversión Nacional); budgeting; execution (SIIF: Sistema Integrado de Información Financiera); and monitoring. In 2008 Colombia implemented the parallel system, SINERGIA (Sistema Nacional de Evaluación de Gestión y Resultados), with a focus on policy monitoring and evaluation—while the focus of SUIFP is on project monitoring and evaluation. This approach ensures coverage of all major aspects of public policy and public expenditures, including investment projects.
In Bolivia, in turn, the SISIN (Sistema Nacional de Inversión Pública) is a "one-way system," set up as a simple information system: data are sent by implementing agencies to the national level without any further benefit for management decisions. In addition, duplication of processes with its financial management system SIGMA (Sistema Integrado de Gestión y Modernización Administrativa) has led to data mismatch, which constitutes a serious constraint to improving resource planning and management. As a consequence, monthly data on execution of expenditures of both systems do not coincide, leaving room for interpretation, thereby not only weakening the credibility of both systems but also undermining accountability. A recent decision to use only SIGMA as the system for financial reporting should reverse this trend in the future.

Given this history, it is clear that the early decision to develop independent systems for public investment and budgeting still weighs heavily, even today. Despite the fact that countries are making progress in further integration, it is also clear that the quest for increased oversight and coverage is continuously challenged by the increasing role of subnational governments. Many countries started to decentralize precisely at the same time national systems started to mature, but at a time when these systems and institutional arrangements were not yet sufficiently robust to being exposed to hundreds, even thousands, of new agents at the local level.

Decentralization and the Role of Subnational Governments

Starting in the early 1980s, the following decades saw rapid adoption and deepening of politically driven, it entailed elections of local and regional authorities. Fiscal decentralization followed, but was often limited to increasing transfers and grants to subnational levels. But the role of subnational governments grew particularly strong on the expenditure side. In particular, this role also involved public investment, giving rise to the need and challenge of coordinating decisions and management across several government layers.

The variation in the degree of decentralized public investment that developed is significant, as demonstrated in figure X.4 below. It ranges from 10 percent in Costa Rica to 80 percent of investment in Argentina. Such variations imply different requirements and approaches for coordination across levels of government.
Such coordination is particularly warranted because decisions about current expenditures and public investment expenditures are increasingly assigned to different levels of government. Often, public investment has been decentralized while current expenditures have been kept centralized. Such arrangements can undermine efficient resource allocation. In Colombia and Bolivia, for instance, school buildings are planned, built, and managed by municipalities, but significant proportions of current expenditures and the decision-making about these resources—including personnel salaries—were kept centralized, leading to a less than optimal allocation of responsibilities in some sectors. Under such models, decisions for infrastructure planning and operation may not be sufficiently aligned.

At the same time, different levels of spending autonomy have developed. Although in federal countries like Brazil the role of states and municipalities for public investment is large, in sectors like water, these subnational governments are not allowed to regulate many of their expenditure responsibilities themselves. Provinces in Argentina in turn have a high degree of autonomy in the selection and execution of investment. In Chile regional governments act as deconcentrated branches of the National Government, and their principal role is one of co-financing and coordinating public investments, particularly vis-à-vis the municipalities, which are autonomous.
the unitary country Peru, the regions and municipalities do propose, select, and execute their own projects autonomously, but they must follow Central Government standards. In unitary Bolivia a hybrid model is applied: each project proposed by municipalities—even those which are autonomously financed at the local level—must be cleared and reviewed by sector ministries at the national level. This was intended to strengthen coordination, but in practice, informality is significant and not all sectors and municipalities apply the same procedures. In principle, the same rules apply to regional governments, which have been elected since 2005; however, future adjustments as part of the regional “autonomy” process might be introduced.

It is clear that such varied arrangements challenge coordination across levels of government. Only a few countries—among them Chile at the regional, deconcentrated level—have established joint subnational planning and budgeting platforms similar to those used by countries of the OECD in which there are incentives for independent actors on different government levels to cooperate in an institutionalized manner.

As expected, the planning, execution, and operation of decentralized public investment is being challenged by uneven institutional capacities across the different subnational units. In response, some countries have adopted simplified processes in a number of sectors. Examples include Nicaragua, which differentiates ex-ante appraisal for municipalities, as well as Mexico and Peru, both of which use different procedures for different sectors or services (subsectors). Judging and assessing subnational capacities, however, is not straightforward in cases where financing from natural resources play a role (box X.2); execution rates have increased in many cases at subnational levels, demonstrating basic capacity of local or regional entities to spend investment resources. However, unspent balances are often also visible as additional resources are still too large to be spent.

**Box X.2 The Challenges of Natural Resources for Decentralized Public Investment: Bolivia and Peru**

Both Bolivia and Peru are remarkable cases for the increase in public investment expenditures against the backdrop of economic growth and availability of natural resources.

In Peru, in 2003–05 public investment was around 2.7 percent of GDP, but by 2009 the percentage had almost doubled at 5.3 percent. Subnational governments were responsible for many of these increases in expenditures. During 2005–09, the so-called “modified investment budget” was increased by 502 percent for regional governments and by 438 percent for local governments. These considerable increases were chiefly associated with the increase of natural resource revenues from the so-called canon, which is a 50 percent income tax on the exploitation of natural resources (particularly, minerals, oil, and gas).

Bolivia is a similar case: it nearly doubled its investment expenditures in GDP terms from 2005 to 2010, and a lion’s share was executed by departmental governments and municipalities. However, there was considerable under-execution of budgets for investment projects in several
subnational governments, given cumbersome processes, for instance in procurement, and weak institutional capacities. The unspent funds remained under the ownership of the subnational governments and could be carried over to the following financial year. There were no explicit fiscal rules that would smooth expenditure patterns over time. The challenge then was how to use these funds in the future so that expenditures would be of quality and contribute to improvement in services. In addition, given that a large part of the allocation takes place in equal shares, they were unevenly distributed across subnational units, which implies that there are inequities in the proportion of twenty times the per capita amounts spent among departments.

Capacities not only need to exist with regard to the execution of expenditures and investment projects, but they increasingly need to entail the capacity to set up a regulatory framework for PPP arrangements. In fact, an emerging practice is to apply PPPs in decentralized settings.

Different models have developed: federal Brazil provides wide leeway for states to set up their own rules framework within federal regulations, while unitary Peru applies a uniform rules framework that is mandatory for all levels of government.

Emerging Trends: Results-oriented Management and Multi-year Planning

New modalities with regard to PPP arrangements in public investment are only one trend in LAC countries. Other noteworthy changes are related to larger transformations of the operation of the public sector in most countries of the LAC region. This is the case with results-oriented management and multi-year budgeting and planning. Such efforts are being launched with the objective to increase responsiveness to social demands, enhance accountability, and increase efficiency in resource management. These approaches are demanding institutionally—most countries of the OECD are still fine-tuning these models after several decades, despite starting out with stronger capacities at all levels of government than most countries in LAC.

Results-based approaches and multi-year budgeting efforts have a potentially close connection with and impact on public investment—the part of expenditures that can be spent more flexibly than most current expenditures. In some sectors public investment is often multi-year in nature by default, and so the design of multi-year expenditure programs can benefit greatly from initiating them in a few sectors and investment programs before such results-based approaches are scaled up and applied to other sectors.

However, several institutional and capacity requirements must be in place before implementing a multi-year planning and investment framework. Required is at least a regular and reliable information flow on behalf of executing agencies, as well as constant updates on the implementation progress of investment projects. As mentioned, however, not all LAC countries have progressed sufficiently in these critical steps of the investment cycle. In addition, evaluating
outcomes as part of results-based management requires robust ex post control and evaluation—particularly the steps in the investment cycle where most countries are trailing behind and progress is uneven. Hence, these new approaches entail both risks and opportunities for public investment. For instance, there is the risk that new systems and procedures for results-based management being put in place will end up constituting—yet again—parallel processes to those for public investment.

With this new impetus to improve the public sector, LAC countries are facing strategic design choices, particularly because several models have been evolving. The two emerging approaches for multi-year planning and budgeting are respectively a “top-down” and a “bottom-up” approach, as follows:

• Uruguay represents a case applying a “top-down” strategy: its existing multiyear budget (used in a five-year, fixed time horizon that is aligned with the administration period of a government) defines a fiscal envelope; the budget has outcome targets that are disaggregated into expenditure programs, then projects are defined that contribute to fulfilling goals of the programs.

• Peru, in turn, represents a “bottom-up” approach: individual projects are defined and then associated with expenditure programs. The programming exercises of individual projects are then aggregated into a national level database. While iterative processes between the sectors and central level entities, particularly the Ministry of Economy and Finance, are increasing, there is no top-down fiscal envelope defined specifically for public investment, nor is there a formal linkage of the public investment program to the country’s Multi-Year Macro Framework, confirming that the main approach for planning and budgeting public investment is from the bottom-up.

Although described in a stylized fashion, these two approaches are likely to keep influencing the future evolution of multi-year budgeting and planning, as well as public investment in the LAC region. These approaches raise fundamental questions for critically assessing whether a “project-by-project” approach or a more comprehensive “program” approach should be followed. Independent of the approach selected by each country, establishing and further strengthening the linkages with public investment will remain a large task at hand.

Summary and Outlook

A review of the main institutional arrangements of public investment management in the LAC region demonstrates impressively that its reform involves an ongoing effort. There are no fixed “models,” but arrangements which are under constant refinement and transformation.

In this process the main risk that has surfaced time and again is the parallel implementation of different procedures and systems. It is clear that public sector reform is not an endeavor that can be planned and implemented with all conditions being present at the same time. In fact, PIM reform has been one of the most challenging areas, given its cross-cutting nature, and it has required individual champions to lead such efforts. Nevertheless, in the medium and long term, isolated
approaches—in systems, planning, and budgeting—have demonstrated their limitations for improved resource management.

This review also confirms that country settings are important determinants for public investment. In line with other research conducted in the scope of this global work and reviews, the LAC countries underscore differences in institutional features and capacities. Aid-dependent, natural resource-rich, advanced economies, demonstrate the large heterogeneity across countries. Necessarily then, progress in strengthening PIM systems is uneven. An assessment of capacities based on the eight-step Rajaram (Rajaram et al. 2010) framework would suggest that a few countries—most notably, Chile—are gradually moving closer to the high-institutional capacity countries of OECD countries like Korea. These countries define the state of the art in public investment today: they apply independent reviews, conduct risk-based approaches, and perform robust ex post evaluations. Recognizing the different starting points and country settings as determining factors, it is clear that other countries in LAC deviate from these institutional features—most often with basic capacity constraints still needing to be addressed.

In the ongoing quest to improve institutional arrangements, more recent developments like results-oriented management can trigger further improvements and provide a stimulus for countries and governments to improve their systems. Addressing the ever-present risks of using new parallel approaches, there is a clear benefit in exerting further demand and pressure on implementing agencies to keep up the pace of reform and improve expenditure efficiency and quality, much needed in the context of the existing and newly emerging infrastructure gaps.

Latin American and Caribbean countries have spent significant and often increasing resources for public investment. There is growing concern that these resources have not translated into commensurate productive assets. However, conviction is gradually emerging that public investment serves the higher purpose of improving public services.

In the future, it would make sense to focus particular attention on further improving and refining intergovernmental and decentralized approaches for PIM provision and service delivery. Given the existing infrastructure gaps across urban and rural areas, a territorially differentiated approach would be warranted in many country cases.

This approach to revamping PIM systems will require further coordination of responsibilities across levels of government in all steps of the public investment cycle. It will also require paying increasing attention to fiscal equalization in order to address the existing and possibly widening disparities in fiscal capacities, in costs of service provision, and in the needs of the population.

Specific approaches to equalizing public investment expenditures in light of uneven spending levels across the different jurisdictions in countries need to be debated further, given potentially competing objectives. On the one hand, public investment serves larger economic objectives like regional development, but on the other hand there are local service delivery objectives, and both goals need to be balanced. In addition, in some settings intergovernmental PIM
will benefit from differentiation and targeting of policies with the aim to apply them in an asymmetric fashion, tailored to where the needs are greatest.
Notes

1. The definition of “public Investment” is not standard across countries, particularly with regard to public corporations, which are excluded by the IMF standard definition.

2. However, there are quite significant variations in the importance of the public investment compared to private-sector investments. In countries like Brazil or Chile it is the private sector that invests the most (in these cases, public investment constitutes merely around 10 percent of total investment), whereas, in Bolivia and Venezuela, public investment constitutes nearly 50 percent of total investment.

3. The use of independent reviews (Step 3) is applied consistently only in Chile; the planning ministry MIDEPLAN is instituting a review mechanism for complex projects based on factors such as project size, but more importantly, it is creating specialized treatment for projects with doubtful impacts and outcomes. Argentina is also starting to develop independent evaluations for large projects—those not conducted by the finance ministry—and hence would assure neutrality in the appraisal.

4. Chile has differentiated evaluations in two steps (Arancibia and Biletska 2009): (1) the first is a simplified ex post evaluation of the execution of a sample of representative of the investment initiatives completed during the past two years. This process entails evaluation of total cost, deadline for execution, final product, and compliance with procedures and schedules. (2) The second stage is an in-depth ex post evaluation of specific projects undertaken on-site where data on the operations are available. In line with broader performance orientation, the Government is reporting to Congress on programs (instead of individual projects). Other countries are starting to emphasize ex post evaluation. Peru is just starting to develop new methodologies; in 2010 the Ministry of Economy and Finance started an ambitious evaluation methodology comprising four elements: an evaluation of completion, ex post follow-up, evaluation of results, and impact study.

5. About half of subnational governments—approximately 800 out of a total of 1800 entities—are formally part of the SNIP system, which obliges them to follow national standards in the whole investment cycle (from appraisal to ex post evaluation).

6. A useful example are the contrats plan region used in France, which establish planning and coordination of investment in a rolling, multi-year fashion.

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