

UNPACKING THE GOVERNMENT'S MEGA DEALS, ARE THEY PANACEA TO ZIMBABWE'S ECONOMIC PROBLEMS



WORLD BANK GROUP

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SPEAKING ON BEHALF OF THE WORLD BANK

- WB done a lot of work of these mega projects- TA, and funding
- Eg Batoka Gorge Hydro power (feasibility), Hwange Thermal Power(TA)
- Mandate –ending extreme poverty and promoting shared prosperity
- *Lots of Literature:*
- Rajaram, A., Le, T.M., Biletska, N. and Brumby, J., 2010. A diagnostic framework for assessing public investment management. *World Bank Policy Research Working Paper Series, Vol.*
- World Bank (2016) Ukraine- Fiscal Space for Growth: A Public Finance Review
- World Bank (2014) Republic of Guinea Public Expenditure Review
- Botswana TA-ongoing- Megaproject Unit

OUTLINE

- What are mega projects (deals)
- Benefits but.....
- Key steps to follow
- Cost effectiveness- how?
- How far is Zimbabwe- countries examples

What are mega projects (deals)

- Projects classified with budget of more than US\$1 billion,
- Projects of a significant cost that attract a high level of public attention or political interest
- Take more than 5 years to implement
- Wide macroeconomic impact that is totally transformational
- High risky projects
- Megaprojects amounts to some \$6-9 trillion a year, roughly 8% of global GDP
- ZimAsset identifies infrastructure development as one of the key pillars of economic development

Examples

- 2013- Chisumbabje Ethonal Project (600 million)
- Plumtree- Bulawayo-Harare-Mutare Road- US\$300 million
- Sengwa Thermal Power Near Gweru- June 2016- Dangote interested
- China mega projects- 2014-
- Dualisation of the country's highways
- New parliament- 2016
- Hwange Thermal Power station expansion project
- Batoka power project
- With Russia- dam construction, irrigation development and water management.
- US\$3 billion Zimbabwe-Russia Great Dyke Platinum investment

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BENEFITS

- Economic growth- static and dynamic
- Poverty reduction
- Employment
- Exports
- Government revenue/ fiscal space
- Market for SMEs/ local industries
- Roads- travel time, accidents, car operational costs, environment
- Spatial market integration
- Human capital

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Let me be more regional- Zambezi River Basin Project- Batoka

- Would be benefits:-
- Can facilitate over US\$10 billion in investment alone
- Additional 60 000 GWh/year in average energy
- Investment in agricultural potential within the basin- food security
- Additional 343 000 ha increasing total irrigated areas to 775 000ha/year
- Creating more than 500 000 jobs in agriculture sector
- 80% of the potential benefits in Malawi, Zambia and Zimbabwe
- Reduce exposure to floods and drought- avoid losses of as much as US\$1 bln

RISKS

- Poor project selection
- Delays in design and completion of projects-
- Corrupt procurement practices
- Asset abuse, misappropriation and fraudulent reporting
- Cost overruns-9 over 10 transport
 - rail- 44.7%
 - Bridges – 33.8%
 - Roads-20.4%
- “Optimism bias”, technical and political & economic explanations

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PANACEA if

KEY STEPS are followed

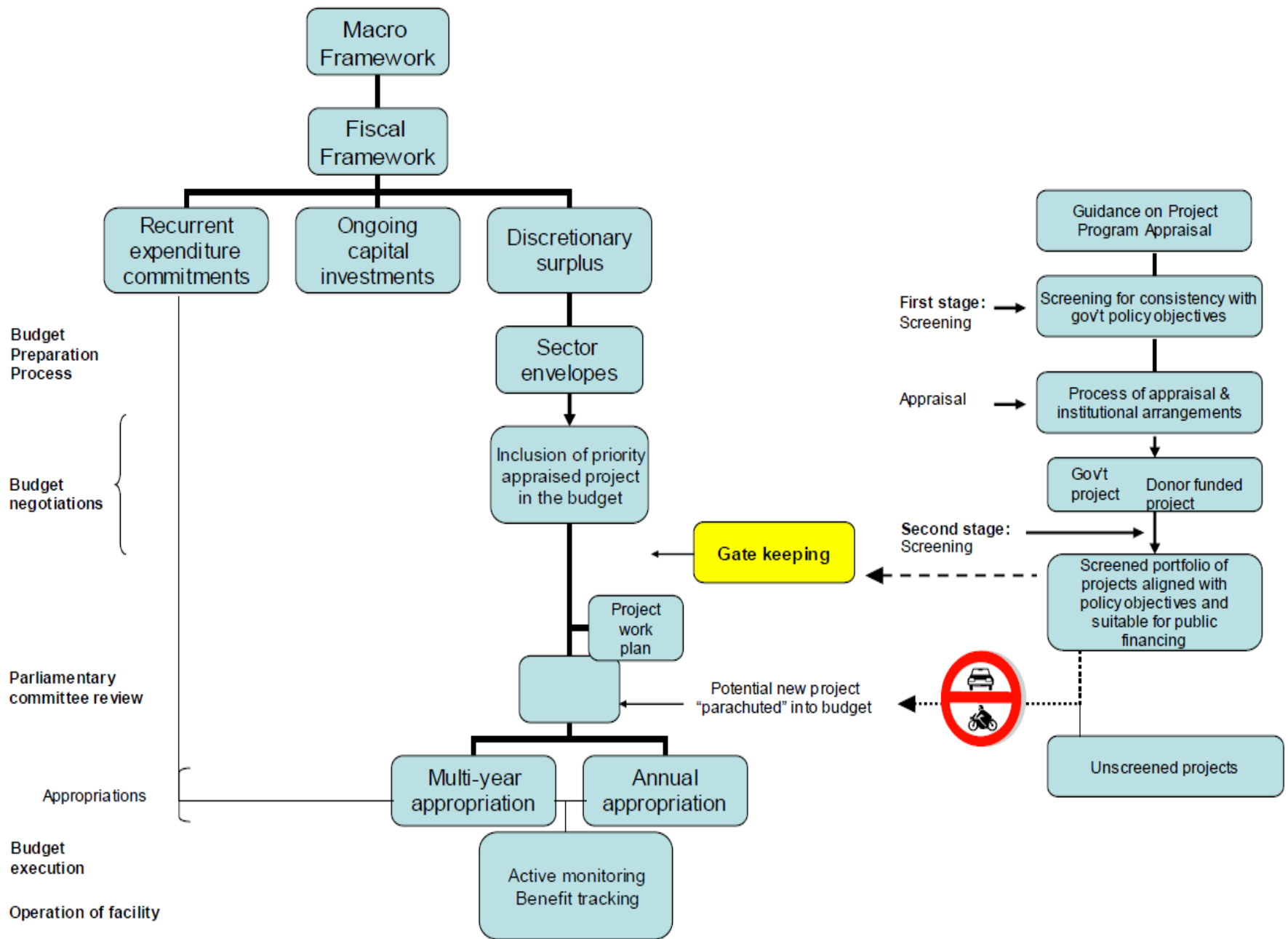
Key steps- “Must have”

1. Broader strategic guidance for example PRSP, Zim Asset-investment guidance, project development and Preliminary screening-criteria- strategic goals of gvt and budget classification test
2. Formal project appraisal- feasibility analysis- costs and benefits, consistency
3. Independent review of appraisal- avoid conflict of interest
4. Project selection, detailed designing and budgeting
5. Project implementation-efficient procurement plans,

Key steps- “Must have” cont.

6. Project adjustment- updated cost benefit analysis for each funding request
7. Service delivery- asset registers, active monitoring
8. Basic Completion review and evaluation- learning and feedback from projects

Synchronizing Public Investment Evaluation with Budget Process



GOOD PROJECTS NEED

COST EFFECTIVENESS

How to ensure cost effectiveness-key questions

1. Is there well-publicized strategic guidance for public investment decisions at central/ministerial/provincial levels?
2. Is there an established process for screening of project proposals for basic consistency with government policy and strategic guidance? Is this process effective?
3. Is there a formal appraisal process for more detailed evaluation? –cost and benefits. Is project appraisal undertaken only for specific sectors and if so which sectors?
4. Are project appraisals formally undertaken by the sponsoring department or by an external agency? What is the quality of such appraisals?
5. Is final project selection undertaken as part of the budget process or prior to the budget process? Does the government maintain an inventory of appraised projects for budgetary consideration

How to ensure cost effectiveness

6. What is the completion rate of the public investment program? How does this differ across key sectors – education, health, water supply and sanitation, roads and power.
7. Do ministries undertake procurement plans in line with good practice (e.g. use competitive tendering) and do they implement procurement plans effectively?
8. Are projects commissioned to private contractors and if so are contracts awarded on the basis of competitive bidding? Are international firms permitted to bid on contracts?
9. Are project implementing agencies required to prepare periodic progress reports on projects? Does this include an update on the cost benefit analysis?

COMPETITIVE BIDDING

result in lower cost

(opposite of direct negotiations)

Advantages of competitive bidding

- Shorter- directed negotiations may be lengthy
- Lower price
- Less controversy
- Less corruption
- Lower costs
- Enable bankable Projects- eg for power in SA, Kenya and Uganda
- Might limit cost overruns/ cost escalations

Country examples where competitive bidding saved money

- Zambia- competitive process resulted in lowest ever tariff in Africa (6.02 cents per kWh)
- South Africa- is 6.5 cents – follow competitive process, which transparency factors in local preference requirement
- 5 country case studies from recent WB study---competitive procurement of IPPs in energy resulted in transparency and lower costs than direct negotiations
- Kenya, Nigeria, South Africa, Tanzania and Uganda

Overview of Project Performance

	Frequency of Cost overrun	Frequency of cost overrun	Schedule overrun	Benefits shortfall	Average duration
Solar plants	1%	4 out of 10	0%	n/a	2.2
Wind farms	8%	6 out of 10	10%	n/a	1
Transmission lines	8%	4 out of 10	8%	n/a	2.7
Thermal plants	13%	7 out of 10	10%	n/a	4.8
Roads	20%	9 out of 10	38%	10%	5.5
Defense acquisitions	28%	5 out of 10	49%	n/a	4.3
Fixed links	34%	9 out of 10	23%	n/a	8
Conv. power plants	36%	6 out of 10	38%	n/a	5.3
Pipelines	41%	6 out of 10	n/a	n/a	n/a
Rail	45%	9 out of 10	45%	-51%	7.8
Upstream	53%	7 out of 10	n/a	n/a	n/a
Refineries	63%	6 out of 10	8%	n/a	n/a
Processing plants	67%	7 out of 10	16%	n/a	n/a
LNG	70%	7 out of 10	n/a	n/a	n/a
Dams	90%	7 out of 10	44%	-11%	8.2
Minerals extraction	99%	10 out of 10	12%	n/a	n/a
IT	107%	5 out of 10	37%	-29%	3.3
Nuclear plants	117%	9 out of 10	64%	n/a	7.6
Olympics	179%	10 out of 10	0%	n/a	7

Thank You