Strengthening Public Investment Management in Lebanon

POLICY BRIEF

2023

Strengthening Public Investment Management in Lebanon

POLICY BRIEF

2023

ISBN: 978-9953-9043-4-4

Acknowledgments

This Policy Brief describes the status and challenges of Public Investment Management in Lebanon. It identifies, based on international best practices, possible institutional scenarios should the Lebanese Government decide to install a modern PIM function.

It was prepared by the Institut des Finances Basil Fuleihan and Insights Analytica sarl.

The work was mandated by the Minister of Finance. It was supervised by Ms. Lamia Moubayed Bissat, President of the Institut des Finances Basil Fuleihan, and led by Ms. Sabine Hatem, Senior economist and Director of Cooperation and Partnerships at the Institute with substantive contributions by Mr. Iskandar Boustany, Public Financial Management expert, Judge Faysal Makki, Legal expert and Ms. Tonia Salameh, Economist and Data Specialist.

Analysis and findings draw from prior assessments of Public Finance Management and Public Investment Management in Lebanon, available fiscal data and international benchmarks and practices.

The report from which this brief is a summary was reviewed and enhanced by Mr. David Bernstein, Lead Public Sector Specialist at the World Bank, Ms. Rima Koteiche, Senior Governance Specialist, Mr. Ousmane Maurice Megnan Kolie, Senior Public Sector Specialist, and Ms. Fabienne Mroczka, Senior Public Financial Management Specialist.

The Arabic language version of the brief was edited by Ms. Josiane Chebli. The design and layout were done thanks to Ms. Jide Begdache Bacha.

The report was prepared under the World Bank's Implementing 3RF Governance Activities Project. The Institute of Finance and Insights Analytica team are grateful to the Lebanon Financing Facility (LFF) for financing this foundational work.

The Lebanon Financing Facility (LFF) is a multi-donor trust fund administered by the World Bank to kickstart the immediate socio-economic recovery of vulnerable populations and businesses affected by the Port of Beirut explosion of August 2020 and to support the Government of Lebanon catalyze reforms and prepare for medium-term recovery and reconstruction. The LFF is kindly supported by Canada, Denmark, the European Union, France, Germany and Norway.

Disclaimer

The analysis and findings of this brief are the sole responsibility of the authors and do not necessarily reflect the views of members of the Lebanon Financing Facility.

KEY TAKEAWAYS

- Public Investment Management (PIM) relates to the ways governments select, construct, and maintain public assets that are essential to the provision of basic public services or to support economic activity.
- PIM deficiencies often cause disruptions in the provision of basic public services (electricity, water, telecommunication, etc.) and losses in economic opportunities.
- A modern PIM framework is critical to Lebanon's recovery. However, Lebanon's PIM practices are weak and fragmented with large efficiency gaps estimated at 43% (IMF, 2018), twice less than in other countries with a similar level of public capital per capita.
- Challenges include inter alia institutional and legal fragmentation, poor coordination, inefficient allocation of resources, weak project selection and monitoring, weak integration with budget, and weak oversight mechanisms which combined heighten fiscal risks and contribute to inefficiency, corruption, and the poor allocation of funds.
- To prepare for recovery, it is recommended that Lebanon adopts a modern PIM institutional framework, strengthens its capacities for project appraisal, and maintains effective and integrated budgeting processes with a clear account of fiscal risks.
- Possible institutional arrangements (within the current regulatory and legislative framework) includes either (1) Establishing a centralized PIM unit within the Ministry of Finance or (2) Transforming the Council for Reconstruction and Development (CDR) into a Council for Public Investment Management and Development.
- Clear roles, responsibilities, and coordination between the PIM Unit, the Ministry of Finance and other stakeholders are crucial for effective PIM,
- To successfully operationalize a new PIM framework, regulatory and operational enhancements will need to be introduced at various levels, and in particular at the Ministry of Finance, High Council for Privatization and PPPs, across line ministries and spending agencies, SOEs, public corporations, and municipalities, and with the Court of Accounts.

Contents

List of Figures

1. What is Public Investment and why does it matter?

Public investment broadly refers to public capital expenditure for the acquisition, maintenance or improvement of fixed assets (box 1). Such fixed assets are funded through the State budget, through public-private partnerships, or regulated private entities. The largest parts consist of infrastructure projects. These often entail significant up-front costs, have long lead times for both design and implementation, and involve sunk costs including fiscal costs which often carry risks with significant macro-economic implications.

Box 1: There are two main categories of fixed assets.

Tangible assets include:

- Buildings and structures, including all amounts payable for site clearance and preparation and the cost of all fixtures, facilities, and equipment that are integral parts of buildings and structures.
- Machinery and equipment (when separate from buildings and structures).
- Weapons systems (*Some countries exclude weapons systems from PIM for security issues*).

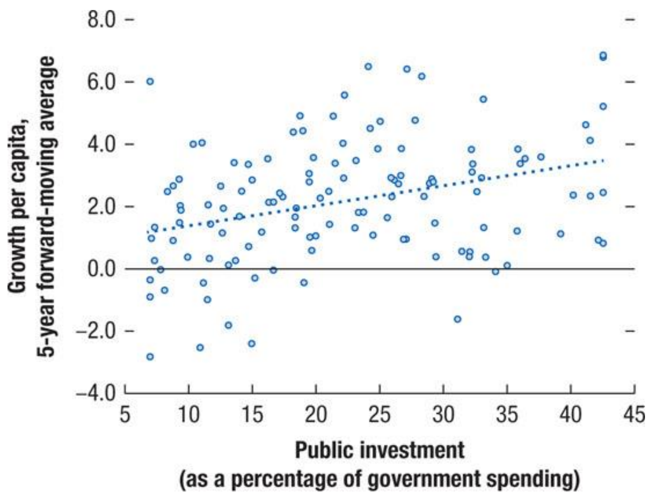
Intangible assets are:

- Intellectual property products, such as research and development, academic fundamental research, applied research and R&D grants and contracts to private sectors, computer software and databases, etc.

Source: IMF, 2014, Government finance statistics manual 2014, URL: https://www.imf.org/external/pubs/ft/gfs/manual/2014/gfsfinal.pdf and European Commission, 2013, URL: https://economy-finance.ec.europa.eu/system/files/2022-10/dp154_en.pdf

A higher share of public investment in government spending is associated with stronger growth (figure 1). When they are well-planned, well-implemented, and sustainable, such investments are key drivers of inclusive economic growth and the reduction of inequalities (IMF, 2020). Public investment also encourages new private investment. Nonetheless, despite strong evidence, it is observed that capital spending is often cut down in times of crisis or fiscal consolidation.

Figure 1: Public Investment and Growth



Source: IMF Capital Stock Data Set; and International Financial Statistics.

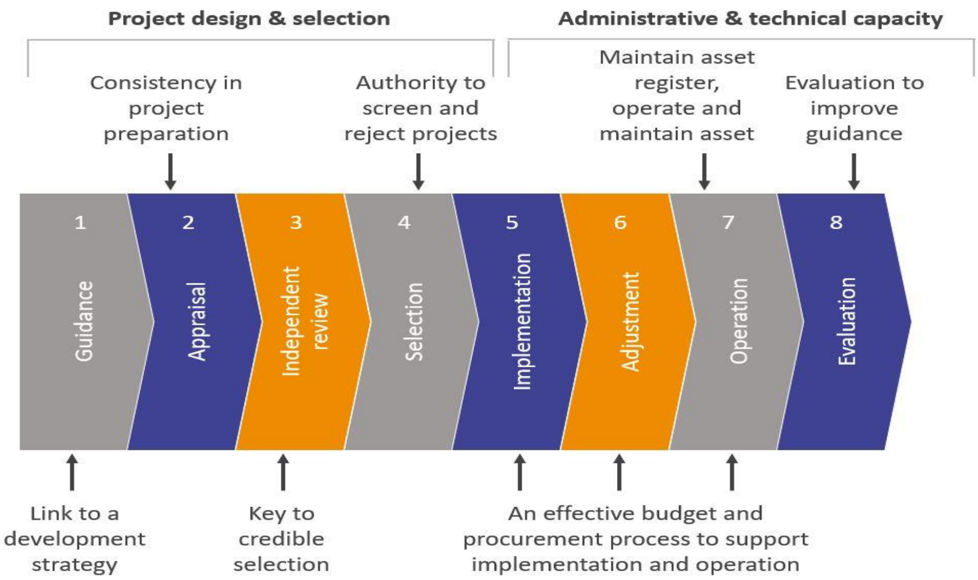
Public Investment Management (PIM) relates to the ways governments public investments are managed, i.e. how governments plan, select, construct and maintain their fixed assets. A weak PIM often leads to projects that are poorly designed, have large costs overruns, experience long delays in construction, and/or yield poor social dividends. Moreover, public investment projects, particularly in infrastructure, are prone to corruption, the direct costs of which include loss of public funds through misallocations or higher expenses and lower quality (IMF, 2020). IMF research estimates at 30% the average global efficiency gap between money spent and the coverage and quality of resulting infrastructure. This ratio could reach 53% in low-income countries (IMF, 2020)

Historically, PIM approaches concentrated public investment into the hands of a separate ministry of planning. This approach proved to have many weaknesses including i) the tendency to become disconnected from fiscal constraints; ii) a mismatch between required funding in the plan and budgetary allocation; iii) procyclical spending; iv) dual budgeting in which investment spending is handled separately from the rest of the budget; v) ineffective sequencing and prioritization of projects; vi) and inadequate planning, design, and monitoring of projects.

Another approach consisted of entrusting investment management to line ministries and making them responsible for harmonizing their investment and recurrent spending. This scenario also carried challenges. Budgets by line ministries tended to be overoptimistic and disconnected from fiscal constraints. Ministries failed to evaluate accurately operating costs and procyclical spending. Dual budgeting, a practice according to which investment spending is handled separately from the rest of the budget, created large fiscal risks. Other shortcomings included ineffective sequencing and prioritization of projects, and inadequate planning, design, and monitoring of projects (Cangiano, Curristine, & Lazare, 2013).

Consequently, many countries opted for arrangements that are both fiscally realistic and effectively integrated into the annual budget process; arrangements that combine effective medium-term budgetary frameworks and the independent reviews of project appraisals (figure 2). Modern PIM frameworks thus favored a clear designation of roles and responsibilities for project implementation as well as legal clarity with respect to standardized rules for project adjustment and procurement. This led many countries to opt for either merging the PIM function into the existing ministry in charge of budgeting (e.g. Finance, Budget or Economy) or creating independent councils/units for Planning and Public Investment and endowed them with technical and financial resources including skilled workforce, analytical tools, specific regulations, etc.

Figure 2: Key features of a Modern Public Investment Management System

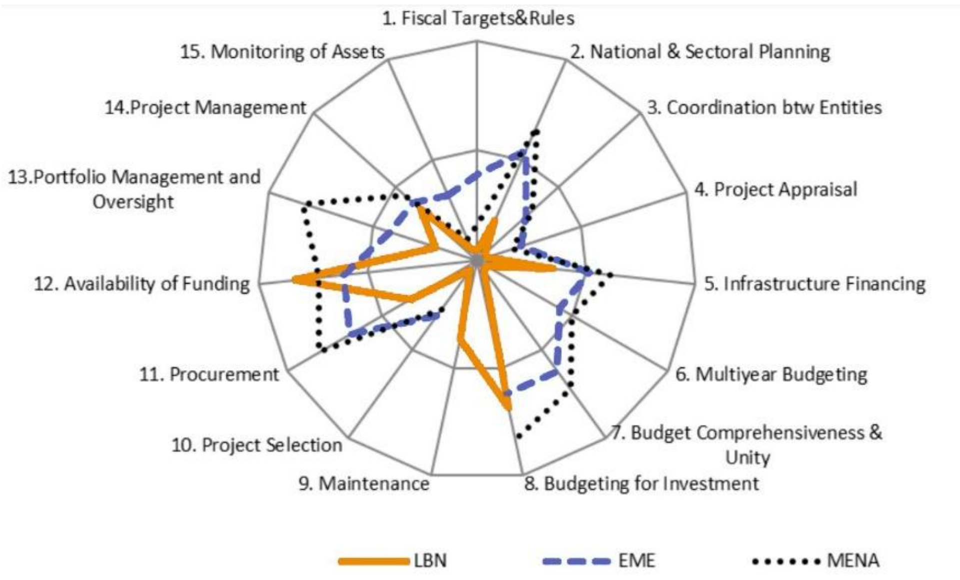


Source: Rajaram, Anand, Tuan Minh Le, Kai Kaiser, Jay-Hyung Kim, and Jonas Frank, Editors, (2014), The Power of Public Investment Management: Transforming Resources into Assets for Growth, The World Bank (adapted)

2. Why does Lebanon need to review its PIM arrangements?

In the past years, Lebanon's practices in PIM were assessed by international organizations as extremely weak and fragmented (figure 3). The PIMA assessment (box 2) carried out by the IMF in 2018 pointed to major losses in efficiency and to rapidly deteriorating infrastructure causing disruptions in the provision of basic public services (electricity, water, telecommunication, etc.) and losses in economic opportunities. Prior to the economic and financial crisis that hit Lebanon in 2019, the IMF estimated the efficiency gap at 43%, twice less than in other countries with a similar level of public capital per capita (IMF, 2018).

Figure 3: Lebanon – Comparing Institutional Design v/s Effectiveness



Source: IMF, 2018, Lebanon Public Investment Management Assessment

Box 2: Public Investment Management Assessment (PIMA)

PIMA is a comprehensive framework designed by the IMF to assess infrastructure governance practices for countries at all levels of economic development. Specifically, PIMA evaluates 15 institutions involved in the three key stages of the public investment cycle:

- ✓ Planning of sustainable investment across the public sector;
- ✓ Allocation of investment to the right sectors and projects;
- ✓ Implementation of investments projects to deliver productive and durable public assets.

Each institution is assessed on both institutional strength (organization, policies, rules and procedures on paper) and effectiveness (degree to which the intended purpose is being achieved in practice or there is a clear useful impact).

PIMA also covers a qualitative assessment of three cross-cutting factors that often impact the overall effectiveness of public investment management: (1) the legal and regulatory framework, (2) staff capacity, and (3) IT systems.

Source: https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/What-is-PIMA.html

Weaknesses in Lebanon's PIM have significant fiscal and economic costs which the country needs to mitigate. Indeed, the fragmented nature of the PIM regulatory framework combined with weak institutional capacity have significant consequences on fiscal discipline, coordination between entities, budget comprehensiveness, and asset monitoring. To date, there are no consolidated processes for public investment planning nor aggregated information on projects and their related finances and budgetary risks. There are no agreed mandatory mechanisms that impose systematic projects appraisal and monitoring nor integration in the budget process (including PPPs), which renders fiscal risks difficult to detect, compile, evaluate and mitigate. The long-term implication on fiscal sustainability is thus difficult to assess. Such incapacity to account for long-term explicit and implicit contingent liabilities[1] impairs the government's fiscal adjustment plan and renders macroeconomic forecasts on debt, revenue, and spending most challenging.

Weak enforcement of existing regulations and oversight mechanisms heighten risks of corruption, the cost of which is estimated to have reached USD 5 billion a year (UNDP, 2020). These were mainly attributed to misallocation of public funds, limited returns on investments, in addition to losses in economic opportunities caused by capital flight and the reluctance of potential investors to enter the market. Bid-rigging, collusion and market sharing mechanisms are thought to have dominated infrastructure contracts with politically connected firms capturing the majority of investment projects (The Lebanese Center for Policy Studies., 2021).

Maintaining PIM current framework and practices in place is costly for Lebanon (figure 4). In the context of the current crisis, the most vulnerable population that is increasingly dependent on basic public services provision, would be impacted the most. Scarce resources allocated to developing new infrastructure or maintaining existing ones would be at the risk of being wasted or mismanaged, with citizens denied equitable and affordable access to essential services.

Putting in place a well governed PIM framework is key to the strategic allocation of scarce resources and to prioritizing investments in sectors that directly impact the most vulnerable populations. It is essential to Lebanon's aspiration for economic recovery including its propensity to attract domestic and foreign investments. Research conducted by the IMF indicates that increasing public investment by just 1% of GDP in emerging market economies can significantly revive economic activity, boost GDP by 2.7%, private investment by 10%, and employment by 1.2% (IMF, 2020).

Figure 4: Common problems and potential consequences of PIM failings

COMMON PROBLEMS	POTENTIAL CONSEQUENCES
▪ Development plans disconnected from actual budgets or projects and vice versa ▪ White elephant projects with little socioeconomic value ▪ Lack of pipeline of high-quality projects ▪ Projects awarded to unqualified firms ▪ Opaque resource-for-infrastructure deals without due safeguards for ensuring good value ▪ Corruption or delays in procurement ▪ Delays in land or site acquisition ▪ Cost escalation, time overruns ▪ Contract disputes or abandoned projects ▪ Poor quality of completed projects ▪ Poor operation and maintenance of completed assets ▪ Institutional inertia or no systemic response to problems	▪ Creation of few valuable public assets ▪ Lack of key public facilities ▪ Stock of decaying infrastructure: power and water shortages, road and railway accidents, crowded hospitals, deteriorating human development index ▪ Failure of investment to spark growth and improve social welfare ▪ Difficulty of countercyclical expansion of investments ▪ Creation of a liability if investment is financed by debt ▪ Burden on citizens and private sector if investment is financed by taxes ▪ Reduction in net wealth if investment is financed by the extraction of finite natural resources ▪ Macroeconomic instability ▪ Political instability ▪ Fiscal pressures and risk

Source: World Bank (2020), Public Investment Management Reference Guide

[1] Explicit contingent liabilities are Government liabilities as recognized by a law or contract. Implicit contingent liabilities are moral obligations of government that reflect public and interest-group pressures. They can take the form of unaccounted for future recurrent costs of public investments or in the event of municipalities or public entities' default on nonguaranteed debt and other obligations arising from contracts they have committed to but not included in the budget.

The Government of Lebanon has made clear its commitment to strengthen PIM practices as a step to optimize the use of foreign financing to be allocated to infrastructure spending. This commitment is clearly set under Article 8 of its Financial Recovery Strategy and Memorandum of Economic and Fiscal Policies submitted to Parliament in May 2022. A modern PIM framework is also required by the international donor community who is engaged to support the Government in the roll-out of its recovery plan. Hence the need to set the foundations for an effective well-governed PIM framework, able to strategize and prioritize capital spending (whether domestically or internationally sourced), and mitigate risks of corruption, inefficiency and waste.

Box 3: How Chile modernized its PIM framework

Chile's Modern project appraisal for public investment started in 1975, with the establishment of the National System of Investments (SNI) at the Ministry of Planning (MoP), administered jointly with the Ministry of Finance (MoF).

The unique appraisal process of the Chilean system starts with a 'policy idea' advanced by a government unit that enters it into a data bank of projects (BPI), where it gets assigned an ID. This 'idea' is then developed into a project profile that is subsequently subjected to a pre-assessment study—including an examination of legal and technical issues, as well as a socio-economic analysis. Once the required documentation is put together, the project ID is entered into the SNI. The MoP proceeds with its appraisal which includes a review of legal issues, and alignment with policy priorities. It consequently issues a positive or a negative recommendation. Upon a positive initial recommendation, a full-fledged Cost-Benefit Analysis is performed, and based on its results, the MoP—also taking into account the MoF's sectoral draft budget envelopes—issues either a positive recommendation or rejects the project.

The SNI was thus able to manage to improve the quality of its public investment, promote economic growth, and maintain fiscal discipline in Chile. Key investments in the country's basic infrastructure backbone, essential for economic development and welfare, were successfully rolled-out allowing Chile to achieve near-universal access to basic and essential services. Additionally, gross domestic product (GDP) per capita was raised drastically, from USD 4,787 in 1990 to USD 22,197 in 2015.

Sources: (World Bank, 2006); (OECD, 2017)

Box 4: How Tunisia modernized its PIM framework

The Government of Tunisia established in 2017 a strategic and institutional framework for the management of public investment (Government Decree No. 2017-394 of March 2017), **which created a unified framework for appraising and managing public investments.**

This decree established the National Committee for the Approval of Public Projects (CNAPP), and set the responsibilities of the various public entities. According to the decree, the CNAPP was assigned the responsibility for unifying the management of public investment, monitoring the implementation of the development plan and ensuring better coordination between the proposed projects to be included in the State budget.

Tunisia's structural and cyclical challenges were addressed through the prioritization of public investment projects based on a multidimensional approach and standardized selection tool called TARTIB.

In addition, the Public Investment Governance Support Project (PAGIP) pursued investment budget credibility (2018-2019). It consolidated the appropriation of project selection methods and tools and strengthened other stages of the PIM chain upstream (project identification and preparation) and downstream (project monitoring and evaluation).

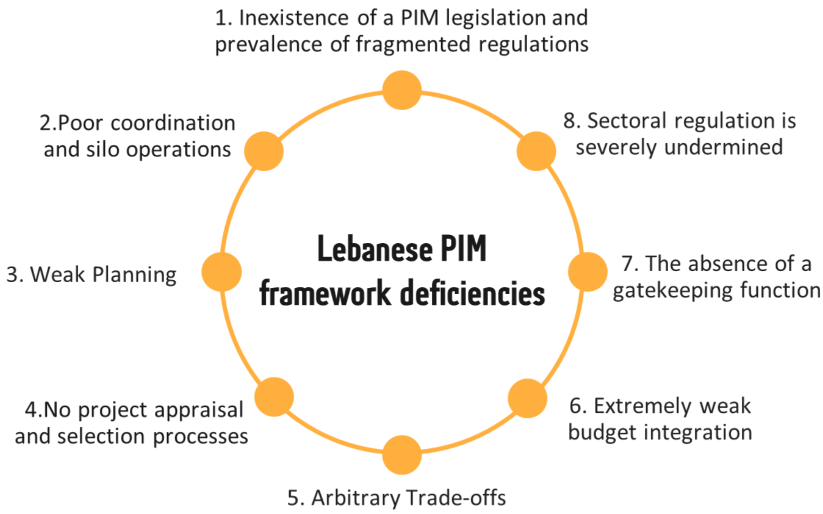
Going forward, and given the significant budgetary constraints, the Government of Tunisia through the Ministry of Economy and Planning intends to improve the performance of the PIM system by focusing on budgeting issues and the coordination with the Ministry of Finance. It intends to expand the TARTIB tool into a web-based application, improve government capacities as well as operational and governance mechanisms.

Source: World Bank, 2023, Support to the Tunisia Public Investment Management Reform

3. The current state of PIM in Lebanon

The current Lebanese PIM framework presents the following deficiencies[2] (figure 5):

Figure 5: Lebanese PIM framework deficiencies



Source: IMF, (2018), Lebanon Public Investment Management Assessment

1. **Inexistence of a PIM legislation and prevalence of fragmented regulations:** The current legal framework governing public investment management in the country is characterized by 1) the absence of standalone PIM legislation and 2) fragmented and overlapping regulatory texts, only partially aligned with international good practice.
2. **Poor coordination and silo operations:** It is observed that line ministries, public institutions, municipalities, independent extra-budgetary funds, and many public corporations design, initiate and implement public investment projects independently, with little coordination, synchronization or prioritization (box 5 and figure 7).
3. **Weak Planning:** Except for the Capital Investment Program prepared in 2018, there is no evidence of an overarching national investment plan that guides decisions on priority projects, whether these should be undertaken at all, in which sequence and using what financing/procurement modalities.
4. **No project appraisal and selection processes:** The absence of a systematic approach to project appraisal and selection further exacerbates the situation and heightens risks of inefficiency and corruption.
5. **Arbitrary Trade-offs:** Evidence and policy-based mechanisms to guide sectoral trade-offs and address resource constraints are quasi-inexistent.
6. **Extremely weak budget integration:** The financing of public investment is planned, allocated and disbursed in a fragmented way across different stakeholders. Many major investment projects are not channeled through the national budget. Their maintenance and other related costs are seldom

[2] Compiled from the diagnostic review carried out by the Institut des Finances Basil Fuleihan-Ministry of Finance,- in the framework of the project "Strengthening Accountability and Transparency in Mashreq Countries (P176495) Lebanon" managed by the World Bank, part of the 3RF Governance Pillar Subtask (P178520).

accounted for in the budget. Donor-financed projects, as well as the capital spending by State-Owned Enterprises (SOEs) and public institutions, are not integrally adequately included in the annual budget. Sunk costs prevail and entail unaccounted for fiscal risks.

7. **The absence of a gatekeeping function:** The Ministry of Finance is in many cases uninformed and does not have the legal rights nor the means to comment/stop a public investment project that may pose significant risk to public finances.
8. **Sectoral regulation is severely undermined:** The regulatory bodies often report to ministers instead of operating autonomously. This weakens sectoral oversight, notably over public institutions.

The above described situation generates large risks that were grouped into three main categories: 1) budgetary/fiscal risk, 2) economic and corruption risk and 3) societal risk (figure 6).

Figure 6: Fiscal, Economic, and Social Risks Associated with the Current Lebanese PIM Framework

1. Fiscal Risks, emanating from weak integration within the budget cycle	2. Economic and corruption risks, emanating from the absence of standardized processes	3. Societal risks, emanating from poor planning, prioritization, sequencing and quality infrastructure projects
• Given that the Ministry of Finance does not have a comprehensive overview of the financing volume nor requirements, efforts for fiscal consolidation and fiscal management remain severely undermined. This diminishes visibility over additional financing needs and renders the assessment of budgetary risks rather complicated, heightening the country's fiscal risks.	• This results in cost escalations and time overruns, poor operation and maintenance, collusion, bid rigging and prevalence of unqualified or politically-connected firms.	• This carries serious consequences on the timely and quality delivery of basic services, especially to the poor and vulnerable communities.

Box 5: Key institutional players in the PIM process

- **Line ministries and other spending units** with their departments and subordinated agencies, where projects originate and are implemented.
- The **Ministry of Finance**, which has a critical role in coordinating capital budgeting for new and ongoing projects and in "validating" resources' availability.
- The **Council of Ministers** or an **inter-ministerial committee** (or similar committee), which may have a role in confirming appraisal decisions and selecting projects to compete for budget funding.
- A **ministerial committee**—made up of finance, public works and others infrastructure related ministers—with powers delegated from the council of ministers for major projects and for guiding policy formulation.
- The **High Council for Privatization and Public-Private Partnerships.**
- The **Council for Development and Reconstruction**
- The **Parliament** that makes the final decisions on project funding through the budget process.

Well-informed, structured decision making prior to implementation is essential for a good PIM system.

Source: Adapted from World Bank, 2020, Public Investment Management Reference Guide, Chapter 4.

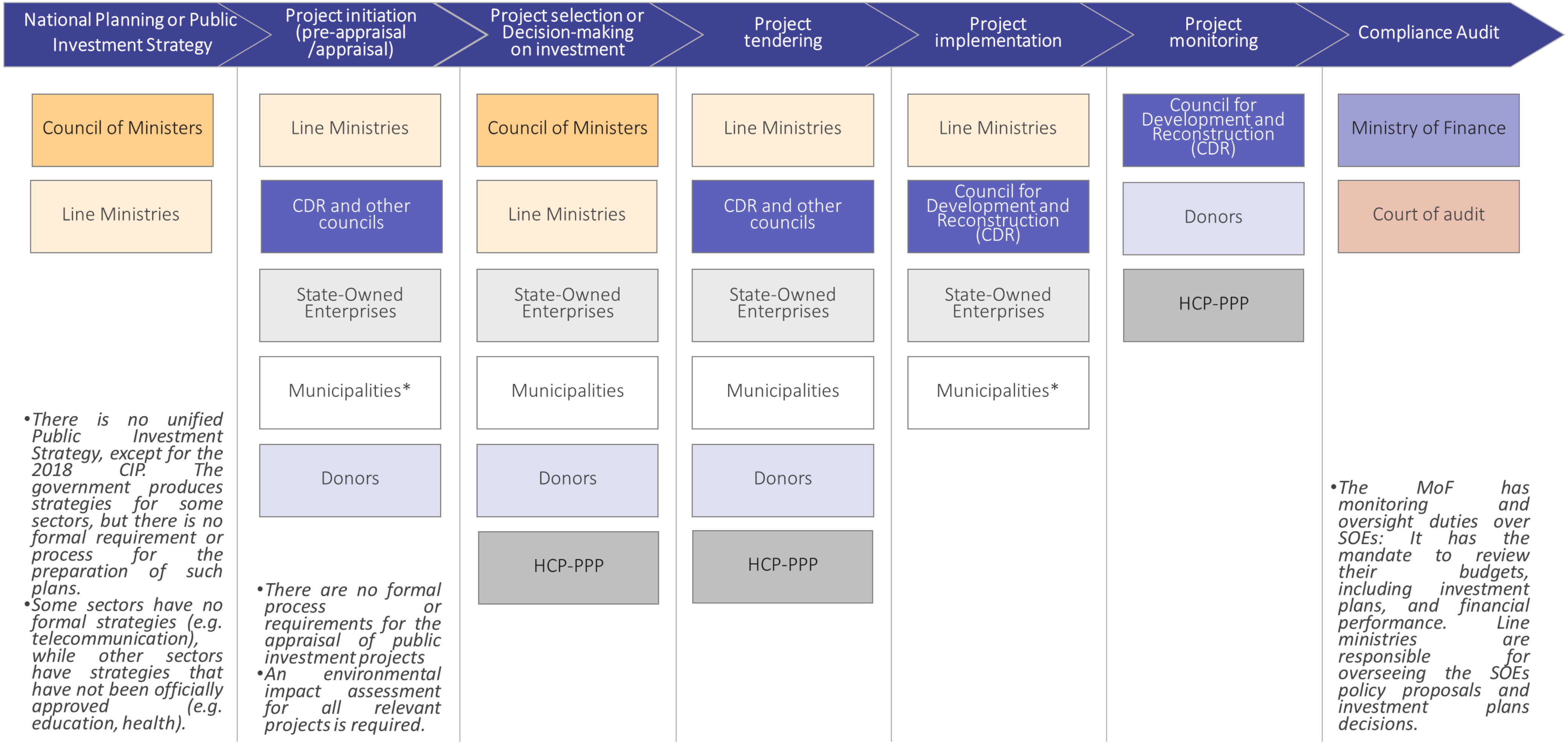
Box 6: Challenges of the Ministry of Finance in overseeing and monitoring capital spending and asset management

The evaluation of public investment conducted by public corporations is particularly challenging. Despite the Ministry of Finance's mandate to exercise financial oversight over these entities, it does not receive the necessary financial data to fulfill this role effectively. In addition, line ministries responsible for overseeing investment plans and decisions of public corporations affiliated to them often fail to carry out their supervisory responsibilities systematically. This lack of oversight and evaluation mechanisms further complicates the management and effectiveness of public investment in Lebanon.

Another significant challenge lies in the absence of comprehensive and up-to-date information on the government's asset stock. The Ministry of Finance lacks the necessary data to develop an efficient asset management policy and improve revenue collection. Without accurate and detailed record-keeping, the country faces difficulties in strategically managing state assets and maximizing their potential benefits

.

Figure 7: A schematization of Lebanon's Current Public Investment Management process



4. What can policy makers do to improve PIM in Lebanon?

It is evident that an in-depth structural reform of the regulatory and institutional environment of public investment management is fundamental, should Lebanon wish to achieve better outcomes from public investment. Lessons learned from countries' experiences point to the following five (5) key steps policy makers need to be aware of, the first being the establishment of a PIM central unit.

Figure 8: Five steps to reform the regulatory and institutional environment of PIM

A newly established PIM unit would be the single government agency exercising supervisory functions of public and mixed investment projects conducted by all entities disbursing public funds, including SOEs, public corporations and municipalities. It would be in charge of issuing recommendations, raising the awareness of decision-makers on existing risks, developing standards, technical and economic procedures, guidelines, rules and methodologies for the pre-appraisal, appraisal and post-evaluation phases, and proposing updates, instructions and norms to enhance the overall PIM system.

The PIM unit main role would be to:

- Improve PI planning and prioritization, in line with national needs and objectives;
- Enhance resource allocation for public investments;
- Develop comprehensive and efficient project implementation systems.

Capital budgeting would remain the responsibility of the Ministry of Finance. This PIM unit would closely work with the Ministry of Finance to ensure that the fiscal framework covers comprehensively public investment projects, that their time horizon is adequately long, and their costs are accurately reflected.

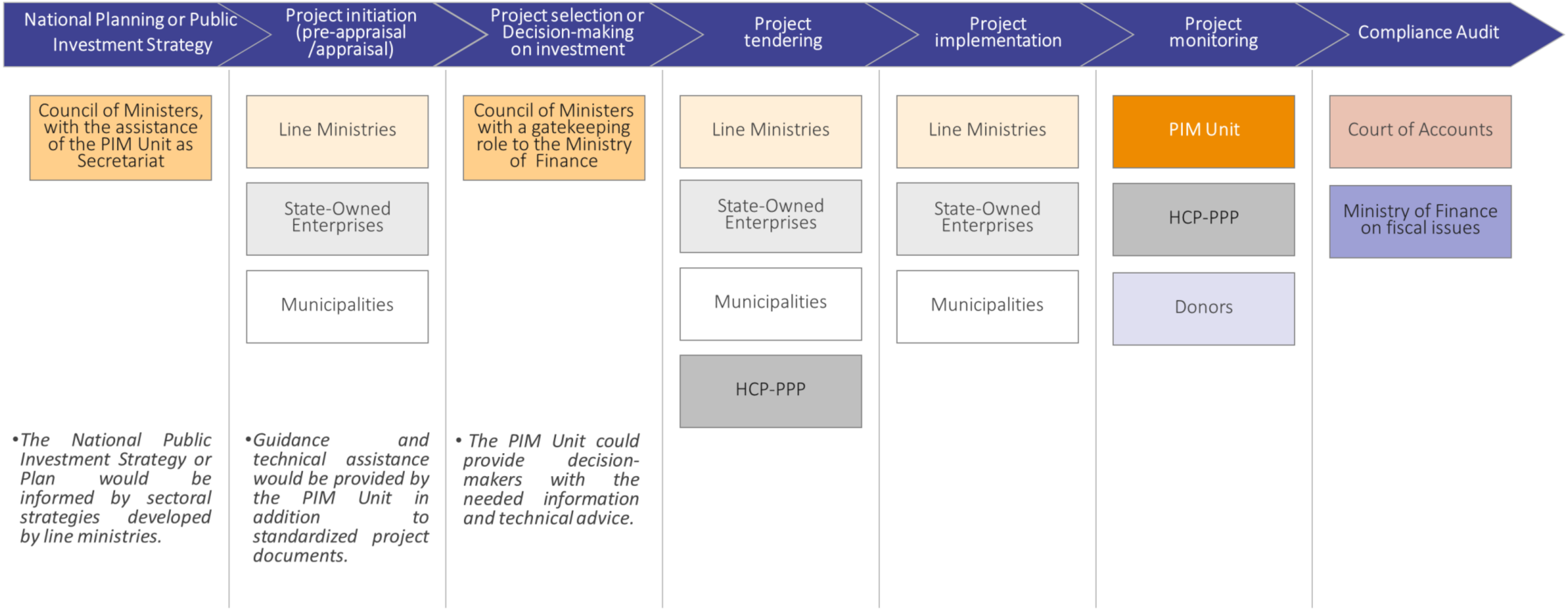
The PIM unit would be endowed with enough autonomy and margin of maneuver to liaise with all spending entities across governments and to report directly to key decision-makers such as the Council of Ministers, the Ministry of Finance or the Parliament (box 7).

The PIM Unit would provide its "Seal of Approval" to any investment initiative, before it is put on the agenda of the Council of Ministers for the final investment decision (figure 9).

Box 7: Roles and responsibilities of the PIM Unit

- Facilitate the implementation of a robust regulatory framework to guide PI.
- Lead on the design and /or update the national public investment strategy or plan, prepare studies on investment opportunities and challenges, and provide advice to the Government.
- Build and maintain a database of public investment projects.
- Take part to the mobilization of foreign financing for public investment including of innovative financing instruments, in coordination with the Ministry of Finance and the High Council for Privatization and PPP.
- Set standards and guidelines and develop manuals for the pre-appraisal and appraisal phases and monitor their application.
- Offer technical assistance and advice to line ministries and spending agencies in preparing their calls for projects.
- Escalate concerns and risks to concerned ministers and decision-makers.
- Coordinate planning with the Ministry of Finance.
- Work with ministries and implementing agencies to build capacities across the cycle of PIM.
- Manage land acquisitions, expropriations, etc. when needed for a public investment project.
- Conduct or coordinate independent reviews and provide advice on proposals.
- Carry-out or oversee the ex-post evaluations
- Provide an annual review of progress on the implementation of the public investment plan or strategy.
- Publish data and information related to PIM.

Figure 9: NEW PIM workflow following the establishment of a PIM Unit



5. Institutional scenarios for establishing the PIM function in Lebanon

The analysis of international practices and lessons learned from various countries including those with similar circumstances pointed to two possible institutional arrangements for the establishment of a PIM unit in Lebanon:

Scenario 1: A unit within the Ministry of Finance

The first scenario suggests establishing a new PIM unit within the Ministry of Finance. By locating the unit at the departmental level, it would have direct lines of communication with senior officials and decision-makers, ensuring effective coordination. The unit could be created as a new Directorate in the Department of General Finance (DGF), similar to other directorates such as Budget and Expenditure Control. This administrative arrangement would provide the PIM unit with the authority to liaise with key decision-makers and participate in strategic planning. This arrangement would require the enactment of a law presented by the Council of Ministers or Members of Parliament.

Scenario 2: A reengineered CDR

The second scenario considers transforming the Council for Reconstruction and Development (CDR) into a **Council for Public Investment and Development** responsible for planning and overseeing PIM. The CDR, with its accumulated experience in managing capital investment projects, could leverage its existing expertise. The CDR currently operates under the premiership of the Council of Ministers and enjoys administrative and financial autonomy. Transforming the CDR would involve amending its role gradually and assigning it the task of managing public investment. This transformation would require a law passed by Parliament and an institutional assessment to identify areas for improvement.

In this case and since the unit handling PIM functions would be located outside the Ministry of Finance, a clear demarcation of roles and responsibilities between the Ministry and the PIM unit would be crucial.

Figure 10: Possible scenarios for institutionalizing a PIM unit in Lebanon within the current legal framework

Scenarios	Opportunities	Weaknesses
Scenario 1: Establish a new PIM unit at the Ministry of Finance in the form of a Directorate of Public Investment	▪ Strengthening capital spending and enhancing integration with the budget	▪ Existing shortcomings in budget planning and execution need to be addressed ▪ Depleting HR at the Ministry of Finance
Scenario 2: Transform the CDR into a Council for Public Investment and Development	▪ Capitalize on existing expertise in managing capital investment projects	▪ CDR mixed track record ▪ Requires a thorough institutional assessment for the restructuring of the CDR ▪ Requires clear coordination mechanisms with the MoF for capital budgeting

While the two proposed institutional scenarios offer viable solutions, it is crucial given the fiscal fragility of the country that the Ministry of Finance retains responsibility for capital budgeting, while the PIM unit provides strategic guidance, manages pre-appraisal and appraisal stages, conducts independent reviews, and takes the lead on monitoring, ex-post review, and evaluation.

Both scenarios require the deployment and use of an Integrated Financial Management System and of an automated gateway process (boxes 8 and 9) that establishes quality-at-entry processes and compliance checks that prevent ineligible projects from being "parachuted".

Box 8: How to put in place a gatekeeping function?

A robust gatekeeping function is necessary for a good and efficient PIM system. It is usually performed by the Budget department at the Ministry of Finance and the latter is provided with the authority to veto or stop PI projects that endanger fiscal sustainability at any stage of the project cycle.

Operating an efficient gatekeeping function would require from the Ministry of Finance to have the capacity to:

- Assess projects' affordability at the different stages of the project lifecycle.
- Perform analysis on long-term fiscal implications of any PI project.
- Propose decisions to the Minister of Finance to be shared with PI decision-makers.
- Ensure an adequate financing per project.
- Provide a medium-term perspective for fiscal and expenditure planning, notably that related to PI to allow for strategic investment planning, prioritization and decision-making in view of limited resources available through the budget.
- Fix a binding ceiling (or resource envelop) for capital budgeting in the annual budget.
- Facilitate the inclusion of projects in the budget process and allow for multiyear expenditure programming[3].
- Monitor project implementation against related disbursements.
- Assess, monitor and manage fiscal risks arising from the various PI projects.
- Report on the fiscal implications of PI projects.

Box 9: The case of South Africa in putting in place proper budget safeguards.

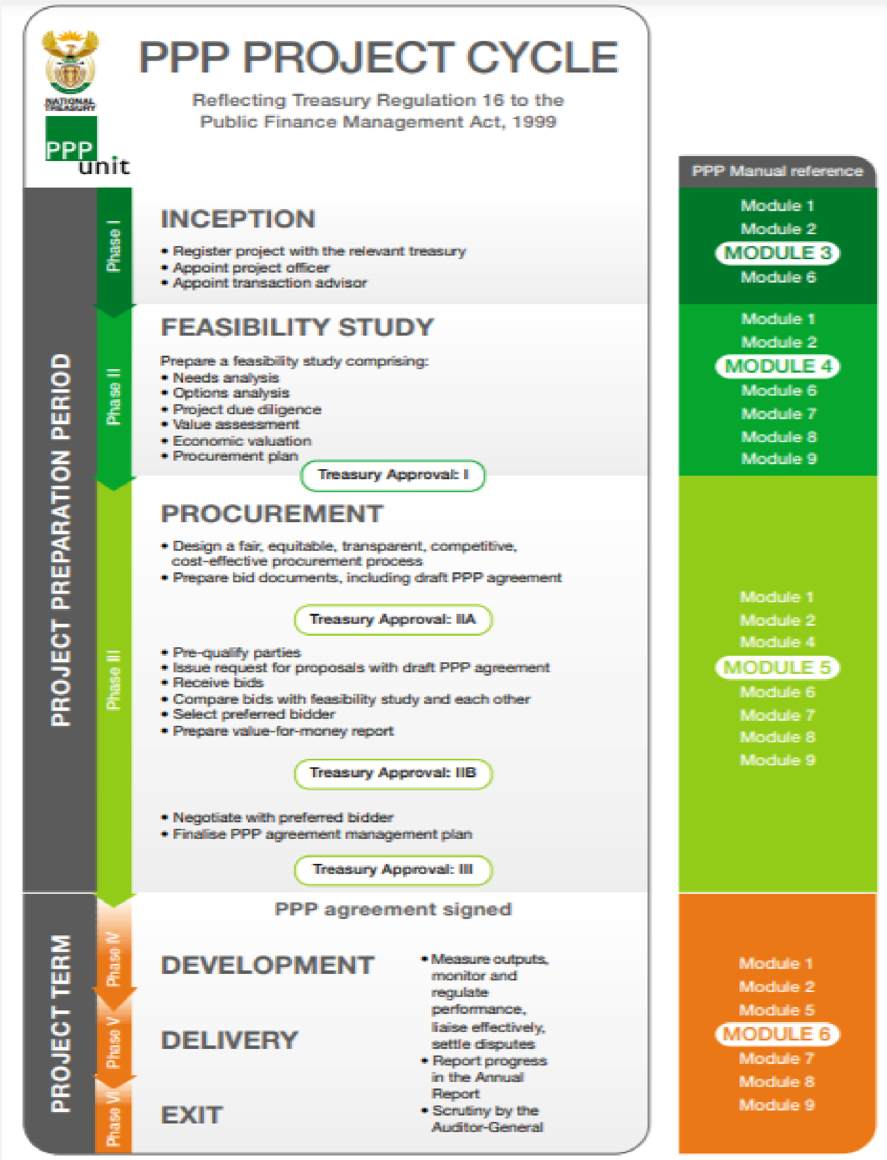
South Africa has put in place a "gateway review process" that examines PI programs and projects at key decision points in their lifecycle.

The gateway process takes the form of a points system through which all PI projects are screened by the National Treasury to provide assurance that they can progress successfully to the next stage, notably:

1. After concluding the feasibility study
2. Once tender documents are completed (including draft PPP contracts)
3. Upon the bidder selection and preparation of a "value-for-money" report
4. Upon the finalization of negotiations with the bidder
5. Upon the finalization of the PPP agreement/contract, and
6. During any renegotiation.

[3] In the absence of medium-term planning, it is essential to prepare forward estimates that capture the implications of ongoing public investment projects for future expenditures and to integrate them later into the related budget.

Moreover, article 16 of the Public Financial Management Law has created a PPP unit within the National Treasury in 2000, with the aim to stop PPP projects that are fiscally unstainable, set clear rules of collaboration and enhance financial surveillance.



Source: *Republic of South Africa, 2012, Standard for an Infrastructure Delivery Management System*

6. Who can advance PIM practices and how?

Similar to all cases requiring the design and implementation of complex reforms, nationwide consultations, awareness-raising and a participatory approach shall be prioritized to 1) improve the understanding of PIM challenges and modern practices, 2) address resistance to change and 3) build a coalition of committed reform champions across the public and private sectors and civil society.

Furthermore, building an effective PIM System is a multi-year task that requires, in addition to the establishment of a PIM unit, coordinated efforts across a multitude of institutions and stakeholders and the implementation of regulatory and operational enhancements.

The following table summarizes the roles expected from the main stakeholders and the changes they need to own.

(icon ■ refers to importance and ● influence; color gray refers to low, yellow to medium and red to high)

Stakeholder	Current role in PIM	Changes to be introduced into the current framework
The Ministry of Finance ■ ●	▪ Approve and coordinate capital budgeting ▪ Assess and manage fiscal risks generated from PI projects	Establish a "Gateway Process" (Boxes 7 and 8) for all investment projects, account for contingencies, introduce multiannual commitment appropriation, integrate capital and recurrent expenditures, estimate a capital baseline, modernize accounting standards and strengthen its capabilities in capital budgeting.
The High Council for Privatization and PPP ■ ●	▪ Plan and implement privatization programs ▪ Manage PPPs	▪ Amend the 2017 PPP law to grant the Ministry of Finance a gatekeeping role with the authority to stop projects that endanger fiscal sustainability at key stages of the project cycle. ▪ Put in place the needed institutional arrangements and tools (e.g. risk matrix) to make sure that the fiscal impact of PPP projects are properly identified, assessed and managed. ▪ Integrate PPPs in a multi-year investment plan linked to a resource envelope.
Line ministries / Spending agencies ■ ●	▪ Originate and implement PI projects	▪ Be aware and trained on PIM framework and practices. ▪ Get acquainted with the new procedures in view of taking at a later stage full responsibility for their own projects.
SOEs, public corporations and municipalities[4] ■ ●	▪ Originate and implement PI projects	▪ Comply with the new PIM rules and regulations. ▪ Regularly publish financial reports on Public Investment projects based on unified standards.
The Court of Accounts ■ ●	▪ Provide an external review and judgement on the legality and probity of the Government's financial statements and performance	▪ Introduce value-for-money audits on pilot PI projects ▪ Release the CoA from pre-approvals to focus on post audit ▪ Apply strict deadlines for issuing legal opinions.

[4] Most of these entities currently operate off-budget.

Coordination among the listed stakeholders should be prioritized in order to ensure realistic macro-fiscal frameworks, attract appropriate financial resources, and optimize the management and outcomes of public investment projects.

Finally, to put in place a viable modern PIM framework, priority support would be needed to:

1. Strengthen the government's capacity for project appraisal to avoid selecting low-quality projects.
2. Put in place robust central coordination mechanisms to prevent overlaps and ensure coherent integration of both domestic and external investment projects.
3. Integrate capital and current expenditures to sustain investments post-completion.
4. Focus on procurement modernization.
5. Reinforce capacity for the estimation of recurrent costs.
6. Impose independent government reviews of completed PI projects.

References

Arabnet; Konrad Adenauer Foundation. (2022). *Braving the Storm: Safeguarding the Lebanese Innovation Economy.* Retrieved from https://www.kas.de/en/web/libanon/single-title/-/content/braving-the-storm-safeguarding-the-lebanese-innovation-economy

Atif, A., Flyvbjerg, B., Budzier, A., & Lunn, D. (2014, March). Should We Build More Large Dams? The Actual Costs of Hydropower Megaproject Development. pp. 1-14. doi:10.1016/j.enpol.2013.10.069

Cangiano, M., Curristine, T., & Lazare, M. (2013). *Public Financial Management and Its Emerging Architecture.* doi:https://www.elibrary.imf.org/display/book/9781475531091/9781475531091.xml

Central Administration of Statistics. (2022, 7 2). Key indicators. Retrieved from http://www.cas.gov.lb/index.php/key-indicators-en#:~:text=The%20average%20inflation%20rate%20in%202020%20is%2084.9%25.

Council of Ministers. (2022, 5 20). Financial Recovery Strategy and Memorandum of Economic and Fiscal Policies.

Couto&Gomide. (2022). *The Brazilian way of doing public administration - Chapter 1: Public Sector Planning, Retrieved from.* Retrieved from https://www.researchgate.net/publication/361292176_CHAPTER_1_-PUBLIC_SECTOR_PLANNING

ESCWA. (2021). *Multidimensional poverty in Lebanon (2019-2021) - Painful reality and uncertain prospects.* Retrieved from https://www.unescwa.org/sites/default/files/news/docs/21-00634-_multidimentional_poverty_in_lebanon_-policy_brief_-_en.pdf

EU, UNDP, WB. (2020). *Lebanon Reform, Recovery and Reconstruction Framework (3RF).*

Gherbal Initiative. (2022, 7 2). Loand and Grants. Retrieved from https://elgherbal.org/loans-grants

IMF. (2017). *Conflicts and Lebanon's Capital Stock - IMF Country Report 17/20.*

IMF. (2018). *Georgia Public Investment Management Assessment.* Retrieved from https://mof.ge/images/File/PIMA-2018-IMF.pdf

IMF. (2018). *Lebanon Public Investment Management Assessment* .

IMF. (2020, October 5). *Public Investment For The Recovery*. Retrieved from IMF Blog : https://www.imf.org/en/Blogs/Articles/2020/10/05/blog-public-investment-for-the-recovery

IMF. (2022). *Congo 2022 Article IV Consultation and Second Review under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria and Financing Assurance Review.* Retrieved from https://www.imf.org/en/Publications/CR/Issues/2022/07/05/Democratic-Republic-of-the-Congo-Staff-Report-for-the-2022-Article-IV-Consultation-Second-520400

Institut des Finances Basil Fuleihan. (2022). *Hanging by a thread: Assessing the crisis' impact on Lebanese state institutions (2020-2021).*

Ministry of Finance. (2022). *Report on the Draft Budget Proposal for 2022.* Retrieved from http://finance.gov.lb/en-us/EventPdfs/English/Budget%202022.pdf

OECD . (2014). *Foreign Bribery Report.*

OECD. (2017). *Gaps and Governance Standards of Public Infrastructure in Chile.* doi:https://doi.org/10.1787/9789264278875-en

Policy and Management Consulting Group. (2019, 11 9). *Supporting MoF to Improve and Institutionalize Public Investment Management Methodology*. Retrieved from PMCG: https://pmcg-i.com/project/supporting-mof-to-improve-and-institutionalize-public-investment-management-methodology/

Rajaram, Anand, Le, T. M., Kaiser, K., Kim, J.-H., & Frank, a. J. (2014). *The Power of Public Investment: Transforming Resources into Assets for Growth.* The World Bank.

The Lebanese Center for Policy Studies. (2020). *Public Resource Allocation in Lebanon: How Uncompetitive is CDR's Procurement Process?* Retrieved from https://api.lcps-lebanon.org/content/uploads/files//1595575975-cdr_article_july2020.pdf

The Lebanese Center for Policy Studies. (2021). *Public infrastructure procurement in post-conflict power-sharing arrangements: Evidence from Lebanon's Council for Development and Reconstruction.*

The Lebanese Center for Policy Studies. (2021). *Public infrastructure procurement in post-conflict power-sharing arrangements: Evidence from Lebanon's Council for Development and Reconstruction. .*

UN. (2022). *Visit to Lebanon - Report of the Special Rapporteur on extreme poverty and human rights, Olivier De Schutter.* Human Rights Council . Retrieved from http://undocs.org/A/HRC/50/38

UNDP. (2020, 08 21). UN Geneva Twitter Account. Retrieved from https://twitter.com/ungeneva/status/1296847029037985792

World Bank . (2020). *Public Investment Management Reference Guide .*

World Bank . (Spring 2021). *Lebanon Economic Monitor, Lebanon Sinking (to the Top 3).*

World Bank. (2006). *Chile : appraisal of public investment.* Retrieved from https://documents1.worldbank.org/curated/en/666151468216003237/pdf/406180CL0Publi1b1OFFICIAL0USE0ONLY1.pdf

World Bank. (2018). *Jordan - 2018 Public Investment Management – Public Private Partnership Governance Framework.* Retrieved from https://documents1.worldbank.org/curated/en/479251538744462781/pdf/09a-JORDAN-Simplified-PIM-PPP-Governance-Framework-EN-19-May-2018.pdf

World Bank. (2020). *Public Investement Management Reference Guide.*

World Economic Forum. (2019). *The Global Competitiveness Report 2019.* Retrieved from https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Zein, F. E., & Sims, H. (2004). *Reforming war's administrative rubble in Lebanon.*