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Operations Policy & Country Services

Investments in Sustainable infrastructure and Management of Fixed Assets

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INVESTMENTS IN SUSTAINABLE INFRASTRUCTURE

- Investments in infrastructure are key for the sustained economic growth. Global infrastructure investments gap is estimated in trillion dollars.
- Public sector alone can not feel this gap. Contribution of the private sector is crucial.
- Governments capacity to effectively manage its balance sheet, including fixed assets does not only helps to plan public sector investments in infrastructure, but also facilitates dialogue with the private sector and helps to manage perceived and real risks.
- Sustainability is becoming a salient feature of infrastructure investment strategies. Addressed through a number of high level Fora, including the G20 (G20 Principles for Quality Infrastructure Investments).
https://www.mof.go.jp/english/international_policy/convention/g20/annex6_1.pdf
- Sustainable infrastructure is complex, long-term by nature, and involves numerous risks and stakeholders. This complicates the role for policymakers and practitioners who need to respond to multiple expectations and objectives in a highly dynamic environment.

SUSTAINABLE INFRASTRUCTURE

A COMPLEX CHALLENGE REQUIRING A MULTIDISCIPLINARY AND COORDINATED RESPONSE



OECD Horizontal project

“Strategic Policies for Sustainable Infrastructure”

- Sustainable infrastructure involves collaboration of seven key themes;
- Among those themes, developing the governance and decision-making tools are essential for delivering cost-effective, low-carbon, resilient, inclusive and smart infrastructure.

INVESTMENTS IN INFRASTRUCTURE AND MANAGEMENT OF FIXED ASSETS

- Fixed assets represent a key part of government balance sheet which is essential for decision-making and management of infrastructure investments;
- Quality of available information can lead to significant savings (or loss) of public resources;
- Accounting rules may have direct impact of economic decisions (PPPs);
- Ideally department in charge of management of fixed assets should work in close collaborating with the investment planning and financing divisions;
- Part of the challenge related to the collaboration between the private and public sectors is that they speak “different language”, including language of accounting (accrual versus modified accrual). This can lead to the misunderstanding/mispricing of the existing risks and opportunities.

CURRENT STATE OF THE MANAGEMENT, CONTROL, AND RECORDING OF FIXED ASSETS

(BASED ON THE 2017 WORLD BANK REGIONAL - LATIN AMERICA - STUDY)

- Asset accounting and management, including identification, recognition, and measurement, have not been considered a priority issue for most governments in the region, despite its significant impact on the sustainability of a country's fiscal policies and public finances.
- Because governmental financial reports often do not reasonably reflect information on all public sector fixed assets, it is impossible for governments to have an objective picture of their financial position and performance. This affects their ability to effectively manage public resources, in line with their electoral commitments.
- The lack or incompleteness of information on fixed assets, and, in particular, on public sector infrastructure projects, and of provisions related to their maintenance or replacement, contributes to the region's challenge of improving its public infrastructure and investment policies and promoting higher levels of productivity and competitiveness at the national and regional levels.

TYPICAL CHALLENGES IN MANAGEMENT OF FIXED ASSETS

- **Outdated and obsolete legal and regulator frameworks in the areas of:**
 - Public sector accounting;
 - Management, control and recording of fixed assets;
 - Audit and oversight; and
 - Transparency of and access to governmental financial information.
- **Overlap of responsibilities, and lack of communications and coordination among regulatory and operational government functions dealing with the management, control and recording of fixed assets.**
- **Lack of computerized and integrated financial management systems, leading to proliferation of multiple overlapping registries, and significantly complicating the consolidation of financial and administrative information**



TYPICAL CHALLENGES IN THE MANAGEMENT OF FIXED ASSETS

- **Unreliable and outdated financial information that cannot be effectively used for decision-making.**
- **Lack of periodic verification, reconciliation, and valuation of various categories of fixed assets.**
- **Weak internal control and external oversight applied to the management of fixed assets, especially at the subnational government level. Existing controls focus more on legal compliance than on the efficiency of public investment management.**
- **Absence of clearly defined strategies guiding the implementation of public sector accounting and asset management reforms, and insufficient attention to the change management process, including development and implementation of communication and training plans.**

ISSUES TO CONSIDER: POLITICAL SYSTEM AND LEGAL FRAMEWORK

- Countries' political system, federal or unitary, and the degree of centralization or decentralization influences accounting for PP&E in many ways, such as: determination of the authoritative basis to adopt standards and prepare accompanying policies and procedures; establishment of which entities will maintain custody of the assets and recognize them in their financial statements; responsibility for the creation and maintenance of asset registers; and, requirements to include PP&E in consolidated financial statements;
- In federal political systems, central and sub-national governments (SNGs) typically have independent laws including those governing financial reporting requirements, and it is not uncommon to find different accounting standards between the central government and SNGs, as well as among SNGs. To the contrary, in unitary systems there is one central authority that dominates at the central and local government level, with varying levels of devolution of powers.
- Current legislative requirements and the ease with which amendments can be made, if necessary, have a significant impact on the complexity and timing of IPSAS 17 implementation after adoption. Three key areas that are dependent on the characteristics of the legal framework are (i) determination of control and rights to future economic benefits or service potential of PP&E, (ii) establishment of legislative basis for the accounting policies and procedures to account for PP&E, and (iii) amendment of the Chart of Accounts (COA) to facilitate correct categorization and classification of assets and the input of accrual based information related to recognition and measurement of PP&E.

ISSUES TO CONSIDER: CLASSIFICATION

Public Sector Infrastructure Assets by Category

Transport and Utilities

- Roads
- Rail
- Ports
- Electricity
- Gas
- Water
- Wastewater
- Communications

Social Infrastructure

- Schools, Colleges, Universities, and Research Institutions
- Hospitals
- Cemeteries

Governance Infrastructure

- Parliament and Government Buildings
- Law Courts
- Prisons and Penitentiaries
- Emergency Services (fire, police, ambulance)
- Military Bases, Command Centers, Munitions Depot and Firing Ranges

Cultural, Sports and Recreational Infrastructure

- Libraries
- Museums
- Arts and Cultural Centers
- Botanical Gardens
- City Parks and Gardens
- National Parks and Wilderness Areas

ISSUES TO CONSIDER: DATA SOURCES FOR THE INITIAL MEASUREMENT

| Infrastructure Assets | Real Property |
|---|---|
| <ul style="list-style-type: none">▪ Engineers' drawing of the system▪ Interviews with individuals present during construction period:<ul style="list-style-type: none">○ Operators○ Managers○ Owners▪ Interview residents▪ Visual observations▪ Extrapolations of buried assets based on comparison of other regions in the country or with neighboring countries▪ Contracts▪ Budget▪ Appropriations | <ul style="list-style-type: none">▪ Land Registry▪ Tax Records<ul style="list-style-type: none">○ Sales of land or buildings○ Periodic tax assessments▪ Interviews with individuals present during construction period:<ul style="list-style-type: none">○ Operators○ Managers○ Owners▪ Contracts |

WHAT CAN BE DONE

- **Legal and regulatory framework.** As governments embark on the public sector reforms modernizing the accounting, management, and control of fixed assets, legal and regulatory frameworks need to be reviewed and updated to reflect new standards, processes, and organizational responsibilities. This may require the introduction of a new law, or the official adoption/adaptation of international standards/best practices, such as the IPSAS, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) the International Standards of Supreme Audit Institutions (ISSAI), etc. It may also require revising transparency laws, to ensure citizens' right to access government financial information.
- ***Organizational structure.*** The roles and responsibilities of various regulatory and operational government units involved in the management, accounting, and control of fixed assets should be reviewed and clarified under the updated legal and organizational structure. Establishing a Steering Committee, which would include representatives from the relevant public sector agencies responsible for the oversight of reforms focused on fixed assets will help to achieve better results, and will improve communication and coordination among the various stakeholders involved in this process.
- ***Information systems.*** The government's integrated financial management information system (IFMIS) may need to be updated/adjusted to integrate the management and control of fixed assets into its structure.

WHAT CAN BE DONE

- **Management and control of fixed assets.** The following can help to improve the effective control and management of fixed assets: (i) periodic stocktaking, classification, and verification of physical inventories; (ii) initial and subsequent assets valuation (including depreciation and impairment); (iii) reconciliation of fixed assets accounting balances and assets registries; and (v) development of maintenance and replacement plans for strategically important fixed assets (e.g., public infrastructure). Both internal and external auditors should actively participate in this process, in collaboration with other government units.
- **Accountability and transparency.** Efficient management of public investments has direct impact on the quality of services governments provide to their citizens, and on citizens capacity to hold their governments accountable. This accountability can be achieved through (i) better-quality periodic financial audits; (ii) stronger collaboration and coordination among the entities responsible for internal control and external oversight; and (iii) public disclosure of audited financial statements and other information.
- **Change management.** Change management is an important part of governments' strategy supporting the implementation of fixed assets reforms. Among other things, it should focus on the following issues: (i) the objectives and scope of the reform and the implementation methodology; (ii) key champions and composition of a team that is responsible for project implementation; (iii) internal and external communication plans, including dissemination and awareness campaigns; (iv) a comprehensive training and capacity-building plan; and (vi) feedback mechanisms.

INCORPORATING SUSTAINABILITY CONSIDERATIONS AND IMPROVING COLLABORATION WITH THE PRIVATE SECTOR

- Sustainability implies combination of economic, environmental, social, governance, finance and development objectives in infrastructure planning, implementation and management.
- Requires complex, multi-disciplinary approach.
- Acknowledged as key priority by governments, regulators, intra-governmental bodies and private sector.
- A number of complex challenges which have to be addressed, including accounting; i.e. how to monetize positive and negative impact.
- Private sector is looking for opportunities to work with government and international organizations to increase their sustainable, long-term investments supporting implementation of SDGs, including in infrastructure.
- Markets function on data. Good quality of government data, including on fixed assets, enable private sector to come in at scale.
- Investors call on governments to leverage the power of their balance sheets, (in addition to the enabling policy reforms), to better manage perceived and real risks.