LIBYA

Managing Public Investment After the Revolution: Background, Activities, Results and Proposals

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Programming and Managing Public Investment After the Revolution: Background, Activities, Results and Proposals for FY2015-17

1. *This report is intended to provide in one single document the background, principal recent and current World Bank activities and the proposed program of technical assistance to the Government in the area of public investment programming and management in post-revolution Libya*. Aside from the convenience – both for the Bank and other international partners -- of a synthesis of all major assessments and advice provided by the Bank in this central area of public sector management, this report shows the substantial continuity of diagnosis and assistance from the immediate aftermath of the Revolution through mid-2014. The first section recounts the early activities and, against that background, the second section summarizes the activities conducted and initial results achieved during FY2014. The concluding section lists the preliminary agreements with the Government on how to build on those initial results with complementary activities and deepening of a number of initiatives, specifically during FY2015 and with general indications for the subsequent years. The text of the report is limited to a summary of key issues and recommendations, with full details provided in the several annexes.

A. Background

2. ***The general context***

3. *Libya has never in its history possessed the basic requirements of good governance and efficient management of the public sector*. Following a colonial period that left behind none of the institutions needed for government responsiveness and effectiveness, the country became independent 62 years ago under a semi-feudal monarchy. The monarchy was replaced 45 years ago by an authoritarian and repressive regime dependent on personal whim and characterized by organizational upheaval as tactic of control, waste on a gigantic scale and bizarre ruling practices – with tribal "playoff/payoff" as the only coherent governing theme. Consequently, the reciprocal trust that holds a national society together and enables the cooperation essential for a functioning governance and public management apparatus has never developed in Libya. The vacuum was filled by a complex configuration of extended family, tribal, regional and localized loyalties.

4. *Removal of the dictator and dismantling of his regime through the Revolution of 2011 could not in and of itself lead to good governance*. There is little experience in Libya of peaceful dispute resolution and compromise, and no culture of efficiency or habits of accountability. As one official stated to the Bank team: "It used to be that one man spoke and everyone had to listen; now everyone speaks and no one listens".

5. *The political uncertainty and security difficulties in Libya are a grave problem, outside the control of the Bank, but constructive assistance is possible*. First, these difficulties are not necessarily a major constraint to providing advice and support to develop the basic capacity to perform the core functions of government, with some accountability, transparency, and minimally adequate functioning of the rule of law. Moreover, systemic improvements that are initiated in the immediate future are likely to come on stream at a time when political stability is hopefully restored -- thus preventing a dangerous hiatus at that time, which might in itself cause a resurgence of conflict and instability. Finally, such improvements can themselves potentially help produce stability, especially by strengthening intra-government coordination and enabling the provision of "quick wins" in social services and the resumption of public investment on a new and efficient basis.

2. ***Public investment management assessments prior to FY2014***

3. Immediately after the fall of the Qaddafi regime, the World Bank compiled a macro-oriented brief on public expenditure, which emphasized among other things the need to assess public investment management processes. [1] Shortly thereafter, the World Bank assessed the public financial management (PFM) system, in cooperation with the IMF. Two joint Bank-Fund missions took place in January and March 2012, to take stock of the strengths and weaknesses of the PFM systems, mechanisms and procedures, and recommend accordingly. [2]

4. A first broad diagnosis of the state of the public investment management (PIM) system was conducted by the World Bank in April 2012 shortly after the joint PFM missions with the IMF. The Bank mission concluded that the PIM system was in a state of severe disrepair, and identified a number of broad technical assistance possibilities to strengthen the programming and management of public investment -- commensurate with the administrative capacity realities of Libya and the lessons of experience in the sequencing of reforms. [3] These recommendations were consistent with the joint Bank-IMF PFM assessment, especially concerning the need of

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[1] *Public Expenditure Policies*, prepared by Ibrahim Al-Ghelaiqah and Jorge Thompson Araujo, Oct 2011.

[2] See *Libya: Public Financial Management Reform Priorities in the New Environment*, World Bank and International Monetary Fund. Washington, DC. March 2012.

[3] See Jack Diamond, *Sequencing Public Financial Management Reforms.* IMF. 2013.

cooperation between the ministries of finance and planning and the priority of an inventory and review of uncompleted investment projects. The Interim Government requested World Bank technical assistance and the Bank agreed to do so, while emphasizing that several of the requisite tasks could be equally well performed by other external partners, directly or in cooperation with the Bank.

5. The April 2012 mission recommendations are shown in Annex 1. In brief summary, the main *findings* were as follows:

- The organizational arrangements for public investment are confused, opaque and inefficient.

- Under the previous regime, organizational changes affecting the public finance and planning functions, as well as the main line ministries, were frequent, arbitrary, and typically motivated by considerations of political and personal control.

- There are no consistent and uniform guidelines of project preparation and appraisal in Libya.

- There are procedures and rules for project execution and management in Libya, but they are not uniform nor are they consistently applied.

- There is no programming of public investment at all nor, consequently, minimally adequate integration in the budget process.

6. Accordingly, the broad *recommendations* were that:

- Short-term technical assistance is critical to a rationalization and major simplification of the organizational arrangements for public investment, grounded on good international practice but systematically adapted to the realities and circumstances of the country.

- Two major opportunities exist for technical assistance to improve public investment project preparation and selection: (i) assistance to help formulate sector strategies or improve those sector strategies which have been formulated (strategies with should guide project selection); and (ii) assistance to prepare uniform guidelines and rules for the preparation and appraisal of public investment projects.

- Inadequate project management can be remedied through a rationalization and modernization of existing procedures for project execution and management, provided that adequate enforcement is assured at the same time.

- On public investment programming, the essential first step is to assemble a comprehensive investment project database.

- At a later stage, advice can be provided on how to introduce a rolling medium-term PIP process (simple and rudimentary at first), and for a better integration of capital with recurrent expenditure budgeting.

7. Owing to the subsequent political instability in Libya, these recommendations (as well as opportunities for technical assistance and capacity development in other fields) could not be followed through by the Government. Based on the broad program sketched out in April 2012, the dialogue on public investment management was resumed in September 2013, giving rise to the first active phase of Bank technical assistance on PIM. This assistance was delivered within FY2014 with financing by an SPF Transitional Grant (see Annex 2 for details), and had three major components:

- *Diagnose the PIM system* – expanding on the initial broad assessment of April 2012 by using the World Bank "drill-down" indicator set

- *Review the inventory of "legacy projects"* launched before the Revolution and not completed as of end-2013.

- *Develop guidelines* on the standards, methods and procedures involved in preparing and appraising investment projects, for public investment programming, and for better budgetary integration of capital with current expenditures.

8. The next section of this report describes the activities conducted in FY2014 under these three components and their preliminary results, in addition to certain other related activities requested by the Government (e.g., Bank comments on draft terms-of-reference for the review and updating of major investment projects). The final section C. outlines the initial agreement with the Government of Libya on the advisory activities to be conducted by the World Bank in FY2015 and indications for the subsequent two years.

B. Technical Assistance Activities in PIM During FY 2014

9. Three Bank missions took place in 2014, respectively in January, March and early June. In addition, the two resident experts (Michael Schaeffer and Wesal Ashur) gave continuous support and advice to the Government, among other things in the areas covered by the PIM technical assistance program. [4]

1. The Drill-Down Diagnostic of Public Investment Management in Libya

10. The diagnosis of the public investment management system against the World Bank drill-down indicator set was conducted during December 2013-March 2014, following the framework developed by the World Bank [5] and based on a review of relevant documents, semi-structured interviews of government officials and written responses by the MoP to a questionnaire.

11. **The assessment is negative**, with ratings ranging from D, indicating non-existent element of the PIM system, to a highest of C-, which still indicates severely substandard performance. This is not surprising, in light of the decades of haphazard economic management and failure to build adequate institutions. Table 1 below provides a summary of the ratings in the core PIM categories. Annex 3 presents the full diagnostic, which compares the desirable features of a well-functioning PIM system with the current status of the PIM in Libya, including the table that rates 28 separate indicators.

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[4] A third resident expert, Ahmed Sawalem, was recruited in April 2014, primarily to support the Bank assistance to the Prime Minister's office but also with responsibilities in the areas of planning and PIM.

[5] Rajaram, A., T. Minh Le, J. Brumby and N. Biletska (2010), "A Diagnostic Framework for Assessing Public Investment Management", World Bank Policy Research Working Paper No. 5397, Washington D.C.

Table 1.
Libya: Summary of Ratings of Public Investment Management Stages

Stage	Rating
1. Guidance and preliminary screening	C-
2. Formal project appraisal	D+
3. Independent review of appraisal	D+
4. Project selection and budgeting	C-
5. Project implementation	C-
6. Adjustment for changes in project circumstances	C-
7. Facility operation	C-
8. Ex post evaluation	D

2. The legacy projects/contracts

12. *Under the previous regime, hundreds of investment projects were launched before February 15, 2011.* The Bank mission of April 2012 emphasized the importance of reviewing the overhang of these pre-revolution "legacy" projects. At the request of the Government of Libya, the World Bank has provided advice on all aspects of the scope, conduct, criteria and timing of the review, beginning with formulation of a proposal for the approach, parameters, modalities and timing of the exercise. This proposal was submitted for the consideration of the Libyan government in December 2013 and endorsed in its general lines subsequently.

13. *The legacy projects had been designed and launched under completely different economic and political circumstances*. Further, the initial cost estimates have been largely superseded by events, and works and assets are likely to have suffered deterioration. *The presumption should therefore be that these projects should be discontinued unless expressly demonstrated to the contrary.* [6]

14. *Budgetary resources should therefore be concentrated on selected projects with the highest potential for early, successful, and impactful completion.* Moreover, the very low post-revolution investment execution rate of only about 30% demonstrates the limits to actual investment spending in 2014 and the medium term. Substantial waste and inefficiency would result from distributing limited execution capacity across a large number of projects, some in difficult areas. The consequence would be not only that low priority projects would receive some funding but, more damaging, that potentially valuable projects would not achieve their objectives owing to inadequate execution and dispersal of policy attention.

15. *The burden of proof in the review of projects should rest on whether to complete a particular project rather than on whether to exclude it from public funding***.** This "zero-based" review is a one-time exercise, and would be carried out concurrently with the initial phase of a longer-term process to build the procedures, systems and institutions for programming, evaluation, funding and monitoring of investments.

Scope of the review

16. The first stage of the review focuses on legacy projects in physical infrastructure – and primarily transport and telecom, water supply and sanitation, urban development

[6] For different reasons, a similar approach was adopted in Guinea in 2011, to deal with the corrupt and opaque contracting that had taken place in the extractive resource sector during the interregnum between the earlier military regime and the two years of state capture by a small military clique before the restoration of democracy.

and housing – which together account for the bulk of the amount contracted. (At a later stage, the review could include the remaining legacy public investment projects, following similar procedures with appropriate modifications based on the experience with the first stage.)

Potential impact of the review

17. When completed, the review is expected to produce the following major results:

- mitigate the risk of wasting resources on inappropriate or obsolete projects and the risk of corruption;
- produce a positive impact on government credibility, predictability and accountability, through its transparent and credible handling of the overhang of legacy projects;
- quantify the aggregate financial implications for the remainder of 2014 and for the budgets of 2016 and 2016;
- establish the basis for an efficient and sustainable resumption of public investment expenditure, in part through the creation of a comprehensive investment project database to be regularly updated and maintained; and
- open up opportunities for constructive and mutually beneficial interaction with subnational government entities and non-government groups, through cooperative and win-win arrangements for investment project execution.

18. The experience gained through the review would also be useful to the staff of the Ministry of Planning (MoP), the Ministry of Finance (MoF) and the other concerned ministries as a workbench for the formulation and implementation of new norms and procedures for project appraisal and management, for investment planning and execution, and for modalities for improved inter-ministerial cooperation within the Government of Libya.

The size of the problem

19. *About 16,000 contracts signed by the Government before the Revolution were still open* as of end-2013**,** as re-estimated by the National Audit Bureau. The total face value of these "legacy contracts" is about LYD154 billion (almost $100 billion equivalent), with fewer than 300 contracts accounting for three-quarters of the total value, and the overwhelming majority – 11,775, about 73% -- averaging less than LYD500,000. (See Table 2 for details.) At 1,379, international contracts accounted for 8.6% of number of contracts but 73% of total value. The average value of international contracts, at LYD80 million, was 27 times higher than the LYD2.9 million average value of local contracts. Clearly, the approach to international contract must be different from that applied to local contracts.

20. *A large proportion of contracts, 45%, were on a sole source basis*. It is not possible to cross-reference the information to estimate the incidence of sole-source contracting in contracts of different amounts. Given the large percentage of sole-source

contracts, they must necessarily have been concentrated among the small contracts of a value lower than LYD500,000, but, reportedly, many very large contracts were sole-sourced as well.

21. Finally, *the average age of the legacy contracts may be estimated at between 5-7 years*. Without a detailed analysis, a precise estimate of the average age and age distribution of these legacy contracts is not possible. It is known, however, that the most recent of these contracts were signed in late 2010; the majority were contracted during 2007-2009; and a substantial number are 10 years old or more.

Table 2.
Libya: Legacy Contracts Based on Contracts and Value
(as of January 15, 2014)

	Number of Contracts	Percent	Total face value (LYD million)	Average value (LYD million)
Contracts above LYD50 m.	1,871		146,200	78.1
Contracts between LYD 0.5-50m.	2,380		4,200	1.8
Contracts under LYD 0.5 m.	11,775		3,257	0.3
Totals	**16,026**		**153,657**	**80.2**

Source: Ministry of Planning, National Audit Bureau.

20. *More than two thirds of contracts of a value greater than LYD50 million) are estimated to be for housing, electricity and renewable energy, and utilities***,** with the Ministry of Housing accounting for the largest single share more than one third. (See Table 3.)

Table 3.
Sectoral distribution of "megacontracts"
(Contracts of a value larger than LYD50 million; estimated)

Sectors	Percent
Housing	35
Electricity and Renewable Energy	22
Utilities	14
Railways	9
Higher Education	7
Airports	5
Sports and Youth	2
Roads and Bridges	1
Others	3

Source: Ministry of Planning

21. *The situation is currently being aggravated even further as certain line ministries have been signing new contracts* – in the absence of any decisions on what to do about the old contracts, nor based on any consistent plan or policy, and without clearance or approval by the Ministries of Planning or of Finance. At present, there is no functioning system to prevent the

signing of such contracts without higher clearance. Putting in place such a system would be important and very urgent.

22. *It is financially impossible to complete all of the legacy projects.* As re-estimated by the National Audit Bureau, doing so would entail a total expenditure of almost US$200 billion equivalent) if one includes an estimate of the additional costs from the intervening price increases and those required to remedy the deterioration in the works constructed due to neglect, damage and destruction during the past three years. This sum compares with a 2014 government budget of about $30 billion equivalent, of which only about $8 billion for development spending). Even assuming that, on average, the legacy expenditure could be spread over a period of four years, it would amount to more than six times the intended development spending and absorb more than the entire government budget.

23. *It is also economically undesirable to attempt to do so, and only a few selected priority projects should be restarted and completed.* The projects under which the legacy contracts were signed had been launched by the previous regime under completely different economic and political circumstances. Many of the largest ones had been selected to meet specific personal, patronage or internal security objectives of the old regime; only a few projects had been designed and appraised in a manner to meet the minimum requirements of good practice; several are no longer considered valid, owing to the major changes in priorities in the different regions; and in any event the very limited implementation capacity and the security difficulties in certain areas mean that an attempt to restart a large number of projects would likely result only in inefficient execution of most of them.

24. The two major issues are therefore: (i) which few key priority projects should be restarted for early completion; and (ii) what to do about the outstanding contractual claims and other charges related to the vast majority of projects that will be delayed or scrapped altogether.

Selection of priority projects

25. *Concerning the selection of priority projects, a proposal submitted by the World Bank before the January mission was found broadly acceptable by the Government.* The full proposal is at Annex 4. While not necessarily following all details, the validity of the criteria proposed and of the basic elements of the proposal was reconfirmed in June, and mainly, to reiterate:

- demanding proof of why certain projects/contracts should be completed, and not proof of why they should be shelved;

- focusing expenditure on a few projects of major economic and social priority, and in a favorable execution environment;

- placing projects/contracts in priority groups rather than attempting to rank them individually; and

- not starting new projects or signing large contracts until the review of the major legacy contracts is completed (with very few individual exceptions to be individually approved by the Ministry of Planning and/or the Ministry of Finance). [7]

25. It is important to stress the urgency of this review and avoid analysis paralysis, as the objective is not only to halt the hemorrhage of public money on wasteful or useless activities but also to provide the space and conditions for restarting public investment on a new and more efficient basis. [8]

Dealing with the "contractual overhang"

26. *Concerning the second issue, substantial charges continue to be incurred by the Government*, in connection with the issue of letters of credit and various guarantees on pre-2011 contracts (about LYD90 million annually in LC fees alone). Various considerations have been advanced by the Government as pertinent to this issue:

- a revolution resulting in total regime change ranks at the top of recognized legal grounds to recur to the force majeure clause included or inherent in any contractual agreement;

- there have been major material changes in circumstances (such as intervening input price changes and probable deterioration of works);

- some contracts concluded before February 2011 were not signed by proper authority;

- some contracts were vitiated by corrupt or illegal practices of different sorts;

- the extreme administrative instability under the old regime, with ministries created and dissolved only to be created again, generated confusion and grave dilution of accountability, affecting among other things the contracting process; and,

- the continuing charges under old contracts rarely correspond to the provision of services of current worth to the government or the economy.

26**.** *The financial bleeding be stopped as soon as possible, but the complex and delicate financial issues and legal obligations must be addressed carefully***,** with specialized technical advice, and preferably in amicable cooperation with the parties concerned. [9] A review in detail of each of the almost 15,000 contracts would be very costly and extremely time-consuming, and would thus allow the hemorrhage to continue. The Bank therefore

[7] Beyond the availability of funding, the operationalization of this general approach must rest on a variety of political, regional, social, security factors – which the Ministry of Planning is best equipped to consider.

[8] A high-level Committee chaired by the Minister of Housing and including the Ministers of Planning, Finance, Transportation, and Health was established by a decree of 30 December 2013, to review the entire situation in consultation with the sectors concerned, propose a separate budget for the priority projects, and coordinate with the appropriate authorities to make the necessary arrangements for financial settlements to ensure that no claims will raised against the state. The Committee was instructed to report to the Cabinet by January 31, 2014. The Committee never met.

[9] The Bank may consider providing technical advice on the process and criteria, of the Government should request, but cannot be involved in individual decisions or contractual matters.

recommended, and the Government accepted, a more expedient and efficient approach, along the following lines:

- Contracts related to the priority projects to be continued or restarted would be reviewed by an independent firm and revalidated, canceled or renegotiated as warranted by the results of the review. Pending the conclusions of these reviews, an interim and time-bound understanding with the contractors concerned would be reached -- thus permitting the works under the project to be restarted as a matter of urgency and to be completed as soon as technically and financially possible.

- The execution of contracts under all other projects would be placed in suspense, [10] along with all related fees, charges and claims, pending satisfactory documentation of their validity and regularity, to be presented by the contractor(s) concerned within a specified period of time. It should be stressed that this would not constitute cancellation of the contracts, but merely placing their execution in temporary abeyance pending a review of the documentation and information to be provided by the contractors. If such documentation is provided, a final mutually agreed settlement would be reached. Absent such documentation, at the end of the period the contract would be canceled and all guarantees, liabilities and claims under the contract would be null and void. The process should be contracted out to recognized international firm(s), with general oversight by the National Audit Bureau.

3. Public investment procedures and processes

Public investment: A post-conflict perspective

27. Investment priorities must be determined somewhat differently in the immediate aftermath of conflict, as in Libya, than in a stable situation where most projects should be appraised and selected based on their consistency with sector strategy and economic criteria. Investment decisions in Libya, as in any post-conflict situation, ought to *also* be consistent with the need to support or at least not undermine the emerging political settlement. Investment is the category of expenditure where both the risks and the opportunities for supporting a durable political settlement are especially high. [11] Moreover, the profile of public investment will depend, among other things, on the evolution of the political process, and the types of projects that are launched will change as political and security consolidation

[10] The Government may consider to exempt contracts to small and medium Libyan firms, for example by continuing payments under contracts of a face value lower than LYD one million.
[11] On this and related issues, see *Rebuilding Core Government Functions in the Immediate Aftermath of Conflict: Key Issues and Priorities*, United Nations and World Bank, *forthcoming* in 2014. (Final draft available on request from PRMPS.)

proceeds. In Libya, this is especially relevant to the selection of the few large projects that are to be restarted and completed out of the thousands of legacy projects.

28. This reality does not at all imply a free-for-all abandonment of investment rules and criteria, but does require making distinctions between projects that must be identified and executed under special modalities suitable to their political/social objectives; other projects tailored to humanitarian or damage-control goals; and the majority of projects that must meet the standard rules of economic appraisal, readiness for implementation, monitoring, execution and evaluation.

29. However, is it essential to stress that legitimate political, emergency and security goals in Libya can be achieved in an efficient manner. Just because the goals of a project may not be strictly economic is not an excuse for failing to identify the activities, or project variants, that meet those goals most effectively *and* are conducive to economic recovery and development. At the same time, it is important to sound a strong warning about the risk of "white elephant" projects -- very costly, ideological "prestige" projects with large future expenditure requirements and few demonstrable economic benefits. There are several examples of such projects in pre-revolution Libya. Because once such a project is conceived the pressures from particularistic interests make it very difficult to stop it, it is important to set up "early warning" technical and political mechanisms, and these mechanisms must be built into the project appraisal and selection procedures.

Moving to more efficient public investment: Project procedures and budgeting

30. The political dimension notwithstanding, *the lack of appropriate guidelines, project appraisal and selection procedures, and lack of integration with the overall budget adversely impact the efficiency of development expenditure in Libya.* The absence of an overarching strategic framework creates an environment where there is no systematic linkage of projects to national visions. As such, projects are implemented without guidance of achieving clear national and sector goals – regardless of whether these goals are strictly economic or also social and political.

31. Most importantly, a formal process for project preparation should be introduced, including screening of project proposals (normally originating from the line ministries and to be reviewed by the Ministry of Planning), to ensure that the proposed projects are consistent with the strategic goals of government, and meet the budget classification rules for inclusion as investment rather than recurrent expenditure. Among other advantages, this first-level screening would ensure that resources are not wasted in detailed appraisal of projects that do not merit inclusion in the budget.

32. *A key problem specific to Libya is that, when deciding on investment expenditures, the Government currently deals with individual contracts, not with projects.* A contract is an agreement to provide inputs that contribute to create physical assets but does not usually

cover all inputs and activities required for producing an identifiable output. A project is a set of interrelated activities -- usually covered by contracts -- which aims at producing an identifiable output that will contribute to delivering a public service. These activities should be considered together and be accepted or rejected as a set. Failing to do so is highly likely to

result in incomplete, partial or disconnected projects, and thus in wasting government moneys without achieving the purpose of expenditure. (For instance, a housing project involves building the structures, ensuring connections to water and sewage, providing for adequate access, etc. These activities may be implemented through various contracts, but they are inter-dependent and are all required to make the project actually provide usable housing.) Therefore, Government decisions to halt, complete, or extend legacy contracts (as discussed in the next section) must be placed within the analysis of the project to which they relate.

33. *All large projects should be selected on the basis of national priorities and objectives, and should not be appraised in a vacuum.* Because investment projects should aim at implementing government policies, they must be consistent with the overall government goals and sector programs. A program is a set of projects aimed at a common policy objective (e.g., a program covering several airports within the country). Ideally, a good public investment programming process should ensure that policies drive programs, programs in turn drive projects, and that the best projects to meet the objective have been selected. Only then should the contracting process be designed and launched. The right sequencing of decisions and design of linkages between the program-project preparation process and the execution of projects are essential.

34. *It is important to place investment programming within a multi-year perspective*. While capital expenditures should always be authorized through the annual budget, most investment projects are multiannual and have a forward fiscal impact. The sustainability of the overall investment program should be assessed, by reviewing the annual forward costs of investment projects. The aim is to develop a rolling public investment program, both to provide the framework for prioritizing projects and to ensure the consistency of the program with the macroeconomic prospects and constraints.

35. The above aim and many other difficult, capacity-intensive and long-gestation measures are needed to achieve a well-functioning investment programming system in Libya. Two initial measures can be taken in the immediate future, however:

- *Move away from a "contract mentality" to a "program and project" mentality*, by regrouping past contracts into sets of contracts coherent with the underlying projects to which they relate (and cancel contracts or add new ones as needed. The MoP has already begun a process of contracts review in this direction.

- *Begin improving the budgeting of investment expenditure*, by: (i) requesting a statement of how the project fits the sector objectives; (ii) *ensuring* that all new project proposals from line ministries include an estimate of total cost and the annual expenditures, and budget the annual slice of the total cost. [12]

The project cycle

[12] This requirement is already included in the new MoP circular on development expenditure proposals, but has not been generally complied with. Its enforcement, with strong support from the Cabinet, is essential in order to begin moving toward an orderly and efficient investment programming and management system in Libya.

36. The project cycle includes several steps, from project identification to project implementation, including among others the preparation of feasibility studies and decisions to launch the project. At key steps of the project cycle, a project should be screened, notably to assess whether it fits the national and sector strategies, whether it is the most cost-effective option to meet its objectives and whether its future costs are sustainable. Line ministries should be responsible for preparing projects, but the feasibility studies of large projects should be submitted to an independent review and a pre-approval procedure conducted by the ministry of Planning (MoP).

Recommendations

37. The main recommendations are elaborated in detail in Annex 5 and summarized below:

- To support the project preparation process and decision making standard project profile forms should be completed for each project (or group of "small" projects). Such project profile forms should provide key data on the project, including among others project objectives, project costs and project implementation arrangements. These data should be registered in a project data base.

- Decisions to fund projects and to launch new projects should be taken within the budget preparation cycle. To ensure effective prioritization of projects, the development budget preparation process should be streamlined in the following directions.

- Effective feedback from budget execution to budget preparation is required to take into account the lessons from actual project implementation when preparing the next budget.

- Strategic statements should be prepared and project narratives should explain how the project fit the sector strategy.

- Projects should comply with the medium-term macro-economic prospects. When preparing the budget, one should assess whether the forward costs of completing the projects are sustainable. (At a later stage, the future recurrent costs should also be considered).

- To encourage prioritization within line ministries, budget preparation should be framed by expenditure ceilings given to ministries. These ceilings should be prepared in conformity with financial constraints and with government policy objectives.

- Recurrent and investment budget preparation should be better coordinated. All chapters of the budget should be reviewed together during preparation to ensure that the economic composition of the budget within each sector is coherent. Initial step could consist of (i) issuing a common budget circular for both the recurrent and the development budgets; and (ii) reviewing line ministries' budget requests for the

recurrent and the development budget together during the joint MoF-MoP-line ministries budgetary conferences.

38. Also priority is to establish a robust project execution monitoring system, to manage the execution of the investment budget and provide the next budget with feedback from project execution. Progress in preparing an investment budget would be difficult without reliable information on implementation. Setting up such a monitoring system will require a study to identify actions and procedures to ensure the reliability and timeliness of the reported data.

39. The project monitoring system should produce:

- Monthly reports on payments.
- Biannual reports on legal commitments (i.e., new contracts), including multi-year commitments, which should be available three weeks after the end of each reporting period.
- Biannual reporting of the physical implementation of large projects.

40. Finally, two other issues are important:

- Training is needed in most PIM areas. In every sectors priority should be given to sector planning, socio-economic analysis of projects, and basic PFM procedures. Such training should involve staff of the planning department of the line ministries and staff of the Ministry of Planning. A training plan should be prepared.
- Finally, responsibilities in PIM in Libya are both fragmented and duplicated. Streamlined organizational arrangements should be defined and implemented. In general, the objective is to place the investment coordination function under the MoP, as single entity, while project preparation, appraisal and implementation should be entirely under the responsibility of the line ministries concerned.

C. Proposed program for FY2015-17

41. Public investment management, as a central component of public sector management, is part and parcel of the broad governance agenda – and guided by the four governance pillars of accountability, transparency, rule compliance and participation. The Bank should continue to provide advice to the Government, through the Ministry of Planning, in all major aspects of public investment programming and management, to move toward a sound, accountable and sustainable set of procedures and systems, fully integrated into the overall budget process.

42. A workshop on PIM and related issues was held in Tunis in June 2014 between the Bank team and a Libyan delegation headed by Dr Al-Tounsi, Deputy Minister of Planning, and including the Director of Treasury, the Vice-Chair of the Audit Bureau, and several high technical officials of the audit bureau, ministries of planning and finance, and ministry of housing. The objectives were to (i) assess the status of current Bank support initiatives in the PIM area and on that basis to (ii) define priorities and opportunities for Bank technical advice to the Government in FY2015 and beyond.

1. The priority areas

43. The Libyan delegation requested Bank technical advice/support in the following areas of public investment programming and management, most of which are continuation or deepening of activities carried out in FY2014:

- *Continued Bank support for the handling of the legacy projects/contracts***.** The central concern of the authorities remains the handling of the legacy contracts, now re-estimated by the Audit Bureau to number even more than the 15,000 initially estimated, and for a higher total amount of almost $100 billion. The Libyan delegation again endorsed the approach proposed earlier by the Bank for reconstructing from these contracts the corresponding projects**;** selecting the few projects to be restarted and completed; disposing of the remainder; and handling the associated liabilities – without, of course, the Bank taking any direct role in the selection of individual priority projects or the disposition of specific contractual liabilities.

- *Continued Bank advice on the draft TORs and procedures for review of the largest contracts,* along the lines of the review of the contracts for the airports program, on which the Bank team commented in March 2014 – again, without taking any role in the selection of consultants or the performance of the reviews.

- *Draft a manual for the preparation, appraisal, implementation, financial and physical reporting, monitoring and evaluation of investment projects,* consistent with good international practice but adapted to the special circumstances of Libya. The Bank team has already developed in April/May the action plan for this task, which was presented at the June workshop in Tunis. This task would include preparation of a plan for the rollout of the implementation of this manual, to begin in late FY2015 and be completed thereafter.

- *Hold a workshop on basic PIM concepts and on preparation of the investment budget*, with participation by the relevant officials of **all** line ministries and timed to help in the response to the development budget circular. The law calls for the circular to be issued in June, but in the recent past it has had to be reissued at a later time owing to lack of response. The workshop could therefore be timed to coincide with the reissue of the circular, and held in the context of a PIM mission to Tripoli in late September -- circumstances permitting.

- *Advice on how to minimize waste and misallocation of the large investment budget devolved to municipalities* -- in the broader context of fiscal decentralization. This is a new and major challenge, especially in light of the disastrous experience with a similar large financial devolution in 2007-08. If the request is accepted, it will require mobilizing a combination of PIM and local government expertise.

- *Advice on improving the planning law*. This is also a new request, which the Bank is well placed to meet directly, at fairly low cost.

- *Prepare an action plan for implementing the above.* This action plan is proposed in the next and concluding section of the report. The plan is subdivided between short-term actions to be implemented in the remainder of 2014 and in 2015 and other actions which require more time for effective implementation and would be initiated during FY2015 for completion by or about mid-2017.)

2. *Proposed action plan for strengthening PIM*

44. *Short-term actions* (to be implemented by June 2015)

ACTIVITIES	RESPONSIBILITY
Guidelines on public investment project programming	
Prepare guidelines on investment project preparation, to cover among others the following elements: - Definition of projects, programs - Guidance for brief strategic statements - Basic requirements for appraising projects, examples of these requirements for some sectors - Definition of procedure for pre-approving projects - Standard project profile - More detailed requirements for Chapter 3 budget requests, which should include, among other requirements, annual forward costs projections	MoP
Other	
Define in a legal text a new budget preparation calendar	MoF-MoP
Issue a common budget circular for both recurrent and development expenditure	MoF-MoP
Prepare an action plan for a reliable and timely financial and physical monitoring	MoP
Prepare an action plan for targeted training	MoP

45. *Other actions*

ACTIVITIES	RESPONSIBILITY	PERIOD
Project preparation and screening		
For investment programming, budgeting and monitoring, deal with projects and their components instead of dealing with individual contracts	MoP, line ministries	2014-2015
Prepare for each sector brief strategic statements	Line ministries plan established by MoP	2014-2017
Define and improve progressively sector by sector requirements for appraising projects	Line ministries and MoP in coordination	2015-2017
Set up project pre-approval procedure for large projects	Legal text to be drafted by the MoP.	2015
Define standard project profile	MoP	2014-2015
Set up a central project data base	MoP	2015-2016
Roll over line ministries the project data base	Line ministries-MoP	From 2018

Investment project selection and budgeting		
Define legally a new budget preparation calendar	MoP and MoF	2015
Issue a common budget circular for both recurrent and development expenditure	MoF-MoP	2015
Define improved requirements for chapter 3 budget requests, which should include, among other requirements, annual forward costs projections	MoP	2015
Prepare and notify development expenditure ceilings for each ministry	MoP	2015
Conduct for each ministry joint recurrent and development budgets budgetary conference	MoF-MoP	2015
Include in the budget documents an investment annex that will show for each project (or group of "small" projects) the total costs and the annual forward costs	MoP	2015
Investment projects monitoring		
Prepare an action plan for a reliable and timely financial and physical monitoring	MoP	2014-2015
Implement the monitoring action plan	MoP-line ministries	2015-2016
Training		
Prepare an action plan for training	MoP	2015
Implement the training action plan	MoP	From 2016
Guidelines on investment programming		
Prepare guidelines on public investment programming (see above)	MoP	2014-2015

3. Financing the PIM technical assistance program

46. In conclusion, the proposed activities relate to a coherent program, separately from the question of the sources of financing. Indeed, it is hoped that other development partners will be interested in either contributing to the financing required for this program and/or participating directly in cooperative manner with the World Bank. These possibilities are not defined here and are to be addressed in other ways and venues by Bank management and the Government of Libya. In light of Libya's income level, however, it is generally expected that beyond FY2015 World Bank advisory services will be rendered on a reimbursable basis.

Annex 1

April 2012 Outline of PIM Technical Assistance Possibilities

1. The findings and recommendations below are consistent with the joint IMF-World Bank assessment of public financial management in Libya during the January 2012 mission—and particularly the recommendations on cooperation between the ministries of finance and planning, the inventory and review of uncompleted investment projects, and the strengthening of a public investment management capacity. While the World Bank can consider providing such technical assistance (if the Government so requests), certain of the tasks listed below could be equally well performed by other external partners. This note is intended to provide a sufficient basis for the elaboration of detailed terms-of-reference for each of these tasks.

A. The institutional and organizational framework for public investment in Libya

2. ***The present organizational arrangements are confused, opaque and inefficient.*** In every country, certain key planning functions (listed in Annex A) must be exercised at the center of government, to provide guidance, oversight and assistance to the ministries responsible for originating and executing public investment projects, and to assure that public investment as a whole is consistent with development strategy; integrated with the budget process; and fully financed at the appropriate terms. Such functions can be exercised through a variety of arrangements, because the important issue is one of coordination of processes and inter-entity cooperation rather than the choice of a specific organizational architecture. But whatever the organizational choice, the arrangements must assure both a clear division of labor among the government entities concerned and provisions for coordination and cooperation among them. In Libya, the post-Revolutionary government has decided to exercise these functions through a ministry of planning. Having done so, it is necessary to ask whether the current organizational arrangements provide the clarity, accountability and transparency necessary for the efficient exercise of the planning functions. The answer is no.

3. ***Under the previous regime, organizational changes were frequent, arbitrary, and typically motivated by considerations of political and personal control***. In particular, the Ministry of Planning (MoP) was merged in 2008 into the Ministry of Finance (MoF) but, violating the principle of clear accountability, the responsibility for preparing and appraising investment projects was subsequently assigned to a separate Public Projects Authority (PPA), along with the staff formerly assigned to the MoP. After the Revolution, the government decision to reestablish the Ministry of Planning logically implies that the diverse organizations involved in planning and public investment under the previous regime should be either abolished or again subsumed under the new MoP, in a manner and timetable to be decided. Instead, the PPA has

remained separate from the MoP and temporarily been placed under the Ministry of Housing and Infrastructure (MoHI), which is also entrusted with the responsibility to execute most large investment projects--creating multiple functional overlaps as well as a weakness of capacity in the MoP. (Other organizations are also involved in one or another aspect of public investment preparation and implementation.)

4. ***Short-term technical assistance is critical to take stock of the current situation and recommend concerning a full rationalization and major simplification of the organizational arrangements for public investment.*** The aim of such rationalization is to avoid both overlaps and gaps of responsibility, and permit the efficient reallocation of existing staff and capacity. (It is not anticipated that such a review would lead to either an increase or a reduction in employment, except for the possibility of targeted and time-limited external expertise to assist in the transition to a more efficient organizational structure.) Owing to the abundant international experience, such assistance can be provided quickly and could only take a few weeks of time by an experienced consultant. The task is both important and urgent, because clarity of responsibilities and efficient organizational structures are a prerequisite for improving public investment efficiency in the short term and a strengthening of capacity in the long term.

B. Preparing public investment projects

5. ***There are no consistent and uniform guidelines of project preparation and appraisal in Libya.*** Although a sound public investment program (PIP) is more than an assembly of good projects -- as discussed later -- good projects are the foundation of a good public investment program. For a project to deserve inclusion into the PIP, and thus to be financed through the budget, it (i) must be consistent with the relevant sector strategy and (ii) should be prepared and appraised in accordance with established methodologies to assure that it has a satisfactory rate of return in national economic terms.

6. Concerning the first point, the new government has communicated on March 29 its Strategic Plan of Vision-Progress-Needs, which reiterates the Ten Transitional Priorities set on 26 November 2011 and includes strategic goals for the main sectors. Several of the sector strategies, however, need greater specificity in order to provide clear guidance for investment decisions. Concerning the second point, cost-benefit analysis should be carried out when both the benefits and the costs of the proposed project can be quantified; in cases when some of the benefits cannot be quantified, cost-effectiveness criteria should be applied; in all cases, it is necessary to ascertain that the particular design variant chosen is the best of the available alternatives.[13] In the past, some projects

[13] A 2010 evaluation by the World Bank's Independent Evaluation Group has concluded that a major reason for the diminished development impact of Bank-supported projects in recent years has been the decrease in application of cost-benefit analysis and other appropriate methodologies

were prepared and appraised carefully; others superficially; and many large projects were launched without any meaningful preparation at all.

7. Accordingly, there are ***two major opportunities for technical assistance to improve the quality at entry of public investment projects:***

- *Assistance to help formulate sector strategies or improve those sector strategies which have been formulated.* This assistance could take an initial three person-months, with much of the time invested in dialogue with the ministries and agencies directly concerned and with the ministries of planning, finance and economy.

- *Assistance to prepare uniform guidelines and rules for the preparation and appraisal of public investment projects,* based on accepted methodologies and international experience, and suitable to the circumstances and characteristics of Libya. The output of this technical assistance would be a comprehensive manual for project preparation and appraisal, the requirements of which would have to be met before any large project could be considered for inclusion in the PIP. In addition to the application of economic appraisal methodologies, the operational manual would specify the practical and capacity conditions to be fulfilled before an otherwise good project can be considered "mature" and fully ready for implementation, and thus qualify for inclusion in the annual budget. (This last component could be handled through a separate targeted TA, as noted later.) The task could take one person-year, including time for dissemination. The task will be facilitated by the existence of similar project manuals in other countries; however, much of the time must be invested in dialogue and discussion with the main concerned ministries in Libya, to assure that the practices to be recommended are suitable to their circumstances and requirements.

C. Executing and managing public investment projects

8. ***There exist procedures and rules for project execution and management in Libya, but they are not uniform nor consistently applied.*** What is important for the efficiency of public investment is not a high *ex ante* economic rate of return, but a high *ex post* rate of return after the project is completed. The best-prepared project adds little to the country's development if it is badly executed. The two major failures of execution of otherwise good investment projects emerge from (i) inadequate funding on a timely basis and (ii) bad project management. The first failure can be addressed by good budgeting processes, especially by adequate aggregate funding of the capital budget complemented by a realistic cash plan, and requires the gradual improvement of government budget preparation and execution in general.

9. ***Inadequate project management can be remedied through a rationalization and modernization of existing procedures for project execution and***

management. Unlike the case of project preparation, where no uniform procedures exist, in the case of project execution the existing procedures do provide a platform for improvement. Moreover, the MoHI is currently conducting its own review of project management regulations and practices. The technical assistance would strengthen the ongoing process of review by: taking stock of the existing procedures; assess their effectiveness in light of capacity realities; identify inconsistencies and current relevance for the different sectors; evaluate their consistency with procurement standards and regulations; and recommend appropriate modernization. As in the case of project preparation, the output of this technical assistance would be a project execution and management manual, applicable to all major projects but with adaptation to the requirements of each sector. This TA will also take about a year, and can be carried out concurrently with that on project preparation. (It should be conducted separately, however, among other things because the consultants' profiles are different.)

D. Ex post evaluation

10. At a later stage, after project preparation and execution procedures have been prepared and implemented for a sufficient number of large projects, it will become relevant and important to put in place a system and a methodology for the ex post evaluation of the economic and social impact of projects and the achievement of their original objectives. Evaluation is an instrument for continuous improvement, with the lessons of actual experience used to progressively improve the quality at entry and the execution of future projects. As an initial step, short technical assistance of about two person-months should be provided to discuss and formulate the basic criteria of such an evaluation system and methodology – both in general and as specifically applicable to the different economic and social sectors.

E. Strengthening the line ministries

11. Pending the organizational rationalization to be achieved following the first TA activity suggested under section A., the PPA will continue to be responsible for preparing large projects and the MoH for executing them. This is understandable in the short term, in light of the limited capacity of some of the line ministries. It is normal practice, however, for the line ministries to be responsible for executing their own projects and, in due course, the responsibility for executing and managing a specific project ought to rest with the line ministry concerned. In Libya, this will take a long time, sustained efforts and high-level policy support and attention. Starting sometime in 2013, a major TA initiative covering at least the next three years should take place to help the PPA (presumably moved back under the MoP) to devise and begin implementing a program to strengthen the project preparation and appraisal capacity of the line ministries (in conformity with the project preparation manual mentioned above, which will in the meantime have been completed.) In conjunction and in parallel, the MoH should be required to systematically involve the line ministry concerned in the execution of large

projects, as a way to strengthen their role in execution and monitoring and to eventually allow a shift of responsibility to the proper government entity.

12. The Government should evaluate the performance of the MoP and the MoH partly on the basis of their effectiveness in strengthening the capacity of the line ministries, as assessed through feedback from the line ministries themselves. A short and targeted TA task of about one-person month can be envisaged to discuss and formulate ways in which such feedback can be obtained, in reliable and timely fashion.

F. Public investment programming

13. The "first-generation" Public Investment Programs (PIPs) of the 1980s were devoid of both rigor and ownership and were mainly a shopping list to attract aid and investment. By contrast, technical assistance to Libya should be aimed at introducing a rigorous "second-generation" PIP process, which can raise efficiency and promote growth and diversification by bringing investment allocation in line with national policies and sector priorities, embody externalities and regional considerations, and be tightly linked to the annual budget process. If conducted with appropriate participation, the process of PIP preparation can also be important for capacity development—not only in the narrow sense of skills training but also in the more important sense of introducing throughout the government a cost-benefit attitude and a measure of social accountability. These are complex tasks requiring a variety of difficult changes over a sustained period of time, and substantial TA will be needed.

14. The essential first step is technical assistance to ***help assemble a comprehensive investment project database***, building on the review of uncompleted investment projects and formulating procedures and requirements for the regular updating and maintenance of the database, using the simplest information technology suitable for this purpose. (Excel spreadsheets could be sufficient during the initial phase.) The TA for setting up the investment database will take a minimum of 18 person-months (including the initial assistance for the review of the investment overhang itself), and should begin if possible by mid-2012.

15. Concurrently, a 12 person-month TA can help formulate an initial ***rudimentary rolling medium-term PIP process,*** which could be put in place by mid-2013.

16. Concerning the review of uncompleted investment projects, technical assistance can help, but in the context of clear accountabilities within the government. Currently, there is a diffusion of responsibility of the various committees involved with the choice of which projects to complete as priority. The interministerial committee has the clear authority to decide, but one single entity should be designated to conduct all the technical work and advise the interministerial committee accordingly—and be accountable for its work. This entity must have the authority, among other things, to enforce the transmission of information from the line ministries and from the contractor companies.

(The separate review of the legality and legitimacy of the various and diverse pre-war contracts can be conducted concurrently, and subject to very different criteria.)

17. Also, as security and other circumstances permit, targeted TA would be needed to ***help open channels of systematic public feedback*** on investment needs and project implementation—in substantive and statistically reliable ways rather than in the rhetoric of the previous regime.

18. Thereafter, ***formulation of rigorous and substantive public investment programming*** will take at least six person-years of technical assistance over the two-year period 2014-15 and could begin to operate in time for the 2016 budget year. The TA should aim to build processes and capacity to fulfill the following main requirements of a rigorous and sustainable PIP:

- A "rolling" 3/4-year PIP, the first year of which corresponds in effect to the capital portion of the annual government budget.
- No project should be included in any year of the PIP unless its national economic profitability has been demonstrated through sound economic appraisal methods.
- No project should be included in the first year of the PIP unless its financing is certain.
- Strong protections against the birth of "white elephant" projects. Once an inefficient project of very large size is on the drawing board, the bureaucratic dynamics from both the government side and the contractors side make it very difficult to stop the project. For these types of projects, political gatekeeping through the direct involvement of the Council of Ministers must be built in <u>before</u> launching major feasibility studies.
- An agile procurement process is needed to enable managerial efficiency in project implementation while minimizing the opportunities for corruption.
- Financial and physical monitoring of project implementation (respectively, by the MoF and MoP) should be frequent and reliable.
- A realistic procedure and sufficient capacity for reliable estimation of the total cost of investment projects and their recurrent costs after completion is necessary to improve the integration of capital and current expenditure over time.

G. Integrating the investment program with the annual budget process

19. In general, a lasting improvement in the efficiency of public expenditure will require an integration of investment and current expenditure, which will, in turn, depend on (i) a concurrent improvement in the overall process of budget preparation and execution, [14] and (ii) close cooperation between the ministries of planning and finance.

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[14] Competence and responsibility for assisting the progressive improvement of budget preparation is shared by the IMF and the World Bank. In budget execution, the IMF has primary responsibility for assisting in treasury, debt and cash management (normally through its Middle East Technical

(The latter is expected to result, in part, from implementing the recommendations from the technical assistance suggested in section A.) In Libya, improving PFM as a whole entails many other challenges as well, including a strengthening of budgeting capacity throughout the ministries and agencies of government. In the medium and long term, PFM improvements will thus also require improvements in the human and organizational dimensions of public management and particularly in personnel management and training and in information systems. From this vast reform agenda, the following two useful technical assistance opportunities may be singled out for the short term.

20. In most countries, the capital budget includes an element of current expenditure. In some cases, the reasons are legitimate—e.g., the labor costs of an investment project should not be included into the current wage bill of a ministry—because such labor costs are expected to cease when the project is completed and because several government agencies may be involved in one large investment project. In other cases, however, reclassification is done to hide or justify some current expenditure by shifting it into a "development" category. Also, a hybrid investment budget creates opportunities for ministries to include "projects" in the investment budget only in order to obtain additional resources for current expenditure. In Libya, there is evidence that the current expenditure component of Chapter III is greater than would be appropriate, albeit probably not as large as in some other countries (e.g., one third of total "capital" expenditure in Bangladesh). Understating current expenditure and overstating investment expenditure distorts fiscal analysis and the measurement of investment efficiency.

21. Technical assistance would be helpful to ***identify the current expenditures inappropriately included in Chapter III and reclassify them*** in the other budget chapters. The reclassification exercise would cause a transitional inconvenience, and would be costly as well as controversial. Moreover, the procedures of preparation of the current budget should be improved before attempting to move current expenditures from the hybrid capital budget into the current budget. For these reasons, the reclassification exercise in Libya should not begin until 2013. What is urgent is to enact measures to prevent *new* migration of current expenditure and a further expansion of the current expenditure component of Chapter III.

22. It would also be important to ***assure that funds for a new investment project are included in the capital budget only when the entire project is "mature",*** i.e., fully ready for launch--with all required approvals in place, financing assured, and implementation modalities defined. The cost of delaying the launch of a good investment project is in general lower than the cost of rushing its implementation. While this objective cannot be achieved until project preparation has improved substantially and in a sustainable way, the formulation of a "maturity rule" can take place within 2012, and targeted technical

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Assistance Center – METAC), and the Bank in financial controls and audit, which is the subject of the separate paper of the April mission.

assistance could help. [15] (Such assistance should be coordinated with that for the project preparation and appraisal manual.)

[15] Appropriate expertise could come from neighboring Tunisia, which has had such a rule for many years (although not always applied).

SUMMARY OF TECHNICAL ASSISTANCE FOR PLANNING, PUBLIC INVESTMENT AND COORDINATION

AREA	OBJECTIVE	MAIN DELIVERABLE	TA INPUT (Labor time only)	TIMING
A. Organizational arrangements for planning and investment	Simplify/rationalize the structure for coherence and accountability	Recommendations for consolidation of agencies and reallocation of staff	Four weeks	July-Sep. 2012
B. Project preparation and appraisal	1.Strengthen the strategies for the main sectors 2. Improve quality at entry of projects	Revised set of strategies for the main sectors, with greater specificity. Project Preparation and Appraisal Manual	12 weeks 12 months	July-Dec. 2012 Oct 2012-Dec 2013
C. Project execution and management	Achieve the ex ante rate of return, by sound project management, timely funding, and close supervision	Project Execution and Management Manual	12 months	Oct 2012-Dec 2013
D. Ex post evaluation	Learn from experience to improve efficiency	Outline of simple system and evaluation methods	Two months	2013
E.Strengthening the line ministries	Improve line ministry capacity to prepare and execute projects	Formulate capacity-building program and begin implementation. Devise and pre-test a mechanism for feedback by ministries on the role of PPA and MoH in helping build capacity.	18 months Four weeks	2013-2016 Late 2012
F. Public investment programming	Raise overall investment efficiency, improve PFM and promote growth	1. Assemble and maintain full project database, building on review of uncompleted pre-Feb 2011 projects 2. Establish mechanism of systematic public feedback on project needs and execution 3. "Rolling" 3-year public investment programming process, integrated with the budget and reflecting good practices.	18 months 8 weeks 12 months initially Much larger subsequent involvement, amount to be determined but probably at least 6 years	June 2012-Dec 2013 Early 2013 Late 2012-2013 2014-early 2016
G. Budgetary integration	Improve efficiency of public expenditure by better integration of capital-current budgets	1. Reclassify current expenditures incorrectly included in investment budget 2. Define rule and procedures to assure project readiness for implementation	Four weeks Four weeks	Early 2013 Late 2012-early 2013
H. Coordination of technical assistance	Prevent gaps and duplication of free-standing TA, and minimize transaction costs in design and delivery.	Disseminate lessons of experience; assist recruit and train key staff and define operational modalities of D-TAC in MoP	Six months	June 2012-Dec 2013

Annex 2

Proposal for SPF Grant to Finance PIM Advisory Activities

1. **This proposal for "SPF Transitional Grant Financing" seeks to develop a forum for Government of Libya to examine that extent to which various PIM reforms could be developed to achieve sound public investment system practices and the extent to which these are reflected in improved service delivery**. The Libya PIM approach will follow the following core strategic phases:

- **Review Existing Project Inventory:** The Government of Libya (GOL) has an existing stockpile of investment projects. Under this phase, projects will be reviewed and mapped against basic project selection criteria. A basic assessment of project realism relative to resource availability would be used to prioritize the project investment backlog.

- **Diagnosis of Public Investment Management System against the World Bank Drill-down Indicator Set:** A primary diagnostic gap analysis of the actual system relative to a basic (functioning) system will be provided so as to identify structural aspects of the public investment decision and management process(es) that may be weak and in need of attention. A good diagnostic would allow reforms to focus on scarce managerial and technical resources where they may yield the greatest impact (Please see Attachment A).

- **Development of "Public Investment Operational Guidelines":** The objective is to guide government officials and institutions on the basic standards, methods (tools of analysis) and procedures involved in programming and evaluating public investments. Specific objectives can be stated as follows: a) to serve as a common point of reference for the coordination of all public investments (using transparent procedures); b) To elaborate on the laid-out provisions for inclusion of public investment projects/programmes in the development budget at central (at subnational government) levels; c) To enhance the capacity of government officials in the knowledge application of proper technical methods (tools) of economic and financial analyses for public investments; and, d) to provide guidance on the links between public investment and the Public Private Partnerships. This theme will also develop a plan for operationalizing the public investment management operational procedures.

A. Targeted participants

2. **The targeted participants include mid-to-senior level officials from Ministry of Planning, Ministry of Finance, Project Planning Authority and Line Ministries.** First, technical assistance platform serves as a guide to the public sector managers responsible for making public sector investment decisions. This group includes not only project analysts and decision makers within the ministries of planning and finance, but also those employed in the

line ministries, and government departments and agencies that are involved with the formulation, evaluation and implementation of projects.

B. Execution of Mission

3. The modality for providing the assistance and the proposed budget is shown below.

Improving Public Investment Management in Libya: Activities and Budget

Nature	Description	Estimated Budget
Phase I		
Review Existing Project Inventory	Under this phase, projects will be reviewed and mapped against basic project selection criteria.	
Diagnosis of Public Investment Management System against the World Bank Drill-down Indicator Set	A primary diagnostic gap analysis of the actual system relative to a basic (functioning) system will be provided so as to identify structural aspects of the public investment decision and management process(es) that may be weak and in need of attention.	
Development of Public Investment Operational Guidelines	The objective is to guide government officials and institutions on the basic standards, methods (tools of analysis) and procedures involved in programming and evaluating public investments.	
	Subtotal	**$310,952**
Phase II: Workshop Training	A. Basics of Project Management	$40,000
	B. Fundamentals of Project Appraisal	$40,000
	Subtotal	**$80,000**

Annex 3

The PIM Diagnostic

1 Analysis of Core (Eight (8)) PIM Features in Libya: Overview

Stage of Public Investment	Indicators and Dimensions	Findings	Rating
1. Strategic Guidance and Preliminary Screening	Published development strategy or vision statement which has unambiguous authority. Centralized approval by planning or finance ministry (or delegated) for developing proposals/explicit ministry level justification with strategy. Clarity of project objectives in terms of outputs and outcomes. Consideration of alternative approaches to objectives.	▪ No sectoral strategic-plans and no cost of sector strategies (if they exist). ▪ General budget planning is of low quality. ▪ No costing of sector strategies. ▪ MoP is only at the very initial stage of development of a PIP.	C-
2. Formal Project Appraisal	Publicized and transparent guidance, backed by effective training and deployment of staff for project design and appraisal (including stakeholder consultation in project design). Application of guidance in project appraisal.	Project appraisal without an established (or maintained) formal process. MoP has issued multiple guidelines for budget preparation and project selection. Absence of a dedicated set of uniform, centrally publicized, consistent, and transparent guidance for MDAs to carry out ex ante evaluation of financial, economic and social costs/benefits of proposed projects.	D+
3. Independent Review of Appraisal	Independent checks to ensure objectivity and quality of appraisals. Disciplined completion of project appraisals prior to budget. Identifying and maintaining an inventory of appraised projects ranked by priority for budgetary consideration. Clarity of roles between projects which are minor and may be dealt with at the departmental level, and those requiring additional appraisal.	While appraisal completely delegated to MDAs, the independent review function remains missing, compromising the integrity of the project appraisal and exposing appraisal process to the risk of optimism bias.	D+
4. Project Budgeting and Selection	Transparent criteria for selecting projects with reference to policy objectives at ministerial level. Well-structured budget preparation process with scope to integrate investment and recurrent implications of projects. Effective gate-keeping to ensure that only appraised and approved projects are selected for budget financing.	Absence of a consistent approach to project selection and budgeting. Project proposals often selected on an ad-hoc basis with the budget directorate accepting projects which may not necessarily be priority projects. MoP concerns about the persistent problem that MDAs do not adequately budget for infrastructure investments while embarking on projects for which	C-

Stage of Public Investment	Indicators and Dimensions	Findings	Rating
	Ensuring adequate financing for selected projects, including recurrent needs on completion.	there is no provision in their budget.	
5. Project Implementation	Published guidelines for project implementation; Cost-effective implementation through procurement and contracting. Timely implementation in line with guidelines. Timely implementation reports on major projects. Effective budgeting for selected projects.	Absence of central guidelines for project implementation and for cost control. MDAs often fail to prepare and submit to the MoP detailed implementation and procurement plans, simply because such documents are not considered as mandatory for budget allocation. MDAs focus on annual cost control only. The **Public Procurement Act** establishes competitive tendering as the preferred procurement method but fails to curb the continued problems with project delays and cost overrun.	C-
6. Project Adjustment	Active monitoring.	▪ While a formal system for internal and external oversight exists, the timeliness and quality of internal audit reports are uneven across agencies. ▪ The National Audit Bureau lacks resources to conduct performance audit, and project commencement and mid-term construction audits are not conducted. ▪ MDAs not required updating project documents during construction. Project adjustment is left to the discretion of MDAs within their available budgeting.	C-
7. Facility Operation	Asset registry. Facility Operation.	Financial regulations require MDAs to have an inventory of public assets acquired and maintained. This legal provision is not being complied with systematically and consistently.	C-
8. Project Evaluation	Formal institutional arrangements for ex post evaluation of projects/programs with feedback into future project designs.	Government financed capital spending is not subject to formal ex-post evaluation.	D

2 PIM Performance Indicator Set with Links to PEFA

	Area/ Indicator	Relation to Public Expenditure and Financial Accountability (PEFA)
PIM 1	**Aggregate capital expenditure out-turn compared to the original budget**	**PEFA PI-1 Indicator adapted to capital spending**

	Area/ Indicator	Relation to Public Expenditure and Financial Accountability (PEFA)
PIM 2	**Composition of capital expenditure out-turn compared to the original budget**	**PEFA PI-2 Indicator adapted to capital spending**
PIM 3	**Aggregate revenue out-turn compared to the original budget**	**PEFA PI-3 Indicator adapted to include donor budget support (if any)**
PIM 4	**Stock and monitoring of capital expenditure arrears**	**PEFA PI-4 Indicator adapted to capital spending**
PIM 5	**Classification of the budget**	**PEFA PI-5 adapted by addition of project classification**
PIM 6	**Comprehensiveness of the information included in budget documentation**	**PEFA PI-6 changed to focus on capital spending**
PIM 7	**Extent of unreported capital spending**	**PEFA PI-7 adapted to focus on capital spending**
PIM 8	**PIM related intergovernmental fiscal relations**	**PEFA PI-8 adapted to focus on capital spending**
PIM 9	**Management of fiscal risks from capital spending (outside) central government**	**Adaptation of PEFA PI-9**
PIM 10	**Public access to key information on capital spending**	**PEFA PI-10 adapted to focus on capital spending**
PIM 11	**Investment guidance, project development, and preliminary screening**	**Not in PEFA**
PIM 12	**Formal project appraisal**	**Not in PEFA**
PIM 13	**Independent review of appraisal**	**Not in PEFA**
PIM 14	**Orderliness and participation in the annual budget process**	**Same as PEFA PI-11**
PIM 15	**Multi-year perspective in fiscal policy management**	**Adopted from PEFA PI-12**
PIM 16	**Project selection and budgeting**	**Not in PEFA**
PIM 17	**Project Implementation**	**Not in PEFA**
PIM 18	**Predictability in the Availability of Funds for Commitment of Expenditures**	**Same as PEFA PI-6**
PIM 19	**Value for Money in Procurement**	**Same as PEFA PI-19**
PIM 20	**Effectiveness of Internal Controls and Internal Audit of Capital Project Expenditure**	**PEFA PI-20 focused on capital spending**
PIM 21	**Project Adjustment**	**Not in PEFA**
PIM 22	**Facility Operation**	**Not in PEFA**
PIM 23	**Basic Completion Review and**	**Not in PEFA**

	Area/ Indicator	Relation to Public Expenditure and Financial Accountability (PEFA)
	Evaluation	
PIM 24	**Quality and timeliness of in-year budget reports**	**PEFA 24 focused on capital spending**
PIM 25	**Quality and timeliness of annual financial statements**	**PEFA 25 focused on capital spending**
PIM 26	**Quality and timeliness of in-year budget reports**	**PEFA 26 focused on capital spending**
PIM 27	**Quality and timeliness of annual financial statements**	**PEFA 27 focused on capital spending**
PIM 28	**Legislative scrutiny of external audit reports on capital spending**	**PEFA 28 focused on capital spending**
PIM D-1	**Financial information provided by donors**	**Same as PEFA D-2, for capital spending**
PIM D-1	**Proportion of aid managed by use of national procedures**	**PEFA D-3 focused on capital spending**

3 Libya PIM Indicators Ratings

	Indicator (Dimension)	Score	Explanation
A. PFM Out-Turns: Credibility of the Budget			
PIM 1	**Aggregate capital expenditure out-turn compared to the original budget**		**Under execution of capital expenditures remains a significant problem. Multi-year budgeting could improve the situation considerably.**
	1.1Capital expenditure out-turn compared to original budget	**D**	**The budget execution rate for capital expenditure as a percent of budgeted for 2013 is estimated at 26%. Actual spending versus budgeted was less than 50% in 2012. Since actual capital expenditures deviated from the planned once by more than 25% - this leads to a core rating of D for the sub-dimension.**
	1.1 Donor project expenditure out turn compared to original estimates	**N/a**	
PIM 2	**Composition of capital expenditure out-turn compared to the original budget**	**D**	**Virtually all spending units (except in the Oil and Electricity sectors) had capital expenditures execution deviating from planned by more than 25%.**
PIM 3	**Aggregate revenue out-turn compared to the original budget**		
	3.1 Revenue out-turn compared to original budget	**C-**	**Until 2013, MOF routinely underestimated oil revenues but overestimated tax revenues, resulting in consistent over performance in total revenues. However, due to disruption of oil production in 2013, total government revenues are projected to come in below forecast. Government of Libya overestimated oil revenues by 9.9%, 85.7%, and 4.1%, in 2010, 2011, 2012, respectively. In 2013, oil revenues were underestimated by 8.3%.**
	3.2 Quarterly donor projects disbursements as compared to plan	**N/A**	
PIM 4	**Stock and monitoring of capital expenditure arrears**		
	4.1 Stock of capital expenditures payment arrears as a share in total capital expenditures	**D**	**The accumulated stock of contractual obligations on existing projects amounts to approximately LYD 140 billion, or 725 percent of the development budget for 2013.**
	4.2 Availability and comprehensiveness of the information on payment arrears (including time profile)	**D**	**The State Fiscal Law and related regulations stipulate overlapping controls by financial controllers and internal auditors at various stages of the expenditure chain. There is a lack of a clear definition of the commitment state. As a result, commitment control function does not exist.**
B. Key Cross-Cutting Issues: Comprehensiveness and Transparency			

	Indicator (Dimension)	Score	Explanation
PIM 5	**Classification of the budget**	**D+**	
	5.1 Classification system used for budget formulation, execution and reporting of the central government's budget	**D+**	**At present, Libya uses primarily economic, location and organization classification. The classification is not GFS2001/M compliant. As part of the transition, the classification structure was modernized for 2014 to include GFS 2001 compliant economic, location, organization, and fund segments. Classifications of functions of government (COFOG) may be introduced in late 2014 or 2015.**
	5.2 Definition of a project	**D**	**At present, Libya defines contracts as projects. There is no project/program classification in the budget structure. The proposed 2014 budget structure will define 8 digits for sector, project, etc.**
PIM 6	**Comprehensiveness of the information included in budget documentation**	**D+**	**The annual budget law provides that information on development ("project") spending be included in the budget submission. Detailed information on investment (development) spending is lacking. The nature, rational and fiscal quasi-fiscal operations is not included into the budget document. PPPs are not covered under the annual budget law.**
PIM 7	**Extent of unreported capital spending**	**D**	
	7.1 Percentage of unreported capital spending (by source) in total capital spending (excluding and donor funded projects)	**D**	**Stated owned enterprises are major omissions in capital spending.**
	7.2 Income/expenditure information on donor funded projects which are included in fiscal reports	**N/a**	
PIM 8	**PIM related intergovernmental fiscal relations**	**D**	
	8.1 Policy coherence for PIM across levels of government	**D**	**Strategic planning has not been instituted at the central government level. At present, Vision 2030 – the national policy framework is just getting started but has little traction. Vision 2030 is organized along three pillars. There is no short- medium- term forecast of social and economic development. There is no clear hierarchy of strategic documents and insufficient coordination that would ensure consistency of Public Investment Management across levels of government.**
	8.2 Transparency and objectivity in the horizontal allocation of capital transfers	**D**	**The allocation of capital transfers is regulated by procedures (guidance) established by the Cabinet. The system of capital allocation is subject to considerable discretion and vulnerabilities.**
	8.3 Timeliness of reliable budget information to	**D-**	**According to the Law on Local Government, the Government should ensure the provision of all**

	Indicator (Dimension)	Score	Explanation
	subnational governments		budget information necessary for detailed budget process to subnational government following approval of the national budget. By law the national budget should be passed by December. However, over the past two years, the national budget was only passed by March.
	8.4 Extent of consolidation of fiscal data for general government according to sector strategies	D-	All local budget capital spending information should be collected and consolidated as part of the budget execution reporting. However, this is not done on a regular basis.
PIM 9	Management of fiscal risks from capital spending (outside) central government		
	9.1 The extent of central government monitoring of State Owned Enterprises that are recipients of on-lending and/or government guaranteed lending.	D	There does not appear to be an effective monitoring of government guaranteed investment spending projects. It is estimated that LYD90 of letters of credits were issued. These are monitored by the central bank. Further, the amount of government guarantees itself are not readily verified. Inadequate oversight of SOE activity by the National Bureau of Audit.
	9.2 The extent of central government monitoring of subnational governments (SNGs) that are recipients of on-lending and/or government guaranteed lending	N/A	Subnational governments are prohibited from borrowing
PIM 10	Public access to key information on capital spending	C-	Availability of some information through published budget documents. Some information is available on the Ministry of Planning Website.
C. Budget Cycle			
C(i) Policy Based Budgeting			
PIM 11	Investment guidance, project development, and preliminary screening	D	
	11.1 Strategic Guidance	D	Some ministries appear to have sector like strategies. However, these are inadequate and do not provide adequate guidance for project prioritization. A constant complaint is that priorities are constantly changing.
	11.2 Project Profiles	D	Basic project profiles are prepared but these are inconsistent in scope and quality.
	11. 3 Preliminary screening	D+	These should be carried out by the responsible line ministry (or agency). There is little or no evidence that any projects are screened out for reason other than incorrect paperwork.
PIM 12	Formal project appraisal	D+	

	Indicator (Dimension)	Score	Explanation
	12.1 Clarity of roles in the planning process	**C**	**Despite the fact that there appears to be a reasonable understanding of the roles that each institution plays, the roles of each institution are not well-coordinated.**
	12.2 Definition of steps in project development	**D+**	**There is inadequate central guidance on the basic steps that might be expected in a well-function public investment management system. A systemic flaw.**
	12.3 Technical Guidance	**D+**	**Uniform technical appraisal guidelines do not exist but there are formal procedures related to the physical nature of a proposal. Proposals are input based and administrative in nature.**
	12.4 Extent of project appraisal	**D**	**Projects that are over a threshold of LYD 100 million are required to have more detailed project appraisal analysis. The capacity to appraise this projects is inadequate (quality of appraisal is poor).**
	12.5 Quality of project appraisal	**D**	**Key elements of appraisal are mission. Particular weaknesses are objective setting, option appraisal, and benefit assessment.**
	12.6 Proportionality of appraisal	**D**	**Detailed project appraisals are arbitrary. Two similar projects in the same sector may be subject to two different standards of appraisal. Currently, there are plans to widen the scope and apply more uniform standards to the appraisal process (regardless of size or significance).**
PIM 13	**Independent review of appraisal**	**D+**	**Anecdotal evidence suggests that less than 10% of capital spending that might be considered public investment projects are subject to some form of independent review of appraisal. In most cases, there is no review.**
PIM 14	**Orderliness and participation in the annual budget process**	**C-**	
	14.1 Existence of and adherence to fixed project planning and budget calendar	**C-**	**The budget calendar is established in the Budget Law. However, projects can be proposed/modified at any time of the year. There is little independent review of projects. Capital budget ceilings are established only after a budget circular has been submitted, and only presented by the Cabinet of Ministers. One wonders what is the importance of capital budget ceilings when capital expenditure levels are extremely low.**
	14.2 Guidance on preparation of capital spending proposals	**C-**	**Procedural and administrative guidance exists but it is not economically substantive in nature nor is it specifically addressed to capital spending in specific.**
	14.3 Time for central agency analysis and advice	**D+**	**Resources for analyzing project proposals are highly inadequate. Most project proposals are not analyzed at all. Those that are subject to analysis are put under external pressure to approve them.**
	14.4 Timeliness of budget approval by the legislature	**D**	**For the past two years the budget has been submitted to the GNC (Parliament) late. There is inadequate time to approve and understand the budget by GNC.**

	Indicator (Dimension)	Score	Explanation
PIM 15	**Multi-year perspective in fiscal policy management**	**D**	
	15.1 Multi-year forecasts and functional allocations	**D**	**Ministry of planning introduced a 2-year budget for investment spending. However, this can in no manner be considered a medium-term budget framework. A Medium Term Budget Framework (MTBF) training is being introduced by the World Bank. There is no functional classification of budget spending. As such, there is no appropriate allocation of budget spending by function.**
	15.2 Existence of costed sector strategies	**D**	**There appear to be only outlines of sector strategies. In what may be viewed as "sector strategies' these are estimated on the basis of individual projects. They often lack substantiated capital estimates and rarely, if ever, include a consideration of the associated recurrent costs.**
	15.3 Multi-year project databases	**C-**	**There is no database of proposed and approved projects. The Ministry of Planning has procured a provider to develop a 'bespoke' project database system.**
	15.4 Quality of Public Investment Program (PIP) Where relevant		**Not applicable**
PIM 16	**Project selection and budgeting**	**C-**	
	16.1 Transparent criteria for project selection	**D**	**Criteria are not made clear for the selection of projects in the budget. This makes it easier for politically motivated projects to enter the system without analysis or scrutiny.**
	16.2 On-going projects received sufficient funding	**D**	**There have been significant problems in this area.**
	16.3 Multi-year budget authority	**C-**	**Multi-year contracting is permitted (and, was common). But the risk of non-availability of budget funding in subsequent years remains a possibility. There have been a vast number of instances where this has been a problem.**
	16.4 Capital and current spending fully integrated	**C-**	**It remains rare for capital projects to have their associated recurrent costs incorporated into budgets, except in cases where capital is used to renovate existing assets and the operational costs is already being borne. Many greenfield projects still do not take account of operational recurrent expenses in the project planning process putting at risk the availability of budgetary funds.**
C (ii) Predictability and Control in Budget Execution			
PIM 17	**Project Implementation**	**C-**	
	17.1 Guidelines on project implementation	**C-**	**There appears not to be any centrally based support of advice on the methodology on project management. There does not appear to be a culture**

	Indicator (Dimension)	Score	Explanation
			of project management practices.
	17.2 Clear accountability and implementation plans	C-	Implementation does not appear to be a planned activity with few project management practices or disciplines in place.
	17.3 Total project cost management system	D+	There appears to be no capacity to track total project cost over time against the approved budget. Definition of investment project does not exist, so it becomes difficult to track.
	17.4 Formal handover on completion	C+	Handover is a relatively formal process involving the commissioning of some checks that include fit for purpose, and technical compliance tests.
PIM 18	Predictability in the Availability of Funds for Commitment of Expenditures	C-	
	18.1 Extent to which cash flows are monitored	D	What is described as cash flows is monitored through MOF. However, there is no system of commitment control.
	18.2 Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	There are no cash flow plans tied to procurement plans. There is an inadequate system of commitment controls.
	18.3 Frequency and transparency of in-year adjustments to budget allocations which are decided above the level of management in MDAs	C-	Budget virement rules/laws are relatively strict.
PIM 19	Value for Money in Procurement	C-	
	19.1 Transparency comprehensiveness and competition in the legal and regulatory framework	C	The prime law is the Public Procurement Law with regulations being through government resolutions and guidance.
	19.2 Use of Competitive procurement methods	C-	Concerns remain about the clarity of the rules that allows for single tender procedures. Over 45% of procurement contracts are single source.
	19.3 Participation rates		
	19.4 Public access to complete reliable and timely procurement information	C	There is not government wide procurement plan. But Government entities publish bidding opportunities along with award decisions.
	19.5 Existence of an independent administrative procurement complaints mechanism	C-	There is little evidence of an effective procurement complaints mechanism.
PIM 20	Effectiveness of Internal Controls and Internal	C-	

	Indicator (Dimension)	Score	Explanation
	Audit of Capital Project Expenditure		
	20.1 Expenditure commitment controls	**C-**	**There is a need to strengthen expenditure controls by revising financial regulations to enforce commitment controls and eliminate other redundant controls, tightening rules governing carryovers, and the use of contingency reserves. Commitment for multi-year projects cannot be made.**
	20.2 Compliance with rules for processing and recording transactions	**C**	**Compliance with current administrative rules is believed to be high.**
	20.3 Coverage and quality of the internal audit function	**C**	**Internal audit and financial controllers' roles overlap. But, internal audit plays a proactive role.**
	20.4 Extent of management response to internal audit findings	**__**	**Not applicable**
PIM 21	**Project Adjustment**	**C-**	
	21.1Project progress reports and monitoring	**C-**	**Financial progress reporting and monitoring is adequate, but physical monitoring against financial outlays is poor.**
	21.2 Virement between projects	**C-**	**Virement is possible between different projects in the same program can be authorized if MOF (or Cabinet) approves.**
	21.3 Nature of project adjustments	**D**	**Many projects are regularly adjusted during implementation. Adjustments can be of a significant nature and many could have been prevented through better preparation work or have been identified earlier in the process through adequate scrutiny.**
	21.4 Explanation of Variances		**No scoring mechanism methodology**
	21.5 Funding in tranches linked to phases		**No scoring mechanism methodology**
	21.6 Mechanism to trigger review of project justification	**D**	**There is no known mechanism that would trigger a review of whether a difficult project should be continued to be supported.**
PIM 22	**Facility Operation**	**C-**	
	22.1 Asset registers	**C-**	**There is a state property register. However the adequacy of the information inputted on to the register is to be determined.**
	22.2 Assets fit for purpose	**C-**	**There are a number of examples of newly handed over assets that required further expenditure in order for them to be fit for purpose.**
	22.3 Sufficient operation funding	**C**	**Generally sufficient funding is available to operate new assets in the near-term. Budget funds to do so are allocated annually.**
	22.4 Sufficient maintenance	**D**	**Funding for the maintenance of new assets in the near term should be minimal. There is some**

	Indicator (Dimension)	Score	Explanation
	funding		evidence that maintenance expenditures are underfunded.
	22.5 Monitoring of service deliver	D+	This does not appear to be routine.
C (iii) Accounting, Recording, and Reporting			
PIM 23	Basic Completion Review and Evaluation		
	23.1 Policy and guidance on post-project review	D	There is no policy guidance regarding post project reviews. Furthermore, there appears to be no institutional understand of the potential value of doing such reviews. Since there is no current basis for setting project objectives based on performance indicators, it would not be meaningful to attempt to assess the value of a project ex-post.
	23.2 Completion of basic post-project reviews	C	Some projects are subject to a form of basic post project review, but this relates only to a physical input element of the project, rather than subsequent performance capacity to meet its objectives.
	23.3 Completion of Impact Evaluations	D	There is no impact or investment evaluation.
PIM 24	Quality and timeliness of in-year budget reports	C-	In-year budget reports cover general government as a whole and are prepared according to administrative and economic budget classification However, they cannot be easily compared to the approved budget. Reports covering expenditures and revenues are prepared regularly. Reports on guarantees and obligations are not prepared on a regular basis.
PIM 25	Quality and timeliness of annual financial statements	C-	The annual consolidated financial statements cover central government revenues, expenditures, financial assets and liabilities. The government's financial statements omit the consolidation of the state-owned enterprises where the government holds the majority and controlling share. The government, by law, is expected to prepare its annual financial statements within six months after the end of the fiscal year. However, budgets for 2007-2012 have not been audited and finalized.
C(iv) External Scrutiny and Audit			
PIM 26	Scope, nature and follow-up of external audit	C-	The National Bureau of Audit is formally subordinated to the Parliament (GNC). Its remit is to control expenditure from the state budget. The main focus of the National Bureau of Audit continues to be on expost compliance control of expenditure. Any formal response to audit findings and recommendations comes primarily from the audit government bodies and the Cabinet.
PIM 27	Legislative scrutiny of capital spending in the annual budget law	C	The legislature's review covers fiscal policies and aggregates for the coming year as well as budget estimates of expenditure and revenues. The Parliament (GNC) approves the development budget.

	Indicator (Dimension)	Score	Explanation
			Over the past two years the budget was submitted to the Parliament late (for approval) as such there was inadequate time for legislative scrutiny.
PIM 28	**Legislative scrutiny of external audit reports on capital spending**	**C-**	**The review of audit reports should be conducted within six (6) months of the submission. Although not all reports are reviewed in sufficient detail. There is currently no system in place to track the receipt and handling of audit reports. In-depth hearings are not being conducted.**
D. Donor Practices			
PIM D-1	**Financial information provided by donors**		**Not Applicable**
PIM D-2	**Proportion of aid that is managed by use of national procedures**		**Not Applicable**

Annex 4

Proposed Approach for Handling the Legacy Projects

Criteria for the review

1. Given the large number of legacy projects and the uncertainties concerning costs and eventual benefits, **it would not be realistic to use cost-benefit analysis as the basis for deciding on the appropriate disposition of each project**. [16] A blunter but more practical criterion is needed.

2. **A good such criterion would be the degree of physical completion of each project.** For major projects, this can be inferred from the invoices (assuming reasonable contractors' integrity). However, the criterion of physical completion cannot be used across the board, owing to the fluid security situation in certain areas, and the corruption risks inherent in a discretionary process of ascertaining the state of works and assets. Consequently, a more generally usable criterion for selecting projects to be restarted is necessary.

3. In contrast to physical data, financial information is available across the board and more likely to be reliable. ***It is essential to emphasize at the outset that the fact that large financial resources have been spent on a particular project is not in itself a reason to justify spending more to complete the project*** – particularly as the Government priorities and motivations are drastically different from those of the old regime. However, prior expenditures can be taken as a very rough *initial* proxy for the rate of physical completion.

4. Consequently, **the realities on the ground suggest using as a major criterion for selecting projects to be completed the expenditure already made on them, *but* combined with a newly-estimated cost of project completion** (based on physical inspection when feasible), and subject to specified qualitative conditions.[17] In part because of their very large number, the projects should not be ranked individually but should be placed in four broad categories, each with different priority for funding, as described below. The criteria proposed below for placing the projects in the four categories are not rigidly prescriptive, but should be used as the primary and first guide for the review, and exceptions should be made only in individual cases and for demonstrable overriding reasons.

Category I: Projects suitable for early and rapid completion and full funding

[16] When norms and procedures for investment choices and programming will have been introduced and institutionalized, it will then be appropriate to begin to rank new proposed projects in accordance with the financial returns they generate and with estimates of their economic and social impact.

[17] A similar approach was adopted in the Indian state of Orissa, and the percentage of prior expenditure was used as one among other metrics in certain other cases, e.g., Ukraine.

5. **This category includes projects to be restarted and completed as soon as practicable, with only minor modifications** as may be strictly necessary and with the full budgetary funding required for their efficient completion. The following *criteria* are recommended for placing projects under category I:

(i) More than 80% of the original cost had been spent prior to March 1, 2011, *and* the currently-estimated completion costs are no greater than 33% of the original cost; *or*

(ii) Early restart and completion of the project is highly likely to produce *large and rapid* economic or non-economic benefits (as judged by general criteria such as number of beneficiaries, urgent reconstruction needs, or stability and geographic considerations).

Provided that the project:

(a) Is important to fulfill a major priority of the Government; *and*

(b) Addresses important and specific objectives, viz. employment generation, connectivity, basic public services, and other objectives; *and*

(c) Circumstances on the ground are conducive to the project being completed efficiently -- either directly by or under the effective oversight of the central Government of Libya.

Category II - Projects suitable for resumed initial implementation

6. **This category includes projects which may be restarted but with the lowest funding level consistent with technical and procurement requirements, subject to future decisions on their full completion**, in the context of an improved public investment programming process.

7. The following **criteria** are envisaged for placing projects under category II:

(i) More than 50% of the original cost had been spent prior to March 1, 2011, *and*

(ii) the currently-estimated completion cost is lower than 50% of the original cost;

Provided that the project:

(a) Is consistent with the major priorities of the Government;

(b) Addresses specific objectives, viz. employment generation, connectivity, basic services, and other objectives (economic or otherwise); *and*

(c) Circumstances on the ground are conducive to the project being completed efficiently -- either by or under the oversight of the central Government of Libya.

8. *Within* this category projects would be ranked on the basis of years of age, with older projects receiving higher priority for funding – except that projects approved before 2005 will, as a rule, be placed in category III below.

Category III – Projects probably requiring major re-design and/or re-phasing

9. **This category should include large projects with an original cost greater than $... million** and with a likely potential to contribute to development, and which also meet the following *criteria*:

(i) less that 50% of the original cost had been spent prior to March 1, 2011 *and* the estimated completion costs are greater than 50% of the original cost; *or*

(ii) The project was approved before 2005; *or*

(iii) The project duplicates one or more other large projects in substantial ways.

10. Projects under Category III should not receive any budget funds except as necessary to finance a new feasibility study, with probable major design changes and cost estimates -- *provided* that it is determined that the project warrants such a study and that there is no evidence of major collusion or corruption in the award of contracts. Failing such determination, the project would be placed in Category IV below.

Category IV - Projects to be discontinued or shelved indefinitely

11. **All legacy projects not explicitly included in Categories I, II, or III should be included in Category IV**. Decisions on whether the project is to be scrapped permanently or shelved would be made after the completion of the review. It should be noted that "mothballing" a project entails certain costs to prevent further deterioration of the works and protection of the assets, and is subject to corruption risks. Projects to be shelved rather than scrapped should therefore be only those with good potential for future positive impact. They would be listed in an annex to the comprehensive investment project database that is to be formulated as part of the overall investment programming and management system for the future.

12. Decisions on the appropriate disposition of the usable assets and works of projects to be closed would be made separately in consultation with the local communities concerned. [18]

Implementation arrangements

[18] In many transition economies of Eastern Europe and the former USSR, the incomplete physical works of thousands of investment projects were simply left to rust and deteriorate, with local communities or individual groups cannibalizing the usable materials and equipment. Although many otherwise potentially valuable projects were lost and assets were misappropriated, this crude approach was inevitable in light of the breakup of the central command structures.

13. **The MoP would lead the process, in close cooperation with the MoF and with the individual sector ministries concerned,** as well as in appropriate consultation of the subnational government units where the projects are located. As may be required by circumstances on the ground, effective project execution and completion would require especially close consultation with municipal governments and, if necessary, with selected non-government actors as well.

14. **Full publicity should be given to the process**, criteria and modalities of the review. However, the strictest confidentiality of consideration and decision on individual projects will be critical to insulate the review from particularistic pressures, and individuals violating such confidentiality should be appropriately sanctioned.

15. **Verification of the *previous* expenditures would be performed by the MoF in cooperation with the MoP and the line ministries concerned**, on a random sample basis. The MoP in cooperation with the line ministries should provide to the MoF the *new* estimates for the costs of completing projects in Category I and their time-phasing.

16. **For the largest and most important projects the MoP should first review the available documentation (contract, invoices, etc.),** and then carry out a quick spot inspection of the current state of the physical assets and works – on its own initiative, timing and authority and with suitable external assistance if necessary. The project would be removed from Categories I and II if so warranted by the inspection.

17. **The results of the review would be submitted *as a package* for consideration and formal approval of the Council of Ministers and the Prime Minister,** with the proviso that the total number of projects included in Categories I and II may be reduced but not increased. Accordingly, while projects may be moved to a lower category without the need for offsetting action, the raising of any project to Categories I or II will require the downgrading of another project to Categories II or III, respectively.

18. The aggregate expenditures required for implementation of Category I and II projects in the remainder of 2014 and the budgets for the following years should be consistent with the overall fiscal stance and adjusted as needed for affordability in the medium term.

19. **The government should not allocate budgetary funding to any new investment project until the financial implications of the entire review have been assessed and the Category I projects are successfully re-started** -- except for demonstrable and specific security, economic, or social objectives that are *both* important and urgent. The MoP would carefully document the conduct and results of the review. If the above approach is found acceptable, other necessary modalities of the review would be defined during the January 2014 mission (see timetable below.)

Timetable

20. The review should take place in two phases.

Phases of the review

21. ***First phase***. The first phase of the review would be launched by proposals from each line ministry concerned, of which of the legacy projects under its competence should be included in Category I -- for consideration and possible approval by the Ministry of Planning. The first phase should be completed before mid-March 2014 in order that (i) the expenditure implications of resuming the implementation of the Category I projects can be incorporated in the second half of the budget for 2014 and in the preparation of the budget for 2015 and (ii) the lessons of the first phase can be reflected in the conduct of the second phase.

22. The results of the first phase would be reviewed, and the second phase would be launched, provided that the required documentation of the phase 1 results is received in a timely manner.

23. ***Second phase.*** The second phase of the review would start with line ministries proposals, of which of the projects under their respective competence should be included in Category II, and which projects should be included in Category III when new feasibility studies are justified and feasible. (All projects not expressly included during the second phase in Categories II or III would be automatically placed in Category IV.) The financial implication of the "reduced-level" restart of the implementation of projects included in Category II and the funding for the feasibility studies of projects retained in Category III would also be incorporated in a budget amendment for the last quarter of 2014 and in the preparation of the budget for 2015.

24. The MoP and the World Bank team would be in regular communication between missions, via email and video-conferencing, as necessary to provide timely advice and contributions to the review process. [19]

The next stage

Expanding the review

25. After June 2014, a next stage of review could include the remaining legacy public investment projects, based on the results of the 2014 review and following similar procedures, with appropriate modifications. [20]

Project management

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[19] As noted, decisions on which among the Category IV projects are to be temporarily retained in the database and which are to be scrapped would be taken at a subsequent time. The appropriate handling of any remaining personnel in both types of projects would be decided by the end of the review.

[20] It is likely, but should not be prejudged, that the vast majority of these remaining legacy projects would be placed in Category IV.

26. Aside from the formulation of the new norms, procedures and systems for public investment programming, monitoring and execution, it is important to improve the line ministries' capacity to manage individual investment projects in their portfolio. A separate review of the process of physical completion of selected major legacy projects in Category I could provide a basis for recommendations for long-term improvements of project management, including appropriate training.

Government asset inventory

27. It would be important to initiate during the late March mission discussions for a separate but related partial inventory, led jointly by the Ministries of Finance and Planning, of existing government assets. The process would not call for a full asset registry, but only for an identification of the major assets that are valuable and either idle and/or at risk, with a view to protecting them, appropriately budgeting their maintenance, improving their utilization, or – in some cases -- devolving them to local government or to non-government organizations. Depending on the scope and modalities of such review, a pilot phase could be completed by December 2014 and the full inventory possibly by mid-2015. Appropriate technical assistance would be considered, by the World Bank or other donors, if the Government so requests.

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ategories	**Category I: Projects Suitable for early and rapid completion and full funding**	**Category II: Projects suitable for resumed initial implementatio n**	**Category III: Projects Probably requiring major redesign and/or re-phasing**	**Category IV: Projects to be discontinued or shelved indefinitely**
Criteria	1. More than 80% of the original cost had been spent prior to March 1, 2011 **AND** Current estimated completion costs are not greater than 33% of the original cost	1. More than 50% of the original cost had been spent prior to the March 1, 2011; **AND** the currently estimated completion cost is lower than 50% of the original cost.	1. Less than 50% of the original cost had been spent prior to March 1, 2011 **AND** the estimated costs are greater than 50% of the original costs; **OR,**	1. All legacy projects not explicitly included in Categories I, II, or III should be included in Category IV.

ategories	Category I: Projects Suitable for early and rapid completion and full funding	Category II: Projects suitable for resumed initial implementatio n	Category III: Projects Probably requiring major redesign and/or re-phasing	Category IV: Projects to be discontinued or shelved indefinitely
	2. **Or** early restart and completion of the project is highly likely to produce large and rapid economic or non-economic benefits.		2) The Project was approved before 2005; **OR,**	2. Determinatio n / decisions on whether the project should be scrapped / shelved permanently would be made after a detailed review.
	3.		3) The project duplicates one or more other larger projects in substantial ways.	
Condition s **(Provide that the Project(s) Meet the following:**	a) Is important to fulfill a major priority of the Government;	a) Is consistent with the major priorities of the Governmen t;	a) Projects under category III should not receive any budget funds except as necessary to finance a new feasibility study, with probable major design changes and costs estimates. Failing such	

ategories	Category I: Projects Suitable for early and rapid completion and full funding	Category II: Projects suitable for resumed initial implementatio n	Category III: Projects Probably requiring major redesign and/or re-phasing	Category IV: Projects to be discontinued or shelved indefinitely
			determinatio n the project would qualify as a Category IV project (discontinue).	
	b) Addresses important and specific objectives, viz. employment generation, connectivity, basic public services, and other objectives; and,	b) Addresses specific objectives, viz. employment generation, connectivity, basic services, and other objectives (economic or otherwise); and,		
	c) Circumstance s on the ground are conducive to the project being completed efficiently (either directly by or under the effective oversight of the Central Government of Libya).	c) Circumstances on the ground are conducive to the project being completed efficiently (either by or under the oversight of the Central Government of Libya)		

Annex 5

PIM Procedures and Systems in Libya: Issues and Recommendations

This annex includes the following sections:

- *General issues.* The first section recalls some basic concepts in PIM, notably it discusses the concepts of project and program. It underlines the need of moving from the current contract approach to a project and policy-based approach.

- *Project preparation and screening.* The second section presents the project cycle It underlines the need of project screening to ensure that projects fit the government strategy in the more cost-effective way. It discusses the distribution of responsibilities in project screening.

- *Preparation of the development budget.* The third section focuses on the key steps and procedures for budgeting development expenditures. It makes suggestions for strengthening the coordination between the preparation of the recurrent and development components of the budget.

- *Physical and financial investment project monitoring*. The fourth section identifies the minimum requirements for monitoring the implementation of investment projects. It makes recommendations for establishing a monitoring system.

- *Training.* The fifth section presents suggestions to develop a training program.

- *Organizational issues.* The last section discusses briefly some organizational issues.

1. General issues

3.1 What is an investment project?

3.1.1 The composite economic nature of chapter 3

The development budget (Chapter 3 of the central government budget) includes both capital and recurrent expenditures, such as for example scholarships. A modernization of the budget classification is desirable to identify more accurately the investment part of the budget. In the immediate a mapping table between the articles of chapter 3 and the IMF government finance statistics (GFS) manual economic classification of expenses and non-financial assets should be implemented. Tentatively, this exercise has been partly conducted in table 3. Such a mapping table will allow the capital expenditures to be more accurately estimated.

Table 3
Mapping chapter 3 classification into GFS economic classification

Chapter 3			GFS Economic Classification	
Section	item			
1		New Asset Purchases		
	1	Vehicle Purchases	31121	Transport equipment
	2	Furniture Purchases	31122	Other machinery and equipment
	3	Buildings Purchases	31112	Nonresidential buildings
	4	IT Purchases	31122	Other machinery and equipment
	5	Medical Equipment Purchases	31122	Other machinery and equipment
	6	Ambulance Vehical Purchases	31121	Transport equipment
	7	Motorcycle Purchases	31121	Transport equipment
	8	Television Devicess Purchases	31122	Other machinery and equipment
	8	Wireless Devices Purchases	31122	Other machinery and equipment
	10	Firefighter Trucks	31122	Other machinery and equipment
	11	Agriculture Equipment Purchase	31122	Other machinery and equipment
2		Educational Books		
	1	Primary Education Books	22	Use of goods and services
	2	Higher Education Books	22	Use of goods and services
	3	Teaching Means	22	Use of goods and services
3		Scholarships		
	1	Local Scholarships	2821	Miscellaneous other expense (current)
	2	Foreign Scholarships (Scholarships Abroad)	2821	Miscellaneous other expense (current)

Beyond these analytical issues, clarifying the notion of investment project is important for most aspects of budget management and control. Thus, most recommendations made in the present report concern investment projects, not current expenditure items such as educational books and scholarships. An investment project consists mainly of capital expenditures A capital expenditure is incurred when money is spent to buy fixed assets with a useful life extending beyond the fiscal year.

3.1.2 Projects versus contracts

28. When programming investment expenditures, the Government of Libya often deals with individual contracts, not with projects. A contract is an agreement to provide inputs that contribute to create outputs but does not usually cover all inputs and activities required for producing an identifiable output. An investment project is a set of interrelated activities -- usually covered by contracts -- which aims at producing an identifiable output (generally an asset) that will contribute to delivering a public service. These activities should be considered together and be accepted or rejected as a set. Failing to do so is highly likely to result in incomplete, partial or disconnected projects, and thus in wasting government moneys without achieving the purpose of expenditure. (For instance, a housing project involves building the structures, ensuring connections to water and sewage, providing for adequate access, etc. These activities may be implemented through various contracts, but they are inter-dependent and are all required to make the project actually provide usable housing.)

29. Therefore, investment programming and budgeting decisions should be based on the analysis of projects. I will be important to move away from a "contract mentality" to a "program and project" mentality.

30. The MoP has already begun to work in this direction. A preliminary work consisting of grouping contracts into projects is being undertaken by the technical department of the ministry of Planning. However, the current reviews of ongoing projects deal mainly with the contracts. This is explained by the need to review the existing legal commitments. Nevertheless, as noted by the World Bank in the note “The Airport Modernization Program” of the 4th April 2014 such reviews would be improved if the emphasis of the reviews is shifted from the individual contracts to the projects and the programs that group projects with similar objectives.

3.2 Policies, programs and projects

31. All projects should be budgeted on the basis of national priorities and objectives, and should not be appraised in a vacuum. Because investment projects should aim at implementing government policies, they must be consistent with the overall government goals and sector policies.

32. Projects that meet the same set of objectives are generally grouped into a program (e.g., a program covering several airports within the country). Often that kind of program corresponds to a sector or subsector (e.g. housing program) or a part of a subsector (e.g. secondary airports program).

33. Once the policy priorities established investment programming and budgeting consists of: (i) balancing requirements for investment expenditure against those for current expenditure and between programs; and (ii) within investment programs, making choices among projects. Thus, ideally, a good public investment programming process should ensure that policies drive programs, programs in turn drive projects, and that the best projects to meet the objective have been selected.

34. Choices related to the allocation of resources between programs are strongly related to strategies. The expected outcome is the best balance between programs. Within a program, the project selection should give what projects are selected and what projects are not selected.

35. Programming and budgeting investment requires the interplay of the following procedures:

- project preparation/appraisal, the cycle of the preparation of projects includes identification, analysis, appraisal;

- programming/selection, for incorporating project in the budget.

36. These two processes are interdependent. At different stages of the project cycle choices between projects must be made (when launching studies on identified projects, when appraising studies, and when making the final decision go/no go). Nevertheless, these processes should not be confused. Sound investment programs require good project, but programming and selecting projects must be set in a broader framework than the sole analysis of individual projects. The sequencing of decision-making and an appropriate design of linkages between the project preparation process and the programming process are essential.

37. Project analysis helps to make project selection, but it cannot be relied upon to achieve the optimal balance of objectives. Besides the quality of individual projects other criteria are needed when scrutinizing an investment budget e.g. Are balances between sectors and subsectors consistent with the Government strategy? Is the investment program appropriate to the economic and social environment? Is the investment program compatible with the macro-economic framework? etc.

3.3 The need for a multi-year perspective

It is important to place investment programming within a multi-year perspective. While capital expenditures payments should always be authorized through the annual budget, most investment projects are multiannual and have a forward fiscal impact. The sustainability of the overall investment program should be assessed, notably by reviewing the annual forward costs of investment projects. Projects that generate non-sustainable forward costs, either for completing them or for operating them after completion should not be included in the budget.

4 Project preparation, appraisal and screening

38. This section discusses the processes for sound project preparation and screening.

4.1 The starting point: strategic guidance

39. Strategic guidance for public investment programming is currently lacking. Such guidance would be necessary to ensure that the new projects fit the government development policy. Full-fledged sectoral strategies include among other elements the definition of sectoral policy objectives in accordance with the national development policy, identification of the needs of the population beneficiary, identification and specific objectives of main programs to be undertaken, costs estimates and performance indicators for those programs, responsibilities in implementing the strategy.

40. In an initial step, strategic guidance could focus on defining the sector policy objectives, identifying the main investment programs or group of actions that will be implemented, and analyzing the size and the needs of the population beneficiary from those programs.

4.2 The project cycle

41. A typical project passes through successive stages, from the initial analysis of objectives and needs to project completion. Although each project has its own characteristics, projects usually have a common life cycle, called "the project cycle." A standard project cycle includes the following phases:

- Project identification

  - Identification of potential projects, formulation of project proposals.

  - "Preliminary" screening of project proposals to ensure that they fit the sector strategy.

  (At this stage, a decision must be made on whether or not to allocate budgeted funds to the pre -feasibility studies.)

- Project preparation

  - Pre-feasibility studies and preliminary selection of the projects.

  (At this stage, a decision must be made on whether or not to allocate budgeted funds to the - feasibility studies.)

  - Feasibility studies and detailed formulation of the projects.

  - Technical appraisal of the projects

- Project selection and budgeting

  - Investment decisions.

  (At this stage, a decision must be made on whether or not to include the projects in the budget.)

- Project implementation, monitoring and evaluation

  - Implementation of the projects (appointment of the project teams, project planning

regularly updated, and project monitoring and accounting).

- Evaluation during project implementation, and evaluation ex post of the performance and results of the project.

4.3 Project preparation

42. If a project proposal is deemed fitting the sector strategy, the preparation of the project can be engaged. Project preparation includes both the technical design of the project, the review of the project with regard to national and sectoral strategies and the analysis of its socio-economic benefits. Libya has some experience in the technical design of projects, but lack of experience in policy analysis and socio-economic analysis of projects. Some projects are considered without estimating first the needs or the size of the population beneficiary.

43. Project analysis is important to ensure that the best options have been defined for achieving project objectives, notably by evaluating different variants and alternatives. Costs and benefits should be fully identified, whether they are tangible or intangible. Externalities (negative as pollution or positive as flood protection) should be reviewed. Tangible costs and benefits should be quantified, intangible should be assessed in qualitative terms.

44. Therefore, sound project preparation requires analyses and assessments in the following areas:

- Conformity of the project with sector and government strategies (an assessment should be carried out as soon as the project is identified).

- A cost-benefit or cost effectiveness analysis, if appropriate (see comments below). The acquisition or construction of new facilities should be systematically compared with the cost of rehabilitating existing facilities.

- The forward fiscal impact of the project. Incremental recurrent costs, including forecasts of staff recruitment, should be estimated. For some programs or agencies (e.g. road construction), assessing the recurrent costs requires making forecasts of both the capital and the recurrent budget, in order to take into account acquisitions of equipment needed for periodic maintenance.

- The policy on setting user charges or fees, when the project is aimed at delivering goods or services to the public.

- The environmental impact, when relevant.

- The poverty impact, when relevant (e.g. for certain projects in the social sector).

- Organizational arrangements for implementing and running the project.

45. Within a program or a subsector, investment projects must be balanced against recurrent spending. A new construction project should be systematically compared to the cost of rehabilitating existing facilities. The optimal composition of a program can also depend on the sector policy (for example, balancing a school construction project against a program for buying schoolbooks is essentially a matter of education policy).

46. It is generally distinguished two steps in project preparation the pre-feasibility study and the feasibility study. The prefeasibility study helps in identifying the different alternatives and assessing the project before launching the detailed analyses of the project included in the feasibility study. Box 1 compares the key components of pre-feasibility and feasibility studies.

47. Formal economic analysis methods can be used in several sectors. For example, in the production and infrastructure sectors, cost-benefit analysis should be systematically undertaken for every project of a significant size. In other sectors, least cost or cost-effectiveness analyses of projects are generally desirable, but their degree of sophistication will depend on the size of the project. For smaller projects, simple ratios can be used to assess the cost-effectiveness of a project (for example, the costs of a classroom per student).

48. However developing sophisticated formal economic analysis methods requires adequate skills. Training in this area will be needed. The introduction of CBA and other formal methods for appraising investment projects should be progressive.

49. In the immediate, it should be always ensured that the basic requirements for good project preparation are met. These basic requirements are required to submit the project to the basic screening criteria presented in box 2. They include:

- Identification of project objectives and their relationship with the sectoral strategy;
- project costs estimates, including recurrent costs after project completion;
- analysis of alternatives options;
- analysis of project costs sustainability;
- identification of arrangements for managing the project during the project implementation and after completion;
- arrangements for financial and physical reporting.

50. Defining the implementation arrangements is a crucial component of project preparation. Project design should include the organizational arrangements to manage the project and define procedures and methods to monitor its implementation.

51. Requirements for appraising the projects should depend from both the sector and the size of the projects. Progressively, sector by sector, a list of requirements and criteria for screening the projects should be defined by the MoP and the relevant line ministry, in close coordination. Table 4 presents some examples of possible requirements and criteria.

52. Line ministries, which are responsible for preparing their budget, should also be responsible for preparing and screening projects. They should select their projects within any overall spending limit set by the government. However, as recommended below, projects of a significant size need also to be reviewed by the ministry of planning.

Box 1
Key Components of Feasibility Analysis

Prefeasibility Study	Feasibility Study
Data gathering (geographic, climate, socio-economic, and technical)	Compilation of all relevant data
Project alternatives	Alternative technologies for project
Major risks (including institutional and budgetary)	Detailed estimate of costs and benefits for a selected alternative
Comparison of alternatives (engineering, socio-economic costs and benefits)	Preliminary design
Recommended project alternative	Detailed risk assessment
Preliminary estimate of project costs and benefits	Detailed sustainability assessment
Regulatory requirements	Environmental impact assessment
Identifying lacking information for Feasibility Study	Social impact assessment

Source: A. Rajaran, T. Minh Le, N. Biletskan, J.Brumby. A Diagnostic Framework for Assessing Public Investment Management. World Bank. 2010.

4.4 Screening projects

4.4.1 The screening exercise

53. Screening involves eliminating poor projects from the portfolio of projects being considered for inclusion in the sectoral budgets. Line ministries should verify that the projects prepared by their subordinate agencies are compatible with the sector strategy, correspond to the most cost-effective means of reaching the program objectives and

that, where applicable, the results of cost-benefit (or cost effectiveness) analyses are acceptable. They should also verify that the projects are in conformity with the broad policy goals of the ministry (e.g. the sectoral strategic plan and the business plans of public enterprises).

54. When screening projects the elimination exercise should be based on various "yes/no" criteria (if the answer to one criterion is "no" the project should be eliminated). Box 2 presents some basic screening criteria.

Box 2

Basic screening criteria

- Are the needs for the project justified?
- Are project's objectives clearly specified?
- Is the project consistent with the national and sectoral strategies?
- Are the project costs, including the annual recurrent costs after completion; fully and accurately estimated?
- Are the projects benefits assessed quantitatively or at least qualitatively?
- Have alternatives options to meet the project objectives be identified and comparatively examined?
  - Is the project deemed to be the most cost-effective variant? Why?
  - Are the recurrent costs compatible with recurrent budget forecasts?
  - Is there any alternative solution to the project by rehabilitating existing facilities?
- Is the project sustainable? (this depends on different factors, including maintenance, financial capacities of agencies, cost-recovery issues, tariff issues, satisfaction of beneficiaries, etc...).;

55. This screening criteria list should be progressively extended in the following directions:

- Sector specific criteria should be set up sector by sector (see some examples in table 4 below);
- Some basic ratios should be developed to roughly assess the cost-effectiveness or the sustainability of the project (e.g. unit cost per beneficiary and recurrent costs compared to the ministry budget).

56. Requirements in term of formal socio-economic studies should be progressively defined (e.g. requiring cost-benefit analyses in the sectors where these analyses are relevant).

4.4.2 Responsibilities in screening projects and pre-approval procedure

57. Projects should be screened in different steps of the project cycle. A preliminary screening made by line ministry will check whether a project proposal fits the sector strategy.

58. Before being launched, all new projects should be screened by the planning department of the relevant line ministry. For "small" project, this screening will be based on a short check-list. For large project this screening should be done in two steps: (i) after the pre-feasibility study, but before the decision of launching feasibility studies and preparing the detailed design of the projects; (ii) on the basis of the feasibility study, before deciding to include the project in the budget request for chapter 3 submitted to the MoP. Line ministries will have to set up appropriate arrangements for carrying out this project screening activity.

59. Before being included in the budget, projects of above a certain size should be submitted to: (i) an independent (from the line ministry sponsoring the project) review commissioned and supervised by the ministry of Planning and; (ii) a pre-approval procedure. The threshold (e.g. total costs of the project more than US$ 5 millions) above which this review and pre-approval procedure is compulsory should to be defined in governmental regulations. The ministry of Planning should be made responsible for pre-approving the projects.

60. This pre-approval procedure is a pre-selection procedure. Such a pre-approval does not authorize launching the project. Projects to be launched are selected through the budget process. Only pre-approved projects above the threshold defined in the regulations could be included in line ministries' requests for chapter 3, but only projects included in the budget can be launched.

4.5 Project profile forms and project database

61. Data on projects should be summarized in standard project profile forms. Completing such forms will help in verifying whether all required data are available to assess the project.

62. The project profile form should include the following elements:

- a brief description of the project;
- references to the program to which the project is attached, indication of their function, according to the international standard (the COFOG);
- a costs table which will include: (i) total costs; (ii) actual costs before the current year; (iii) projected costs for the current year; (iv) annual costs projected for budget out-years.
- the location of the project;
- a description of its objectives, showing how they fit the sector strategic objectives;
- the expected dates for starting and ending the project;
- studies carried out and their date of completion;
- when applicable, the economic internal rate of return of the project (EIRR) and its financial internal rate of return (FIRR);
- a projection of the recurrent costs related to the project, if any;
- indications of the cost recovery policy for projects that aim at providing goods or services;
- contact details for the agency responsible for the implementation of the project;
- indicators for the physical monitoring of the project (output indicators), for projects for which simple indicators may be set up;
- when relevant outcome indicators, that is the expected effect of the project on the economic or social environment. However often outcome indicators at more relevant at the program level than at the level of individual projects.

63. For project studies a study profile form should be prepared. Such a form will include the following elements:

- a brief description of the project that is to be studied;
- a description of the objectives of the project to be studied;
- references to the program to which the project is attached, references of the sector and subsector;
- the total costs of the study;
- an approximate estimate of the total costs of the project;
- the location of the studied project;
- the expected dates for starting and ending the study;
- contact details for the agency responsible for the study and;

64. Project, program, sector/function should be coded to allow data to be automatically processed.

65. A project data base would be under preparation within the MoP. All identified projects will be registered in that database. Data concerning a project will be updated and completed as the project progress in the project cycle. It will be important to ensure that the project database will include all required key data and to define the procedure to update it regularly.

66. In a longer term, each line ministry should have its own data base, with common standards in order to ensure adequate centralization of data by the MoP. However, in the immediate, it is more cost-effective to start setting up a central data base maintained by the MoP, then to implement progressively that data base within line ministries.

67. Preparing and updating at least every year a project profile form should be compulsory. Line ministries should transmit to the MoP a project profile form for each project or group of “small” included in their budget request for the development budget.

Box 1
Example of project profile form

PROJECT PROFILE	**Project code:**
Name of the Project:	

Ministry: Code Name

Sector/function: **Code** **Name**

Programme: Code **Name**

Starting year: **Year of completion:**

Type (ongoing/new):

Brief description and main components:

Coherence with overall Government policy and sector strategy:

Project objectives:

Target beneficiaries:

Project organization

Cost recovery policy if any describe briefly

Has a cost-benefit analysis been done (Yes/No)

If Yes Economic internal rate of return:

Project annual costs

Unit: 000 LYD

	2011	2012	2013	2014	2015	2016	2017	Beyond	Total
	Actual			Budget	Projections				
Project costs									
Additional recurrent costs after completion							Personnel		
							Other current		

Physical monitoring indicators

	Before 2013 actual	2014	2915	2016	2017	Total Project
Indicator 1: ……						
Indicator 2: ……						
……						

Spending Agency
Name
Address
Contact person within spending agency:
Name **Function**
Phone **e-mail:**

Table 4

Examples of requirements to assess project

SECTOR AND SUBSECTOR	ECONOMIC ANALYSIS	ASSESSMENTS OF FISCAL IMPACT AND COST RECOVERY POLICY	OTHER ASSESSMENTS	SELECTING PROJECTS WITHIN A PROGRAM: BASIC CRITERIA
Water				
Water supply (Bulk water and distribution)	Assessment of supply deficit in the supply area Assessment of the impact of the project on supply deficit Cost-effectiveness analysis	Estimate of incremental recurrent costs Medium-term projections of the budget. Compliance with any current government cost recovery requirement	If actions affect the poor, assessment of the impact of the project on the poverty groups	Indication of seriousness of supply deficits in the supply area in m3/person/year + Cost-effectiveness criterion of cost/m3 Information on ancillary benefits and adverse factors.
Industry				
Electricity	Cost-benefit analysis or cost-effectiveness analysis including: Study of variants and alternative energy sources Sensitivity analysis of the impact of varying the critical parameters be studied (world prices, tariff etc..)	Impact on tariff and the budget of the electricity company In principle tariffs should cover full costs after project implementation		Selection within an Energy Program EIRR or cost-effectiveness criteria.

Transport				
Road	Cost benefit analysis. Study of variants.	Assessment of incremental recurrent costs.		Selection and phasing within the road master plan + EIRR
Airport	Cost benefit and financial analysis Study of variants.	Assessment of the impact on the budget of the Airport authority	Environmental Impact Assessment	EIRR and FIRR
Port	Cost benefit and financial analysis Study of variants.	Assessment of the impact on the budget of the Port authority		EIRR
Health	Study of variants, including rehabilitation solution. Cost effectiveness analysis. Appropriate indicators should be used in assessing needs (e.g. for hospitals, beds per 1000 population in area served)	Estimate of incremental recurrent costs Recurrent costs should be compatible with medium term forecasts of the government budget	Impact on the poor and other social effects	Cost-effectiveness analysis (if possible for large projects) multicriteria analysis (notably, ratios existing facilities / beneficiaries, conditions of existing facilities).
Education	Study of variants, including rehabilitation	Estimate of incremental recurrent	Impact on the poor and other social effects	Cost-effectiveness analysis

	solution The least cost solution should be chosen Appropriate indicators should be used in assessing needs.	costs Recurrent costs should be compatible with medium term forecasts of the government budget		(if possible large projects) Multicriteria analysis (notably, ratios existing facilities / beneficiaries, conditions of existing facilities).

5 Selecting projects and budgeting

68. Projects that have successfully pass the screening step, should be selected and implemented through the budget processes. To this end, it will be necessary to set up an appropriate budget preparation procedure to encourage project prioritization.

5.1 Current situation

69. The budget preparation process is governed by the Sate Fiscal Law of November 1967, but in addition to be outdated, the main provisions of this law are not enforced. For example according to the State Fiscal Law the budgets should be submitted to the legislature at least two months before the beginning of the fiscal year, while it is currently submitted to the General National Congress in December or later.

70. The recurrent and development budgets are prepared in separate and non-coordinated processes. There is an institutional separation both at the central and line ministries/agencies levels. For the recurrent budget a budget circular is issued by the MoF, while for the chapter 3 a budget circular is issued by the MoP. These circulars are issued in June. Such a dual process, which consists of preparing the recurrent and development budget in separate and non-coordinated processes, leads generally to inefficiencies, because the economic composition of the budget within a sector cannot be optimized and the recurrent costs of investment projects after completion are less considered under such arrangements.

71. The budget circulars give some general guidelines for budget preparation and include the format of forms to be completed by line ministries/agencies. However they generally do not notify expenditure ceilings to line ministries. In 2013 the budget circular for chapter 3 included indicative expenditure ceilings for each ministry, but line ministries did not comply with these ceilings in their budget request.

72. In practice, the development budget preparation process is open-ended. Within line ministries the planning department compiles requests from the directorates and subordinate agencies, but generally it does not prioritize them. As a result budget appropriations are disseminated among an excessive number of projects. Focusing the efforts on a reduced number of projects could improve the quality of budget execution. Notifying expenditure ceilings to line ministries at an earlier stage of the budget preparation cycle could encourage prioritization within line ministries, if it is make clear that the budget request should present within the ceilings sufficiently funded priority projects, other projects being eventually in a supplementary list..

73. Line ministries send to their budget request to the MoP for chapter 3 in September. Some budget conferences are held between the MoP and line agencies in November. Then the budget for chapter 3 is finalized by the MoP. Over the past several years, the budget has neither been submitted to Parliament nor approved in a timely manner.

74. The budget is currently enacted more than two months in late. The FY 2012 budget was approved in March 2013. Because in addition the allotment procedure is sometimes lengthy, in several sectors the execution of the development budget starts several months after the beginning of the fiscal year. This contributes with the current security situation and other factors mentioned in the PIM performance assessment to low development budget execution rates.

75. The 2013 budget circular for chapter 3 requested in addition to the costs for the budget year the project costs for one out-year. However, generally the forward costs of investment projects are not reviewed during budget preparation.

5.2 Modernizing the development budget preparation process

5.2.1 Directions for modernizing the process

76. The budget preparation process should be streamlined in the following directions:

- An effective feedback from budget execution to budget preparation is required to take into account the lessons from actual project implementation when preparing the budget. This will require strengthening the investment project monitoring system (see section 4).

- Strategic statements should be prepared and project narratives should explain how the projects fit the sectoral strategy.

- Projects should comply with the medium-term macro-economic constraints. When preparing the budget, it should be assessed both whether the costs of projects for the budget under preparation comply with the budget constraints and whether the forward costs, including the recurrent costs after completion of the projects, are sustainable.

- Recurrent and development budget preparation should be better coordinated. The **following** measures could contribute to better unify the budget preparation processes: (i) issuing a common budget circular for recurrent and development budget preparation; and (ii) reviewing together in common budgetary conferences the recurrent and the development components of the budget.

77. Line ministries should be responsible for project selection in their sectors within the overall budget constraints. However, as noted some assistance and counter-expertise from the MoP is also necessary.

5.2.2 Forecasting the forward fiscal impact of capital spending

78. Many investment projects being of multi-annual nature and having a forward fiscal impact, the following activities should be carried out:

- reviewing systematically the total costs and the forward annual costs of investment projects when preparing the budget;

- ensuring that these annual forward costs comply with the MTFF projections (if the MTFF is not yet in place these annual forward costs should not exceed their amount planned for the annual budget) ;

- including in the budget documentation an investment annex that will show for the budget out-years the annual costs of the investment projects included in the budget (see below).

5.2.3 Main activities for budget preparation

79. The development budget preparation should include the following set of activities: (i) development budget implementation and sector policy reviews ; (ii) preparation and notification of expenditure ceilings that will frame budget preparation; (iii) preparation of budget requests by line ministries; (iv) budgetary conferences; (v) finalization and budget approval by Cabinet; (vi) budget tabled in Parliament.

80. The organization of these activities is presented below. Concerning the period at which there are undertaken, some slightly different variants may be considered. However, it will be important to enforce some broad principles. Line ministries should be left with sufficient time to prioritize their requests within their ceilings for development expenditures[21]. The budget should be tabled in Parliament in October.

81. In an initial phase (e.g., from January to April), line ministries will carry out the following activities:

- review of the financial and physical implementation of their development budget (see below section on monitoring);
- updating of the total costs and the forward costs of the ongoing projects in their sector;
- preparation or updating sector strategic statements;
- internal screening of new projects (or halted projects to be resumed) previously identified;

82. The MoF should prepare in May-June a medium-term fiscal framework (MTFF) that will project annual fiscal aggregates for three years. These fiscal aggregates will consist of revenue and expenditures by broad economic categories (including total development expenditures), budget balance and main financing items.

83. From the MTFF projections prepared by the MoF, the MoP will prepare indicative development expenditure ceilings for each ministry (or main budget holder). These ceilings should cover each year of the MTFF period. They should be reviewed and approved by the Cabinet. These ceilings should be notified to line ministries in June in the budget circular, which should cover both the recurrent and the development budgets (from 2015).

84. If an MTFF is not prepared these indicative ceilings should be prepared at least for the budget under preparation. The ceilings for the next budget will be used for the following years.

85. To prepare these indicative expenditure ceilings for each ministry, the MoP will take into account, among other the following elements:

[21] In the PEFA PFM performance measurement framework, four to six weeks are necessary to get the score B or A for the indicator related to budget preparation.

- The results of budget execution in previous years (to ensure the reliability of a data a robust monitoring system should be set up);
- updated forward costs of ongoing projects for the next year;
- relevance of identified large projects as regards to government's strategy

86. The MoP should consult line ministries when preparing these indicative ceilings, notably to review the results of the development budget execution and the new large projects that are being identified.

87. Line ministries should prepare their chapter 3 draft budget according to the guidelines provided by the MoF and the MoP in the budget circular. Ministries should verify that the projects are in conformity with their sectors' strategies. They will have to make trade-offs between requests from their subordinated units. They should screen requests from subordinated units with respect to sector strategies and other appropriate criteria for screening projects.

88. Line ministries should transmit their budget request for chapter 3 to the MoP in July. These requests should include all information required to assess the projects:

- Completed project profile forms, including among other elements annual costs forecasts;
- Statement on the ministry strategy.
- Results of screening made by the line ministries.
- For large project, results of the independent review.

89. Then, in August, requests for the development budget and the recurrent budget should be reviewed for each ministry in joint budgetary conferences including experts from the MoF, the MoP and the line ministry. Generally these joint reviews should focus on:

- adequacy of sector programs in relation to strategy;
- if needed, corrections of balance between sectors;
- detailed review of large programs and large projects;

- ensuring that the annual forward costs of projects comply with the MTFF projections (if the MTFF is not yet in place these annual forward costs should not exceed their amount planned for the budget under preparation) ;

90. Then, the budget is approved by the Cabinet.

5.2.4 The investment annex in the budgetary documents

91. To show the forward fiscal impact of investment projects, a special investment annex should be included in the budget documentation. In the budget documents for year n, that annex will show for each project (or group of "small" projects):

- the total costs of the projects;

- *if the project is an ongoing project*, the amount actually spent before year n-1, the budget for year n-1 and if possible forecasts of budget execution;

- the annual costs from year n to year n+2 and the total costs beyond year n+2 ;

92. Such an annex will not include new projects for the budget out-years, because in a first stage, the efforts should focus on the review of the forward costs of the investment projects to be included in the annual budget. Later, in function of progress made in preparing this annex and of the quality of costs forecasts, preparing every year a full-fledged three-year rolling public investment program (PIP) can be considered. Such a PIP should be consistent with the budget for its first year. Its out-years will be indicative, but in conformity with the MTFF aggregates

93. A legal text (e.g. a decree) should stipulate the main steps of the development budget preparation process, the documents to be produced at each step, the responsibilities of the different actors (MoF, MoP, line ministries/main budget holders).

6 Monitoring

6.1 Current situation

94. Budget execution reports on payments are currently collected annually. However, taking into account both the payment procedure and the reporting system, it is difficult to assess whether these reports are comprehensive. The payment and the reporting procedures involve different steps. The MoP authorizes allotments to each project, and then the Treasury makes transfers to the bank account of the ministries and implementing agencies, which in turn make the payments. Implementing agencies send reports on the

payments made to the planning department of their ministries which in turn consolidate them to transmit them to the MoP.

95. Moreover, it would be necessary to clarify: (i) the way expenditures made from the appropriations carried-over from the previous budget year are accounted for and; (i) the method for accounting for the uses of letters of credits.

96. Within ministries monitoring of physical progress in implementing investment projects is sometimes done on a case by case basis. However, there is no systematic procedure for monitoring progress in the physical implementation of investment projects.

6.2 Improving financial and physical monitoring

97. Establishing a robust investment project financial monitoring system should be a priority action to improve PIM. Progress in project screening and budget preparation would be difficult or illusory without information on project implementation.

98. In a first step, the financial monitoring system should produce:

- monthly reports on payments, such reports should be available three weeks after the end of the reporting period;

- six-month reports on legal commitments (e.g. signed contracts), including multi-year commitments, such reports should be available three weeks after the end of the reporting period.

99. An information system is being implemented with the support of the World Bank. This system will track the payments and transfers of funds made by the Treasury. In addition, it will be necessary to verify that the uses of the allotments by the implementing agencies are duly reported. This may require setting up appropriate procedures. Allotments to line ministries/main budget holders or to implementation agencies should be made only if a statement of the use of the previous allotments is produced. In addition, to ensure the reliability of budget execution data, appropriations carried over and their uses should be clearly identified.

100. Physical monitoring of the implementation of projects should complete the financial monitoring and should be made at least every 6-month period for the projects of a significant size (e.g. projects of total costs more than LYD 10 millions).

101. Setting up a robust project financial and physical monitoring will need a preliminary study which will consist of:

- identifying and setting up procedures to ensure that payment made by implementing agencies are duly reported and systematically compared to the allotment made by the Treasury;

- reviewing the current procedures for processing the payments made from appropriations carried over after the end of the fiscal year, and if needed making recommendations to ensure that these payments are duly reported and well identified;

- reviewing the current procedures for processing the payments made from letter of credits and if needed making recommendations to ensure that these payments are duly reported and well identified;

- identifying the responsibilities for financial reporting;

- identify the additional functions to be considered for Treasury information system;

- making suggestions, for financial monitoring, on the format of the forms, the periodicity of the reports, the time needed to produce them;

- identifying the scope of physical monitoring (size of the projects to be monitored, sectors for which physical monitoring should be implemented in the immediate)

- identifying the responsibilities and procedures for physical monitoring;

- making suggestions, for physical monitoring, on the format of the forms, the periodicity of the reports, the time needed to produce them.

102. The project monitoring system should be coordinated by the MoP.

7 Training

103. Training is needed in most PIM areas. Lack of planning and socio-economic analysis of project suggests that in every sectors priority should be given to sector planning, socio-economic analysis of projects, and basic PFM procedures. Such training should involve staff of the planning department of line ministries and staff of the ministry of Planning. A training program should be prepared and implemented: The first step will consist of carrying out a training needs assessment, which, among other activities will compare the skills needed for PIM and the skills of existing staff.

104. The modules of training should cover among others the following issues:

- Preparation of sector strategy. Analysis of some sectors, concrete example of strategies
- Presentation of the project cycle
- Project identification: analysis of needs and problems, projects and sector strategy, the logical framework.
- Project preparation: appraisal techniques (CBA, cost-effectiveness analysis, etc.), case studies ;
- Project operational management (planning activities, organizational issues) ;
- Monitoring
- Evaluation

8 Organizational issues

105. Responsibilities in PIM are both fragmented and duplicated. The division of responsibilities between the implementing agencies reporting to the PPA and line ministries is unclear, as well as between the PPA and the MoP. According to some officials, notably from the ministry of Higher Education, sector ministries lack of information concerning projects of their sectors, when there are implemented by an agency not placed under their responsibility, as it is the case of ODAC. In such cases, decisions on the implementation and funding of these projects can be taken without consulting the sector ministry.

106. Streamlined organizational arrangements should be defined and implemented. The investment coordination function should be performed by a single entity (the MoP), while project preparation, appraisal and implementation should be entirely placed under the responsibility of line ministries. However, taking into account the current political situation, it may be difficult to address this issue in the near future.