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Prioritisation of Capital Projects: An Assessment of Ongoing Projects for Kaduna State Government

Executive Summary

- Following a request from the Kaduna State Government (KdSG), NIAF provided a prioritised list of projects to be considered for inclusion in KDSG's 2016 capital budget; and measures to improve KDSG's capital budget policies and processes for the submission and review of future new projects, such as the need for a clearer articulation of the project's social benefits during project design.
- While Kaduna State's recurrent budget and expenditures have been increasing over the last five years, the opposite is true for KdSG's capital expenditures: From 2010 – 2014, recurrent expenditures have been crowding out capital expenditures, which have dropped by 60%, from N45bn to N18bn.
- This trend has translated into a large underinvestment in capital assets which is detrimental to the economic development and future growth of Kaduna.
- KdSG aims to overhaul its budgeting procedures and manage the immediate crisis caused by high indebtedness and a lack of financial resources. In order to improve the allocative efficiency of KDSG's scarce resources and enhance its capital project implementation, NIAF was tasked with assessing KdSG's current portfolio of capital projects.
- The KdSG assessment of ongoing capital projects was commissioned by the Office of the Governor in August 2015 and carried out by NIAF in close coordination with the Ministry of Budget and Economic Planning. The findings were presented to the Kaduna State Executive Council.

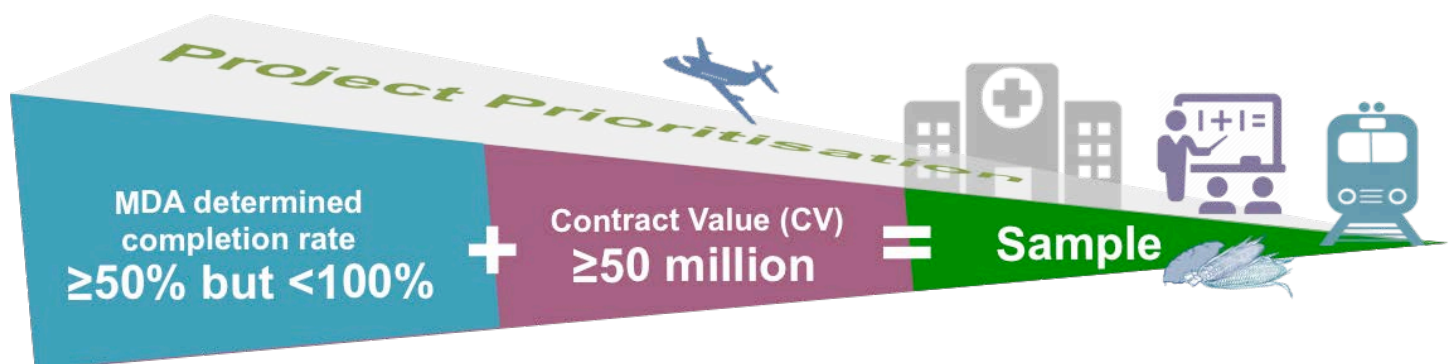


The Challenges

- Kaduna has struggled continuously with the need to improve its budgeting methodology and a more effective allocation of its scarce resources, which all too often do not deliver tangible benefits. KdSG is determined to apply more realism to its capital budgeting and to make better use of recurrent expenditure.
- Irrespective of an increasingly constrained availability of funding for capital expenditures, the KdSG capital budget continued to increase from 2010 to 2014 by 9%, from N120 billion to N131 billion; thus, KdSG capital budgets became increasingly fictional as only 14% was used in 2014, largely due to funding constraints. This huge disconnect, between budgeted projects and actual funding allocations translates into a large majority of initiated projects which are never completed. Consequently, the portfolio of unfinished capital projects is growing ever larger.
- The current portfolio with its excessive number of ongoing capital projects was in need of a rigorous prioritization, to decide: (i) which projects to fund as a priority in 2016, (ii) which projects to delay for funding in 2017, (iii) which projects to review and prioritise for continued relevance before new projects are taken up, and (iv) which projects to terminate for good.

The NIAF Approach

- For this assessment, NIAF developed a methodology for the prioritisation of ongoing KdSG capital projects, which enables a consistent, robust and objective ranking of all capital projects. From the universe of the KdSG 2016 capital project submissions, a sample was selected by using two filters: contract value (CV) and stage of completion.
- The combination of these two criteria has translated into a sample of 49 out of some 1400 capital projects on the KDSG books. The CVs of the 49 projects add up to N53 billion, and the Residual Contract Value (RCV) to N37 billion. The sample RCV still represented over 200% of KDSG's actual 2014 capital expenditure.
- The methodology developed by NIAF is based on a standardised assessment template. Its purpose is to provide a set of clearly defined, transparent and robust assessment criteria for the selection of capital projects. The aim is to arrive at as objective as possible assessment scores, to allow for the comparison and consistent ranking of the projects in the sample against each other.



The following is a list of the template's assessment criteria:

Part A

- 9 assessment criteria for the technical quality of the construction comprising:
1. The technical robustness of the construction
 2. Compliance of the construction with contractual specifications
 3. Accessibility for persons with disability
 4. Security of the construction from encroachment from illegal occupation
 5. Degree of assessed physical completeness compared to that reported by the MDA
 6. Assessment of fair value of the current completion as indicator for the fairness of the contract value
 7. Assessment of the likelihood that the construction will be completed within the target date
 8. Assessment of the risk that the project may not be completed as planned
 9. Assessment of the risk mitigation measures taken to date.

Part B

- 5 sections, each comprising a different number of criteria for assessment which revolve around the following section themes:
1. Relevance/alignment with current government or sector priorities as outlined in the KDSG Restoration Masterplan (RMP)
 2. Economic cost benefit analysis leading to NPV rating
 3. Fiscal sustainability
 4. Environmental impact
 5. Social Development outcomes of the project

Part C

The overall scores are calculated by assigning a 30% of the weight to the scores in Part A and 70% in Part B

The Outcome

- The NIAF priority list of appraised capital projects was utilized by the Ministry of Budget & Economic Planning in preparation of the 2016 capital budget for MDAs including the Ministry for Works & Transport, Ministry for Water Resources and Ministry for Health.
- The template serves as a flexible framework that can be used at any time by KdSG. By changing the weights assigned to particular indicators or groups of indicators, three alternative scenarios were developed¹; these scenarios were designed to address different sets of development and political priorities.
- The template is a tool that can be used by any State government as it is a flexible instrument: the weights attached to the various indicators used for assessment can be changed to reflect as closely as possible the development and political priorities of each State. Through this approach, the integrity of the individual project assessments can be maintained, while alternative scenarios are generated to provide decision support for the selection and prioritization of the most beneficial and therefore preferred, set of projects out of a larger sample.

¹ They were: (i) Neutral reference scenario with equal weights assigned to all scoring indicators, (ii) Quick win scenario with highest weights assigned to cost/social benefit assessment scores, and (iii) High social impact scenario, with the highest weights assigned to social and development outcome scores.