

# GRAND CHALLENGES AND OPPORTUNITIES 2050

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## Effective project governance: A mainstay of good public investment

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# Governance of public investment projects

## Background

- ▶ The need for new public investment projects is increasing, and also the size and complexity of projects.
- ▶ On the flip side, the effects of some of the projects have been a disappointment.
- ▶ Getting the best possible value from public money spending is challenging.
- ▶ Projects misfired and became white elephants.
  - alleged to be a potential waste of citizens' money.

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Ethiopia-Djibouti Railwa

## Ethiopia

- ▶ Small economy, fast population growth, high public service demand...
- ▶ Large investment projects have become the preferred delivery model for goods and services.
- ▶ Benefit shortfalls, high cost overrun, delay, corruption....

# A research on the governance of public investment projects in Ethiopia

# Case study – Housing development projects

≠	Respondents	No
1	Project managers	14
2	Project evaluators	10
3	Project planners	9
4	Decision makers	5
5	Others	7

**PAPERS**

## Governance of Public Investment Projects in Ethiopia

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**ABSTRACT** ■ The purpose of this article is to map and review the governance of public investment projects in Ethiopia and to identify the most important inherent challenges of public investment projects in the country. The research focuses on the current governance of major construction projects. The findings of the research indicate that the top-down project approach, lack of maintaining control, gaps in the current project preparation and decision-making stages, and weak links between project objectives and the implementation of the project governance system, in addition to the most important factors that most affect the relevance and sustainability of public investment projects are identified.

**KEYWORDS:** decision making, project governance, public investment projects, relevance, sustainability

**INTRODUCTION** ■ Demand for public services in sub-Saharan African countries is increasing continuously due to the improvement in governance and awareness in the region. However, poverty, lack of basic infrastructure, and poor industrial development are continuously hindering the ability of the nations to meet this demand. This is exacerbated by a lack of transparency, lack of legal and financial frameworks, and poor capacity in managerial and technical expertise (Giddelo, 2010).

Ethiopia is located in this region with fast population growth and high public service demand. In Ethiopia, private sector services are not developed enough to satisfy the needs and the demand for public services. To meet these high demands of the public, the Ethiopian government has been planning and implementing public investment projects. During the last ten years, several public investment projects were implemented. Many others are planned for the next five years. The Ethiopian government has set medium-term development plans, and the strategic objectives are economic development and poverty reduction. Using these plans, different sectors have prepared detailed plans and programs in different forms, including infrastructure development (Ministry of Finance and Economic Development of Ethiopia (MFEDE), 2006a).

A grand housing development program, road sector development programs, health sector development programs, power sector programs, and education sector development programs are some of the programs implemented by different sectors to improve the public welfare. Under these programs, many public projects have been designed and implemented. However, the preparation and implementation of these public investment projects present many practical challenges. Different studies at the Ministry of Finance and Economic Development indicated the lack of systems to check the links between the project objectives and the government strategies, and wastage of resources and redundancy of projects (MFEDE, 2006b). To minimize the wastage of resources and to eliminate redundant projects, MFEDE has tried to revise the system and adopted tools to appraise, monitor, and evaluate public investment projects. However, these public investment projects are criticized for not being the priority of the public and for not generating enough additional government revenues to cover their running and maintenance costs.

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- Survey questionnaires #41 (Project managers, consultants and senior professionals)
- 32 returned: 78% response rate
- 15 professionals interviewed.

**Case Study**

### Project Evaluation: Accomplishments, Shortfalls, and Lessons Learned in Housing Development Projects in Ethiopia

Asmamaw Tadege Shiferaw<sup>1</sup> and Ole Jonny Kvaløyg<sup>2</sup>

**Abstract:** Public investment projects are implemented by many countries to meet increasing demands for public services. However, the success rate of such projects is often debated, and what is considered successful by one party may not be considered successful by another, even in the case of elements within the same project. Literature has paid much attention to independent project evaluation because evaluation is an important source of evidence of results and process knowledge. The purpose of the present case study is to assess the efficiency, effectiveness, relevance, sustainability, and ethics of housing development projects in Ethiopia in order to know how to do better in the future. Qualitative and quantitative evidence are investigated to demonstrate the evaluation results of the projects. The findings reveal that the housing projects were not efficient, effective, relevant, or sustainable, with the exception of the Addis Ababa, Ethiopia, projects. Fuzzy logic and multiple project objectives, lack of effective financial project assessment and preparation framework, and the critical question of decision makers are identified as problems that could affect the success of future projects in Ethiopia. DOI: 10.1002/ENR.13479

**CE Database subject headings:** Decision making; Project management; Africa; Housing; Construction industry; Case studies.

**Author keywords:** Decision making; Evaluation; Project governance; Project objectives; Project success.

**Introduction**

Sustainable provision of efficient, reliable, and affordable services is an essential requirement for public investment projects. Nevertheless, several public investment projects have been implemented at a cost of several billions of dollars in the world that have not provided sustainable benefits to society. Moreover, several projects have incurred high additional costs for society, both during and after they were implemented (Schafer 2009). In addition, several inappropriate public investment projects have been implemented that have had negative impacts on the environment, society, and/or economy. A common problem in that category are made by very few people to implement several public investment projects with no apparent link to public and strategic objectives of their country or the intended evaluation of project outcomes. Despite the interest in the numbers of public investment projects, many of them appear to fail in the public view (Flyvbjerg et al. 2003).

In contrast with many other countries worldwide, in Ethiopia there is a high demand for public services. To satisfy this high demand, the government has planned and implemented several public investment projects, but the success of these projects has been debated. In this paper, a housing development program in Ethiopia is taken as a case study and projects under the program are evaluated. Housing development projects were initiated in Addis Ababa, Ethiopia, in 2007 and subsequently in several other cities and towns. Although independent evaluations of the projects' performance measured against their objectives have not been carried out, the government of Ethiopia has claimed that the projects have been successful. By contrast, various stakeholders have differing opinions regarding the success rate of the projects. As Luchini and Hyman (2010) explain, the question of what has constituted project success has long been debated because stakeholders judge the success of projects differently depending on their interests.

The housing development program in Ethiopia is a suitable case for the government and the public alike because it has high-level important objectives focused on poverty reduction and sustainability. To achieve these objectives, the program has required large amounts of money and many people are involved in the process. In order to assess projects' level of success and thus to contribute new knowledge, the projects must be evaluated. Such evaluation not only measures the success of a project, but also contributes new knowledge that can impact on decision making, and also advances the making or changing policy (Organization for Economic Co-operation and Development (OECD) 2005). According to the World Bank (2007), evaluation should determine the relevance and sustainability of objectives, development efficiency, effectiveness, impact, and sustainability. Further, Sureson (2005) has suggested that evaluation should consider the operational, technical, and strategic objectives of projects.

The objectives of this paper is to evaluate an previously mentioned housing development projects in Ethiopia in order to

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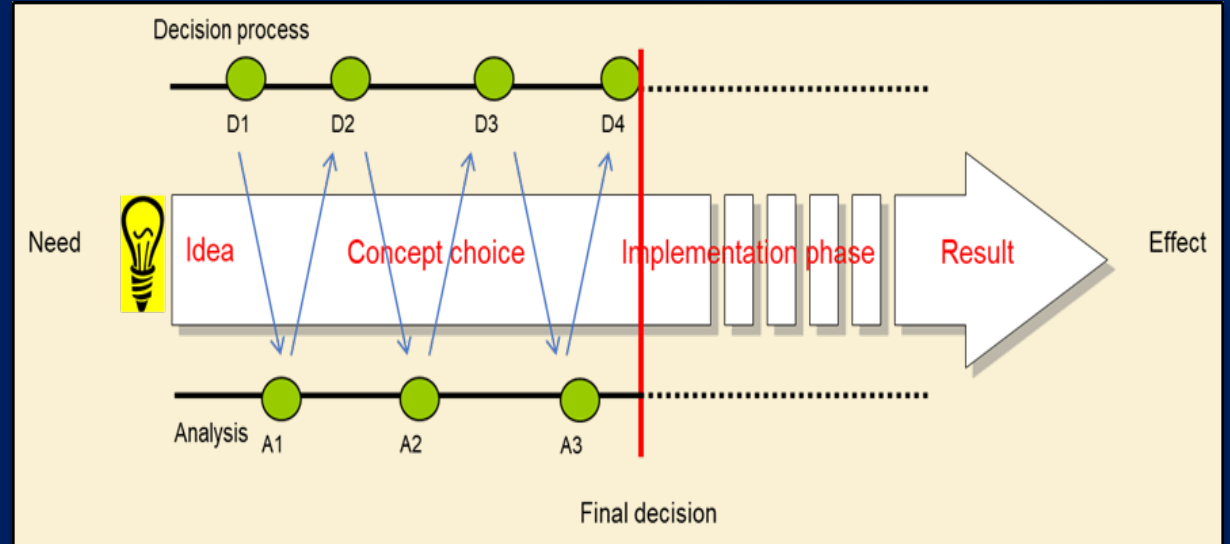
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## Findings from these two studies indicate shortcomings:

- ▶ Limited or no use of a formal project governance system.
- ▶ A lack of distinction between the actual decision and decision analysis.
- ▶ Tendency to jump to premature conclusion.
- ▶ A culture of overlooking project-related risks.
- ▶ Exaggeration of project benefits at the outset.
- ▶ Optimism bias.

# Key governance instruments

- ▶ Gateways with requirements for doc. and comprehensive reviews.
- ▶ Placing key decisions at a high political level.
- ▶ Early involvement of stakeholders.
- ▶ Focus on alignment with public policies.
- ▶ Embedding good governance principles.
- ▶ Systematic project evaluation.
- ▶ Professionalization of public project organizations.



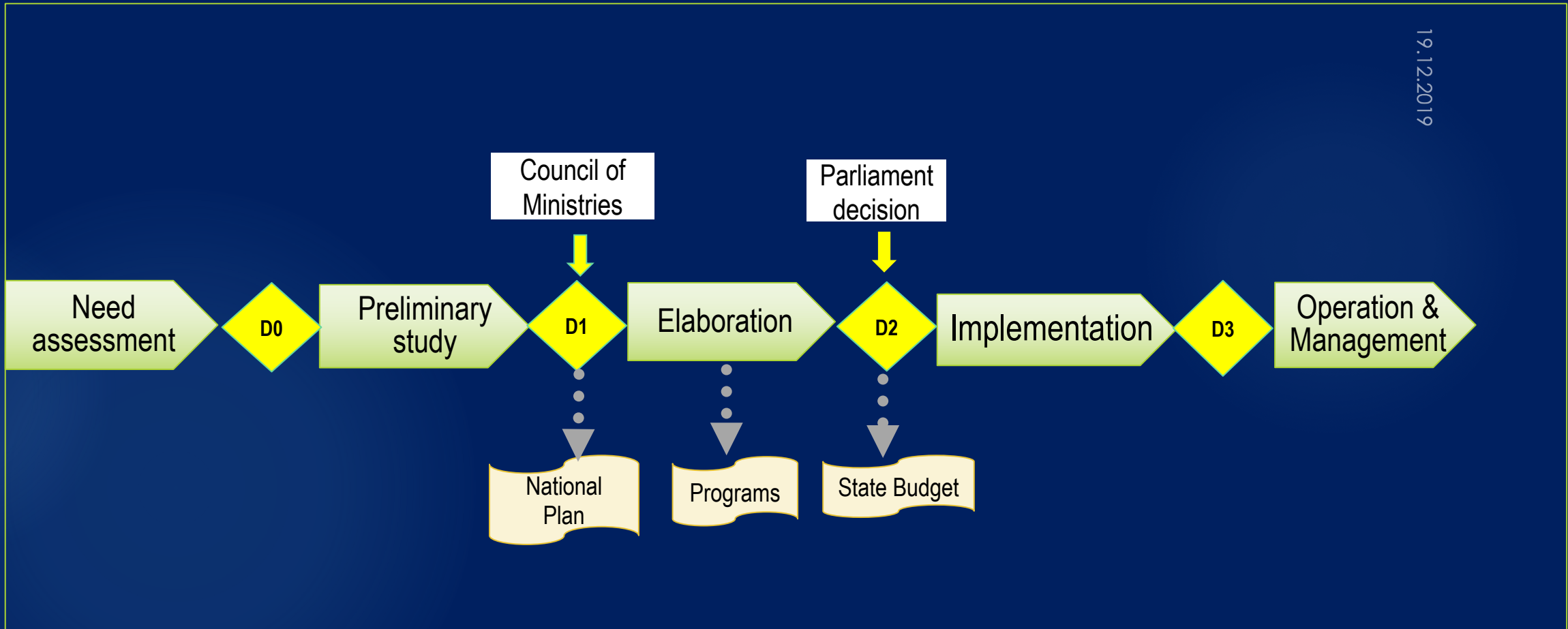
How can these key project governance instruments integrate into the country's 'project governance system' and improve its effectiveness?

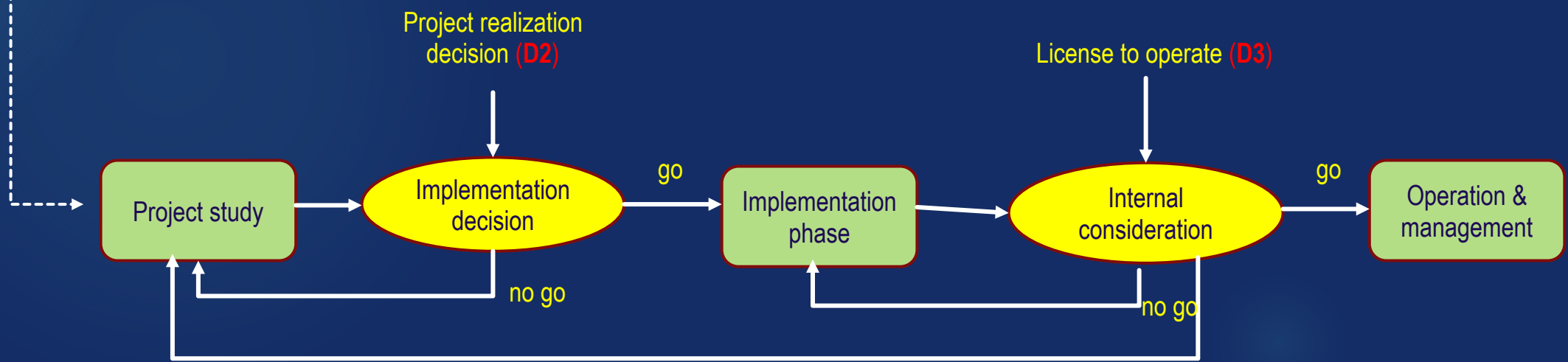
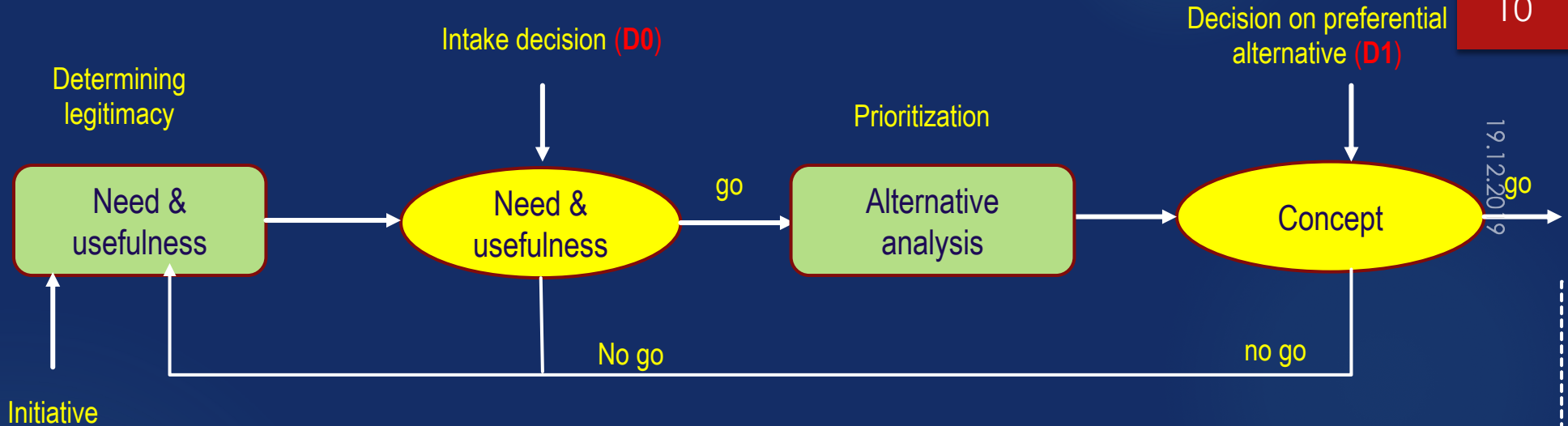
Five suggestions would seem to merit serious attention:

- . **Developing a new project governance model**
  - Establish a committee to identify the 'governance lines' of a selection of large investment projects and let the committee evaluate how those projects were initiated, developed and implemented.  
(GERD, Sugar projects, Railway projects ....?)
    - The goal of such an investigation is to scrutinize the technical and political processes of the projects and their results, in order to know what works, what does not, and why, and, furthermore, to learn lessons and develop a new project governance model.
  - ✓ **Such an investigation should be done sooner rather than later.**



# Project governance framework – Ethiopia (suggestion)

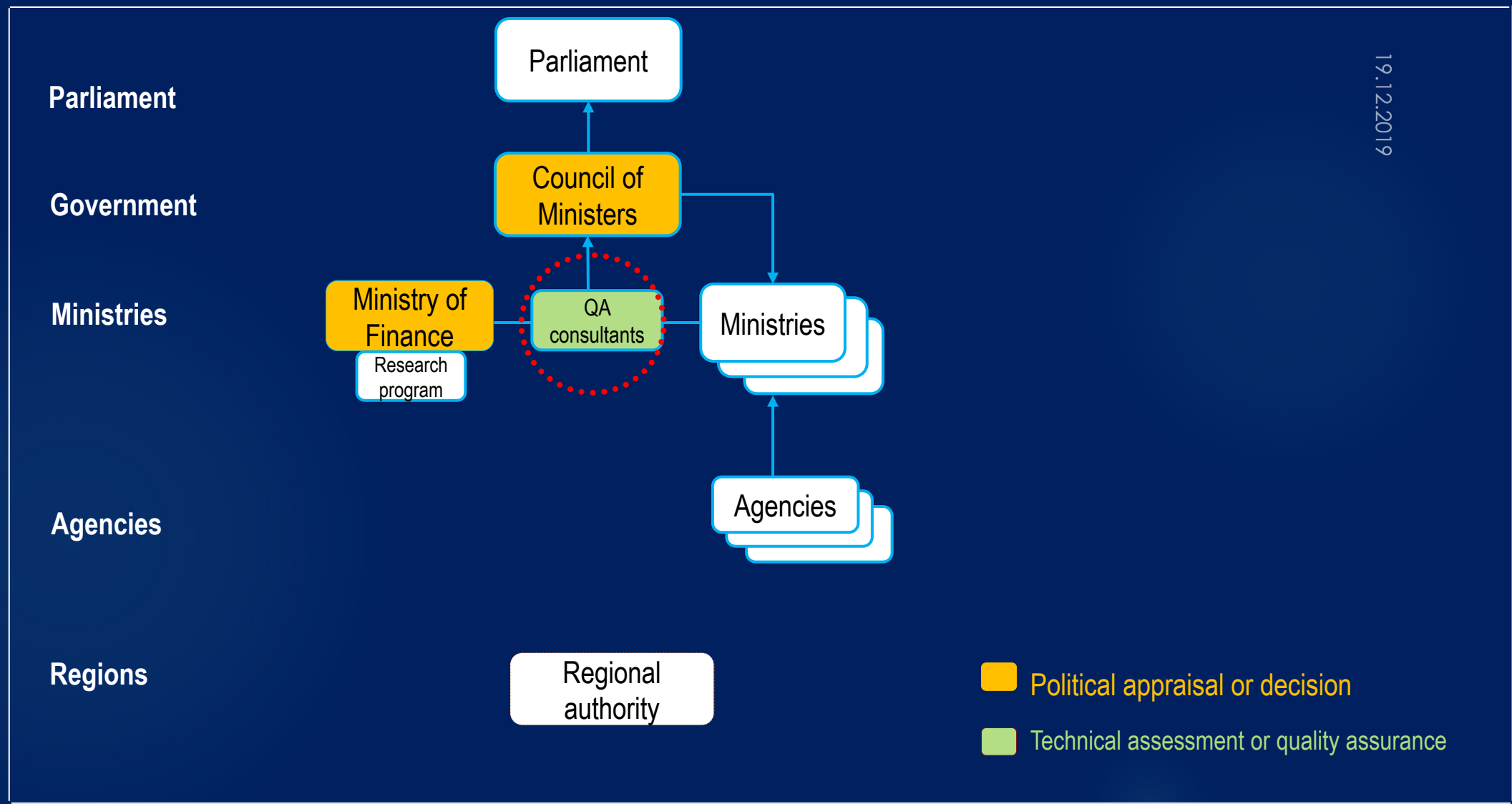




## 2. Setting up a political and technical gateway review process:

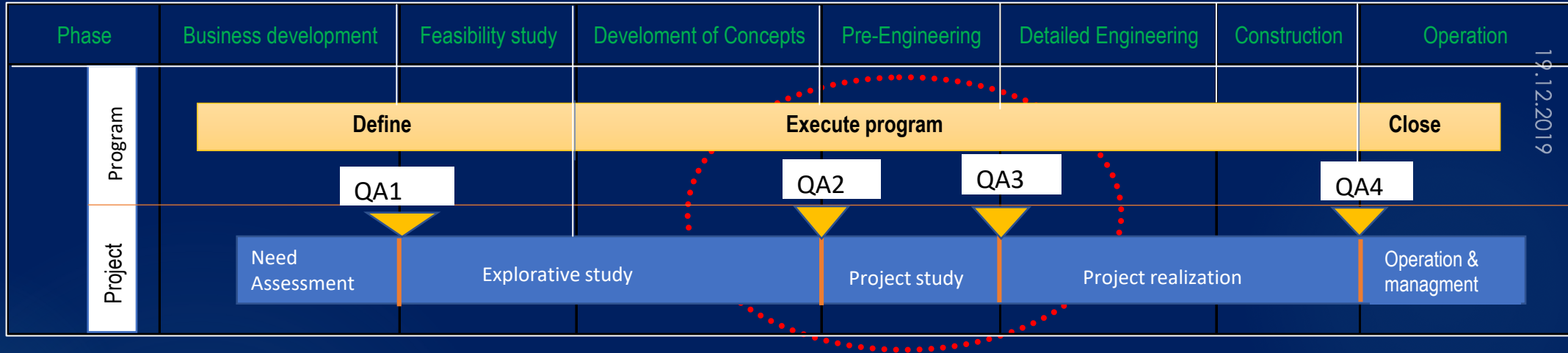
- Should be established as a strong mandatory control regime.
- Should include a team of independent external experts.
- QA of the choice of project concept, the management base, cost estimates and cost–benefit analysis.
- The political gatekeeping should involve the very top of government (government/parliament).
- The technical gatekeeping must have strong political support and full operational autonomy.

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# Suggestion for state project model (QA)

13



Implementing a mandatory external QA of this kind for any large infrastructure initiative:

- Improves the quality of decision bases
- Enables better control of public spending &
- Ensures the right projects are chosen and executed well.

QA2 – Quality assurance of choice of project concept

QA3 – Quality assurance of budget proposal

### 3. Establishing a research center under the supervision of the Ministry of Finance/planning commission:

- Develop knowledge and expertise on the front-end phase of projects.
- Monitor trends and suggest improvements to the state project model.
- Monitor & analyze projects under the QA scheme & contribute to the continuous improvement of the scheme.
- Learn lessons by publishing reports periodically about the work of quality assurers & project evaluation results.

4. Establishing a board that overviews the governance of projects in the country:
  - The board, under the supervision of the MoF, would give an overview of the work of QA consultants and review reports from the research center.
  - The board of directors would also give directions to the research center regarding future work.

## 5. Ensuring commitment and interest from the decision makers:

- The presence of appropriate models and structures or systems are not enough to develop good projects.
- **Commitment and interest from the decision makers is key.**
- Proper training and consultation are necessary to change the culture of politicians towards projects.



Implementing the right systems to monitor & adjust the framework as needed.

- Evaluation
- Lesson learned
- Improving the system



Doing the selected projects & programs Right

- Selecting the Right projects & programs to do.
  - Prepare and analyze the information
  - Choose the right project concept
  - Make optimal decision

## Message of the speaker for Ethiopia 2050

- No matter how eager we are to transform the country, we should not rush to implement large and complex projects that involve several unclear risks and consequences.
- Priority should be given to setting up political and technical gatekeeping mechanisms.

Thank you!