TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Strengthening of Regional Public Asset Management
▪ TC Number:	RG-T3240
▪ Team Leader/Members:	Garcia Mejia, Mauricio (IFD/ICS) Team Leader; Farias, Pedro Cesar L. (IFD/ICS) Alternate Team Leader; Pareja Glass, Alejandro (IFD/ICS) Alternate Team Leader; Catano Guzman, Mariana (IFD/ICS); Greco, Maria Sofia (LEG/SGO); Rojas Gonzalez, Sonia Amalia (IFD/ICS); Shin, Sungyeol (IFD/ICS)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	23 Oct 2019.
▪ Beneficiary:	Latin America and the Caribbean countries (potential candidates: Mexico, Brazil, Ecuador, Argentina, Uruguay)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Public Capacity Building Korea Fund for Economic Development(KPC)
▪ IDB Funding Requested:	Total: US$500,000.00
▪ Local counterpart funding, if any:	US$0
▪ Disbursement period (which includes Execution period):	30 months
▪ Required start date:	May 2020
▪ Types of consultants:	Firms; Individuals
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

II.1 In Latin America and the Caribbean (LAC), as well as in many other countries, governments have historically accumulated large volumes of physical assets[1] For example, of the 3.9 billion hectares of world forest, 86% are state property. In the United States in 2011, it was calculated that the value of all public non-financial assets was equivalent to 74% of GDP, while in Korea (2014) government property reached 70% of the country's GDP. In general, the value of the non-financial assets of the States exceeds the financial ones and these together exceed the gross public debt[2].

[1] Types of assets range from public land and buildings to government infrastructure and vehicles.
[2] Dag Detter y Stefan Fölster (2015). "The public wealth of nations". Palgrave-Macmillan.

II.2 Studies show that the value of public assets can reach extraordinary amounts when it is well accounted for[3]. Unfortunately, in the LAC region most countries do not even have complete records of their assets. Beyond the value of public investment or the intrinsic value of the infrastructure associated with it, public assets contribute significantly to the total productivity of the factors, and therefore its real contribution to the national economy is more relevant than its accounting value. According to an evaluation carried out by the International Monetary Fund (IMF), non-financial public assets correspond on average to 114% of the national GDP of the countries, which indicates the enormous potential of economic benefits that they can generate if they are properly managed.

II.3 There is a wide theoretical and empirical literature on the link between public investment and economic growth. Much of this literature recognizes that this link can be positive because of its effect on the total factor productivity[4]. However, the economic impact of the quality of the management of public assets has received much less academic attention[5], and the limited literature produced on this area is concentrated in a few advanced economies due to the lack of available data in the LAC region[6].

II.4 Unfortunately, in LAC the management of non-financial public assets has not achieved the generation of the potential benefits that society could expect. **The lack of adequate information, management and technological tools, and outdated governance and regulatory frameworks contribute to the limited economic and social impact of these assets. This is the main problem that this TC will address.**

II.5 The limitations can be observed in the various stages of public assets management: low quality of the cadastral registers, lack of parameters for the construction, planning, usage, maintenance and renovation of public assets, and lack of scientific criteria that support decisions on the allocation and use of the assets, their valuation, operation and accounting.

II.6 A review of the literature and the Bank's work in the region shows that the following are causal factors of this problem: (i) Absence of asset management in national priorities (absence of legal frameworks that require efficient management of assets, entities do not have sustainability and maintenance plans for the provision of services under their jurisdiction); (ii) Dispersion of criteria, instruments and responsibilities, as well as different profiles for the management of assets, which entails a high degree of discretion in this task (absence of defined processes for the maintenance of infrastructure for the provision of services, there are no defined criteria for the valuation of public assets); and (iii) Low quality of the information available for decision-making (the information on the assets is only partially recorded, it is not approved, and there is no information on assets in general). The problem of the lack of adequate information of the assets is significant, with cases where there is not even a cadaster

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[3] For example, Heggie and Vickers (1998) point out that the assets in charge of the Japan Highway Corporation had approximately the same value as those of General Motors, while the General Directorate of Highways of England was comparable with IBM and AT&T.

[4] Straub, Stephane (2008). Infrastructure and growth in developing countries: recent advances and research challenges. Policy Research working paper; no. WPS 4460. Washington, DC: World Bank.

[5] Several theoretical contributions have emphasized the importance of public maintenance spending as one of the determinants of growth. In various models, the capital stock of the economy is determined both by new investment and by the depreciation of the existing one, which the government slows down by spending on maintenance. For example, the three most cited contributions are those of Rioja (2003), Kalaitzidakis and Kalyvitis (2004) and Agénor (2009).

[6] For example, Kalaitzikadis and Kalyvitis (2005) and Kalyvitis and Vella (2014).

or inventory of these, and when this cadaster does exist, the assets are valued at purchase prices in the best cases, since many of these assets are old, or improvements have been made, or have been damaged by use, etc. Therefore, these values are not real, which means that they cannot make decisions based on correct information. The latter leads to another problem that is the valuation of assets, this competency is almost non-existent within the public sector.

II.7 The international literature on public infrastructure assets agrees that a well-managed asset management program provides transparent and responsible management of infrastructure systems with the best value for money and unnecessary cost savings. In this context, a program of this nature underpins the State's ability to obtain the following benefits: (i) Strengthen policy priorities; ii) Reduce the probability of catastrophic failures; iii) Achieve higher and sustainable levels of services to the public, at a lower cost; (iv) Reduce total life cycle costs; v) Generate public savings in the medium and long term; (vi) Improve the efficiency of public resources; and (v) Improve decision-making regarding the allocation of public resources, since the capacity for financial planning increases[7].

II.8 **The general objective of this TC is to produce and disseminate information and key technical inputs for improving the management of public assets at the regional level, contributing to a better social and economic use of resources.** Specifically, this will be achieved through: (i) Strengthening the governance of asset management, ii) Improving the information available for policy decisions and for the management of public assets in the region; and (iii) Identifying innovative practices and supporting their implementation in pilot cases.

II.9 **Strategic alignment.** The TC is consistent with the Institutional Strategy Update (UIS) 2010-2020 (AB-3008) and is strategically aligned with the cross-cutting area of Institutions and the Rule of Law by improving the management of public assets, the effectiveness of organizational management (Modernization of the State back-office), improvement of the efficiency of citizen services and supporting the introduction of technologies in public administration, for which it is also aligned with the development challenge of Low Productivity and Innovation. Additionally, the program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN 2587-2), which highlights the role of institutional capacity in the provision of services, focusing the Bank's support in areas such as improvement of human resource management and the use of ICTs (5,29). The program contributes to the Corporate Results Framework (CRF) 20162020-201923 (GN-2727-126), in particular: to indicator 265 of "Agencies with strengthened digital technology and managerial capacity government agencies benefited by projects that strengthen technological and management tools to improve the provision of public services". It is also aligned with the following objectives of the Strategic Program for the Institutions for Development funded with

[7] Asset management has been defined as "the combination of management, financial, economic and engineering practices applied to physical assets with the objective of providing the required level of service in the most cost-effective manner" (National Asset Management Steering Group, 2006). The literature argues that an asset management plan lands financial and budget planning, leading to significant savings over time. To do this, a plan must be developed that "explicitly recognizes the costs of normal operation and maintenance, deep maintenance, rehabilitation and replacement for the life of the asset" (Fonseca, Smits, Nyarko, Naafs, & Franceys, 2013). The literature raises the concept of "Service Standards" as a key issue for evaluating infrastructure maintenance; The concept seeks to formalize, in measurable terms, the expected performance of an asset, including the minimum condition of acceptable quality as a function of the impact that a failure would entail (Stedman, 2005).

Ordinary Capital (INS) (GN-2819-1): Contribute to public policies and institutions that are more effective, efficient, open and citizen-centered, by (i) Contributing to improvements in the quality of institutions and policies of national entities to support economic growth and reduce poverty, exclusion, and inequality; (ii) Supporting the strengthening of national public sector implementation capacity to improve service delivery and policy implementation; (iii) Supporting the strengthening of technological innovation to foster institutional and policy quality and implementation capacity; and, (iv) Developing cutting-edge knowledge products in institutions relevant areas.

III. Description of Activities and Outputs

III.1 **Component I: Strengthening the Governance of Asset Management (US$105,000).** The objective of this component is to support the identification of best practices in the governance of asset management, as well as the formulation of policy recommendations for the countries of the region. To this end, the following will be financed: (i) Analysis of international experiences and criteria for the development of national governance frameworks that include alternatives for organizational arrangements, role models and institutional competencies for policy making, coordination, control, asset registration, purchase and sale of assets, allocation, valuation, maintenance and operation of public buildings; and (ii) Proposals of comprehensive policies for the management of assets in the States, which may include valuation of the assets according to their different types, audit and accounting, budget allocation between new infrastructure and maintenance, asset allocation and usage, regulations for the development of risk and contingency plans according to the type of assets, implementation of indicators systems for asset management and maintenance, among others.

III.2 **Component II: Improvement of Information for Asset Management (US$139,500).** The objective of this component is to support the improvement in the availability and management of information related to public assets in the region to raise awareness of its importance and to make smarter policy, strategic and operational decisions. To this end, the following will be financed: (i) Study on the economic impact of the proper management of public assets on inequality, spending efficiency, economic growth and the quality of public services; (ii) Development of a methodology for measuring the level of maturity of countries in asset management based on the ISO 55000 standard, and its application in at least two participating countries to obtain a more detailed assessment of their asset management capabilities; (iii) Development a proposal of technical architecture for asset management information systems, and a market analysis of information systems available for asset management, identifying gaps between supply and requirements for an adequate management of assets, including geographic information for decision making; and (iv) Development of a roadmap for the improvement of asset management in at least two participating countries. The two countries benefited from activities (iii) and (iv) will be the same selected for the innovative pilots in Component II. The assessments included in activity (ii) will be applied to several countries, but at least in the same two countries selected for the innovative pilots in Component III.

III.3 **Component III: Mapping of Innovative Practices and Pilot Projects Support (US$ 120,500).** The objective of this component is the identification of innovative projects and experiences in the management and improvement of socio-economic value of public assets, and to provide technical assistance to two or three cases of application of concepts and innovative instruments. Among the issues to be considered for the pilot projects, will be the management of intangible assets, the

application of the "internet of things", and principles of environ-mental sustainability to the management and maximization of public value of assets like public buildings or other related assets. To this end, the following will be financed: (i) Analysis of current disposition methods of state-owned assets and identification of technical problems and issues related to possible introduction of online asset allocation system; (ii) Mapping and analysis of two or three pilot cases of introduction of innovative practices to asset management; and (iii) Design and technical assistance to two or three pilot innovation projects applied to asset management for the construction and application for an online asset allocation system. The selection of the pilot cases will be based on countries that demonstrate innovative capacity and strong commitment to be selected for the pilot, and a written letter of request.

III.4 **Component IV: Training and Dissemination (US$135,000).** The objective of this component is to share research findings with stakeholders and wider audiences. Dissemination is essential step in research process. To this end, the following will be financed: (i) preparation and publication of a discussion document with the study and recommendations derived from the cases analyzed; (ii) international workshops on innovative practices in public asset management, and exchanges of experiences between participating countries; and (iii) training and dissemination of findings and proposals made in Components I, II and III. This activity will include capacity building and dissemination workshops that will be held in Korea and at the Bank's Headquarters in Washington D.C., with the participation of staff from KAMCO, selected asset management agencies from LAC countries, as well as IDB staff to share the results. The component supports the participation of public servants from Korea and targeted countries as well as IDB staff in these capacity-building training activities with the purpose of sharing the more detailed technical issues from Korea and looking for opportunities for further collaboration. This TC covers the travel expenses for IDB staff in ICS that will share experiences and how the Bank can support the modernization of asset management systems.

III.5 At the end of this TC, the Bank will strengthen its knowledge on asset management systems in LAC, therefore, improving its ability to provide better policy advice to countries in the region. The main expected products include a framework, better information on public assets, diagnostics, workshops, and asset management modernization plans. The expected outcome relates to public servants' better recognition of their asset management systems and motivation to modernize them by getting technical assistance.

III.6 **Budget.** The total amount of funding needed to achieve the expected outputs is USD$500,000.

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I: Strengthening the Governance of Asset Management (US$ 80,000).	US$105,000.00	US$0.00	US$105,000.00
Component II: Improvement of Information for Asset Management (US$ 125,000).	US$139,500.00	US$0.00	US$139,500.00
Component III: Mapping of Innovative Practices and Pilot	US$120,500.00	US$0.00	US$120,500.00

Projects Support (US $ 130,000).			
Component IV: Training and Dissemination (US $ 165,000).	US$135,000.00	US$0.00	US$135,000.00
Total	**US$500,000.00**	**US$0.00**	**US$500,000.00**

IV. Executing agency and execution structure

IV.1 The TC will be executed directly by the Bank through the Innovation of Citizen Service Division (IFD/ICS). Information related to the progress reports and financial reports will be informed annually through the GCM system. This TC will have an external monitoring and evaluation by an independent consultant, paid by the project, who will certify the fulfilment of the indicators and goals included in the results matrix. Due to the lack of a specific agency that can implement this regional, multi country-based project and manage this specific topic, the Bank through the ICS Division is in the unique position to execute this regional TC; and its technical capacity, expertise and direct involvement on institutional strengthening will enhance the achievement of the outcomes included in this TC. The coordinator of this TC will be the team leader of the project, and at country level, the focal points will be ICS country specialists. The supervision cost will be assigned to the team leader through the transaction budget managed by ICS. Prior to the initiation of any project activities, the project team will obtain a nonobjection letter from the corresponding official entity in each country. In addition, in advance of the pilot project, the team will get the request letter from the participating countries. The technical counterparts in each participating country will be the agency in charge of public assets management. Therefore, ICS will assume a coordination role and facilitate the hiring processes as it is stated in the Operational Guidelines for Technical Cooperation Products (GN-2629-1). In addition, IFD/ICS has also accumulated considerable experience in implementing the cooperation and convening different stakeholders in the Bank and in LAC countries to achieve fruitful exchanges.

IV.2 This TC will not supplement the budget of a Bank department or division for routine activities.

IV.3 **Procurement:** The Bank will contract the services of individual consultants and firms, as well as different consulting services in accordance with the procurement policies and procedures in force at the Bank. The TC will be governed by the Operational Guidelines for Technical Cooperation Projects (GN-2629-1), the Human Resources Department Manual AM-650, the Policy for the Selection and Contracting of Consulting Firms in Bank-Executed Operational Work (GN-2765-1), and the Corporate Procurement Policy (GN-2303-20).

IV.4 The TC will contract the Korea Asset Management Corporation (KAMCO) via single source selection according to Policy GN-2765-1 paragraph 4.1.3, given its experience of exceptional worth for the assignment and it presents a clear advantage over other possible firms. KAMCO is uniquely positioned to take on this assignment on behalf of IDB for the following reasons. KAMCO was established by the Act on the Efficient Disposal of Non-Performing Assets, etc. of Financial Companies and the Establishment of KAMCO in 1962. Since its establishment, KAMCO has purchased and resolved financial institutions' NPLs, restructured corporations, assisted in the restoration of creditworthiness of the financially underprivileged, managed public

properties, and collected overdue taxes as a quasi-governmental entity. As the oldest public asset management company in the world, KAMCO is serving the development of the Korean economy and financial market as the nation's economic safety net. Commissioned by the Korean government in 1996, KAMCO has accumulated successful track records of 25 years of public asset management from rent, sale, to reimbursement charging on public lands occupied without permission, in addition to commissioned development of public lands being under-utilized, and thereby contributing to promoting national property value and increasing national revenues by managing and developing national and provincial properties. Since 2011, the Ministry of Economy and Finance (the “MoEF”) took responsibility of managing public assets to control its overall supplies under a central post and made a special fund that was mandated to manage lands commonly shared by more than one Ministries or agencies. This fund, partially entrusted to KAMCO, enabled more efficient usage of idle lands, development of new public offices and additional acquisitions of public assets. Meanwhile in terms of ICT, Korea has been ranked consecutively top three in the Global ICT Development Index (IDI) combining 14 indicators from the sectors of telecommunication, household/individual ICT data and education data since 2009. Against this backdrop, e-Government initiative was one of the top priorities for Korean government and public agencies and KAMCO has engrafted various IT solutions when carrying out public asset management works and that includes Geographic Information System (“GIS”), mobile applications, and online information access and transactions, all of which are designed to contribute to more transparent, efficient and value-added public services to its people.

V. Major issues

V.1 The main risk is the unwillingness of stakeholders within beneficiary countries to participate in surveys and data collection process. To mitigate this risk, the team is working through existing regional networks (Latin American Network of Public Assets Administrators RAPPAL) and will adapt each survey to fit the regional context in collaboration with IDB country offices. The second risk is difficulties in the execution of pilot projects. This risk is best mitigated by seeking the support of entities in LAC countries from the diagnostic to the preparation of the roadmap for the pilots onwards in collaboration with agencies with which the Bank has worked successfully in the past and with the Korean government.

VI. Exceptions to Bank policy

VI.1 This operation does not foresee any exceptions to Bank policy.

VII. Environmental and Social Strategy

VII.1 There are no environmental or social risks associated with the activities outlined in this operation; therefore, its environmental classification is "C", according to the Environment and Safeguard Compliance Policy (OP-703), (See Safeguard Policy Filter Report (SPF) and Safeguard Screening Form (SSF).

Required Annexes:

Results Matrix - RG-T3240
Terms of Reference - RG-T3240
Procurement Plan - RG-T3240