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TECHNICAL ASSISTANCE REPORT – PUBLIC INVESTMENT MANAGEMENT ASSESSMENT UPDATE AND CLIMATE PIMA

This Technical Assistance Report on the Republic of Kosovo was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in October 2023.

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TECHNICAL ASSISTANCE REPORT

REPUBLIC OF KOSOVO

Public Investment Management Assessment Update and Climate PIMA

October 2023

Prepared By

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Fiscal Affairs Department

DISCLAIMER

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Acronyms and Abbreviations

BDMS	Budget Development and Management System
BO	Budget Organization
EU	European Union
FAD	Fiscal Affairs Department
GDP	Gross domestic product
GHG	Greenhouse gas
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KEK	Kosovo Energy Corporation
KFMIS	Kosovo Financial Management Information System
LPFMA	Law on Public Financial Management and Accountability
MoESPI	The Ministry of Environment, Spatial Planning and Infrastructure
MoFLT	Ministry of Finance, Labor and Transfers
MTEF	Medium-Term Expenditure Framework
NCCC	National Council for Climate Change
NDC	Nationally Determined Contribution
NDP	National Development Strategy and Plan
PFM	Public financial management
PIMA	Public Investment Management Assessment
PIP	Public investment program system
PIU	Project implementation unit
POE	Publicly owned enterprise
PPP	Public-private partnership
WBIF	Western Balkans Investment Framework

Preface

At the request of the Ministry of Finance, Labor and Transfers of Kosovo, a team from the IMF's Fiscal Affairs Department (FAD) and the World Bank undertook a combined Public Investment Management Assessment Update and Climate PIMA during the period from May 17 to 30, 2023. The mission team was led by Ms. Michelle Stone and comprised Ms. Sagé De Clerck (FAD), Ms. Yasemin Hurcan (FAD Public Financial Management Regional Advisor for South East Europe), Mr. Taziona Chaponda, Mr. Willie Renier Du Preez and. Thomas Ekeli (FAD short-term experts). Mr. Besart Myderrizi from the Kosovo World Bank Office and Mr. Carlos Lago Bouza, Procurement Specialist, World Bank, also joined some relevant meetings.

The FAD team met Mr. Hekuran Murati, Minister of Finance; Mr. Enis Spahiu, Acting General Secretary at the Ministry of Finance, Labor and Transfers (MoFLT); Mr. Salvador Elmazi, Budget Director; Mr. Nysret Koca, acting Treasury Director; and other senior staff of the MoFLT from the Budget Department, the Economic Policy Department, and the Treasury Department. The mission team also met senior staff from the Ministry of Economy; Ministry of Environment, Spatial Planning and Infrastructure; the Ministry of Industry, Entrepreneurship and Trade; Ministry of Education, Science, Technology and Innovation; the Public Procurement Regulatory Commission; the Procurement Review Body, and the Emergency Management Agency.

Meetings were also held with the Mr. Bezad Halilaj, Deputy Auditor General and the other senior staff from the National Audit Office; Mr. Perparim Rama, Mayor of the Municipality of Prishtina and his team; and Chairs of Boards of Directors, Chief Executive Offices and/or Chief Financial Officers from the Kosovo Energy Cooperation, Infrakos and Trainkos. The team also met with the representatives from the Kosovo Chamber of Commerce.

The FAD team also held discussions with representatives of development partners, including the European Union Office in Kosovo, the Swiss State Secretariat for Economic Affairs, the German Agency for International Cooperation, US Agency for International Development, the European Bank for Reconstruction and Development and the World Bank.

The FAD team would like to thank the Government of Kosovo for their cooperation and their participation in constructive discussions during the mission, and especially Mr. Shqiptar Ibra (MoFLT) for coordinating mission activities and requests and being available for regular consultation.

The FAD team is also grateful to the IMF Resident Representative for Kosovo, Ms. Stephanie Eble, and her staff, Mr. Selim Thaçi and Ms. Merita Kernja for their support. The mission would also like to thank the interpreters, Mr. Hyjnor Jasiqi, Mr. Ukshin Ahmetaj, and Mr. Arben Thaci, for their support during the mission.

Executive Summary

Infrastructure has played an important role in the emergence of Kosovo, its institutions and its economy. The post-war period brought a need for new and rebuilt infrastructure and required the rapid building of public institutions that could support that public investment. Following independence in 2009, infrastructure investment levels have not been sufficient to maintain estimated levels of capital stock relative to the size of the economy, which continue to be low by regional standards.

Government is rightly committed to boosting the delivery efficient infrastructure to support future economic growth and improvements in wellbeing for Kosovo's population. Government's goals for transitioning to a lower carbon intensity economy will also involve significant infrastructure investment. Ensuring that public infrastructure is resilient to floods, droughts and forest fires that are expected with increasing intensity due to climate change will require a sustained effort and a shift in the supporting public investment management institutions. It is also imperative that these investments and delivered efficiently. However, estimates of the efficiency of public investment, using internationally comparable data, suggest Kosovo has room to improve its efficiency. Boosting the efficiency of public investment is a goal under the Stand-by Arrangement and Resilience and Sustainability Facility agreed in May 2023.

Since the initial 2015 assessment, the overall strength of Kosovo's public investment management institutions has increased—though the design of these institutions is stronger than their effectiveness in practice. This report updates the original Public Investment Management Assessment (PIMA) of Kosovo (Figure 1). Overall, scores for Kosovo have been stable in the planning phase and increased modestly in the allocation and implementation stages of public investment management. Improvements are visible in enhanced budget reporting on projects, their costs and the reasons for movements; aspects of asset management; and expanding the scope of ex-post audit to include capital projects. Overall, Kosovo's scores compare favourably with the average for European PIMAs to date. Kosovo's path to European Union Accession and support from development partners have positively contributed to reforms, along with the implementation of many of the 2015 PIMA recommendations. In some areas, the gap between design and effectiveness in Figure 1 is due to recent reforms not being fully in place, and in others it reflects a failure to follow the required procedures.

The failure to undertake robust and consistent feasibility studies prior to project initiation is a key weakness, leading to delays and problems in project execution. Some feasibility studies have been undertaken to meet the requirements of development partners, but a process that requires these to be done consistently and reviewed by national experts, and that generates ownership of detailed design of the projects, is lacking. As a result, it is not uncommon for the technical aspects of projects in implementation to be inadequately understood and verified within government prior to embarking on project implementation. Robust gatekeeping is needed to give effect to the intent behind the project selection criteria introduced in 2019 to ensure that projects are ready for funding decisions when they are formally budgeted and approved. Failure to do so leads to inefficiencies in project delivery and implementation, which complicates budget management and delays the delivery of needed infrastructure.

Other challenges in infrastructure planning include the need to better guide how climate goals should impact infrastructure planning and delivery. The planning system, and the National Development Plan and Strategy 2030, guides sector strategies and action plans that include major infrastructure projects. However more could be done to help the sectors and municipalities understand how their public investments should contribute to national climate strategies and goals. Strategic planning processes generally encompass municipalities and publicly owned enterprises (POEs) though there is scope for more effective coordination on major projects. The framework for public private partnerships (PPPs) is robust and factors in climate aspects, but private investment through PPPs and competition to established POEs in the infrastructure and energy sector is still at an early stage.

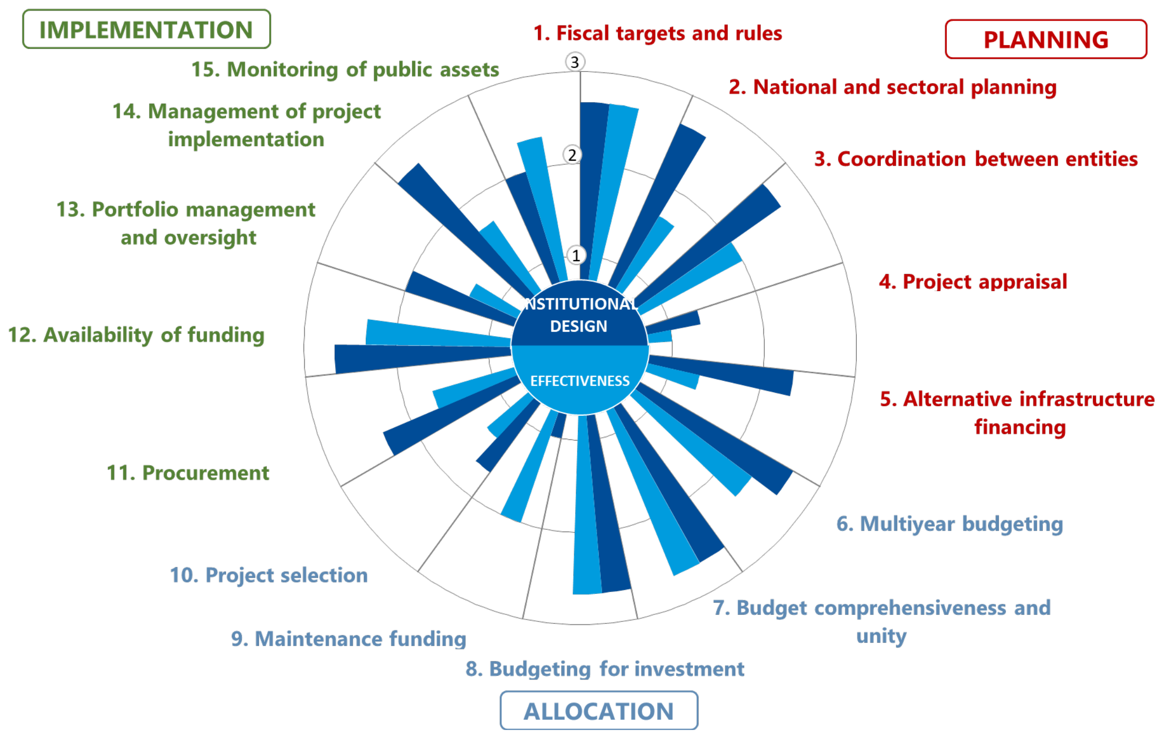
In the allocation phase, strengths include comprehensive budget presentation and practices for budgeting for investment. However, policies to support calculations of routine and capital maintenance are not yet in place, leading to difficulties in ensuring budget allocations appropriately support the long-term productive life of assets. Project selection criteria have been included in administrative instructions, but selection can be done outside these criteria and is not based on a single prioritized pipeline of appraised projects across funding sources.

In the implementation phase, design is stronger than performance, in part due to implications of weaknesses early in the planning stage. The operation of the current procurement process was nearly universally cited as a key challenge to implementation, particularly the time taken to comply with requirements and the difficulty of using metrics other than price to decide contract award. Project implementation arrangements are in place but challenged by sufficient availability of qualified staff. Portfolio management practices have not yet been developed that allow for the identification and management of systemic issues affecting the portfolio of investment projects.

Like most other countries, Kosovo is at an early stage of incorporating climate aspects into public investment management (Figure 2). Efforts are underway to create a new strategic framework with support of development partners, which are given impetus through the opportunity to seek funding from the EU Western Balkans Investment Framework. The lack of data specific to Kosovo reflecting its short history and lack of standing in some international fora hampers the setting of quantified national goals on climate. It also contributes to gaps in hazards assessment and mapping of the vulnerability to climate change that would support planning and zoning guidance and shape future infrastructure delivery. Environmental awareness informs government policies, and environmental impact assessment typically includes impacts from pollution and harmful emissions. Areas where Kosovo is showing promising developments across the Climate PIMA framework include the coverage of climate in the recently finalised PPP assessment manual, and performance audits of climate relevant aspects including flood preparedness and environmental efficiency programmes. A new national disaster risk management strategy is also nearing completion.

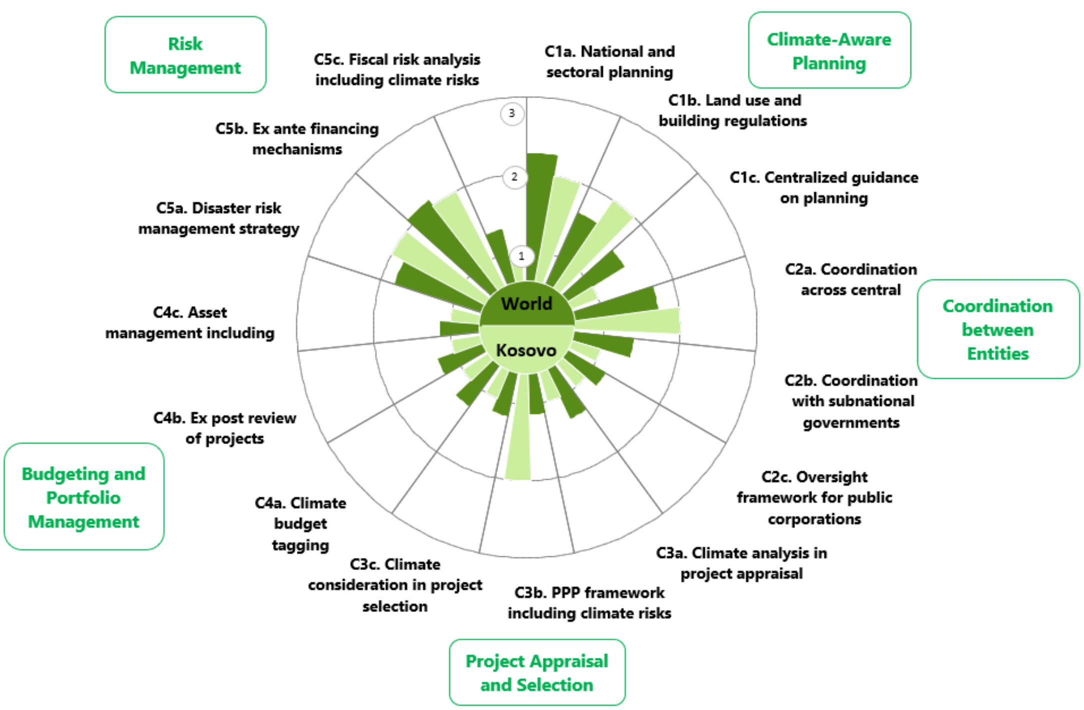
Dedicated effort and leadership from the MoFLT and the Ministry for Environment, Spatial Planning and Infrastructure will be key to boosting infrastructure outcomes. The report recommends a renewed focus in the MoFLT on setting the rules for project appraisal, establishing a central capacity to robustly review project appraisal, and reinforcing the project selection process. Kosovo already plans to establish a team in MoFLT to manage donor-funded projects more actively, but this could be expanded and improve the management and impact of all major projects. Such a function should be designed to complement, but not replace, existing capacity and accountability for projects in the implementing agencies. The need to broaden the understanding of how to include climate change in public investment impacts across all levels of public investment delivery and will require a dedicated strategy to lift capacity. A summary of high priority recommendations is provided in Table 3. An action plan to support the implementation of all recommendations in the report is included at Annex 1.

Figure 1. Kosovo PIMA: Institutional Design and Effectiveness



Source: Staff calculations

Figure 2. Kosovo Climate-PIMA Scores



Source: Staff assessment for Kosovo compared to the average for all finalized Climate PIMAs at May 2023.

Table 1. PIMA Summary Assessment for Kosovo

Phase/Institution			Design	Effectiveness	Reform priority
A. Planning	1	**Fiscal targets and rules**	**HIGH.** Debt limit, fiscal deficit limit and MTEF support fiscal planning and sustainability.	**HIGH.** Budgets have been consistent with fiscal rules and MTEF.	**Low**
	2	**National and sectoral planning**	**HIGH.** National and sector strategies prepared with comprehensive performance indicators.	**MEDIUM.** National Strategy is published with only a few sector strategies and inadequate costing.	**Medium**
	3	**Coordination between entities**	**HIGH.** Budget process helps coordination. A rule-based system used for municipal grants. Contingent liabilities reported in budget.	**MEDIUM**. Coordination is partially effective. Outdated parameters used in the calculation of grants.	**Low**
	4	**Project appraisal**	LOW. Major projects are seldom appraised, there is no legal requirement for appraisal. No central support**.**	**LOW.** Appraisal is not done uniformly, no standard methodology for appraisal. Risks are not taken into account.	**High**
	5	**Alternative infrastructure financing**	**MEDIUM**. Independent regulators promote competition through laws for PPPs and PCs.	**LOW.** PCs dominate infrastructure services with no scrutiny of their investment plans and few PPPs.	**High**
B. Allocation	6	**Multi-year budgeting**	**HIGH.** Multi-year capital spending projections are prepared and included in the annual budget.	**MEDIUM.** Multi-year indicative ceilings are increasingly consistent with actual allocations, forecast changes are explained.	**Low**
	7	**Budget comprehensive-ness and unity**	**HIGH.** Capital spending of general government budget organizations are presented together in the budget irrespective of funding source.	**HIGH.** Requirements are followed and together present a comprehensive picture of capital spending.	**Low**
	8	**Budgeting for investment**	**HIGH.** Capital is appropriated annually. 3 year and total costs are disclosed. Ongoing projects are protected but some transfers are allowed.	**HIGH.** Ongoing projects are protected but flexibility to make reallocations for projects that progress slowly.	**Medium**
	9	**Maintenance funding**	**LOW.** No standard methodology for routine maintenance or major improvements. Routine maintenance not seen in budget.	**MEDIUM.** Some well-established asset management practices in part inform budgetary needs.	**Low**
	10	**Project selection**	**MEDIUM.** Projects are to be scrutinized by MoFLT. Guiding selection criteria ae published. No combined project pipeline.	**LOW.** Projects can enter budget without selection process. Central review does not stop immature projects.	**High**
C. Implementation	11	**Procurement**	**MEDIUM.** Law supports competition, assigns responsibility for monitoring and establishes a complaints mechanism.	**MEDIUM** Some competition exists, and system data is available in reports. Complaints can have long delays.	**High**
	12	**Availability of funding**	**HIGH.** Regulations support cash forecasting. Quarterly fund allocations and timely cash releases exist. Donor accounts are incorporated in the TSA.	**MEDIUM.** No cash flow forecasts. Current fund allocation mech.& issues in the earlier stages of expenditure cycle cause delays in capex.	**Medium**
	13	**Portfolio management and oversight**	**MEDIUM.** Monitoring is required by Law; funds can be reallocated. Ex-post reviews not required.	**LOW.** No monitoring of total portfolio. Reallocations are conducted. Ex-post reviews are not done.	**High**
	14	**Management of project implementation**	**HIGH.** Project management is required. Guidelines for cost adjustments are available. Ex-post audit required by law.	**MEDIUM.** Management complicated by design issues. Project cost adjustment rarely done. External audits published.	**Medium**
	15	**Monitoring of public assets**	**MEDIUM.** Assets required to be comprehensively reported in annual asset registers, reflecting condition, depreciation and revaluations.	**MEDIUM.** Total assets are reported indicating balances and depreciation, while detailed asset classes are reported in agency financial reports.	**Low**

Table 2. Climate-PIMA Summary Assessment for Kosovo

Phase/Institution			Institutional Strength	Reform priority
Climate PIMA	C1	Climate-aware planning	**MEDIUM.** Public investment strategies are increasingly taking into account the factors needed to mitigate climate change and adapt to its consequences, but mainstreaming national climate goals into national, sectoral and spatial plans is incomplete.	High
	C2	Coordination between entities	**LOW.** Some institutional mechanisms and bodies introduced to facilitate the coordination across budget organizations from a climate-change perspective and often to meet donor requirements. Budget guidelines do no cover climate change with respect to public investment management.	Medium
	C3	Project appraisal and selection	**LOW.** No climate-related aspects are incorporated in project appraisal, nor as part of the project selection criteria. New PPP Guide does have a climate perspective but is yet to be rolled out.	High
	C4	Budgeting and portfolio management	**LOW.** There is no climate tagging of expenditure in the budget, nor are ex-post project reviews carried out. A few performance audits do cover climate related issues, but asset management policies are silent on climate.	High
	C5	Risk management	**MEDIUM.** Fiscal risks relating to climate change and infrastructure is generally not incorporated in budget planning and risk management. Integrating climate-related risk analysis in economic and fiscal planning and completing the national disaster risk management strategy should be a priority.	Medium

Table 3. Summary of High Priority PIMA and Climate-PIMA Recommendations

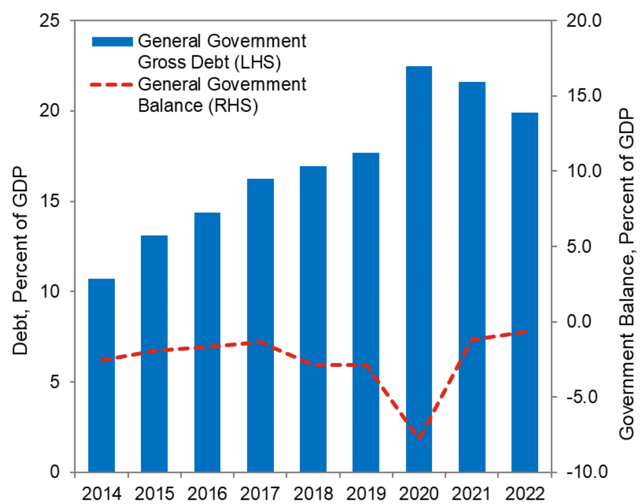
Investment Planning	
• Strengthen project appraisal guidelines, methodologies and reflect these in updated PFM Law. Establish a central support function in the MoFLT to support conduct of high-quality appraisals.	MoFLT, 2024
• Establish a central project review function in MoFLT to provide expert review of project appraisals regardless of funding source.	MoFLT, 2024
Investment Allocation	
• Improve the quality of project information in the PIP system.	MoFLT 2024
• Strengthen the review of the estimates for capital expenditure provided by budget organizations in the annual budget process to improve the accuracy and reliability of budget estimates for capital expenditure.	MoFLT 2024
Investment Implementation	
• Finalize and adopt the new draft law on procurement.	MoFLT 2023
• Establish central monitoring of major projects covering all funding sources.	MoFLT 2024
Climate sensitive public investment	
• Embed a climate perspective in the appraisal and selection of capital projects, including through amendments to the Administrative Instruction on project selection.	MoFLT with Office of Prime Minister+ MoESPI – 2025
• Strengthen the linkages between the Climate Change Strategy and sectoral and spatial plans to inform public infrastructure investment.	MoESPI and MoFLT, 2024

I. Public Investment in Kosovo

A. Trends in Public Investment and Capital Stock

1. **Public investment in Kosovo occurs in a fiscal environment where the general government deficit and debt is generally well contained.** Since 2014 the general government deficit (covering central and municipal governments) remained below 3 percent of GDP with the exception of 2020.[1] In that year the deficit peaked at 7.8 percent of GDP before immediately bouncing back to the longer-term average in subsequent years. The higher than usual deficit in 2020 was due to extraordinary measures taken during the COVID-19 pandemic. This trend in general government balance led also to an increase in government debt from 17.7 percent of GDP in 2019 to 22.5 percent in 2020, receding to an estimated 19.9 percent in 2022 (Figure 1.1). The reduction in debt after 2020 is due to better-than-expected performance of budget revenue and, in part, also the under execution of capital expenditure. These levels are well within the fiscal targets of government and are relatively low compared to other countries in the region (see Institution 1 in section III C).

Figure 1.1. Kosovo: General Government Balance and Gross Debt

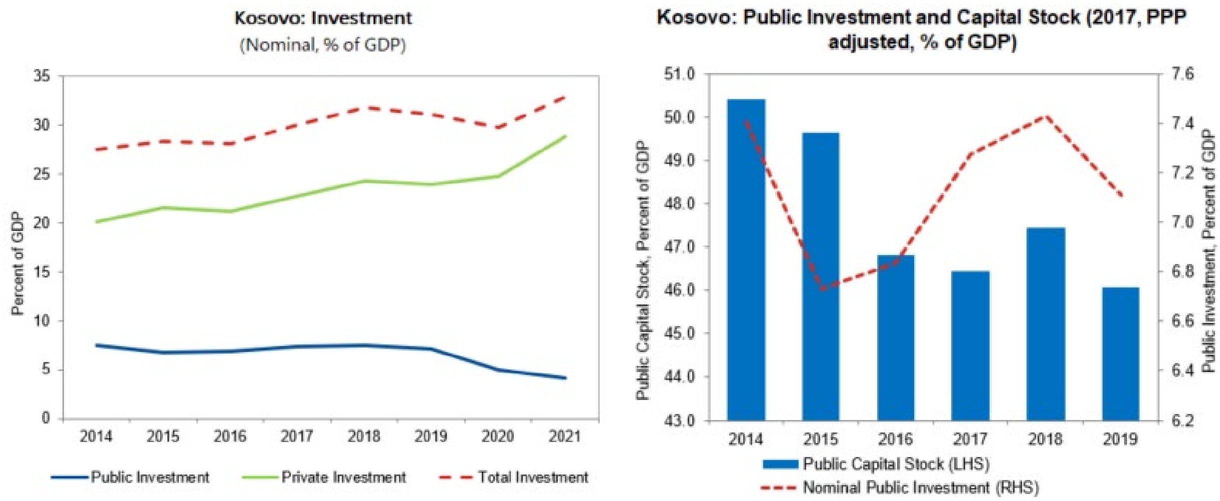


Source: MoFLT

2. **Capital spending has played a key role following the Balkans War and Kosovo's independence.** While post-war reconstruction needs initially contributed to infrastructure, since independence the levels of capital spending have been relatively low, resulting in a decline in estimated capital stock. At the same time, total investment in the economy (as measured by the gross fixed capital formation as percentage of GDP) has trended upward mainly driven by strong private investment. Public investment was broadly stable as a share of GDP at around 7 percent over the period from 2014 to 2019 after which a marked decline to an average of 4 percent of GDP occurred for the remaining of the period under review (Figure 1.2, left panel). In these latter years, the capital spending has been below their projections in Kosovo's Medium-Term Expenditure Framework (MTEF) and budget in part due to delays in procurement, challenges in contract execution and other issues discussed later in this report. The MTEF 2024-2026 indicates that addressing structural bottlenecks in infrastructure as an engine of growth is an objective of the government. However, progress is hampered by under-execution. While budget execution improved after 2020, capital spending has fluctuated around its average the past five years of 65 per cent of budgeted amounts. These investment trends led to a downward trend in the estimated public capital stock (Figure 1.2, right panel).

[1] This deficit refers to the overall balance before adjustments is made for the fiscal rule (see Institution 1).

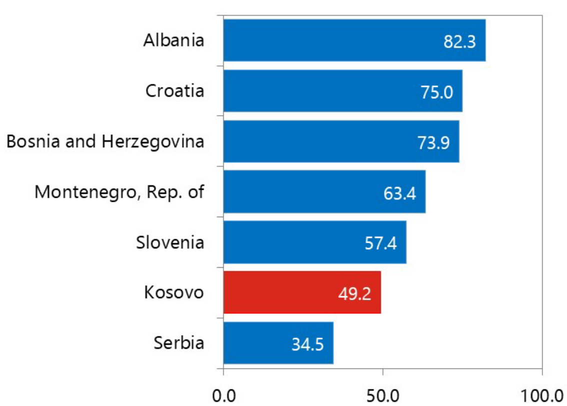
Figure 1.2. Historical Trends of Public Investment and Capital Stock[2]



Sources: Kosovo Agency for Statistics and the Template for Investment and Efficiency (TIE), January 2022 vintage, Fiscal Affairs Department, IMF.

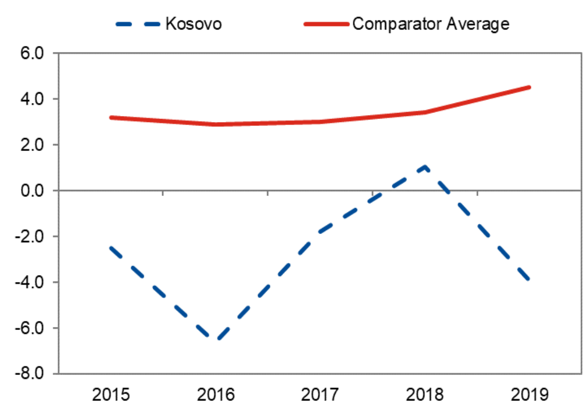
3. **Despite the public investments over the last decade Kosovo's estimated capital stock remains low compared to that of peers.** This can be seen from the relative levels of capital stock compared with peer countries (Figure 1.3) and from comparing the real public capital stock growth rate (Figure 1.4). Kosovo's real public capital stock growth was negative on average during the 2014–2019 period for which data are available in the database**.** In contrast, real capital stock growth was estimated to be growing solidly for the comparator countries in the region.[3]

Figure 1.3. Public Capital Stock 2019
(Public capital stock, 2017 PPP adjusted % GDP)



Sources: IMF Template for Investment and Efficiency, January 2022 vintage, Fiscal Affairs Department, IMF

Figure 1.4. Real percentage growth in Public Capital Stock



Sources: IMF Template for Investment and Efficiency, January 2022 vintage, Fiscal Affairs Department, IMF

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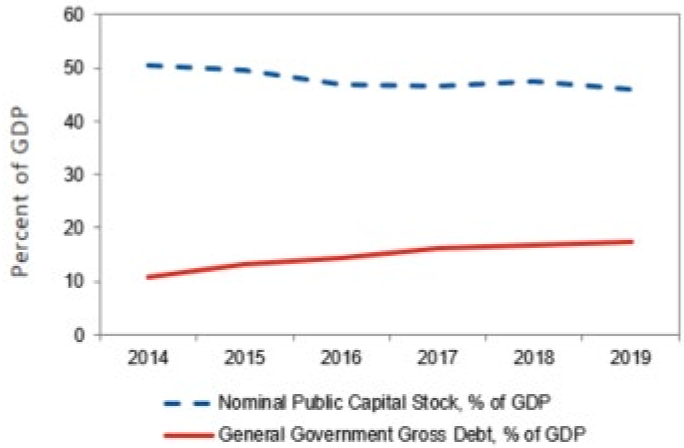
[2] The estimates for public capital stock and others in this section are from the international capital stock database of the IMF, and the Template for Investment and Efficiency that enables international comparisons using commonly available data. The latest available data from this dataset is used. Data gaps for Kosovo and the lack of a long historical timeseries given its history have created additional challenges in Kosovo's calculations. The methodology for estimating public capital stock is detailed in the IMF Board Paper "Making Public Investment More Efficient", June 2015 and IMF's Investment and Capital Stock Dataset (ICSD) Manual & Frequently Answered Questions, 2021.

[3] Albania, Bosnia and Herzegovina, Croatia, Republic of Montenegro, North Macedonia, Serbia, and Slovenia.

4. In Kosovo, the trend in the general government debt to GDP ratio displays a somewhat inverse relationship to the estimated capital stock to GDP ratio. This trend signifies that capital investment is unlikely a large contributor to government debt in Kosovo. Capital investments financed from grants from international organizations likely contribute to this trend Kosovo (Figure 1.5).

Figure 1.5. Kosovo: Trend in capital stock and government debt



Sources: IMF Template for Investment and Efficiency, January 2022 vintage, Fiscal Affairs Department, IMF

B. Composition and Financing of Public Investment

5. Public investment in Kosovo continues to be financed mainly from domestic sources. Project grants and external borrowing for projects make a contribution to financing investment but this is relatively small (Table 1.1). The total gross-fixed capital formation of the general government averaged 5 percent of GDP over the past four years. Of this, project grants and external borrowing approximately account for 18 percent of the capital formation on average. EU support to Kosovo has largely been provided under the framework of Instruments for Pre-Accession. These initially focused on reconstruction but in recent years have shifted towards institution building. The EUs Western Balkans Investment Framework, launched in 2021, will support sustainable infrastructure investments in energy and transport (see Box.4.3 later in the document).

Table 1.1 Kosovo: Funding of Public Investment (Percent of GDP)

Fiscal Year	Gross fixed capital formation	Funded by		
		Project grants[1]	External funding for projects[1]	Domestic sources
2019	7.1	0.1	0.6	6.4
2020	4.9	0.1	0.9	3.9
2021	4.1	0.2	0.6	3.3
2022	3.4	0.1	1.1	2.2
Average over 4-years	**4.9**	**0.1**	**0.8**	**4.0**

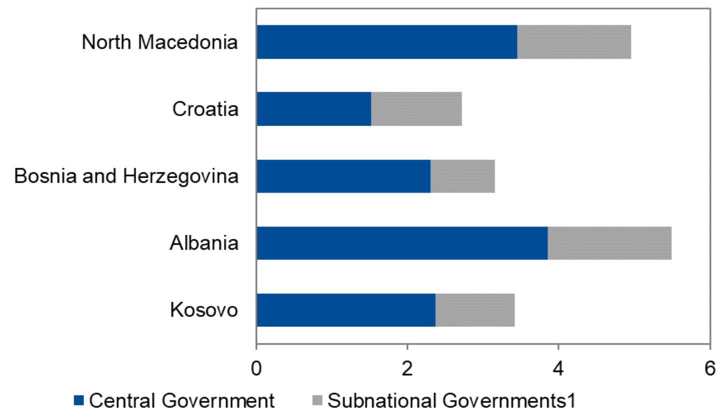
Sources: Kosovo Agency for Statistics, Kosovo authorities, and staff estimates

Note 1. These funding sources can somewhat overstate their contribution to capital formation due to the inclusion of some current projects that are correctly reclassified in the capital formation data.

6. Municipal governments make a significant contribution to capital investment in Kosovo. Capital expenditure of municipal governments was estimated to be 30 percent of the total gross capital formation by the general government for the 2022 fiscal year. While the central government in Kosovo continues to account for the bulk of capital expenditure, their dominance is declining slowly as the share of municipal governments has increased from one-fifth of total investment of the general government sector estimated in the 2015 PIMA. Using comparisons available for in the region, capital expenditure by municipal governments in Kosovo in 2022 equated to 1.1 percent of GDP, slightly below the average of 1.3 percent of GDP in comparator countries (Figure 1.6).[4]

7. **Kosovo has not yet made extensive use of Public-Private Partnerships (PPPs) and the POE sector is small compared to other countries in Europe.** As discussed in Institution 5, only small PPPs have been completed to date. According to the MTEF for 2024-2026, POEs made a negative contribution to investment – asset values were reported to have declined in 2021 with 4.5 percentage points from asset levels of 20.0 percent of GDP reported in 2021 to 15.5 percent of GDP in 2022.[5]

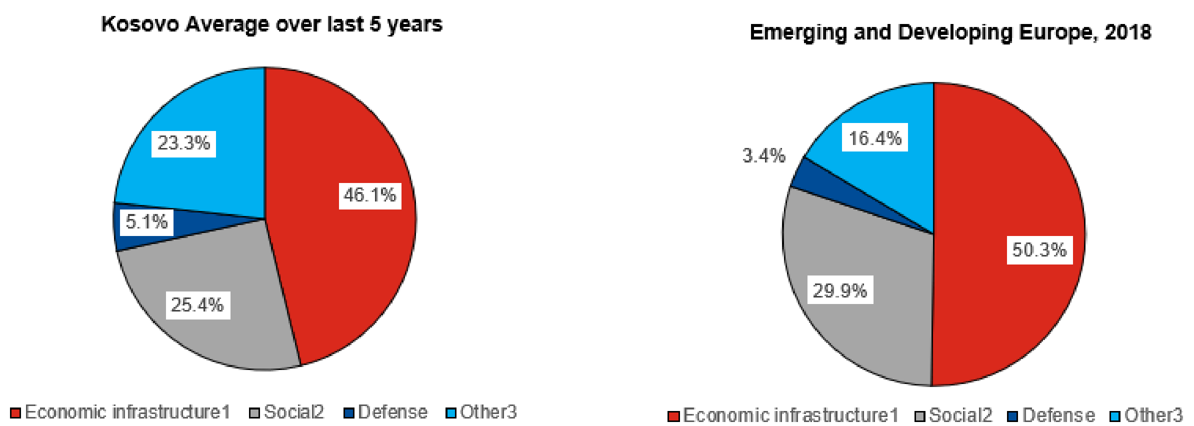
Figure 1.6. Public Investment by Level of Government
(Nominal, % of GDP, 2017)



Sources: IMF Template for Investment and Efficiency, January 2022 vintage, Fiscal Affairs Department, IMF

8. **Economic infrastructure accounts for nearly half of capital expenditure in Kosovo,** (Figure 1.7)**.** Economic infrastructure, and social-related capital accounted for around half of Kosovo's capital investment between 2018 and 2022, which is in line with the comparator group of emerging and developing Europe. Social infrastructure accounts for the next largest share of public investment spending, at around a quarter of all investment over the period. In contrast the percentage of other investment spending in Kosovo is higher than in comparators.

Figure 1.7. Composition of General Government Investment Expenditures by Function



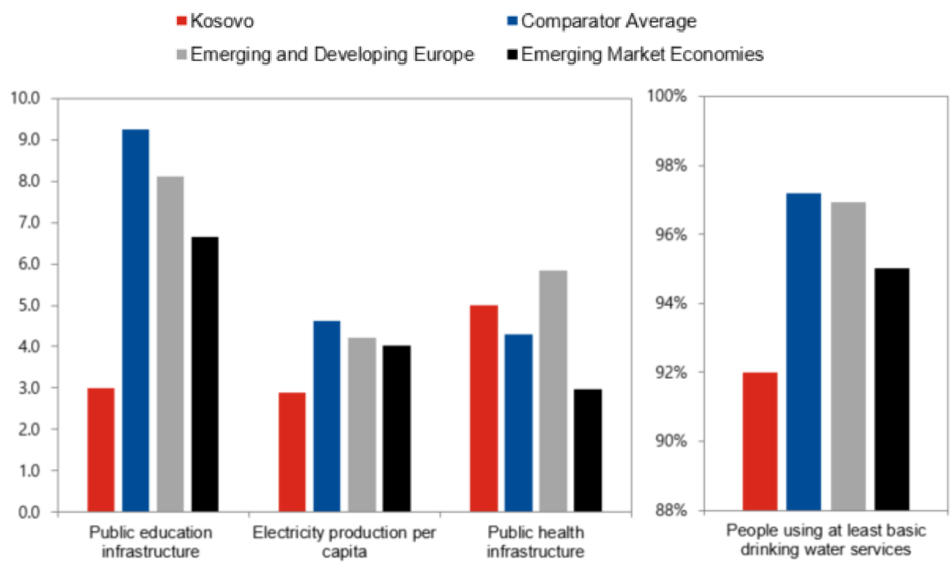
Sources: MoFLT and IMF Template for Investment and Efficiency (TIE), January 2022 vintage, Fiscal Affairs Department, IMF
1/ Economic infrastructure includes roads, bridges, airports, dams, etc.
2/ Social infrastructure includes hospitals, schools, social housing, recreation, and culture.
3/ Other infrastructure assets include economic affairs, public order, social protection, general services and environmental protection.

[4] Data for these countries are only available for 2017 in the capital stock database.
[5] Government of Kosovo, MTEF 2024-2026, 2023.

II. The Efficiency of Public Investment

9. Access to public infrastructure in Kosovo varies by sector but is generally low compared to peers (Figure 2.1). The country has lower access to both education infrastructure and electricity infrastructure compared to the average of emerging market economies (EMEs), as well as that of Emerging and Developing Europe. In Kosovo, 92 percent of the population has access to basic drinking water services, which is also lower than the average level of access in EMEs. However, Kosovo achieves a higher rating in access to health infrastructure than EMEs, but still worse than the average for Emerging and Developing Europe. This measurement is based on the most recent year available for the World Bank Development Indicator of the number of hospital beds per 1,000 people (in 2020, this was 5.0 beds for Kosovo, compared to an average of 3.0 beds in EMEs).

Figure 2.1. Measures of Infrastructure Access (Most Recent Year)*

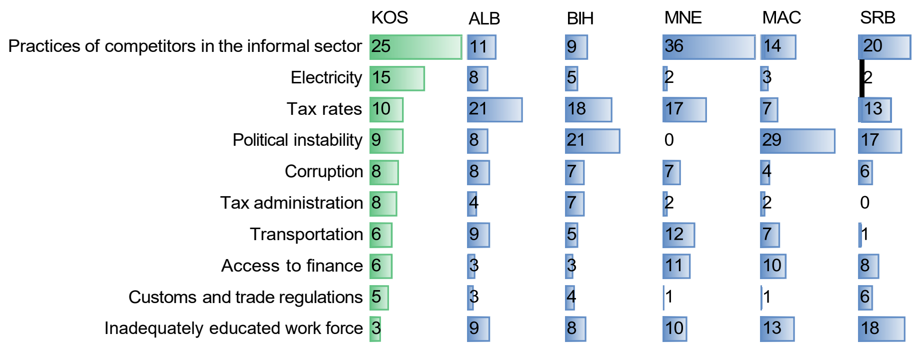


*Units vary to fit scale. Left hand panel: Public education infrastructure is measured as secondary teachers per 1,000 persons; Electricity production per capita as thousands of kWh per person; Roads per capita as km per 1,000 persons; and Public health infrastructure as hospital beds per 1,000 persons. Right hand panel: percentage of people using at least basic water services. This indicator encompasses both people using basic water services as well as those using safely managed water services. Basic drinking water services is defined as drinking water from an improved source, provided collection time is not more than 30 minutes for a round trip. Improved water sources include piped water, boreholes or tube wells, protected dug wells, protected springs, and packaged or delivered water.
Source: IMF Staff estimates based on official data and World Bank Development Indicators

10. Due to relatively poor levels of access to infrastructure, the perceived quality of infrastructure in Kosovo has decreased in recent years. Although Kosovo is not reflected in the World Economic Forum Infrastructure Quality Index, it is reasonable to expect that quality is at least comparable to that of other Western Balkan countries, which rank low compared to other EU regional groups.[6] Also, other indicators underscore Kosovo's overall infrastructure quality is perceived to be weak. The Business Environment and Enterprise Performance Survey (2018-2020) conducted by the World Bank and European Bank for Reconstruction and Development shows that electricity and transportation were identified as big constraints to doing business in Kosovo, ahead of access to finance (Figure 2.2). These quality indicators are perception based and may be influenced by current and recent developments. For social infrastructure, outcomes in the education sector are also poor as students scored the lowest in the region on the international PISA scores (and less than the international average).[7]

Figure 2.2. Investment Quality Perception: Major Constraints to Doing Business

(*Per cent of firms identifying it as such)



Source: EBRD and World Bank Business Environment and Enterprise Performance Survey VI (2018 -2020)

11. **There is room for improving the efficiency of public investment in Kosovo.** The IMF produces a physical indicator for public infrastructure efficiency that statistically summarizes the relationship between the per capita capital stock and GDP (inputs) and access indicators (outputs). The information above suggests Kosovo is not estimated to have significantly changed its physical investment efficiency from the estimates presented in the 2015 PIMA.[8] The physical efficiency gap was estimated at 45 percent in the 2015 PIMA.[9]

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[6] In fact, for the transport and energy sectors, Kosovo performs worse than other countries in the Western Balkans region. Rail services have continued to decline sharply over the past five years, while electricity supply is unreliable and has not yet met demand. Starting in late 2021 and 2022, power cuts were common due to breakdowns in the Kosova B power plant's units and a significant increase in electricity consumption. Electricity supply appears to be more stable in 2023 and new renewable energy projects are in planning.

[7] OECD, *Education in the Western Balkans: Findings from PISA: Program for International Student Assessment*, 2019.

[8] See the 2015 IMF Staff Report "Making Public Investment More Efficient" for the methodology for estimating investment efficiency.

[9] This means that approximately 45 percent of the value of public infrastructure investment is lost through inefficiencies in the investment process compared to the most efficient comparable country on the efficiency frontier. The 2015 PIMA stated the efficiency gap relative to the most efficient countries for Kosovo was larger than regional comparators (Albania, Montenegro and North Macedonia) who were estimated to have an efficiency gap of 30 percent.

III. Public Investment Management Institutions

A. The PIMA Framework

12. The IMF has developed the Public Investment Management Assessment (PIMA) framework to assess the quality of the public investment management of a country. It identifies the strengths and weaknesses of institutions and is accompanied by practical recommendations to strengthen them and increase the efficiency of public investment.

13. This assessment of Kosovo uses the 2018 PIMA framework, which includes 15 "institutions" involved in the three major stages of the public investment cycle (Figure 3.1). These are: (i) planning of investment levels for all public-sector entities to ensure sustainable levels of public investment; (ii) allocation of investments to appropriate sectors and projects, and (iii) delivering productive and durable public assets efficiently.

Figure 3.1 2018 PIMA Framework

Source: Public Investment Management Assessment Handbook.

14. For each of these 15 institutions, three indicators are analyzed and scored according to a scale that determines whether the criterion is met in full (high), in part (medium), or not met (low) (see Annex 2 for the PIMA Questionnaire). Each dimension is scored on two aspects: institutional design and effectiveness; and reform priority is also discussed for each institution:

- *Institutional design* refers to the objective facts indicating that appropriate organizations, policies, rules, and procedures are in place. The average score of the institutional design of three dimensions provides the score for the institution, which may be high, medium, or low.
- *Effectiveness* refers to the degree to which the intended purpose is being achieved or there is a clear useful impact. The average score of the effectiveness of the three dimensions provides the effectiveness score for the institution, which may be high, medium, or low.

- *Reform priority* refers to whether the issues contained within the institution are important to be improved in the specific conditions faced by Kosovo.

15. The 2018 framework differs from the original PIMA framework used for the first 2015 Kosovo PIMA assessment. The change in assessment methodology creates some differences in scoring. The different methodology and scoring in the new framework are discussed in Annex 3.

B. Overall Assessment

2023 Assessment

16. Kosovo's PIMA update scores are markedly stronger in terms of design compared to effectiveness. On average, the quality of design (Figure 3.2) exceeds the scores for effectiveness in practice of the different institutions (Figure 3.3). Key design strengths include fiscal targets and rules, national and sectoral planning; coordination; budget comprehensiveness; budgeting for investment; availability of funding; and project implementation. Significant weaknesses exist in the critical areas of project appraisal and project selection in terms of both design and effectiveness. Scores for each institution are explained in this chapter, and detailed dimension level scores are presented at Annex 4.

17. Kosovo generally scores more highly than the average of European PIMAs to date. In reviewing comparisons, it is important to note that more recent PIMAs have tended to have stronger scores, reflecting widespread efforts to improve public infrastructure management since the introduction of the PIMA tool in 2015.

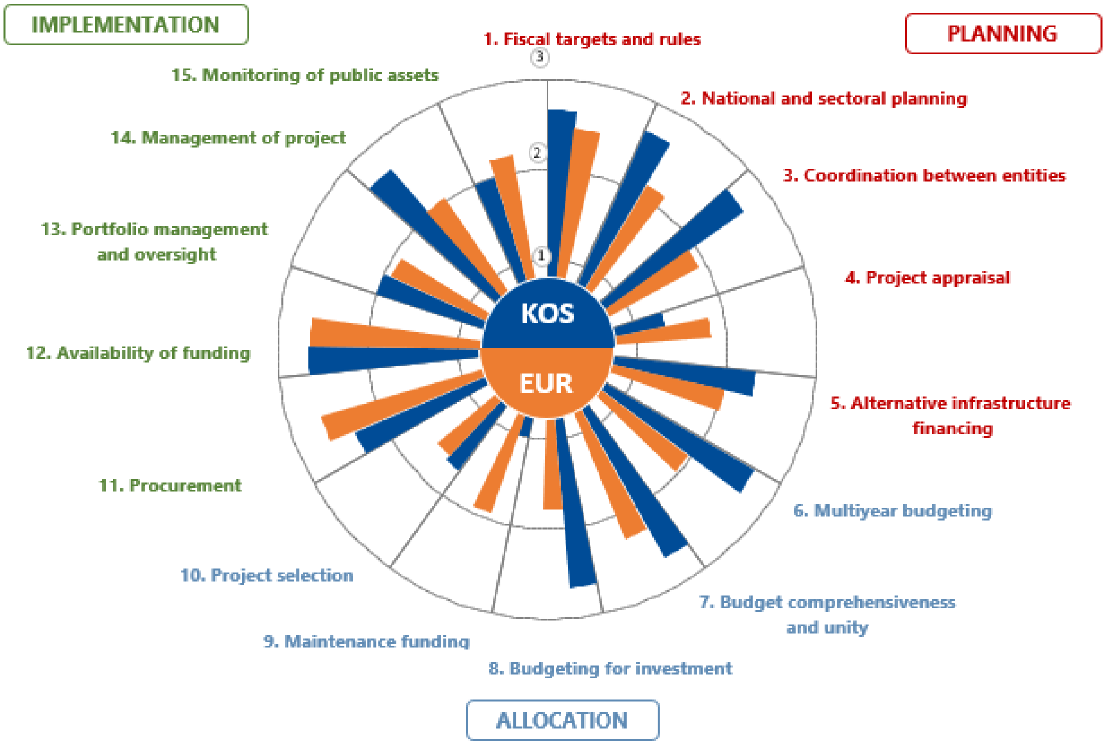
- On institutional design, Kosovo compares favorably with the European average across all implementation phases. On effectiveness, Kosovo's scores across the planning and implementation phases are weaker than the European averages. In contrast, the effectiveness scores for the allocation phase exceed the European average, reflecting the relative strength of the multiyear budgeting, budget comprehensiveness and investment budgeting practices in Kosovo.

Comparison to 2015 Assessment

18. Kosovo has made significant improvements in public investment management since the 2015 PIMA. These improvements, including implementation of some of the 2015 recommendations (Annex 5), have led to higher scores in the 2023 PIMA in some areas. Table 3.1 shows the institutions where the average of the dimension scores was sufficiently large to change the overall institution score, with green denoting increasing scores and light red denoting decreasing scores.

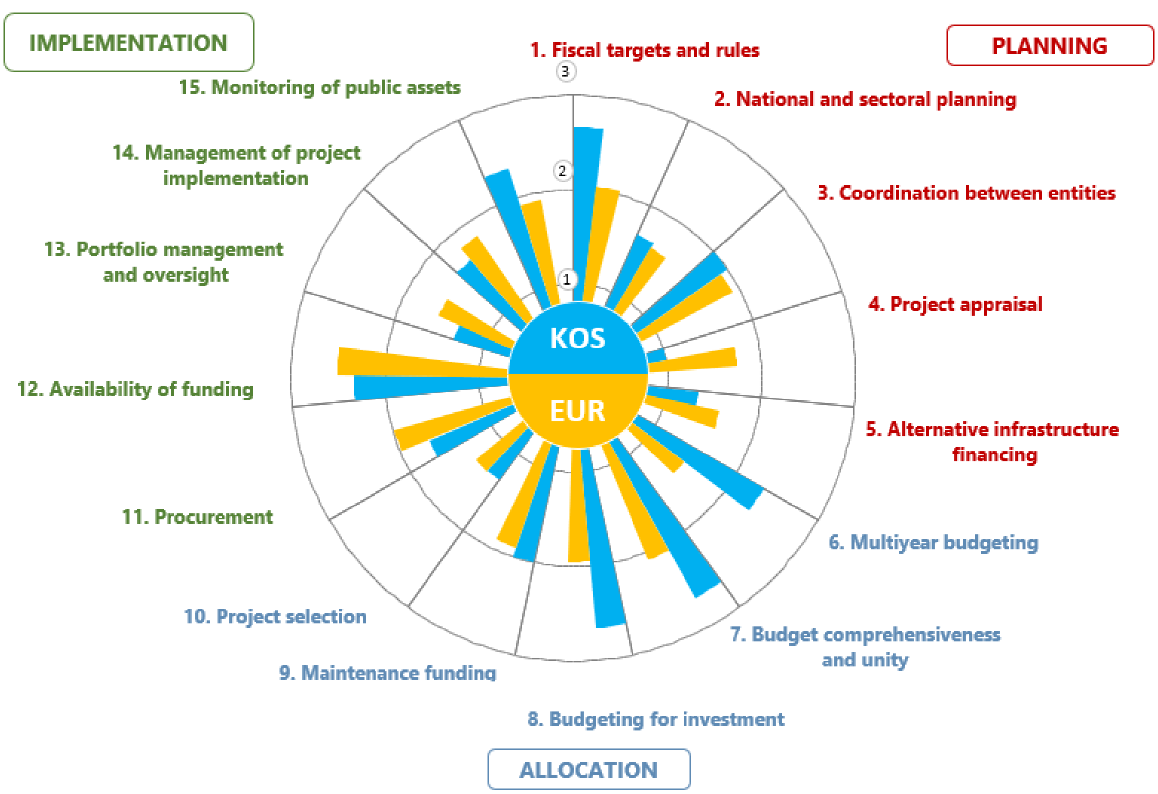
- On institutional design, the changes in dimension averages for each institution were sufficiently large to change the overall institution score for five of the fifteen institutions. On the other hand, one institution (appraisal), declined in part due to improvement and specification of the PIMA assessment methodology during 2018–2022 rather than from substantive changes in performance.
- On the effectiveness side, six scores saw improvements, and two declined.

Figure 3.2 Institutional Design of Public Investment Management Institutions



Source: Staff calculations

Figure 3.3 Effectiveness of Public Investment Management Institutions



Source: Staff calculations.

Table 3.1 Summary of Changes in Kosovo's PIMA Scores 2015 to 2023

Phase/Institution			Institutional Design*	Effectiveness*	Explanation for change
A. Planning	1	Fiscal principles or rules	HIGH	MEDIUM TO HIGH	Budgetary developments have stayed within fiscal rules in recent years.
	2	National and sectoral plans	HIGH	LOW to MEDIUM	NDP has been published and sector strategies are being published on a rolling basis.
	3	Coordination between entities	MEDIUM to HIGH	MEDIUM	Fiscal risk management improved, and budget documents now include contingent liabilities.
	4	Project appraisal	MEDIUM to LOW	MEDIUM to LOW	Appraisals are rarely required or done and feasibility studies only for some internationally funded projects.
	5	Alternative infrastructure financing	MEDIUM	MEDIUM to LOW	Effectiveness is weak due to the limited penetration of private competition to POEs and through PPPs.
B. Allocation	6	Multi-year budgeting	MEDIUM to HIGH	LOW to MEDIUM	Closer alignment of budget ceilings with approved budget. Published budget now includes costs for all projects, and an explanation of developments for major projects is in MTEF.
	7	Budget comprehen-siveness and unity	HIGH	MEDIUM to HIGH	All capital spending of Budget Organisations is undertaken through the budget – PPP investments not included are relatively small concession arrangements.
	8	Budgeting for investment	LOW to HIGH	MEDIUM to HIGH	Budget documents now make a distinction between ongoing and new projects and include total project costs, while contractual contracts are now protected against reallocations.
	9	Maintenance funding	LOW	MEDIUM	This institution was not part of the original PIMA framework.
	10	Project selection	MEDIUM	LOW	No change in score.
C. Implementation	11	Procurement	MEDIUM	LOW to MEDIUM	Includes factors not included in the original PIMA framework.
	12	Availability of funding	MEDIUM to HIGH	MEDIUM	Treasury single account system now includes all externally funded projects' bank accounts and budget organization bank accounts related to grants.
	13	Portfolio management and oversight	MEDIUM	LOW	No change in score.
	14	Project implementation	MEDIUM to HIGH	MEDIUM	Project management arrangements now include management teams, arrangements for adjustments and ex-post audits of capital projects.
	15	Management of public assets	MEDIUM	MEDIUM	No change in score.

* Colored squares show change in rounded institution-level scores. Rounded institution level scores are calculated using the current methodology for rounding scores and are based on an alignment of Kosovo's 2015 assessment to the updated 2018 framework. See Annex 3 for further details on the 2015 scoring methodology and how it differs from the newer methodology.

C. Investment Planning

1. Fiscal Targets and Rules (Design: High; Effectiveness: High; Reform Priority: Low)

19. **Clear objectives to guide fiscal policy help ensure fiscal sustainability and align planning, budgeting and the funding for public investment.** Fiscal rules and a credible medium-term fiscal framework, that sets multiyear targets for key fiscal indicators and defines a constraint for the upcoming

annual budget also smooth public investment spending across the economic cycle and facilitate medium-term planning for public investment.

20. Kosovo has rules in place aimed at safeguarding fiscal sustainability and supporting public investment. The debt rule limits general government gross debt to 40 percent of GDP, and the deficit rule sets a ceiling for the general government deficit of 2 percent of GDP[10] (with an "investment clause"[11] that creates additional space for capital projects financed by donors or privatization proceeds) (Figures 3.1 and 3.2). There is also a limitation of the increase of the wage bill with the previous year's nominal GDP growth. These fiscal rules guide the planning of the rolling medium-term fiscal framework (MTEF) as well as the annual budget. The MTEF, which is published in April, has projections of revenues, capital spending and recurrent spending for each ministry, budget organization (BO), program (e.g., the construction of schools, hospitals and roads) and municipality over a three-year period (Figures 3.4 to 3.9). The MTEF does not distinguish between new and ongoing capital projects or include an analysis of fiscal space available for new projects. The MTEF informs preparation of the annual budget, which is passed by the Assembly and published before the start of the budget year on 1 January.

21. Government debt and budget balances have moved in accordance with the fiscal rules, while capital spending has fallen short of the budget allocations. After several years of small budget deficits, expenses related to the COVID pandemic contributed to a large deficit in 2020. Fiscal balances have since recovered and are set to be in line with the fiscal rule provisions. MTEF revenue and spending projections are broadly in line with the subsequent budget. Budgeted revenues and recurrent spending are in recent years also reasonably consistent with actual outcomes, though there is a notable and persistent shortfall in actual capital spending relative to the budget (see discussion under Institution 6). Altogether, this suggests that the MTEF is becoming a more effective instrument when it comes to guiding budget preparation, but that there are deeper issues at play when it comes to understanding the causes of weak capital investment budget execution in recent years (which is explored in more detail later in this report). Since 2019, the MTEF includes explanations of key factors behind changes of forecasts for a budget year relative to previous forecasts, in addition to explanations for deviations between actual spending outcome for the budget year relative to the forecast.

22. Continuing the positive efforts to align fiscal policy with the budget preparations remains a priority. Kosovo has successfully developed a fiscal framework that emphasizes fiscal sustainability and aligns planning, budgeting and funding for public investment. Building on these positive experiences to further improve fiscal planning through the MTEF and the budget process will provide a solid foundation for developing public infrastructure investments to meet Kosovo's development needs.

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[10] Any excessive deficit should be corrected within the next three fiscal years, so that the average deficit over the four-year period equals 2 percent. The fiscal rule may be temporarily suspended such as an economic recession (which is recognized when nominal tax revenues are equal to or lower than the tax revenues collected during the same period of prior fiscal year, excluding the impact of policies and one-off tax revenues), natural disasters, a crisis in the banking system, and the call of state guarantees.

[11] The investment clause contains several safeguards. It can only be invoked the targeted deficit is below 2 percent of GDP; the government's bank balances are above 4.5 percent of GDP; and public debt does not exceed 30 percent of GDP (in which case, only projects financed by privatization receipts would be exempted). In addition, it includes a sunset clause of 10 years (from 2015), after which the exemption of donor-funded capital expenditures will expire. Furthermore, the ministry will submit to parliament semi-annual reports on all new donor-funded projects that quality under the investment clause, detailing the rationale, expected costs, and financing items.

Consideration should also be given to including in the MTEF an analysis of the fiscal space available for new capital projects (after considering existing obligations tied to ongoing projects and other spending).

Figure 3.4 Government debt
(Gross, percent of GDP)

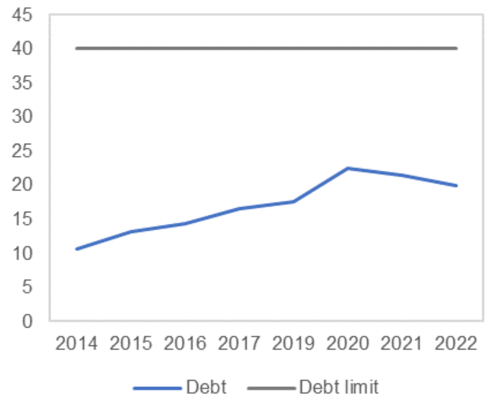


Figure 3.5 Budget balance
(Fiscal rule definition, percent of GDP)

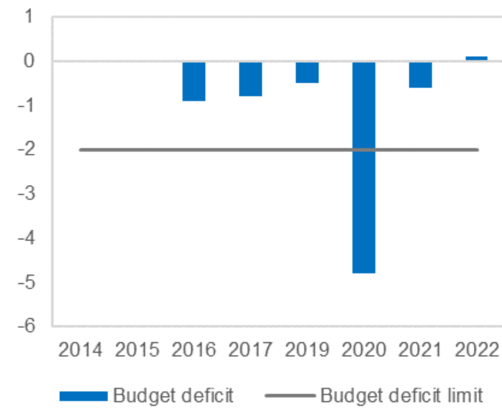


Figure 3.6 Recurrent spending
(EUR million, actual and projected)

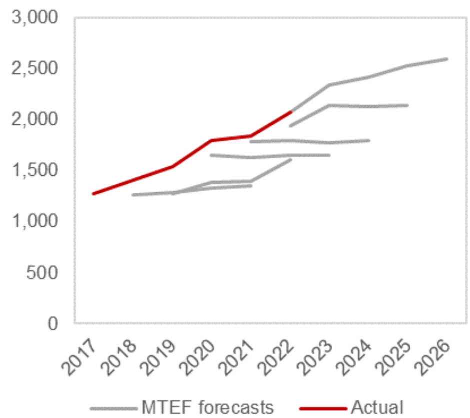


Figure 3.7 Capital spending
(EUR million, actual and projected)

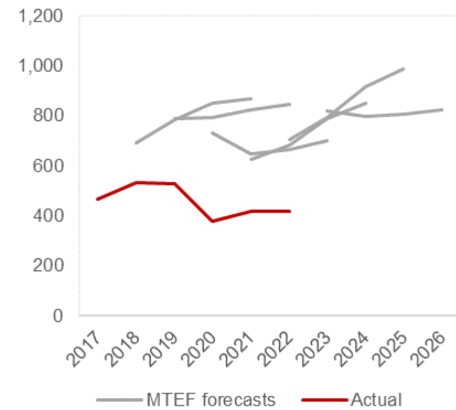


Figure 3.8 Revenues
(EUR million, actual and projected)

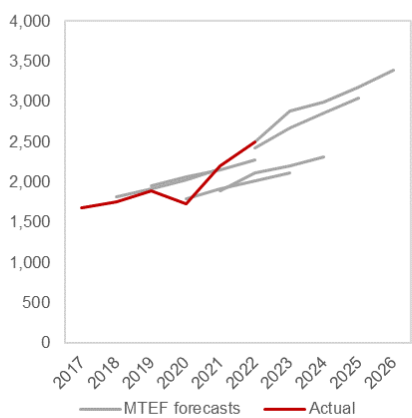
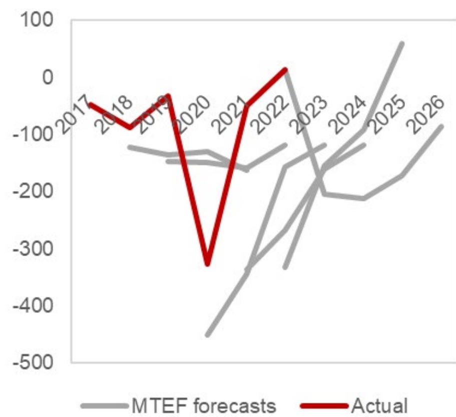


Figure 3.9 Budget balance (fiscal rule definition)
(EUR million, actual and projected)



Sources: Kosovo MTEF.

2. National and Sectoral Planning (Design: High; Effectiveness: Medium; Reform Priority: Medium)

23. Strategic planning at the national level sets the government's main priorities, for a period of five to ten years. It sets the overall development framework and maps the direction for individual sectors. If this stage of planning is effective, it defines baseline performance indicators and targets for key programs. It should also identify the major strategic public projects to be delivered.

24. Both national and sectoral public investment strategies or plans are published and cover most projects funded through the budget, but also those supported by donors and IFIs. The National Development Strategy and Plan (NDP) 2030 was approved and published in March 2023 (Box 3.1). The document was prepared in line with Government Decision no. 15/34 of 07.10.2020, which requires widespread consultations with stakeholders. As in previous years, the NDP 2030 will be supported by sector strategies that are being produced on a rolling basis. So far, four sector strategies have been tabled including health, education, energy and transport sectors. The strategies are organized around the NDP's four high-level pillars, eleven development goals, and corresponding outputs, indicators, and targets. The costing of key projects is provided for in the Action Plans for each sector. Over the next few years, up to 30 sector strategies will be prepared on the basis of NDP 2030.[12]

Box 3.1 National Development Strategy and Plan 2030

The NDP consists of two parts: a long-term vision of Kosovo, which defines strategic goals until 2030, that is, the National Strategy for Development 2030 (SKDH 2030), and the second part which defines strategic measures, result indicators and proposed actions for three upcoming years. The NDP2030 is organized around four pillars:

- Extends sustainable economic development
- Equitable human development
- Security and rule of law
- Good governance

Under each pillar, the strategy elaborates development goals which are eleven in total, including investment in "quality sustainable and integrated infrastructure" (goal 2) and "clean environment and efficient use of natural resources" (goal 3). Each development goal is translated into strategic objectives, with corresponding indicators and targets for the medium term (2026) and for 2030.

The NDP2030 is aligned with the European integration agenda and the United Nations Sustainable Development Goals. Each development goal in the NDP anticipates sector strategies that will detail how the objectives will be achieved under that goal. The section on Financing presents the MTEF 2022 – 2025 but does not identify major projects or spending drivers. These are found in sector strategies. Even so more work is required to develop sector strategies and detailed action plans that will ensure that strategic objectives are realized.

Source: Government of the Republic of Kosovo.

25. In practice, the strategic planning process produces comprehensive documents that contain project priorities at the sector level, including some costing information and measurable indicators. The NDP2030 document forms the basis for national and municipal planning. It is distilled into an annual "statement of priorities" in the MTEF which sets the strategic context for the budget process. At an institutional level, the entire process is driven from the Office of the Prime Minister in the form of a Strategic Planning Committee under which are several Sector Working Groups. Once the NDP has been

[12] The last national development strategy was accompanied by about 80 sector strategies which pointed to a lack of consolidation at the sub-sector level.

adopted and published, these bodies are involved in regular monitoring of performance against annual plans. Importantly, this institutional framework also serves as the National Investment Committee which is involved in the preparation of the Single Project Pipeline (SPP) of investment projects, discussed further under institution 10. These are both requirements to receive EU funding under the Western Balkans Investment Framework (WBIF). The previous National Development Strategy (2016 – 2021) was used to prepare the Declaration of Priorities, which informed the budget documents but without adequate cost information on major projects. However, the time lag in preparation of sector strategies results in inadequate sector details for medium-term budgeting. The last NDP was delayed significantly before being tabled. The timing of the current NDP2030 is a marked improvement and it has become the basis for preparing the "Statement of Priorities" in the MTEF and subsequent Action Plans at the sector level. But with only four sector strategies available, there is still a lack of detailed information to inform the budget process that underpins the MTEF.

26. Continuing to strengthen the planning system will help inform good public investment decisions. Ideally, sector strategies should be prepared alongside the NDP, or soon after, providing adequate cost information for major priority projects. These would become the basis for line ministries' MTEF submissions. In the absence of sector strategies, ministries are likely to prepare submissions on the basis of their previous sector strategy or high-level aggregate information found in the NDP 2030.

3. Coordination Between Entities (Design: High; Effectiveness: Medium; Reform Priority: Low)

27. This institution assesses how investment plans at different government levels are discussed and coordinated. Coordination also includes how central government provides financing to other entities.

28. The design features of coordination between central government and municipalities are strong in Kosovo–and oversight of contingent liabilities of all sectors is required.

- The Kosovo budget includes both central government and municipalities. The budget process therefore drives a degree of coordination of investment plans between the central government and the municipalities and their capital projects are published alongside central government investments. Municipalities formally discuss their budget proposal and investment plans and their alignment with the government's strategic plans. Even though own resource funded projects are not discussed formally, they are listed in the budget and are generally small.
- There is a transparent formula for *general grants* and specific parameters for *special grants* included in the legal framework for fiscal transfers from central government to municipalities. Municipalities are notified about expected transfers for three years after the Grant Commission meetings in April (more than 6 months before the start of each fiscal year).[13] The first budget circular, issued in May, includes initial estimates of transfers by source of funding to municipalities for the coming year. The second budget circular, issued in July, provides final budget expenditure ceilings by economic category and instructions to finalize the budget. Municipalities present a draft

[13] There are three main types of government transfers: general grants, specific grants for primary health care, and specific grants for primary and secondary education. Municipalities receive these grants to cover both current and investment spending, together with their own revenue sources. They can use specific purpose grants to finance or co-finance investment projects in health care or education that are managed by line ministries.

budget proposal to their Municipal Assemblies for their review by August 31 to be approved by September 30.The Grants Commission, an intergovernmental body oversees compliance with the legal framework established by the Law on Public Financial Management and Accountability (LPFMA) and the Law on Local Government Finance.

- Contingent liabilities arising from capital projects of municipalities and POEs are required to be reported and published according to the LPFMA Article 21 in budget documentation. Debt stock figures include guarantees and are disclosed in the quarterly debt reports as well as in the MTEF.

29. In practice, coordination mechanisms with municipalities are only partially effective. Formal discussions on capital spending take place in the context of the budget preparation process. There are some discussions for co-funded projects with the sector ministries, but municipalities prepare, adopt and execute their investment plans funded through their own resources without much coordination with the central government even though these are included in the budget. There is no standard methodology provided by the central government to the municipalities for estimating routine maintenance or major improvements of assets, and routine maintenance is not required to be identified in the budget. Many municipalities have not developed the costing techniques required to prepare complete information on the medium-term fiscal implications of their investment plans, particularly current spending linked to investment projects. Not having macroeconomic indicators in budget circular also adversely affects the effectiveness of coordination. Municipalities send their development plans to the central government for their comments, but this is just procedural mechanism in practice and does not provide effective guidance and input for the municipalities. In addition, according to the 2023 Budget Law, own-source revenue funded capital projects are appropriated after transferring the related proceeds to the treasury single account and registering the proceeds in KFMIS. This has caused delays in the implementation of these capital projects. Transfers are fairly predictable for municipalities, but some parameters used for the general grant calculation are outdated (e.g., 2011 census data, until new census data is available later in 2023). In practice, contingent liabilities of municipal governments' PPP projects are not included in the budget reports because there are no liabilities to be reported. There are only three infrastructure PPPs in the country (one airport project at the central level and two others at municipality level) and there is no government guarantee provided for these PPP contracts. Municipal POEs also report to central government in line with law.

30. Going forward there is an opportunity to enhance cooperation with municipalities. Municipalities could be provided better guidance on the technical issues regarding the project costing and capital budgeting issues. The introduction of a requirement for reporting of contingent liabilities arising from major projects of municipalities and POEs has been an improvement since the 2015 PIMA. Given the PPP pipeline and increasing interest in PPP as an alternative financing source, structures to monitor and report on the risks from municipal PPPs should be strengthened in future.

4. Project Appraisal (Design: Low; Effectiveness: Low; Reform Priority: High)

31. Project appraisal is critical to ensure that decision-makers have a comprehensive understanding of the benefits, costs, and risks of potential investment projects. Without this knowledge it is not possible to ensure that the best projects are prioritized within a limited resource envelope. A robust appraisal framework must ensure that all projects are subject to consistent and rigorous analysis, based on a common methodological framework, and that project risks are well defined and addressed.

32. **In Kosovo, a requirement for consistent, robust appraisals of all major projects taking into account projects risks is not in place.** There is no legal mandate for the appraisal of major projects. The PIP manual introduced in 2009 requires that cost-benefit analysis and feasibility studies should be provided if available, however it does not constitute a formal requirement that appraisals are undertaken. The PIP manual establishes a standard methodology for cost-benefit analysis, though there is no threshold for appraisal processes applicable on value of projects. The PIP system includes a spreadsheet for the calculation of cost-benefit analysis and feasibility studies, which if completed, should be uploaded. Major projects funded by IFIs are required to be subjected to technical, economic, and financial analysis in line with requirements established by the IFIs. No independent external review of project appraisals is required. Risk analysis is required in the project selection Administrative Instruction on Selection Criteria and Prioritization of Capital Projects. The Instruction, introduced in 2018, encourages a technical and economic study, but this is not binding. There is no requirement that appraisals should be published. Central support for BOs or others undertaking project appraisal has not been established.

33. **In practice, appraisals are done for some IFI-funded projects, but without independent review and risks are not generally considered in the appraisal process.** In the roads sector, major road projects are subject to pre-feasibility and feasibility studies conducted by private consultants in accordance with best international practices for IFI-funded projects; however, the studies are not conducted for projects with domestic funding. Where studies are done, there is no independent technical review of the appraisal analysis. The feasibility studies produced are also not published. Ministries report that the appraisal methodologies followed are based on the funding source of the project, and not unified. The Auditor General has highlighted shortcomings in the appraisal process. The PIP system has not been effective in capturing cost-benefit analysis or attached feasibility study information. No examples of these completed reports could be found in the PIP for domestic funded projects, which are sometimes provided directly to budget analysts in MoFLT. Risk analysis is not regularly conducted.

34. **Strengthening the appraisal of projects is a high priority reform.** Appraisal is a critical element in the development of public infrastructure projects. If the appraisal process is neglected, then projects selected might not have reached the necessary level of maturity for implementation (minimizing the likelihood of additional costs at a later stage), and selection decisions are based on poor information. It is a high priority to undertake consistent appraisals with the level of scrutiny greater for the largest and most economically significant projects. Consistent appraisal methodologies and robust national review would better ensure that projects are assessed against national priorities and in line with Kosovo's needs.

Box 3.2 Project complexity and oversight

Governments will typically place more oversight and more rigorous requirements on larger and more complex public investment projects. Factors that may determine whether projects are subject to such enhanced scrutiny include complexity/novelty of the solution, project cost, number of years to develop and construct, existence of multiple public- and private stakeholders, and where they are transformational and/or impact many people. Qualifying projects may be subject to more rigorous appraisal requirements, and closer oversight during project approval and implementation. Targeting analysis and oversight in this way helps ensure skilled resources and effort focuses on where it can achieve the most impact.

Source: Mission.

5. Alternative Infrastructure Financing (Design: Medium; Effectiveness: Low; Reform Priority: High)

35. **Several channels are available to provide public infrastructure.** Apart from the government budget, there is a role for private sector financing and delivery, supported by a competitive landscape for network infrastructure.

36. **The legal framework in Kosovo supports competition in infrastructure markets, including scope for PPPs but investment plans of publicly owned enterprises are not consolidated.** POEs are incorporated as joint-stock companies and therefore subject to company law, similar to private companies. In addition, the Law on Publicly Owned Enterprises established an SOE Monitoring Unit in the Ministry of Economy which provides oversight for the 17 POEs. The law also sets high standards for financial disclosure. Four independent regulators oversee economic infrastructure provision, while the Kosovo Competition Authority, established since 2008, has power to investigate and sanction possible anti-trust infringements.[14] For PPPs and concessions, a law was passed in 2009 and is further supported by five recent directives.[15] Together these provide a robust framework for procurement of PPPs. Support is provided through the PPP Central Department established in MOF in 2010 who are responsible for the legal framework for PPPs. Although there is no separate policy on PPPs, the new manual on evaluation of PPPs clarifies the type of projects that will be supported and the procurement process.

37. **In practice, POEs dominate the supply of infrastructure services, which limits private investment, and more than a decade after the law was passed, PPPs play a small role.** Recent reforms have sought to improve the performance of POEs.[16] For instance, the unbundling of network monopolies and third-party access in the energy sector are almost fully aligned with international good practice. Similarly, there has been progress in opening the railway market and unbundling rail monopolies, though entry of private operators has been limited.[17] However, the government does not systematically review the investment plans of POEs. These entities are only required to submit their business plans to sector ministries for information purposes without any detailed feasibility studies or analysis. In effect, once the Board of a POE has approved the business plan, the government's input centers on how to finance the prioritized projects. Not surprisingly, the operational performance of most POEs has not markedly improved and service delivery outcomes remain below regional averages.[18] Improving performance requires the regulatory bodies in both the energy and transport sectors to consider tariff structures that would support greater market entry.[19] The electricity public utility KEK sees

[14] The Energy Regulatory Office, Telecommunication Regulatory Authority, Railway Regulatory Authority which report directly to the National Assembly.

[15] However, due to perceived delays in the approvals process, a new draft law has been tabled to streamline PPP development, particularly for smaller projects at the municipal level.

[16] Further reforms are planned to introduce a Sovereign Wealth Fund that will hold stakes in several POEs. These plans are not assessed in this report.

[17] RailTrans Transport and Logistics entered the market in 2014 as the first private Railway operator for the transport of Goods but poor network quality has not made it an attractive market for other companies.

[18] Rail services have declined progressively over the past 10 years with very minimal passenger services operating, while in the energy sector, consumers face unstable electricity supply and demand continues to outstrip supply. (IMF staff meetings with POEs)

[19] The Energy Regulatory Office of still needs to implement the liberalization of the retail electricity market in Kosovo to effect full liberalization of the market. Kosovo 2022 Report (European Commission 2022).

the phasing out of the Wholesale Supply Agreement as an essential step to allow tariffs that are reflective of prevailing market dynamics. Box 3.3 describes a recent project to improve renewable energy capacity.

38. Raising the rate and quality of investment in public infrastructure will require stronger private sector participation and more efficient spending by the major POEs. In addition to monitoring the financial performance of POEs, the government should assess the investment plans of POEs to confirm viability and enhance operational efficiency, particularly for major projects in the energy and transport sectors. PPPs could progressively play a larger role in these sectors though capacity should be strengthened in the central PPP Department, which has experienced considerable staff turnover. While the proposed new law for PPPs may streamline approvals for smaller projects, capacity to prepare projects adequately is equally important, including at municipal level where there is scope to introduce long-term waste management contracts.

Box 3.3 100-MW solar farm in Kosovo

A current example demonstrating the potential of private sector participation is in the renewable energy sector. In 2018, Kosovo simplified the administrative procedure for renewable energy projects and regulations to create a one-stop shop for renewable energy sources. This reform seeks to eliminate barriers for development of Renewable Energy Sources, through the establishment of a mechanism encompassing all government ministries and agencies involved in the development and approvals process for renewable energy sources.

This has generated interest from private investors as seen in the 2023 auction process for a solar power plant in Kramovik. In May 2023, the government issued a contract notice for investors interested in building and operating a solar power plant on public land. The location was determined for 95 MW to 105 MW in connection capacity.

The Ministry of Economy of Kosovo announced the government's intention to award a 15-year power purchase agreement, PPA, under its first competitive procedure to develop capacity for a location in the municipality of Kramovik. Under the contract, the land will be leased out for at least 30 years by the selected bidder. The selected company will have two years to build the facility.

The auction is the first of its kind in Kosovo and signals the government's intention to step up renewable energy supply to meet targets set in the new energy sector strategy. To speed up the procurement, an administrative instruction was issued which appears to be a transitional mechanism while finalizing a more permanent mechanism that will help to crowd in private investors over the medium term. This is expected to fall under a new Law on Renewable Energy, being developed to facilitate future projects.

Source: Balkan Green Energy News; Energy Sector meeting with Authorities

Recommendations on Investment Planning

Issue: A strategic discussion about the room for new capital spending is not part of the MTEF

Recommendation: Strengthen MTEF-analysis of fiscal space for new capital projects (MoFLT, 2024 – Low)

- As part of the preparation of the April MTEF, analyze the fiscal space available for new capital projects (after considering the obligations tied to ongoing projects and other expenditures) and include in the report the scope for new projects.

Issue: Project appraisals are not consistently done for major projects across funding sources

Recommendation: Strengthen project appraisal guidelines, methodologies (MoFLT, 2024 – High)

- Determine thresholds for small, medium, and large/major projects to guide project development and oversight.

- Determine the required appraisal methodology and procedures for each type of project and reflect these in an updated PIP manual.
- Underpin the appraisal process in the updated PFM Law

Recommendation: Establish a central support function in the MoFLT to ensure high-quality appraisals. (MoFLT, 2024 – High)

Issue: There is currently no central review of project appraisals to ensure projects are robust, consistent, nationally owned, and ready for a funding decision. A proposal to establish a project implementation unit for foreign funded projects in MOF was recently approved however this introduces risks of fragmenting project development, appraisal and selection depending on funding source, and leaving a gap in the management of domestically funded projects.

Recommendation: Establish a central review function in MoFLT for project appraisal regardless of funding source (MoFLT, 2024 – High)

D. Investment Allocation

6. Multi-year Budgeting (Design: High; Effectiveness: Medium; Reform Priority: Low)

39. **Multiyear budgeting provides line ministries with forward visibility of resource availability and longer-term funding guidance for investment projects.** Major public investment projects take longer than the budget year to implement and have lumpy and volatile cost distributions, complicating capital budgeting. Providing agencies with reliable medium-term capital expenditure ceilings facilitates a more strategic approach.

40. **The Kosovo government prepares a rolling medium-term expenditure framework that is presented to the Assembly in April and published on the MoFLT's website.** This framework includes projections of capital spending by ministry, BO and program over a three-year period. The MTEF indicates the sources of funding for capital investments, disaggregated by ministry and program. In the first annual budget circular with instructions to the BO for the preparation of the upcoming annual budget, the most recent MTEF gives rise to indicative multiyear ceilings on capital expenditure by ministry and BO. In the annual budget submission to the Assembly, projections of total capital project costs for all projects are published, separating new and ongoing projects, showing accumulated costs until the budget year, costs for the budget year, and an annual breakdown for the next three years based on the MTEF. The budget law has a binding allocation for the budget year, while the projections are for information.

41. **The aggregate budget appropriations for capital spending increasingly resemble the previously published ceilings.** Figure 3.10 shows the actual capital spending, budget allocations and the different vintages of MTEF-forecasts that represent the capital spending ceilings. Figure 3.11 uses the same data and shows the projected capital spending for specific budget years in MTEFs, with the corresponding budget allocation and the actual outturn for those years. There is an increasing alignment

between the aggregate spending ceilings and the subsequent budget allocation in recent years,[20] which suggests that the MTEF is playing a more important role when it comes to guiding the budget preparations and allocating funds to public investment. There is, however, a significant and persistent gap between the capital spending appropriated in any given budget year and the actual spending realized, as well as large variations in budget efficiency between different programs and ministries, which points to deeper issues related to budget planning and execution that are explored in other sections of this report.[21]

Figure 3.10 Capital spending
(Actual, budget appropriation and different vintages of MTEF-forecasts, EUR million)

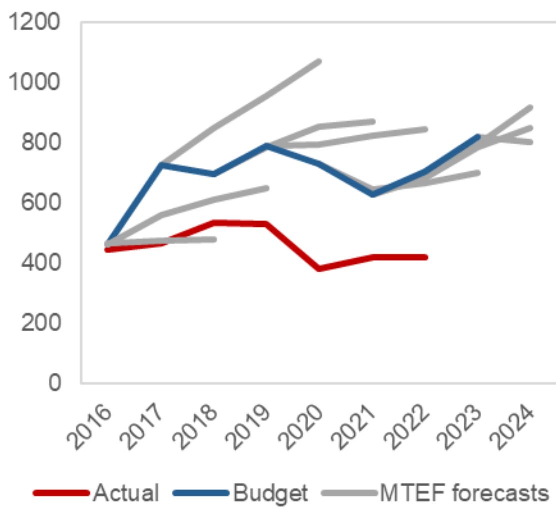
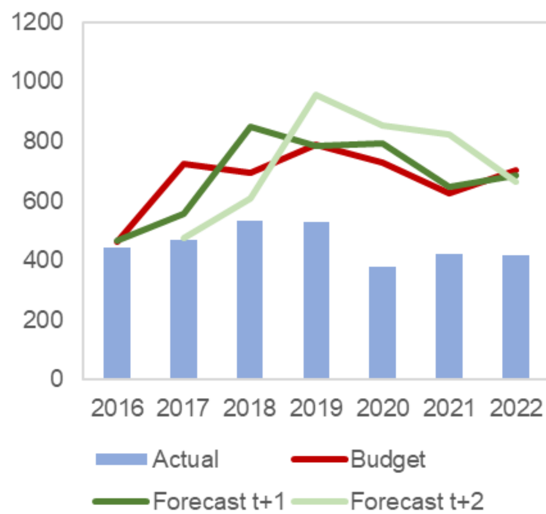


Figure 3.11 Capital spending
(Actual, budget and MTEF-forecasts one and two years before budget year, EUR million)



Sources: MTEF

The MTEF includes explanations of key factors behind deviations between actual capital spending outcome for a year relative to the budget and the earlier forecasts. A narrative report on the implementation of large investment projects under the "investment clause" is included in the MTEF (which in the latest MTEF included 40 projects).

42. Further strengthening the medium-term planning of efficient capital spending remains a priority. The MTEF has supported a more medium-term focus in planning and budgeting public investment. Building on the positive experiences with the framework, continued attention should be paid to exploring the sources of low budget execution and aligning capital spending ceilings both with budget allocations and actual outcomes. For example, Figures 3.12 and 3.13 suggest that budgetary planning

[20] For example, aggregate capital spending in the annual budgets passed by the Assembly in 2021-2023 were on average within 4 percent of the projection for those individual years in the most recent MTEFs, and within 12 percent of the average projection for those individual years in the preceding MTEFs. This compares with around 10 and 15 percent, respectively, in the previous three-year period.

[21] The issue of under-execution of capital expenditures is addressed as a fiscal risk in the MTEF 2024-2026: "the under-execution of capital projects on the assumptions of the baseline scenario, especially for borrowing projects, is considered a potential risk for lowering the projections of economic growth and consequently of budget revenues. Many projects have been delayed due to land ownership disputes, court appeals, inefficiencies in the procurement process, and lack of adequate controls over multi-year commitments. For capital expenditures financed by concessional debt, the high non-execution is mainly a result of delays in the processing of external loans, which lack proper preparation, documentation and market analysis. Another factor since 2021 has been the cancellation of fixed-price contracts by economic operators, who faced the pressures of significant price increases."

and execution in the BOs responsible for the economic issues (such as investment in infrastructure) may need more urgent attention than in the BOs responsible for the programs of defense and public security.

Figure 3.12 Capital spending on the programs defense, order, law and public security
(Actual, budget and MTEF-forecasts one and two years before budget year, EUR million)

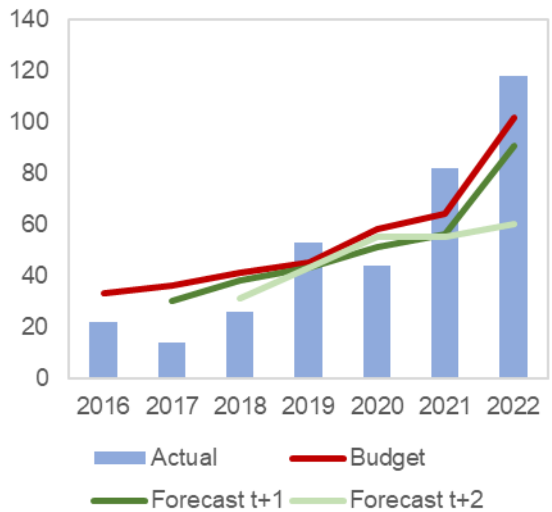
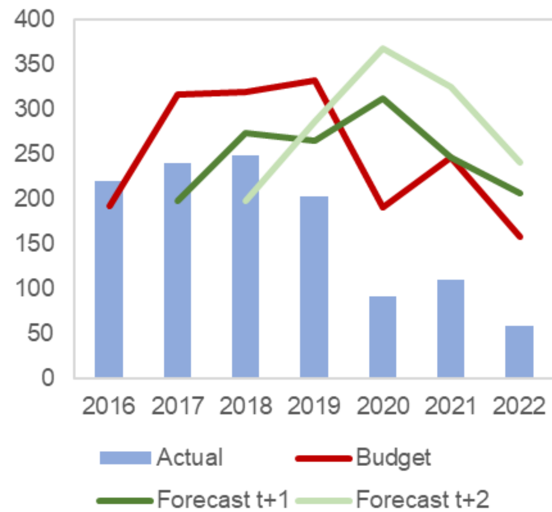


Figure 3.13 Capital spending on the program economic issues (incl infrastructure)
(Actual, budget and MTEF-forecasts one and two years before budget year, EUR million)



Sources: MTEF

7. Budget Comprehensiveness and Unity (Design: High; Effectiveness: High; Reform priority: Low)

43. Capital expenditure proposals for the budget can only be effectively assessed during the approval process if the legislature is provided with comprehensive information on all capital projects. That requires that no capital expenditure is excluded from the budget and be conducted through extra-budgetary government entities without budgetary oversight. Comprehensiveness also requires that capital expenditure and current expenditure financed from all resources are prepared and presented together in the Budget.

44. In Kosovo, the capital spending of all general government BOs is required to be presented and undertaken through the budget, irrespective of funding source. The LPFMA, Article 2 requires that all public money be subject to budgetary scrutiny. That effectively requires that all expenditure of all BOs, including extra-budgetary entities and municipalities be presented in the budget. The law also requires that the budget is prepared by the MoFLT and that the finances of all the BOs, including all revenue, current expenditure and capital expenditure, as well as financing are fully integrated in the Budget Law. The capital expenditure presented in the annual budget law is comprehensive and includes capital projects financed from own resources, as well as capital expenditure financed from project grants and external borrowing (through the investment clause). The current and capital budgets are required to be presented according to program and sub-program classifications in the annual budget.

45. These requirements are followed in practice and together present a comprehensive picture of capital spending in the annual budget. The arrangements followed in practice include many aspects of best practice (Box 3.4). The only financing channel for public investment that is currently missing in budget documentation is the limited POEs investment financed from own revenue sources. The three existing PPP arrangements are relatively small and constitutes service concession arrangements, in which the private sector assumed all the risks for the capital assets—these investments are therefore not reported on in the budget.

Box 3.4 Comprehensive budget preparation and presentation of capital spending in Kosovo

The annual budget law is prepared by the Budget Department of the MoFLT in consultation with BOs and includes 90 BOs, of which 58 are central government units and the remainder are municipalities.

The capital budgets are presented by BOs, program, and sub-program. All investment spending of extra-budgetary entities is included in the budget. Capital projects of all BOs are presented in schedules that make a distinction between capital projects of the central government, financed from own resources, financed from project borrowing through the investment clause, and capital expenditure of the municipalities.

The budget of the Ministry of Economy also includes transfers to POEs for the financing of capital projects in the category subsidies and transfers. These transfers to individual POEs are subject to approval by the Inter-Ministerial Committee for POEs. Transfers are made only after signing a Memorandum of Understanding between the Ministry of Economy and respective POE that sets out criteria for the spending of transfers dedicated to capital projects.

Source: Mission team.

46. Two minor additions to the budget could further enhance the comprehensiveness of reporting capital projects in the budget. First, for POEs, a disclosure on the nature of their capital projects, how they complement general government investments, and POEs contribution to investment spending from own revenue resources could further enhance the transparency of reporting on capital projects in the budget. Since these POEs act independently, their capital projects will not be approved or appropriated in the budget process, but their disclosure will provide a more comprehensive picture of public investment in Kosovo. Second, adding information on PPP investment activities and their implications for the budget could be considered in the future. While PPP arrangements are currently not significant, some consideration of additional PPP arrangements are under way and should be transparently reported on in government budget and accounts, using international guidelines on the reporting of these PPPs.

8. Budgeting for Investment (Design: High; Effectiveness: High; Reform priority: Medium)

47. Since capital projects are typically implemented over multiple years, it is important that all costs associated with the project is taken into consideration when the project is assessed and voted on by the legislature. To allow this oversight over total cost of the projects, the legislature should be provided with information on the costs already incurred, costs for the immediate budget year as well as for the medium-term, as well as total costs estimates for the full duration of the project implementation.

48. Capital expenditure is appropriated on an annual basis; medium term and total project costs are disclosed; and while ongoing projects are protected, some in-year transfers are allowed. The LPFMA, Article 19 (e) requires that the MTEF includes an analysis of capital investment trends over the medium-term. In addition, Article 21 (d, iv) requires that the budget include estimates for the upcoming fiscal year and at least the two following fiscal years. These are to be presented alongside information on the expenditure to date and the total cost of each project. The law also requires that capital investment program includes multi-year priorities that are presented in the budget. Article 23 of the law requires that for capital projects approved by the Assembly, the minister should ensure that funding and appropriations are adequate to timely finance these capital projects—i.e., the law requires that it gets the highest priority under current and future Kosovo Budget and Appropriation Laws. Conditions and limits for the transfer and reallocation of budget appropriations within BOs are specified in Article 30 of the LPFMA (Table 3.2). The current virement rules only restrict transfers to and from wages in the budget, while other reallocations within BOs are allowed to certain limits. In addition, the Annual Budget Law also set out some additional guidelines. These provisions are further elaborated on in the Administrative Instruction 05/2019 of the MoFLT on the transfer and reallocation of budget appropriations. For municipalities, Article 30.5 of the LPFMA determines that the mayor of a municipality may, with the approval of the municipal assembly transfer an amount provided under one appropriation of that municipality to another appropriation under certain conditions.

Table 3.2 Kosovo: Transfers and Re-allocations

Cumulative amount < 5 %	Cumulative amount < 15 %	Cumulative amount from 15 % to 25 %	Cumulative amount > 25 %
BOs decide (no approval by the Finance Minister, excepted for wages and salaries)	Approval of the Minister of Finance required	Authorization of the Minister of Finance required after written approval by Government	Authorization of the Minister of Finance required after written approval by Assembly

Source: LPFMA, Article 30.

49. In practice, ongoing projects are protected but capital outlays are vulnerable due to some reallocation and transfer practices. Schedules of the Annual Budget Law provides comprehensive information on capital projects. The information makes a distinction between ongoing and new projects and presents: (i) the cost of ongoing projects so far; (ii) the estimate for the budget year; (iii) estimated cost annually over the medium term; (iv) estimated costs foreseen for the aggregated time beyond the medium-term; and (v) the current estimate for the total expected project cost of the project. In line with the legal requirements, contractual obligations for ongoing projects receive priority before determining the fiscal space for new projects. However, capital projects not yet in a contractual stage are somewhat vulnerable since in practice transfers from these projects to fund other expenditure often occurs within BOs. In addition, during the last quarter of the financial year resources can be transferred from projects that have not been contracted to projects where additional resources are needed or for current expenditure needs. Since the budget for capital expenditure is not specifically protected, reallocation from capital expenditure to current expenditure occur often. Misclassifying current expenditure as capital also frequently occurs though the aggregate size of such errors is less than 0.4 percent of total expenditure.[22]

50. Despite the strong scores, there is scope to improve budgeting for capital. To protect capital expenditure the government should strengthen virement rules and ensure correct classifications of capital and current expenditure. Funding for ongoing capital projects should be protected and should not be applied to fund expenses of a current nature, while some flexibility should be maintained to move funds from one capital project to another to enhance execution of capital projects. To ensure that the relationship between capital expenditure and assets is improved only payments for items that directly

[22] According to the 2021 National Audit Office report, the category most often affected by misclassifications is that of capital investment, with EUR 10.2 million or 78 percent of the total misclassifications recorded in 2021. However, misclassifications are still relatively low compared to total payments made and represent only 0.4 per cent of all payments made. A common error was that costs relating to court cases are often funded from capital expenditure. Also see IMF, Charaoui et. al., Strengthening the Budget Framework, March 2023.

contribute to the value of assets of the government should be included in capital expenditure. Renewed attention should be given to correctly classifying all items in line with international accounting standards, the Government Finance Statistics Manual 2014, and the European System of Accounts.

9. Maintenance Funding (Design: Low, Effectiveness: Medium, Reform Priority: Low)

51. Infrastructure cannot deliver the benefits intended over its lifetime if not properly maintained. It is therefore important to know maintenance needs and the condition of the assets to maintain the service delivery potential of the assets, and to ensure that rehabilitation of assets is factored into public investment plans in a timely manner.

52. There is no standard methodology for estimating routine maintenance or major improvements of assets, and routine maintenance is not required to be identified in the budget. The LPFMA, Article 43.3 requires that BOs maintain records on all assets under their control. Regulation 02/2013 on the Management of Non-Financial Assets by BOs sets standard procedures for documentation, preservation, alienation, and maintenance of assets by establishing a Register of Non-Financial Assets. Article 15 of the regulation makes a distinction between improvements of assets that should be considered as capital expenditure, and maintenance that is not considered an improvement and therefore should not be recorded as capital expenditure.[23] However, there are no standard guidelines on how the maintenance and improvement needs for budgetary purposes should be determined. Maintenance is also not separately identified in the budget.

53. While no standard methodologies around determining maintenance and major improvement exist, some well-established asset management practices inform budget estimates. All non-financial assets are subject to annual verification to establish their quality and physical condition (see institution 15).[24] In the case of roads, a standard methodology to determine maintenance and rehabilitation needs exists. Although physical maintenance needs are identified by BOs, budgetary constraints sometimes limit the resources available for maintenance, which can result in the need for major improvements (as in the case of schools). While budget documentation presents detail on projects involving the rehabilitation/major improvements of assets, amounts budgeted for routine maintenance are included within the category of goods and services reported in the budget.[25] Both routine maintenance and major improvements are separately reported on in the Annual Financial Report where the amounts budgeted are compared to actual spending for various classes of assets. The report also contains an Annex with recommended implementation plans for cases where maintenance needs fell behind.

54. Once constructed or acquired, proper maintenance and improvements of assets are necessary to ensure that these assets provide the optimum benefits during their useful life. It is

[23] The regulation correctly indicates that improvements include expenditure that: (i) increase the physical product or service capacity of the asset; (ii) reduce of operating costs of the asset; and (iii) improve the quality of production of the asset. In addition, Administrative Instruction 04/2019 on the definition of capital projects makes a distinction between activities that are capital expenditure and activities that constitute current expenses.

[24] The Chief Administrative Officer in each BO is responsible to verify the condition of non-financial assets annually with the assistance of a Non-financial Assets Inventorying Commission comprising experts of the BO or if needed experts from outside.

[25] A specific sub-program in the budget identifies road maintenance needs under the capital expenditure. Some other major maintenance projects are separately identified in the schedules of capital projects. However, for routine maintenance, the government's Standard Chart of Accounts identifies it as a separate item and requires each BO to estimate these needs on an annual basis. While not separately identified in the Budget Law, this information is also available to budget users in KFMIS.

therefore important to sufficiently provide necessary resources for maintenance activities, supported by guidelines to guide management and maintenance of asset types.

10. Project selection (Design: Medium, Effectiveness: Low, Reform Priority: High)

55. **The project selection process is key to ensure that well prepared investment projects are selected for implementation.** If project selection is based on ad-hoc methods, the total net benefits of the government investment portfolio will be lower than they could have been, with negative impacts on economic and social development. The project selection process should include a central review of project proposals to ensure consistent analysis and build a pipeline of the most efficient project options, and criteria for project selection should be well-defined and transparent. Project pipelines that include major projects regardless of sector or funding source best support project prioritization (e.g. Chile, Colombia).

56. **There are instructions and institutions in place to guide project selection and projects are scrutinized by the MoFLT, but no single project pipeline exists.** The project selection process requires that a budget allocation is available. For the project to be in the MTEF, it has to be in the Strategy of the Ministry. Administrative Instructions require Budget Department scrutiny of the projects (Box 3.5) [26] to ensure that the projects comply in all aspects. They also establish a scoring template to help rank projects. There is no single project pipeline, and the current project pipeline is fragmented by sector and focused on IFI-funded projects. There are three different project pipelines covering transport, energy and environmental sectors respectively and it is a requirement that all projects should be fully appraised to enter these pipelines. Section 11 of the PIP provides guidance on the prioritization of projects for the budget. PPP Projects are required to follow the same selection process.

Box 3.5 Administrative instructions on the selection of capital projects

Administrative instructions establish the key provisions for capital project selection. These include:

- Assessment of project proposals commences with technical review of strategic importance, financial and economic assessment as well as readiness for the implementation.
- Requires BOs to input data to the PIP.
- No proposed capital project can be progressed by a central BO for any approval without the independent opinion of the Budget Department about implementation of requirements of this Administrative Instruction.
- Key criteria for selection of a project that award points to projects and the creation of a priority list based on these points during the budget process.

Source: Administrative Instruction 06/2019 on selection criteria and prioritizing of capital projects

57. **Although projects are subjected to central scrutiny, some projects are still entering the budget without thorough appraisal.** Central review is not consistent as some projects without any appraisal are still entering the budget during the last quarter of the financial year. The integrity of data entered into the PIP System is unclear as quality varies greatly. Most projects are selected through the annual budget process. There is however no consolidated fully appraised single project pipeline and projects in the three separate pipelines are sometimes not completely appraised and/or documented. The Budget Department has started to scrutinize projects during the past two years and advised that some

[26] Administrative Instruction 06/2019 on Selection Criteria and Prioritizing of Capital Projects

proposals have been returned to line ministries for improvement. As is common practice, the Budget Department's advice to Ministers is not binding.

58. **Project selection is a high reform priority.** Reform priorities include ensuring a project selected for implementation is fully appraised and costed—and designing a mechanism to prioritize projects across all sectors and funding sources to improve the allocation of investment.

Recommendations on Investment Allocation

Issue: Project selection is not integrated across domestically and IFI funded projects.

Recommendation: Establish a unified pipeline of major projects, regardless of funding source and across all sectors (MoFLT -2024 – High).

- Create a single process for prioritization of major capital projects, irrespective of funding source. [2024, MoFLT].
- Establish a project flow chart describing gatekeeping levels where donors, MoFLT, the PPP Unit can have an input. [2025, MoFLT].

Issue: There is a lack of critical information in relation to projects selected for implementation.

Recommendation: Improve project quality and information (MoFLT, 2024 and 2025 – High).

- Review the Administrative Instruction on selection of capital projects and make aspects mandatory e.g., completion of design, expropriation information, total costing, risk identification and mitigation.
- Progressively strengthen the use of PIP system throughout public investment cycle and link compliance to budget approvals.

Issue: Currently no robust review of capital expenditure estimates for capital expenditure as presented by BOs are conducted. In-year reallocations are regulated and while contracted projects are protected other transfers from capital to current projects are allowed. Also, while some expenditure not directly contributing to the value of assets are included in the classification of capital expenditure. No standard methodology for the calculation of maintenance and capital improvements exists.

Recommendation: MoFLT to undertake a robust review of the estimates for capital expenditure provided by BOs in the annual budget process to improve the accuracy and reliability of budget estimates for capital expenditure (MoFLT BD – High).

Recommendation: Further strengthen the identification and protection of investment expenditure (MoFLT – Medium).

- Restrict in-year budget transfers from capital to current expenditure by strengthening the virement rule in the annual budget and the LPFMA (MoFLT - Medium).
- Develop standard methodologies to calculate routine maintenance and capital improvement needs and separately report maintenance resources needed in the Budget.

E. Investment Implementation

11. Procurement (Design: Medium; Effectiveness: Medium; Reform Priority: High)

59. **Public procurement plays a strategic role in building modern infrastructure and delivering public services.** Using technology to support open competition for procurement strengthens transparency, enhances efficiency, helps generate fiscal savings, and builds trust in government. A mechanism for independent review of procurement complaints can support better outcomes.

60. **Under law, the procurement of major capital projects is required to be open and transparent, procurement processes are monitored, and complaints are dealt with transparently.** The Law on Public Procurement complies with applicable obligations derived from national and international requirements. Procurement policies are based on the need to make the best possible use of public funds, while conducting procurement with integrity and fairness. All contracting authorities are obliged to utilize the e-procurement system established in 2016 and made mandatory in 2019. The procurement system is centralized, but each ministry and public entity has procurement responsibility for its own projects. All bid opportunities and contract awards are published. The Law establishes two independent institutions that report to the Assembly of Kosovo. Responsibilities for policy, monitoring, and general supervision of public procurement is assigned to the Public Procurement Regulatory Commission, which manages the e-procurement system. Article 98 of the Law establishes the Procurement Review Body that. According to the law, after submission of a complaint, there are four days for clarification, then an expert has 10 days to review the complaint, after which the Body has 34 days to draw the issue to a conclusion and publish its decision. In complex cases, another 20 days can be allowed. However, once a complaint has been resolved, other bidders can then also submit complaints, which reset the clock and extend the process.

61. **In practice, competition is partial, electronic monitoring is incomplete and processes for complaints are slow.** Data for 2018-2022 provided by the Commission suggests most contracts followed the prescribed procedures, with less than 5 percent of contracts not being subject to publication of a contract notice. Compliance with the e-procurement system is increasing by around 10 percentage points a year, with estimated compliance currently of around 60 percent. The very high rate of contract award to the lowest price bidder (99.0 percent of all public contracts) reflects a view amongst many procuring agencies that they are obliged to accept the lowest bidder, irrespective of how realistic the bidding price is.[27] This problem is aggravated by the lack of reference pricing that can be used to analyze bids. Statistical reviews are conducted every year in the Commission’s annual report and mistakes by contracting authorities are published on the website. However, analysis of procurement data for management purposes could be enhanced to guide future procurement strategies. The Procurement Review Body’s review of complaints is often the cause of procurement delays and is ineffective. This is due to design flaws and the accumulation of a backlog of complaints flowing from the lack of timely appointment of members that meant no functioning board was in place for an extended period.

[27] Although Article 61 of the Law on Public Procurement describes in detail how to deal with such abnormally low bids, it seems to be not adhered to. The data is from Public Procurement Regulatory Commission, *Report on Public Procurement Activities in Kosovo in 2021*, 2022.

62. **Procurement is a high reform priority.** Properly delineating various types of standard contracts and streamlining the complaint processes could contribute to improvements in procurement outcomes and timelines**.** Establishing a register for reference prices, evaluating the realism of bids before allocating them, and refraining from allocating bids as a principle to the lowest bidder could eliminate a lot of the problems in the system. Continuing training of procurement officers is an urgent requirement. The implementation of the FIDIC/ NEC contracts for major civil works contract should be implemented as soon as possible to eliminate the time-consuming variation order approval process. Together with a revision in the complaint procedures to ensure the timely resolution of complaints, these measures could further enhance the execution of projects.

12. Availability of Funding (Design: High; Effectiveness: Medium; Reform Priority: High)

63. **This institution assesses if the systems, processes, and tools are in place to ensure the availability of cash when needed to make payments for public investments.** In a modern treasury system, the term "cash" is equivalent to liquid resources that are readily available—mainly cash or equivalent in bank accounts to make payments.

64. **In Kosovo, many budget execution and cash management tools, systems and processes are in place to make timely cash payments related to public investment.**

- There is an explicit provision requiring the preparing of cash flow forecasts in Regulation No. 06/2014, but the provision does not specify the cash forecasting framework. As such a framework for at least quarterly cash flow forecasts to inform cash availability is not in place.[28,]
- Regulation No. 01/2022 includes provisions to ensure timely release of funds for payment in line with annual appropriations. Allocations of funds for capital expenditures is based on the BOs quarterly commitment and monthly cash plans and allocated at the beginning of fiscal year on a quarterly basis for the four quarters.[29] In addition, the LPFMA sets a deadline of 30 days for BOs to prepare payment order after they receive invoices, and the Treasury makes the payments without a delay. The LPFMA, Article 38.3 indicates that in the event of cash shortages due to an unforeseen shortfall in revenue, the General Director of the Treasury with the Approval of the Minister shall give lowest priority to payments for capital expenditures. This has the potential to impact on the availability of funding for capital investment.
- Kosovo has modern government banking arrangements comprising a TSA held at the Central Bank of Kosovo and the TSA covers the development partners' banks accounts related to externally funded projects and grants.

65. **In practice, despite the lack of and adequate cash flow forecasting and planning framework informing fund allocations, there is no delay in capital outlays at the payment stage due to the high TSA balance (around 3.5 percent of GDP).** BOs confirmed that there is no difficulty with the availability of funding at the payment stage. The Treasury intends to reintroduce cash-flow

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[28] Regulation No. 06/2014 on Internal Organization and Systematization of Job Positions within Kosovo Treasury. In addition, cash flow forecasts mentioned in the Regulation No. 01/2022 are not cash flow forecasts prepared through the estimation of future cash inflows and outflows, but the distribution of the appropriations based on the historical data.

[29] Regulation No. 01/2022 On the Allocation of Funds and Management of Cash Flow, Article 6.

forecasting.[30] Cash releases are in line with the appropriations but there are some challenges undermining the efficiency of budget execution process and timely delivery of capital expenditures as well as the delivery of other goods and services of the BOs (Annex 7). The 2022 annual financial statement indicates that timely payment of total invoices including capital expenditures has improved since 2020.[31]

66. **The strength of availability of funding can be further enhanced.** Reintroducing cash flow forecasting, reviewing the recent changes in fund allocation mechanism and addressing the challenges in the earlier stages before the payment stage of expenditure cycle through further automation would make arrangements more robust.

13. Portfolio Management and Oversight (Design: Medium, Effectiveness: Low, Reform Priority: High)

67. **Portfolio management of all major projects is of utmost importance to support efficiency in public investment and the achievement of overarching policy objectives.** The portfolio of major capital projects includes those previously approved, either in the budget or through other alternative financing mechanisms (development partner financing or PPPs, for instance). Through looking at the whole portfolio of major infrastructure projects, governments can collect and analyze data, and determine if projects and programs are on time, within budget and identify serious risks that require high level intervention. Systematic portfolio management also comprises optimizing available funds by assigning them to the best performing projects.

68. **Public investment rules in Kosovo require that major projects are subject to monitoring and funds can be re-allocated, but ex-post reviews are not required.** Article 17.4 of the Budget Law states that all BOs must use the PIP system report to the Budget Department in MoFLT within three weeks from the end of each quarter on the physical and financial progress of capital projects that have a total value over EUR 1 million. However, these reports are per BO, not for the total portfolio of major projects and do not include POEs. Article 16 of the Budget Act provides detailed rules for the re-allocation of funds between projects (see Institution 8). Article 4 of the Administrative Instructions on Transfer and Reallocation of Budget Appropriation Procedures also describes the process for re-allocation and provides templates to be completed when seeking approval for the reallocation of funds. Section 11 of the PIP Manual indicates how BO and MoFLT users can generate management and monitoring reports on the implementation of projects and the execution of the capital budget.

69. **In practice, quarterly reports issued to the Budget Department lack detail, and opportunities to share learning from project implementation are limited.** BOs do provide quarterly reports to the Budget Department, however these lack details that would support strong portfolio management. In the quarterly report for Environmental Sector, 90 percent of the information contained is

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[30] The practice of preparing cash flow forecasts—focusing on estimation of future cash flows rather than distribution of appropriations—by the Treasury for the upcoming month and holding regular meetings with the Central Bank had been suspended since 2015 as a result of diminished investment options for the government’s cash balance due to the negative interest rates as well as high staff turnover at the Treasury during this period. The authorities at the Treasury Directorate would like to address this challenge thorough strengthening cash forecasting capacity and have started working with the FAD CD team on this in April 2023.

[31] Unpaid obligations (accounts payable) for more than 30 days (which is the arrears definition used by Treasury) have declined and reported for general government for 2022 is EUR 36 million while the amounts for 2021 and 2020 were EUR 89 and EUR 196 million, respectively.

financial reporting and limited physical progress information is reported. In addition, there was limited evidence of this information being analyzed for further decision-making purposes beyond identifying opportunities to transfer funds. Forward-looking monitoring to inform the strategic management of the portfolio of major projects is not taking place. Re-allocation of funds is used to accelerate the execution of particular projects.

70. Improvements in the portfolio monitoring process is a high priority reform. There is a clear opportunity to improve management at the aggregated public investment level through developing a portfolio monitoring function. Ex-post reviews should be considered an intrinsic part of the investment life cycle and findings should be used to enhance investment governance in the future. Good practices in ex-post reviews can are described in Box 3 6. A detailed summary table of all major projects is required, which includes all critical information to enable top management to identify critical major projects effectively, to act urgently to resolve risks issues, and to prevent delays and additional cost. Table 3.3 indicates the minimum requirements for a monitoring template.

Box 3.6 Good practice in ex-post project reviews and project monitoring

Many countries have formal requirements for ex-post review of major projects and this step is considered a core phase of the investment life cycle. Examples include:

- Infrastructure Australia has issued detailed requirements for post completion reviews of projects. Required information includes forecast and outturn data on cost, schedule and benefits, key findings from interviews with the project delivery team and the approach. It also includes timelines for communicating findings and requires identification of recommendations to consider in the planning and implementation of future/other projects.
- In the United Kingdom, the business case development process requires ex-post evaluation, covering both process evaluation and impact evaluation. The Infrastructure and Projects Authority also undertakes quarterly monitoring of the 'Government Major Projects Portfolio' projects and publishes an annual report that provides an overview of the portfolio and distils lessons learned to improve future project delivery.
- In Ireland, a review of problems in the construction of the National Children's Hospital recommended reforms of the governance process for public investment projects. This directly informed changes to the Public Spending Code – the requirements for evaluation, planning and management of public investment. Adjustments included new arrangements for project governance, risk management and cost forecasting.

Source: His Majesty's Treasury and Welsh Government, *Guide to Developing the Project Business Case: Better Business Cases for Better Outcomes*, 2018; United Kingdom Infrastructure and Projects Authority, *Annual Report 2022*, 2022; and Ireland Department of Public Expenditure and Reform (2019) *The Public Spending Code: A Guide to Evaluating, Planning and Managing Public Investment*.

Table 3.3 Indicative quarterly project monitoring template for major projects to inform portfolio management

Name of project:			
Project number:		Project code:	
Approved budget:		Variation orders approved:	
Revised budget:		Value of approved variations:	
Contractual completion date:		Revised completion date:	
Time extensions approved:		% time lapsed at reporting date:	
% budget spent at reporting date:		% progress at reporting date:	
% planned progress at reporting date:		New or changed risks identified during previous quarter:	
Mitigation steps taken to eliminate risks identified:		Action required at higher authority level to solve delaying issues:	

Source: Mission.

14 Management of Project Implementation (Design: High; Effectiveness: Medium; Reform priority: Medium)

71. **Effective project implementation is required to realize the full benefits of public investment.** During the implementation stage the management of time, money and quality is of utmost importance. During the project cycle it is important to address the questions at the commencement of the project, to draft the scope and goals for the project. It is important to communicate roles, expectations, and objectives to finalize the project. Also, regular, and independent audits provide oversight and can identify common problems and solutions in infrastructure governance and delivery.

72. **The legal framework requires solid project management arrangements and provides for ex-post audits and cost adjustments.** Article 81 of the Law on Procurement describes the Contract Management Activities that must be in place including the project management teams that are required to monitor projects and to report on progress and the requirement for project implementation plans (Box 3.7). Project adjustments are defined in the Rules and Operational Guideline for Public Procurement.[32] No contract adjustment shall increase the total contract price by more than ten percent of the original contract price. A contracting authority may use negotiated procedures without publication of a contract notice if the 10 percent rule is exceeded. Ex-post audits are required by the law of the Auditor General, who has flexibility to select the focus of performance reports and must be published. The audited institution is also to submit to an action plan to the Auditor General within 30 days of the publication of the report.

[32] This document, as part of the secondary legislation in public procurement, is divided into 2 documents at the end of 2022. Regulation No.001/2022 on Public Procurement; which includes: - contract management and performance evaluation of contractors. and Guideline No. 001/2023 for public procurement.

Box 3.7 Contract Management Activities required by the Procurement Law

The Contracting Authority must produce a contract management plan in particular matters of organizational, economical, technical, and legal aspects of contract management including as appropriate:

- Project management teams Frequent review of the contract
- Protocols for handover and commissioned equipment
- Regular dialogue with the Contractor
- Use of correct quality standards
- Management of payments/ claims
- Complaint procedures
- Control remedies specified in the Contract.
- Performance security is held for defects/ corrections.

The Contract Management Plan must include:

- Names of the officers
- Contracting Authority responsible for the management of the contract
- The supervising qualified resident engineer
- Number / categories of assisting personnel available to the officer for contract management purposes.
- External recruited technical experts
- A time schedule or a project plan Gantt chart
- Diagrams on contract management activities covering the duration of the contract.

Source: Law on Procurement.

73. In practice, the project management arrangements in place are not always effective in delivering quality oversight and project adjustments are not well controlled.

- Most major projects have project monitoring officials in place during project implementation, however there is a lack of skilled and experienced personnel and multiple projects are often allocated to one project manager. Numerous shortcomings in project management are identified in the National Audit Office Annual Report 2021 and are summarized in Box 3.8. The existing variation order process is extremely cumbersome.[33] Challenges in implementation are also created by procurement issues and lack of proper project planning and project appraisal, which contribute to slower-than-expected project execution.
- The National Audit Office has been conducting performance audits since 2011 and has conducted and published 128 performance audit reports. Currently the National Audit Office typically conducts six to eight performance audit reports per year and would like to increase this number. Audit reports are comprehensive, and they are published and scrutinized by the Legislature and its committees. Several examples of Audit Office recommendations improving the implementation of capital projects were provided. In total, the Office estimates about half of its audit recommendations are implemented. For some capital projects of high value and interest to the public, the National Audit Office conducts audits even during the project implementation process and provides recommendations with the aim of improving the process even before the project is completed.

[33] The variation order process described by the Ministry of Environment, Spatial Planning, and Infrastructure is: i) Contract Engineer defines the variation order needs; ii) present to Department Supervision personnel; iii) present to the Procurement office within the Ministry, who must establish a committee; iv) the Permanent Secretary to approve the committee; v) committee to check the request and report back; vi) an addendum is to be done to the contract; vii) an addendum is placed on the procurement platform. The duration of the process can be 2-3 months. This typically takes no longer than 7-10 days under international contracts, such as FIDIC.

Box 3.8 Shortcomings identified in project implementation by the Kosovo Auditor General's Office

Shortcomings included:

- Failure to implement projects within the time limit.
- Using the negotiated procedure without publication and announcing the tender for the capital project in violation of the Budget Law.
- Non-compliance with terms of contracts when executing payments.
- Non-compliance with deadlines for procurement procedures.
- Failure to sign the contract on time.
- Concluding the contracts in the absence of sufficient commitment.
- Changes in the quantities of the contracted bill of quantities for employment contracts, not through the procurement department and in the absence of approval of the Chief Administrative Officer and the designer.
- Continuation of performance of works/projects, beyond the term of the contract and in the absence of approvals for extension of contract execution as well as the lack of programs for the performance of the work.
- Inadequate segregation of duties in the procurement process.
- Exceeding the contracted quantities.
- Weaknesses in the implementation and management of contracts.
- Signing contracts beyond the estimated value.
- Public investments in non-expropriated plots.
- Unclear technical specifications.
- Acceptance of unfinished work or not according to the contract

Source: Auditor General's Report on the Government's Annual Financial Report on the Budget of the Republic of Kosovo, 2021.

74. Strengthening the implementation of projects is less critical than other reform priorities. The project management process is negatively affected by mainly upstream issues, however there are functions not well managed by the project managers as identified by the National Audit Office. Ongoing support for project managers thorough adequate training would help them to fulfill their function more effectively.

15. Monitoring of Public Assets (Design: Medium; Effectiveness: Medium; Reform priority: Low)

75. Information on the stock of assets, their value, and conditions, informs future public investment needs. Monitoring public assets should therefore form an integral part of the investment cycle. Regularly updated and comprehensive information on the nature of existing assets and their condition is an essential component.

76. The regulatory framework in Kosovo requires that assets are comprehensively reported on annually, using asset registers and taking into consideration their physical condition, depreciation, and revaluations. Article 43.3 of the LPFMA requires that the Minister of Finance maintains accounting records for each BO that includes information on their assets. Based on this law, Regulation 02/2013 on the management of non-financial assets requires that both a Register of Non-Financial Capital Assets and a Register of Non-financial Non-Capital assets be maintained.[34,] The regulation requires that a Non-financial Asset Evaluation Commission be established by the Chief

[34] The distinction between Capital Assets and Non-Capital Assets is made based on the value of the assets with the former being all assets of a value of more than EUR 1,000, while the latter includes assets of less than EUR 1,000 in value.

Administrative Officer of the BO with the purpose of evaluating non-financial assets. The regulation also requires that the Chief Administrative Officer adopts internal rules and procedures on recording, preserving, and disposing of non-financial assets. The regulation also determines classes of assets and their respective depreciation rates, the type of information that the asset register needs to contain as well as various responsibilities associated with asset management. The Non-financial Asset Evaluation Commission is required to annually prepare an inventory of all non-financial assets owned and controlled by the BO, assess the physical and qualitative condition of the assets, and revalue assets based on their condition and damage where needed. The Commission is also to identify assets to be decommissioned or disposed of.

77. The total value of assets per BO are reported in Annexes to the Annual Financial Report based on asset registers and depreciation follows international practices. The Annexes include opening balances, depreciation, and net value at the end of the period, with further detail included in the individual financial reports of BOs. The assets are not recognized in the balance sheet of government since the financial statements are prepared on the cash basis of accounting. Similarly, depreciation is not recognized in the operating statement but only disclosed in the Annexes. The Depreciation is calculated on a linear method taking into account the useful life of the assets, ranging from 40 years for residential and non-residential properties and other structures to three years for IT equipment. Land is not depreciated but is subject to revaluation as needed. These rates are in line with international practices. Asset registers are comprehensive, although some under- and over-reporting of assets was identified in the Audit report on the Annual Financial Report of 2021. These practices occurred at both the central and local government level and result from entities not reporting all their assets but also from differences between the value of assets reported in the Annual Financial Report of government and the individual financial reports of some individual BOs. It also is the result of the lack of integration between flows reported in the KFMIS system and asset stock data reported in the KFMIS asset module and the e-asset system. To some extent, misclassifications of capital expenditure also contribute to the problem. However, the extent of these over/understatement of capital stock is relatively small. (Table 3.4).

Table 3.4 Kosovo: Reporting on Capital and Non-Capital Non-financial assets 2021

	Millions of Euros				%
	Capital and non-capital non-financial assets	Value of assets presented in the Annual Financial Statements	Value of assets according to audits	Overstatement / Understatement	Percentage of Total Assets in Annual Financial Statements
Capital Assets over EUR 1 000	Central level	2,968.6	2,894.5	74.1	2.5
	Local level	6,161.5	6,149.9	11.5	0.2
Capital Assets under EUR 1000	Central level	33.1	34.0	-0.9	2.7
	Local level	21.7	22.9	-1.2	5.5
Total Assets		**9,184.9**	**9,101.4**	**83.5**	**0.9**

Source: Kosovo Annual Financial Report, 2021.

78. The monitoring of assets in Kosovo can be further enhanced by improving the classification of assets and ensuring integration of the annual flows recording in the KFMIS system and the asset values. While such an integration will likely only be attained with the full implementation of accrual accounting, some interim steps could further improve asset reporting.

Recommendations on Investment Implementation

Issue: Procurement law reforms are needed to improve procurement

Recommendation: Finalize and adopt the new draft law on procurement (PPRA - High)

- Make allowance in the new law for typical construction contracts (FIDIC/ NEC) in secondary law (PPRA and Ministry of Infrastructure)

Issue: There is currently no forward-looking monitoring of the total portfolio of major projects.

Recommendation: Establish central monitoring of major projects regardless of funding source including quarterly monitoring supported by a database of all major project performance data and identified risks using the PIP functionality. (MoFLT - High)

Recommendation: Conduct ex-post reviews on all major projects. [2024, MoFLT - Medium]

Issue: The current allocation system introduced in 2022 could cause increasing delays in implementation

Recommendation: Reintroduce cash-flow forecasting to inform better fund allocation and discuss the new 2022 funding allocation mechanism changes with the BOs to understand and solve any issues in the implementation of capital expenditures [2023, MoFLT – Treasury – Low].

Issue: The challenges in the earlier stages than the payment stage causes delays in capital expenditure execution

Recommendation: Implement planned reforms to capital payment execution including establishing the linkages among the e-procurement, KFMIS, and PIP; introduce the multi-annual commitment controls in the IT systems and ate recording and verification of invoice receive and registry mechanism. (2025, MoFLT – Medium)

Issue: While asset registers are prepared, there is room to further strengthen the guidance and reporting around assets. No general guidance on valuation of assets exists and the register are not presented with an integration between stocks and flows.

Recommendation: Develop general and sector specific guidance to strengthen asset management and reporting practices. (MoFLT Treasury – Low)

- Develop a manual to clearly guide the integrated reporting and valuation of assets.
- Develop standard methodologies to guide revaluation of assets that could be applied consistently in all BOs.
- Consider reviewing whether reporting of assets should establish a minimum - threshold for exclusion of non-capital assets (less than 1,000 EUR), based on international good practices (MoFLT in consultation with National Audit Office)
- Strengthen in the budget and fiscal reporting the international definitions of acquisition of assets in line with accounting standards to strengthen the link between spending and asset valuation.

IV. The Climate PIMA

A. Climate Change and Public Infrastructure

79. **Climate change is already affecting Kosovo's economy and its impacts are likely to intensify in the future.** Temperatures in the Western Balkans region[35] have risen in the last fifty years, and throughout the 21st century, warming is projected to be higher than the world average (Figure 4.1).[36] The observed changes in precipitation over the past few decades are less clear, but almost all climate models agree the countries within the region will experience a significant decrease in precipitation, accompanied by an increase in drought conditions. Annual flow reductions in the regions' rivers of up to 15 percent are projected for 2°C warming above preindustrial levels, and by up to 45 percent in a 4°C world. Overall, climatic extremes are projected to become more common, including a significant increase in the number of extreme heat events. Heavier precipitation events are expected in the winter months, whilst summers are projected to become even drier. Mountain-specific climate hazards include reduced snow cover; increasing occurrence of winter and spring flooding from intense precipitation and accelerated snowmelt; increases in the frequency and intensity of wildfires; heavy snow precipitation and cold extremes; the appearance of new disease vectors; and decreasing annual river discharge and low flow periods. These developments increase the risk to economic activity, infrastructure, energy security and human health. Kosovo is highly vulnerable to climate change since two of its most important economic sectors – agriculture and forestry – are climate dependent. If not addressed, climate change and natural disasters could have significant macroeconomic and fiscal implications in Kosovo.

80. **Resilient public investments are key to averting the impacts of climate change natural disasters.** Climate change challenges include high emissions and pollution due to the country's heavy reliance on coal; water scarcity; and environmental degradation. The three main natural hazards that Kosovo is exposed to are earthquakes, floods and forest fires.[37] In addition to these hazards, considerable risk is also posed by landslides, drought, heavy snowfall and water reservoir dam bursts. Heavy rainfall in 2013, 2014, 2016, 2021 and 2023 across Kosovo caused rivers to flood, resulting in landslides, traffic difficulties, damage to agricultural lands, blockage of sewers, and problems for water treatment facilities.[38] Costs related to the floods in 2013-2016 have been estimated at over EUR 4 million and the cost in 2021 is estimated to exceed EUR 1 million.[39] These events demonstrate the vulnerability

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[35] The designation Western Balkans include Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia. Since climate data specific to Kosovo are limited, the described trends and outlook are mostly for the Western Balkans region and are based on the UNEP report Outlook on climate change adaptation in the Western Balkan mountains (2015) and data from the World Bank Climate Change Knowledge Portal.

[36] The 2-4.5 Shared Socioeconomic Pathway represents a "middle of the road" scenario, where the world follows a path in which social, economic, and technological trends do not shift markedly from historical patterns. Greenhouse gas emissions in this scenario hover around current levels before starting to fall in mid-century, but do not reach net-zero by 2100. The 3-7.0 Shared Socioeconomic Pathway is a more pessimistic scenario where policies become increasingly oriented toward national and regional security, investments in education and technological development decline, and economic development is slow with consumption being material intensive. Greenhouse gas emissions continue to increase.

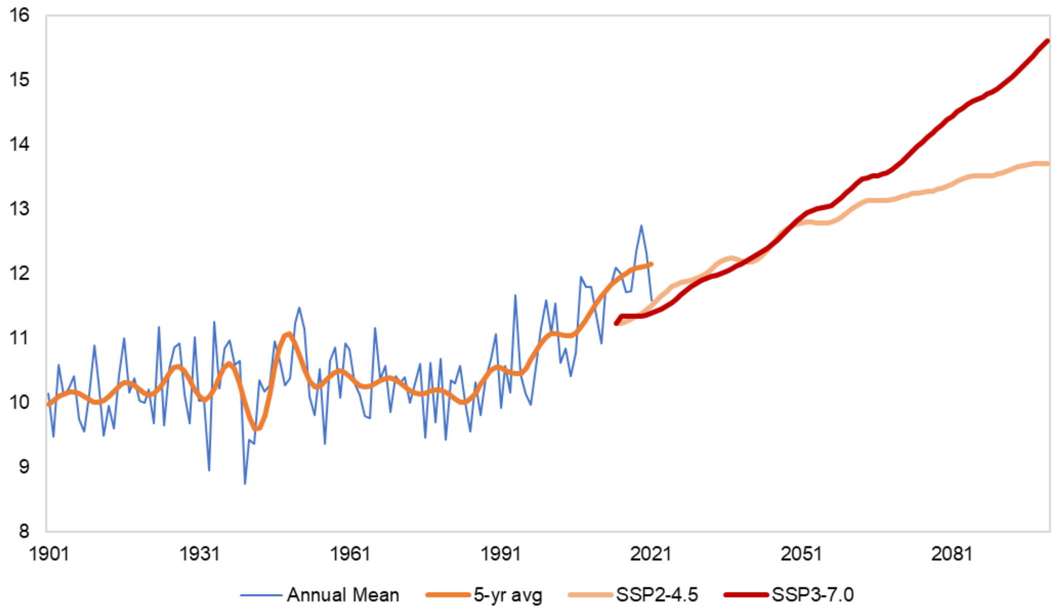
[37] World Bank, *Emergency Preparedness and Response Assessment: Kosovo*, 2021; *Government of Kosovo, Natural and other disasters risk assessment,* 2016; and UNDP, *Disaster Risk Reduction Capacity Assessment Report for Kosovo*, 2011.

[38] http://seeurban.net/country-kosovo/ , https://prishtinainsight.com/floods-hit-kosovo-cutting-drinking-water-supply-to-many-towns/

[39] Kosovo National Audit Office, on Prevention and response to emergencies: Floods. 2021.

of human populations to floods and the importance of climate-resilient infrastructure (such as appropriate infrastructure dimensions and water management processes).

Figure 4.1 Historical and projected temperatures
(Degrees Celsius, for the region in the model that includes Kosovo)



Source: https://climateknowledgeportal.worldbank.org/watershed/72/climate-data-historical and ...-projections-general

81. **It is crucial to take full account of climate-related risks in infrastructure planning and project design and implementation and to prepare for the transition.** Climate events have significant implications for the design and development of infrastructure projects across sectors, such as energy, transport, water supply and urban areas. Closing infrastructure gaps and addressing climate adaptation challenges require transformation across several areas, including scaling up renewable electricity generation (particularly solar and energy storage), promoting low emission public transport and electric vehicles, investing in energy efficient buildings and industrial facilities, and better infrastructure planning across urban and rural areas. This transformation needs to be complemented by institutional reforms, funding strategies, enabling policies and regulations, as well as close coordination among institutions and stakeholders across the various sectors. The transformation also needs to be mindful of the inherent uncertainty surrounding climate trends and the development of global climate policy, and the resulting risks associated with the economic transformation to a society characterized by very low GHG emissions. Public investment will play a major role in Kosovo's climate transition efforts, and mainstreaming climate change considerations into public investment management is instrumental in this process. See Box 4.1 for the multiple facets of environmental and climate sensitivity, both positive and negative.

Box 4.1 Environment, climate adaptation, climate mitigation and climate risk

As countries increase their focus on sustainability it is helpful to distinguish policy objectives regarding the environment, climate adaptation, climate mitigation and climate risks, and their interaction with public investment.

Improved environmental outcomes have been a focus of government policy for many decades. ***Environmental impact assessment*** of infrastructure proposals typically considers factors such as noise, air quality, water quality, flora and fauna, visual impacts, habitats and socio-economic impacts. A requirement to assess new projects in terms of these impacts is legally enshrined in many countries around the world and there are specific requirements in EU Member States.

Although closely linked and generally complementary, ***climate and environment should be seen as distinct issues***. The mere adherence to environmental planning regulations, and the conduct of environmental impact assessments, will not be sufficient to achieving climate-informed public investment management in the future. There are instances where climate and environment objectives can come into conflict, for example where the construction of solar energy parks or electricity transmission lines - which are vital for achieving a shift to renewable energy – can be delayed or cancelled owing to challenges in planning relating to environmental impacts. The shift to a low carbon future involves several such trade-offs that need to be understood and managed in a holistic manner to achieve a sustainable development path.

Climate change mitigation refers to actions to limit the magnitude and/or rate of long-term climate change. Mitigation is primarily understood as reductions in human-caused emissions of GHGs, for example through a move to renewable energy from fossil-fuel dependence. In addition, mitigation also includes increases in the use of carbon sinks, for example through afforestation or the use of new carbon-capturing technologies.

Climate change adaptation refers to the process needed to minimize losses and maximize benefits from climate change, for example making infrastructure more resilient to extreme weather events like flooding.

Climate change risks refers to both the physical risks and the so-called transition risks. Physical risks of climate change stem from uncertainty about how the climate system works and is impacted by human activity, such as the amount of temperature rise or extreme weather events. Transition risks stem from uncertainty about technological innovation and how climate policy will be formulated to mitigate climate change, for example whether the price for GHG emissions will be increased sharply and impacting on the profitability of renewable energy projects or the characteristics of a future transport system. A sound understanding of the various forms of risk, which can be enhanced through quantitative and qualitative scenario analysis, support better investment decisions and risk management.

Thus, climate-related aspects – be it mitigation, adaption or climate risks – as well as environment aspects require that the resilience of infrastructure assets to changing conditions should be fully understood and appraised when planning, allocating and executing public investment projects.

Source: IMF mission team

82. **Kosovo is embarking on an energy diversification and green infrastructure transition as part of the country's development and climate strategy.** Kosovo's path to EU membership (started in 2015) has led to comprehensive diagnostics on climate mitigation and adaptation challenges and a clear policy framework to address them. The obligations of the Green Agenda of the Western Balkans are reflected in Kosovo's NDP 2030, where there is a horizontal Green Agenda that aims to address growing environmental and climate challenges, placing sustainable development, resource efficiency, nature protection and climate action at the core of all economic activity. The sectoral pillar on sustainable economic development in the NDP 2030 will be achieved through the following strategic objectives:

- Integrated waste management and increased circulation of resources;
- Improving access to water and sanitation and reducing water pollution;
- Increasing the share of renewable sources in the energy mix;
- Improving energy efficiency;
- Improving the availability and efficiency of water;
- Promotion of digital and sustainable mobility;
- Management and sustainable use of forest resources and protection of biodiversity; and
- Responsible planning and integrated development of the territory.

B. Climate Change Objectives and Strategies

83. **Despite its negligible share of global emissions, Kosovo has committed to a climate mitigation goal and is deploying various policy and investment measures.** In the context of monitoring GHG emissions, according to the latest GHG inventory of Kosovo, annual emissions amounted to 9.613 million tons CO2-equivalents in 2019.[40] This level of emissions per capita is well below the EU-average (Figure 4.2), while emissions per unit of GDP are significantly higher (Figure 4.3), which together illustrate Kosovo's relatively low income and CO2-intensive economy. The main source of emissions is the energy sector with a share of 86 percent, reflecting a heavy reliance on coal for power generation. Kosovo has not yet been recognized by the UN system and is therefore not eligible for the ratification of international conventions like the United Nations Framework Convention on Climate Change. While it cannot submit a Nationally Determined Contribution (under the UNFCC), Kosovo has expressed ambition to prepare a voluntary NDC.[41] Kosovo's Climate Change Strategy 2019-2028 set out policies for reducing greenhouse gas emissions and adapting to climate change (Box 4.2).

Box 4.2 Objectives of Kosovo's 2019-28 Climate Strategy

Considering the large uncertainty regarding the current level and future projections of GHG emissions in Kosovo, Kosovo found it difficult to set a meaningful quantitative mitigation objective for reduction of greenhouse gas emissions* and opted for the following qualitative objectives:

- Developing Kosovo's capacity to meet its future obligations under the United Nations Framework Convention on Climate Change and the EU (which includes objectives to develop and implement policies for climate change, and to create a framework for the establishment of the GHG inventory system);
- Reducing greenhouse gas emissions;
- Development of mechanisms and improving current disaster risk mitigation measures, in the sectors of economic importance that are particularly vulnerable to climate change;
- To increase capacities of adaptation of natural systems; and
- Capacity building of central and local stakeholders, to integrate climate change issues and adaptation to development processes.

* The Climate Change Strategy does provide an approximation of what an emission target could look like when the emission inventory and projections are fully developed, and the Energy Strategy 2022-2031 sets a target to reduce GHG emissions from that sector which provides an important indication of the nature of a future national target.

Source: Climate Change Strategy 2019-28.

[40] Government of Kosovo, Energy Strategy 2023-2031.

[41] The voluntary NDC will be based on Kosovo's target to reduce greenhouse gas emissions by 8.95 Mt CO2e by 2030. This is a reduction of approximately 16.3% compared to 2016 levels. https://climatepromise.undp.org/what-we-do/where-we-work/kosovo

Figure 4.2 CO2-emissions per capita
(ton per capita)

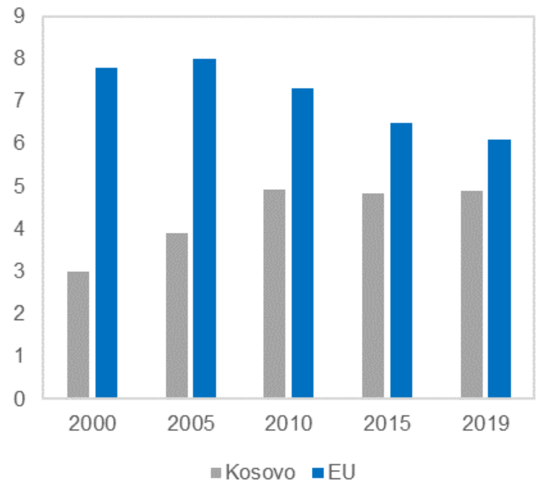
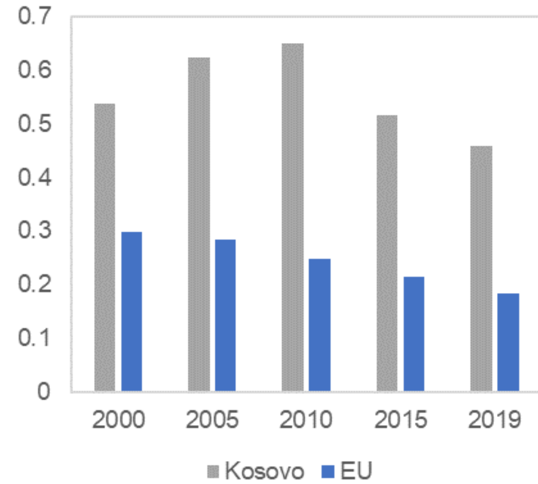


Figure 4.3 CO2-emissions per unit GDP
(ton per unit GDP, 2015 USD PPP)



Sources: Kosovo data from IEA, EU-data from World Bank

84. **Kosovo has made progress in developing policies and investment measures to support its national climate change objectives.** Kosovo's Climate Change Strategy 2019-2028 is for the most part not yet reflected in sectoral strategies or in processes that influence appraisal, planning and implementing public infrastructure investment. The Climate Change Strategy does not establish a numerical target for reducing greenhouse gas emissions nationally or by sector, but it does set out qualitative objectives to reduce GHG emissions and integrate climate change issues and adaptation to development processes.

- The recently published Energy Strategy 2022-2031 outlines strategic objectives for the sector. These include improving system resilience, decarbonizing and promoting renewable energy, increasing energy efficiency, strengthening regional cooperation and market functioning, and protecting and empowering consumers. The strategy sets a target to reduce the GHG emissions from the energy sector by 32 percent by 2031 (from 6 316 million tons CO2-equivalents in 2019), and for the share of renewable energy to increase to at least 35 percent in 2031 (from 6.3 percent in 2019). Furthermore, there is a commitment to have preparations in place by 2025 for introducing a carbon pricing system, accompanied by a phasing out of subsidies for fossil fuels.

- The recently published Multimodal Transport Strategy 2023-2030 sets out plans to meet the aim of a more sustainable and integrated transport system, but there is no granular analysis of the strategy's climate impacts. A new sectoral strategy for the environment sector is expected in the near to medium term, as well as a new law on climate change, a National Energy and Climate Plan, a National Climate Change Adaptation Strategy and a Long-Term Decarbonization Strategy. Table 4.1 presents Kosovo's climate-related policies and plans, and the main stakeholder institutions.

Table 4.1 Climate Change Strategies and Institutions in Kosovo

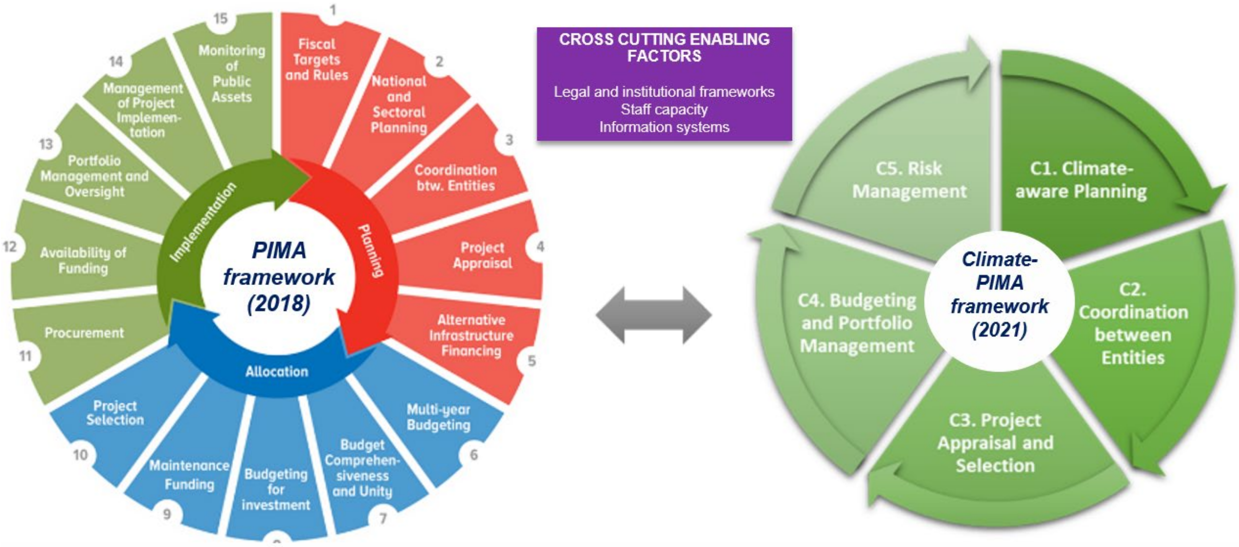
Key Strategies	Coverage
(Voluntary) Nationally Determined Contribution (NDC)	Kosovo has not yet been recognized by the UN system and is therefore not eligible for the ratification of international conventions like the United Nations Framework Convention on Climate Change. Kosovo may prepare a voluntary NDC.
National Climate Change Strategy	The National Climate Change Strategy 2019-2028 presents climate policy challenges and priorities, and sets out the governance framework, detailed strategies and roadmap, and implementation arrangements. A new law on climate change is expected shortly, as well as a Climate Change Adaptation Strategy and a Long-Term Decarbonization Strategy.
National Development Strategy and Plan 2030	The NDP 2030 provides Kosovo's overarching long-term development vision and includes climate change and sustainable environment among the national priorities.
Sector Strategies	Kosovo is developing various sectoral plans to support the NDP and the National Climate Change Strategy. Of particular importance for climate change are the recently published Energy Strategy 2022-2031 and Multimodal Transport Strategy 2023-2033, and a strategy for the environment sector which is expected soon.
Disaster Risk Plan	A new national disaster risk management strategy is being prepared, which will update the 2010 document and provide an overall strategy and guiding principles for Kosovo's disaster risk reduction and management agenda.
Institutions	**Climate Related Responsibilities**
National Council for Climate Change	The National Council for Climate Change was established by a government decision in 2022 (07/54) to steer the climate change strategy agenda. It is chaired by the Minister of Environment, who is joined by ministers responsible for mitigating and adapting to climate change. The Council is supported by a secretariat and a Scientific Advisory Board.
Climate Change Secretariat	The Secretariat performs administrative, professional and advisory tasks for the Council. It is headed by a representative of the Ministry for Environment, Spatial Planning and Infrastructure, who is joined by representatives from other ministries. The Secretariat may also include members from civil society, academy, scientific institutes, local and international organizations.
Ministry of Environment, Spatial Planning and Infrastructure	The Ministry has a key role in coordinating and mainstreaming government efforts within areas relating to climate change. In addition to supporting the work of the Climate Change Secretariat and National Council for Climate Change, and providing guidance to other ministries, the responsibilities for spatial planning and infrastructure are important in addressing climate-related issues.
Ministry of Finance, Labour and Transfers	MoFLT plays a critical role in climate-related public investment planning and budgeting processes, and disaster risk financing. The MoFLT coordinates and engages with sector ministries in the implementation of public investment management and provides policies and guidelines.
Sector Ministries	Line ministries contribute sectoral targets, key performance indicators and programs to the NCCC, and they incorporate climate policy targets and goals into their strategies and action plans. Line ministries play a key role in the development and implementation of climate-relevant infrastructure projects, rules and regulations.

Source: IMF staff based on various documents from the Government of Kosovo.

C. Climate PIMA Framework

85. **The Climate PIMA assesses five key public investment management practices from the climate change perspective and is an extension of the existing PIMA framework.** Figure 4.4 sets out the main elements.

Figure 4.4 Climate Public Investment Management Assessment Framework



86. The Climate PIMA covers the following specific issues (see Annex 7 for the Climate-PIMA framework):

- *C1. Climate-aware planning:* Is public investment planned from a climate change perspective? This is necessary to ensure that long- and medium-term plans contribute to meeting climate objectives and facilitate effective prioritization and decision-making.
- *C2. Coordination across public sector:* Is there effective coordination of decision making on climate change-related public investment across the public sector? In addition to the central government, subnational governments (SNGs), public corporations (PCs) and private sector entities play key roles in realizing climate-related public investment. Climate adaptation investments will often take place at the SNG level, and both PCs and private sector entities may play key roles, for instance in energy production.
- *C3. Project appraisal and selection*: Do project appraisal and selection include climate-related analysis and criteria? This is necessary to ensure that the most effective and efficient investments are prioritized. This serves to maximize the climate impacts of public investments with available resources.
- *C.4 Budgeting and Portfolio management:* Is climate-related investment spending clearly identified in the budget and subject to active management and oversight? Because the climate benefits may be less tangible and more difficult to quantify than other project benefits, systematic and consistent management, and oversight of benefits over the project lifecycle is critical.
- *C5. Risk management:* Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan? The likelihood of climate related disasters is expected to increase over time. The impacts of these risks on public infrastructure must be systematically assessed and monitored, to facilitate adequate and effective risk mitigation.

D. Detailed Assessment

C1. Climate-aware Planning (Design: Medium; Reform Priority: High)

87. **Public investment planning at a national and sectoral level should address both the need to mitigate climate change and to adapt to its consequences.** Public investment should be planned in a manner that is consistent with the government's climate change objectives and international commitments. In addition, planning should ensure that the investment projects are resilient not only against physical climate risks, but also reflect the economic uncertainty associated with a transition to a low carbon society. Government land regulations and building codes can mitigate the exposure to climate-related risks and disasters. And ministries, departments, agencies and municipalities should be provided with guidance and support to incorporate climate change considerations into investment plans.

88. **Kosovo's public investment strategies are increasingly taking into account factors needed to mitigate climate change and adapt to its consequences.** Kosovo's commitment to align its legislation with EU legislation has given rise to a continuous flow of regulatory reform, and suggests that Kosovo's regulatory framework over time will align closely with corresponding policy developments in the EU that seek to have climate-related factors be integrated in the design, appraisal and selection of public investment projects. Kosovo's climate change strategy so far contains only qualitative goals and does not yet provide quantitative targets on climate mitigation and adaptation for the various sectoral strategies and action plans that can strongly link the national strategy with sectoral plans and individual investment projects. There are nonetheless signs that climate-related factors are increasingly gaining prominence at the sectoral planning level. For example, the Energy Strategy 2022-2031 outlines strategic objectives as well as targets in key areas that will affect investment decisions in both the public and private sector (such as targets for reduced GHG emissions from the energy sector and an increased share of renewable energy, coupled with intentions to introduce a carbon pricing system and a phasing out of subsidies for fossil fuels). Furthermore, Kosovo is already undertaking a number of significant public infrastructure investments that are at least partly motivated by climate-related issues. One example is the transformation of the energy system towards more efficient, renewable and less polluting sources of electricity production, as highlighted by recent announcements of photovoltaic solar projects. Another example is investments being undertaken to upgrade the transportation network to be more efficient and sustainable, which is reflected in the recent Multi-Modal Transport Strategy 2030.

89. **Climate-related risks are getting more attention in spatial and urban planning.** Kosovo was previously characterized by significant construction activity that neither complied with legal requirements or incorporated climate-related factors, but the legal framework has in recent years been reformed and compliance improved. The 2013 law on spatial planning sets out the responsibilities on central and local level for developing spatial plans and zoning maps, based on a number of principles that include protecting the environment, supporting sustainable development and taking into account threats from natural disasters. Energy efficiency in buildings is regulated, but climate adaptation is not taken explicitly into consideration (eg. adapting buildings to specific local climate related circumstances). Recent initiatives in the capital, Pristina, point to increased emphasis on climate-efficient city planning and public investment when formulating the new municipal development plan, highlighting the need to manage urban sprawl, cut GHG emissions by reducing the time and distance people needed to travel, support the integration of land use and transport planning, develop low-carbon public transport corridors, expanding

the district heating network, implementing the Local Green Building code, and reducing flood risk by upgrading the city's storm water and sewage management infrastructure.[42]

90. There is little centralized guidance or support for government agencies on climate-aware planning. There does not appear to be any written guidelines containing information and instructions on planning and costing public investment from the perspective of climate change adaptation and mitigation, or a central 'help desk' to answer queries or other technical/financial support to implement climate friendly policies. Counterparts considered that co-location of responsibilities for infrastructure and spatial planning in the same ministry did offer some synergies and greater awareness of the linkages, but that no concrete examples of integration of climate into these policies has been found.

91. Mainstreaming national climate goals into national, sectoral and spatial plans is a high reform priority. In order for public investment to take into account climate-related factors, it is essential that the linkages are strengthened between the Climate Change Strategy and sectoral plans, spatial plans and, ultimately, processes for appraisal, selection and implementation of public infrastructure investment. There is a need to fill data gaps, to enable the climate sensitive management of public investment and public assets. Efforts should be made to clearly identify sectoral contributions to climate change mitigation and adaptation targets, and to prepare costed investment plans that contribute to the achievement of these goals as part of the sectoral and national planning process. In this area, there is a strong need to strengthen administrative capacity and raise awareness. Developing guidance and providing training to public bodies on how to integrate climate change into public investment planning should be undertaken. In addition, consideration should be given to preparing and publishing a handbook on incorporating climate resilience and adaptability in sectoral planning and project preparation.

C2. Coordination Between Entities (Design: Low; Reform Priority: Medium)

92. This institution assesses if there is a whole-of-government approach to climate change facilitating the coordination of public investment across all levels of the public sector. Such coordination needs to take place within and across central government BOs, and between central government BOs and municipalities and the POEs. Climate-related decision-making should contemplate externally financed projects, extra-budgetary entities, and PPPs. Finally, the regulatory and oversight framework for POEs should ensure that their climate-related investments are consistent with national policies and guidelines.

93. There are efforts for coordination of policy decisions across budgetary central government from a climate-change perspective, but there is no specific focus on infrastructure. The Ministry of Environment, Spatial Planning and Infrastructure (MoESPI) is designated as the lead agency for coordination of all climate change related decision making across central government in the Draft Law on Climate Change. The draft is approved by the Government and expected to be approved by the Parliament at the end of 2023. Currently, the coordination is facilitated by the National Council for Climate Change (NCCC). The Council was established by a government decision in 2022 and composed of the Ministers of responsible ministries for the purpose of mitigating and adapting to climate change. The Council is led by the Minister of Environment, Spatial Planning and Infrastructure and assists the

[42] https://www.worldbank.org/en/news/feature/2023/05/22/building-cleaner-greener-more-liveable-cities-prishtina-a-blueprint-for-transforming-urban-development

MoESPI to facilitate effective coordination between all public and private sector actors in relation to climate policies and to ensure monitoring, reporting and high-quality verification of the National Greenhouse Gases Inventory. The Secretariat of the National Council for Climate Change, composed of representatives of line Ministries, performs professional, administrative and advisory work for the Council (Table 4.1). The decision states that the Council shall meet at least once a year.

94. There are also working groups and administrative bodies introduced as a requirement for the regional coordination mechanisms involving the Western Balkans and to benefit from the funding sources provided to the Western Balkans by the EC. Three working groups covering energy, environement and transport sectors were establised to identify a the pipelines mentioned in Institution 10 under the remit of a National Investment Committee. Box 4.3 explains the relevant EU frameworks and funding resources relevant for Kosovo.

Box 4.3 The Economic and Investment Plan for the Western Balkans, the Green Agenda for Western Balkans, and the Western Balkans Investment Framework

The Economic and Investment Plan for the Western Balkans together with the Guidelines for the Implementation of the Green Agenda for the Western Balkans set out that significant investment should be directed towards greening the Western Balkans and mainstreaming environmental and climate requirements in other sectors.

In line with the EU ambition to become climate-neutral by 2050, the region has also committed to achieving carbon neutrality by 2050, and to aligning with the European Green Deal's key elements by endorsing the Green Agenda for the Western Balkan (GAWB) at the Summit in Sofia in 2020, and subsequently the Action Plan 2021-2030, at the Brdo Summit in October 2021. The Regional Cooperation Council, a regionally owned and led cooperation framework, has coordinated the process of drafting the Green Agenda for the Western Balkans Declaration and Action Plan, based on intense consultations with all stakeholders, to identify concrete steps, supporting organizations and structures, and an indicative timeframe for each measure to be implemented.

The Economic and Investment Plan sets out a substantial investment package for the region. It is built on the foundations of a performance-based and reform-oriented proposal for an Instrument for Pre-accession Assistance III (IPA III) and reinforced instruments to foster public and private-sector investment.

The Western Balkans Investment Framework (WBIF) is the main vehicle for the implementation of the EU's ambitious Economic and Investment Plan for the Western Balkans and a joint initiative of the EU, financial institutions, bilateral donors and beneficiaries, bilateral donors and beneficiaries, aimed at enhancing harmonization and cooperation in investments for the socio-economic development of the region and contributing to the European perspective of the Western Balkans. The WBIF intervention areas stemming from the Economic and Investment Plan for the Western Balkans and includes: (i) Sustainable transport; (ii) Clean energy; (iii) Environment & climate; (iv) Digital future; (v) competitiveness of the private sector; and (vi) Human capital development. Since its inception in 2009, the WBIF allocated over EUR 1.4 billion in grants to strategic infrastructure projects with an estimated total cost of more than EUR 22 billion. These investments aim to reduce existing barriers towards EU accession.

Achieved Results (2015-2020)

Source: IMF mission team based on the European Commission publications

95. The MoFLT's budget guidelines do not refer to climate change and public investment. There is no climate tagging and tracking in the budget process. The authorities indicated their interest in exploring climate tagging in parallel to their ongoing work on gender tagging and budgeting.

96. The budget process covers both central government and municipalties but does not incorporate climate change perspective. Municipalities' capital projects are published alongside the capital projects of central government but they are not formally discussed with the central government from a climate change perspective. The MoFLT has not issued guidance for climate sensitive planning or implementaion of capital spending by municipalities to inform such a discussion.

97. The POEs' regulatory and oversight framework does not enforce or explicitly guide climate change related decision-making. New investment projects or programs of POEs have not been assesed for impacts on climate mitigation and for their exposure to climate change by neither their sector ministries nor the Ministry of Economy. Although climate change considerations have not been embeded POEs' decision-making process in a structured way, there has been a good awareness of the country's climate change related challenges in some sectors such as energy. For example, KEK's investment plans incorporate these perspective despite the POEs' development plans or strategic plans are not discussed with the government from a climate change perspective.

98. Going forward, the coordination across the public sector's climate related public investment is crucial for achieving the climate change objectives. Currently, such coordination is mainly facilated by the WBIF's funding requirements. Embedding the climate change issues into the national pubic investment processes, clarifying the roles and responsibilities of key institutions involved in climate change and related public investment decisions will be critical to support a more effective and efficient attainment of climate change targets. This will also help Kosovo further benefit and utlize the funds available for Western Balkans.

C3. Project Appraisal and Selection (Design: Low, Reform Priority: High)

99. The climate impacts of project proposals and the exposure of projects to climate related harm should be fully understood prior to project approval. Public investment can play a pivotal role in governments' climate mitigation policies by expanding renewable energy supply, supporting modal shift to public transport, and improving the energy efficiency of public buildings. At the same time, many projects will lead to additional emissions in the implementation and operational phases. On the adaptation side, infrastructure projects are increasingly exposed to risk of damage from climate-related events. The implications of these climate factors should be incorporated in project appraisal and should guide project selection decisions.

100. Kosovo's project appraisal procedures do not require climate-related analysis. Officials in Kosovo have recognized that investment projects in some sectors have significant impacts on climate adaptation and mitigation. For major projects, Environmental impact assessment is required by the Administrative Instruction no. 06/2019, on the Selection Criteria and Prioritizing of Capital Project. This focuses on potential negative environmental impacts of projects, including harmful emissions that contribute to the high levels of seasonal pollution and create public health risks in Kosovo. However, these do not specifically target the impacts of climate change on project design and implementation. The

PIP manual and the Administrative Instruction do not prescribe requirements on how projects are designed to promote climate change adaptation or strengthen climate resilience.

101. **There are no guidelines or templates for how such analysis could be conducted.** Authorities recognize the climate impacts of projects, particularly in the energy and transport sectors and there is some discussion about these during project preparation and analysis, but there are no standardized methodologies to ensure consistent climate analysis across projects. However, projects seeking EU funding under the National Investment Committee are required to complete the Project Identification Fiche which is broadly linked to EU policies on promoting sustainability and climate resilience.

102. **There are no formalized climate-related elements in the project selection process, but in practice climate change appears to be an important consideration in some decisions.** Administrative Instruction criteria includes a general question about whether environmental and social risks have been adequately assessed and if they can be managed. However, there is no specific decision criteria for climate specific risks or impacts. In practice, climate impacts are discussed when directly relevant projects are considered and approved, but this is not done on the basis of a systematic and consistent methodology that considers the climate impact of all projects.

103. **Improvements in climate-sensitive appraisal and selection are a high priority.** The awareness of the critical nature of climate change should be reflected in a robust appraisal and selection framework to ensure that public investments that are made are consistent with government climate goals. This requires a robuts underlying framework for project appraisal and selection that can be achieved through an update of the PIP manual and the Administrative Instruction on the selection of capital projects that could also reflect climate-related selection. In terms of the actual processes, the sector working groups should incorporate climate considerations in their screening process when filtering projects for the project pipeline. This should be done for both the nationally funded projects and those being funded under the WBIF. The United Kingdom's Green Book shows how to incorporate climate aspects into Appraisal, see Box 4.4.

Box 4.4 Incorporating Climate Change in Project Appraisal in the United Kingdom

In the United Kingdom, the Green Book[9] and associated guidance for developing business cases, including the impacts of climate change. *Accounting for the Effects of Climate Change* provides guidance on how to incorporate the assessment of the impacts of climate change in critical public investment decisions. It:

- Extends the conventional appraisal methodology to account for the effects of climate change;

Supports analysts and policymakers in identifying if and how their proposals could be affected by climate risks and challenges; and

Supports analysts and policymakers in designing adaptation measures in response to climate risks and challenges.

The guidance provides an overview of different types of appraisal techniques—including cost benefit analysis, cost effectiveness analysis and multi-criteria analysis—and how they can be tailored to assist decision-making across a range of sectors and areas of government policy. In addition, the guidance includes practical case studies of the incorporation of climate change impacts in the appraisal of investment projects.

The United Kingdom also provides tools to assist with the valuation of proposal that have a direct use on energy use and supply and those with an indirect impact through planning, land use change and construction.

Source: United Kingdom, *The Green Book: Central Government Guidance on Appraisal and Evaluation*, 2020; United Kingdom Department of Environment, Food and Rural Affairs, *Accounting for the Effects of Climate Change: Supplementary Green Book Guidance*, 2020; United Kingdom Department of Business, Energy and Industrial Strategy, *Valuation of Energy Use and Greenhouse Gas,* 2021.

C4. Budgeting and Portfolio Management (Design: Low; Reform Priority: High)

104. Effective management of the government's portfolio of climate-related investment projects at all stages of the project cycle is critical for achieving climate change mitigation and adaptation targets. Failure to assess the additional costs arising from climate change geophysical risks may lead to an underestimation of future asset maintenance costs and erode the public asset base. The adoption of good practices in budgeting, review, and asset maintenance will provide the government with greater insights into the fiscal risks posed by climate change. Good practices include identifying climate related projects in budget documents; conducting ex-post reviews of the impacts of investment projects on climate adaptation and mitigation; and addressing climate-related risks in asset management policies and practices.

105. Currently, planned climate-related public investment expenditures are not identified in Kosovo's budget and related documents. The budget documentation makes no specific mention of budgeted expenditure for climate resilience in infrastructure. What is presented in the budget are the ongoing programs and investments to counter environmental impacts. These include energy efficiency programs, flood mitigation, disaster relief and spending to support renewable energy projects. Although not specifically identified as climate-impact measures.

106. No ex-post reviews or audits have been conducted of the climate change mitigation and adaptation outcomes of public investments, but the National Audit Office is conducting relevant performance audits. Kosovo does not conduct ex-post reviews of projects as stated in Institution 14 of the PIMA. The National Audit Office of Kosovo carries out both financial and performance audits which encompass spending programs on river management, air quality improvement, and investments in hydropower plants[43]. While these are climate-relevant projects, so far, the audits do not focus on the climate outcomes of these projects, although the Audit Office is considering how to do this in future.

107. There are no formalized government asset management policies, nor methodologies for estimating maintenance needs, or mechanism for addressing climate-related risks. However, in discussion with implementing agencies, consideration of asset climate exposure is considered on an ad-hoc basis. For example, as part of the energy efficiency program, the government is identifying old government buildings and public housing to be prioritized for energy efficiency measures. Ongoing efforts to improve asset registers, as mentioned under institution 15, will over time provide a basis for more systematic assessment and management of climate risks to infrastructure assets.

108. Improvements in climate budgeting and portfolio management are a priority over the medium term. Such improvements will help ensure that the government can form a comprehensive picture on the cost of achieving climate mitigation and adaptation measures both now and in the future and be able to plan resource allocation accordingly. Presenting spending on climate investment initiatives in the budget documents through a chapter in the budget statements, could be an entry point into mainstreaming climate budgeting and reporting. As the Budget Department adjusts its systems to reflect other forms of expenditure tagging, such as gender budgeting, the climate adjustments can be done simultaneously.

[43] One example is: "Prevention and Response to Emergencies: Floods" National Audit Office of Kosovo (2021).

C5. Risk Management (Design: Medium; Reform Priority: Medium)

109. Identifying and managing fiscal risks to public infrastructure arising from climate change should be an integral part of the government's risk management function. As with other types of fiscal risks, governments need to be aware of climate-related risks of public investments and their potential impact on public finances. These risks are increasing in significance, are expected to be chronic sources of fiscal risk in all countries, and therefore warrant explicit attention. To better manage these fiscal risks it is important for governments to (i) develop and publish a disaster risk management strategy that identifies the exposure of public infrastructure to climate related disasters; (ii) develop mechanisms to absorb the cost of climate-related damages to infrastructure; and (iii) analyze climate-related risks to public infrastructure assets.

110. The government is developing a new national disaster risk management strategy. Overall responsibility for disaster risk management in Kosovo lies with the Emergency Management Agency under the Ministry of Internal Affairs. The Agency published a risk assessment document in 2016[44] and the government issued a new regulation in 2020 on the methodology for risk assessment. These have served as reference points for the drafting of a new national disaster risk management strategy, which is ready to be adopted in the near term and replace the Integrated Emergency Management System and the National Response Plan from 2010. The National Audit Office has carried out various performance audit reports in the field of environment and safety, and concluded in a 2021 report that the responsible institutions at the central and local level have not managed to establish an appropriate system that would effectively provide for the prevention and response to emergencies of floods/deluges in the Republic of Kosovo.[45]

111. There is a general contingency appropriation in the annual budget. This is available to meet the costs of climate-related damages to public infrastructure and has proved adequate in the past. However, no specific ex-ante financing mechanism is in place. Kosovo has not signed up to any natural disaster insurance schemes, and there are limited insurance and risk-sharing arrangements available domestically for the private and public sector.

112. The government does not conduct a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets. Kosovo's identification and reporting on risks to public finances has been improving in recent years, but this does not yet encompass an assessment of the potential impact of climate change. A broader analysis of economic and fiscal risks from climate change and climate policy, and their potential impact on Kosovo and its infrastructure, is not available and therefore not integrated in public investment planning. Fiscal risks to the government are identified and quantified in the MTEF, but none are related to risks that may arise due to climate change or natural disasters.

113. Integrating climate-related risk analysis in economic and fiscal planning and completing the national disaster risk management strategy should be a priority. The overall institutional and legal framework for climate and disaster risk management is relatively robust, but the new national

[44] https://ame.rks-gov.net/vleresimiIRrezikshmerise/en-us/Natural%20and%20other%20Disasters%20Risk%20Assessment.pdf

[45] National Audit Office, *Prevention and response to emergencies: Floods*, 2021.

disaster risk management strategy should be completed soon.[46] Fiscal risks associated with potential physical and transition risks of climate change, as well as from natural disasters, could be significant and warrant an in-depth assessment. The existing fiscal risk analysis in the MTEF should be developed to include climate-related factors, covering risks coming from both physical climate changes and the economic transition to a low carbon society. Such a process could start with a qualitative assessment of the major risks associated with climate change for Kosovo, sketching out qualitative scenarios of various plausible paths, before developing quantified assessments.[47] Such a fiscal risk analysis could also inform an assessment on (i) whether the budget allocations dedicated to risk-reduction and prevention are appropriate, and (ii) whether the general contingency appropriation in the annual budget, that is available to meet costs of climate-related damages to public infrastructure, should be strengthened and/or supplemented with an additional financing mechanism. Improving the transparency about the purpose and use of the contingency reserve with regard to natural disasters would improve accountability.

Recommendations on climate sensitive public investment

Issue: The connection between the national climate strategy and public investment plans is weak and there is little centralized guidance or support for government agencies on climate-aware planning and project preparation.

Recommendation: Strengthen the linkages between the Climate Change Strategy and sectoral and spatial plans to inform public infrastructure investment.

- Fill data gaps to enable the climate sensitive management of public investment and public assets (KSA in consultation with OPM, MoESPI and MoFLT – 2024, Medium).

Recommendation: Embed a climate perspective in appraisal and selection of capital projects

- Add alignment with climate goals to the revised AI on project selection (MoFLT in consultation with OPM and MoESPI – 2025, High).
- Revise manual to the PIP Manual to include a climate perspective for both project appraisal and selection, giving additional weight to major projects that strengthen climate resilience (MoFLT in consultation with OPM and MoESPI – 2025, High).
- Prepare and publish a handbook on incorporating climate resilience and adaptability in sectoral planning and project preparation processes and providing training to public bodies on how to integrate climate change into public investment planning should be undertaken. (MoFLT in consultation with OPM and MoESPI – Q1 2025 – High).

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[46] This was also one of the recommendations in the performance audit report from the National Audit Office (2021) on Prevention and response to emergencies: Floods

[47] International best practices on analyzing and managing climate risk are evolving. Inspiration can be sought from for example the Task Force on Climate-related Financial Disclosures (TCFD, www.fsb-tcfd.org), IMF (2022) Georgia: Technical Assistance Report-Updating the Balance Sheet and Quantifying Fiscal Risks From Climate Change, and the 2021 Fiscal Risk Report from the United Kingdom's Office of Budget Responsibility.

Issue: There is little available information about the fiscal risks related to the impact of climate change on infrastructure.

Recommendation: Undertake an assessment of the macro-fiscal risks associated with climate-related factors, covering risks coming from both physical climate changes and the economic transition to a low carbon society.

- Assess whether budget allocations dedicated to risk-reduction and prevention are appropriate (MoFLT – 2025).
- Assess whether the general contingency appropriation in the annual budget should be strengthened and/or supplemented with an additional financing mechanism (MoFLT – 2025 – Medium).
- Publish an analysis of the exposure to fiscal risks from climate change in the fiscal risks statement (MoFLT – 2025 – Medium).

Issue: Strengthen the legal framework for public and private investments in renewable energy generation.

Recommendation: Complete the comprehensive national disaster risk management strategy to provide an implementation roadmap for investments and resource mobilization toward better disaster prevention, readiness, and response (EMA).

Recommendation: Develop a training plan to strengthen capacity and raise awareness on climate aspects of public investment management (Ministry of Environment, MoFLT, Ministry of Economy).

V. Cross-Cutting Issues

A. Legal and Regulatory Framework

114. The public investment management legislative framework should support strong institutional arrangements. Laws and supporting regulations and instruments should establish procedures for preparing, prioritizing, and delivering effective and efficient public infrastructure.

115. Kosovo's comprehensive legal, policy and regulatory framework covers all key aspects of public investment management. While many important issues are covered in legislation, some public investment institutions are primarily governed by regulations, and administrative instructions. Table 5.1 provides an overview of the most important laws, regulations and guidelines related to each PIMA and Climate PIMA institution.

Table 5.1 Key legislation, regulations, and guidelines for public investment management

Phase/Institution			Legislation
A. Planning	1	**Fiscal principles or rules**	Law No. 03/L-048 on Public Financial Management and Accountability Law on Budget Appropriations for the Budget of the Republic of Kosovo
	2	**National and sectoral plans**	Government Decision no. 15/34 of 07.10.2020
	3	**Coordination between entities**	The Law on Public Financial Management and Accountability Law on Local Government Finance 2023 Budget Law
	4	**Project appraisal**	No specific law or regulations in relation to project appraisal.
	5	**Alternative infrastructure financing**	Law No. 03/L-087. on Publicly Owned Enterprises. Law on PPPs and Concessions in Infrastructure and the Procedures for their Award" L03/L-090
B. Allocation	6	**Multi-year budgeting**	Law No. 03/L-048 on Public Financial Management and Accountability Annual Budget Laws The Law on Public Financial Management and Accountability (LPFMA) AI 05/2019 on the transfer and reallocation of budget appropriations
	7	**Budget comprehensiveness+ unity**	
	8	**Budgeting for investment**	
	9	**Maintenance funding**	The Law on Public Financial Management and Accountability (LPFMA) Regulation 02/2013 on the Management of Non-Financial Assets AI 04/2019 on the definition of capital projects
	10	**Project selection**	Administrative instruction no 06/2019 on project selection criteria and prioritizing of capital projects.
C. Implementation	11	**Procurement**	Rules and Operational guidelines for Public Procurement. January 2021. Law on Public Procurement, Law No 04/L-042
	12	**Availability of funding**	The Law on Public Financial Management and Accountability Regulation No. 06/2014 on Internal Organization and Systematization of Job Positions within Kosovo Treasury Regulation No. 01/2022 On the Allocation of Funds and Management of Cash Flow
	13	**Portfolio management and oversight**	Law on Budget Appropriations for the Budget of the Republic of Kosovo.
	14	**Project implementation**	Rules and Operational guidelines for Public Procurement. January 2021. Law on the Auditor General and the National Audit Office of the Republic of Kosovo, Law 05L/-055 Public Financial Management and Accountability, Law 03/L-048 Law on Public Procurement, Law No 04/L-042
	15	**Management of public assets**	The Law on Public Financial Management and Accountability (LPFMA) Regulation 02/2013 on the Management of Non-Financial Assets
Climate PIMA	C1	**Climate-aware planning**	Draft Law on Climate Change Decision on the establishment of the National Council for Climate Change Law No.04/L-110 on Construction
	C2	**Coordination between entities**	Decision on the establishment of the National Council for Climate Change Draft Climate Change Law

Phase/Institution			Legislation
			Decision on the establishment of National Climate Change Council and the Secretariat
	C3	**Appraisal and selection**	
	C4	**Budgeting and portfolio management**	
	C5	**Risk management**	Law No. 04/L-027 for Protection against Natural and other Disasters Law No. 04/L-174 on Spatial Planning Regulations (GRK) No. 25/2020 on the Methodology for Risk Assessment Development Law No. 05/L-101 on Energy Performance of Buildings Law No. 08/L-181 on Environmental Impact Assessment

116. A number of refinements to the legal framework are planned and would better support public investment management. A key planned reform is the new Law on Procurement. The appraisal process for major capital infrastructure projects is weak, yet there is no law or regulation governing the appraisal process. The selection process is similarly only governed by an Administrative Instruction. These two Institutions could be strengthened legislation that would support to ensure compliance with appraisal and selection processes and procedures, potentially the planned update to the Public Financial Management and Accountability Law. New laws are planned in many other areas relevant to public investment management including a new PPP Law, energy sector regulatory framework. While new laws can strengthen the framework for public investment management, new laws must be accompanied by training and capacity to implement them.

B. Information Technology

117. Under the Law on Public Finance Management and Accountability (2008), the MoFLT is responsible for collecting, processing, and disseminating financial data for all General Government units. Article 43.2 requires that all financial data is recorded through a Chart of Accounts which is harmonized with the Government Finance Statistics Manual and cash basis International Public Sector Accounting Standards. Article 45 and 46 of the Law mandates MoFLT to publish quarterly and annual reports of consolidated financial data.

118. There are several complimentary information systems to support public investment management, from project inception to monitoring and evaluation but the PIP system is still not being fully utilized for planning. The various systems supporting public investment management are well advanced in Kosovo in terms of functionality, notably the PIP system and the KFMIS. Table 5.2 gives an overview of how information management related to the different PIMA institutions are organized. As noted in the 2015 PIMA, the PIP system is not being fully implemented despite its user-friendly interface.

Table 5.2 Information management systems in Kosovo

System	Relevance for public investment management	Current Issues/ Reforms
Kosovo Financial Management System (KFMIS)	KFMIS is the FreeBalance tool for managing and executing the budget within the Treasury. The chart of accounts is embedded within the general ledger within the KFMIS facilitating budget spending, recording and reporting. KFMIS is a centralized system used by all BOs. The asset management module is used to record large assets above EUR 1,000 in value.	KFMIS is generally effective for all budget execution though functionality for multi-year commitments needs to be added.
Public Investment Program system (PIP)	The PIP system is managed by the Budget Department and the IT department. It comprises an IT system and SQL database into which project managers in BOs can enter data on all investment projects. The interface is easy to work with, and functionality covers the full project cycle. Supporting documents can be uploaded.	All projects are captured in the PIP database, but the information is incomplete. Hardly any cost-benefit analyses or feasibility documents are being entered. It is more of a data capture tool to produce budget tables. The system is not being fully utilized as a planning tool.
Budget Development Management System (BDMS)	BDMS is used for budget planning – primarily recurrent expenditures. This custom-made system has been in effect since 2004 and was updated to accommodate the three-year MTEF. BOs submit budget requests using the BDMS.	The Budget Department is working on linking the PIP system and BDMS to KFMIS (managed in the Treasury)
Treasury Single Account (TSA)	The government manages funds through the TSA, with most accounts held at the Central Bank. The system has broad coverage of government accounts and facilitates cash payments for infrastructure projects	The Treasury is working on linking KFMIS with e-procurement system to improve access to information on multi-annual contracts by KFMIS. By linking e-procurement, Treasury is also trying to automate invoice capturing in KFMIS.
E-procurement	The Kosovo Public Procurement Regulatory Commission is responsible for implementation of the system. It is a centralized and unified system. It covers end-to-end procurement processes, starting from procurement planning to payments. It can handle 3 types of contracts: Works, supply, and consultancy services.	Use of the e-procurement system is mandatory for all Contracting Authorities. The government is trying to automate the link between KFMIS and e-procurement.

Source: IMF mission team.

119. Due to its legal mandate, and the broad coverage of financial management systems in Kosovo, MoFLT has access to all financial data from BOs. The Law on Public Financial Management and Accountability requires all budget users to register their financial data into KFMIS, which is both integrated and centralized in its structure. This gives the MOFLT ready access to data from BOs. KFMIS has about 2,000 users of which 50 are in central ministries and the rest are in decentralized BOs. The MoFLT maintains central control of the systems by restricting user right access while allowing decentralized points access to data and ability to enter project data directly into the system. While all BOs are covered by these systems, Publicly Owned Enterprises are not BOs and must report directly to the central POE Monitoring Unit.

120. To enhance data sharing, the government has adopted the Interoperability Framework which involves the sharing of information and knowledge between organizations. MoFLT is working on introducing more regular reporting of financial information from BOs, particularly on expenditure. This will be achieved through enhancements of systems, as noted above. In addition, the Kosovo Interoperability Framework has been harmonized in line with the European Interoperability Framework. As an example, the Kosovo Public Procurement Regulatory Commission is working with the Treasury to identify interoperability opportunities between e-Procurement and KFMIS.

121. Ongoing reforms to ensure data exchange and integration between the different IT systems will help to support public investment management but users should be incentivized to use the systems. The reforms to integrate e-procurement, KFMIS and BDMS will improve reporting frequency and the quality of asset management. However, for this improved functionality to have real impact, updated procedures are required to incentivize those BOs that use the systems correctly. This is particularly important for the PIP system. BOs or projects that do not comply with minimum information requirements and analysis should be excluded from the project pipeline going into the MTEF for consideration for budget funding.

122. While there are continued concerns about data accuracy regarding expenditure classification and data quality in the PIP system, overall financial data integrity is acceptable. The Public Expenditure and Financial Accountability Framework Performance Assessment Report (2022) rates Kosovo highly on budget classification (A) and on the quality of financial reports (A). Budget data are presented in the annual financial statements and are complete, timely, and consistent with IPSAS cash basis accounting principles and standards. However, the same Assessment gives a low rating (D+) on "Performance Information for Service Delivery" and equally low on "Budget Documentation" (D). This suggests that while financial data integrity is generally good due to the coverage of IT systems, the analysis and presentation of the information is weak. Data on projected capital spending is also found to be weak and the MOFLT will need to implement quality control checks of data entered in the PIP system to ensure investment quality.

C. Capacity

123. High staff turnover, delays in filling open positions, and the limited number and technical capacity of civil servants in BOs have influenced the efficiency of capital investment. To improve functioning of the civil service, the government adopted two laws in December 2022: (i) the Law on Public Officials and (ii) the Law on Public Wages. They aimed to implement a coherent wage scheme in line with the principles of merit, fairness and equal treatment in the civil service, while finalizing the internal organization of the ministries, and putting in place job classifications and job systematization in the civil service. The effects of the laws are yet to be seen.

124. A significant capacity weakness related to project preparation, appraisal, and selection needs to be addressed. Improving public investment management processes, strengthening technical skills, creating centralized support teams, and relying on the independent private sector consultants after establishing an adequate term of reference for them and oversight mechanisms in the BOs could help address these challenges. The recently approved regulation on the MoFLT's organizational structure requires establishment of a central support team (a central Project Implementation Unit (PIU)) for externally funded projects. The team will support sector ministries and the other BOs in cost estimation and preparation of implementation plans, at an early stage of project design for foreign funded projects. However, since the new PIU is targeted to IFI projects, the consequence could be that national projects are neglected and that capacity is not built outside the PIU for domestically financed projects. Therefore, the government should focus on how to link developing a pipeline of investment ready projects, designing a plan for how to integrate IFI and domestic projects, and developing a training road map.

125. Strengthening the capacity of MOFLT to play a quality assurance role in PIP remains critical. The third recommendation under the investment allocation section requires that MoFLT undertake a robust review of the estimates for capital expenditure provided by BOs in the annual budget process to improve the accuracy and reliability of budget estimates for capital expenditure. This will be achieved through qualified staff. While increasing the technical knowledge of staff, the number of staff in the Budget Department should also be carefully considered. The 2015 PIMA recommendation on providing additional dedicated resources to enable the Budget Department to exercise a stronger quality assurance role on the PIP and improve its effectiveness in the oversight and quality assurance of the technical work carried out by the BOs remains valid.

126. The climate change agenda brings additional challenges in the coordination of policy decisions. The NCCC and the Secretariat have been introduced to coordinate policy decisions related to the climate change actions to meet the requirements of the WBIF. However, their effectiveness has been limited due to their work model and the fact that the NCCC and the Secretariat do not have permanent staff members and they are expected to gather once and twice in a year, respectively. It is important to ensure that central climate change coordination units are adequately staffed and appropriately empowered to effectively engage with public and private sectors in climate action at both the central and municipal level. Supporting public sector institutions to implement the climate change agenda will require accelerated reform efforts to address capacity constraints in the central decision-making agencies though realignment of resources, increasing capacity in project preparation, appraisal and selection and better utilization of IT systems.

127. There have been data and knowledge gaps to calculate the national climate change related targets and to monitor them. Building technical capacity in calculating, analyzing, monitoring and reporting the climate change related data such as GHH and the other international climate change targets will help the authorities develop better fiscal and climate change policy decisions to address the gaps identified through these data analysis. According to draft climate change law, the Kosovo Environment Protection Agency (KEPA) is designated as the competent national authority for all activities related to the establishment and maintenance of the National Greenhouse Gas Inventory System, as part of the Environmental Information System and preparation of reports. To be able to collect meaningful data, KEPA should train the relevant BOs and explain the expected inputs and how these inputs will be utilized.

128. Training needs on public investment management in general and climate change issues in particular are large and mainly dependent on external funding resources. In addition to the training opportunities provided by both development partners and international financial institutions, the MoFLT and the Ministry of Environment, Spatial Planning and Infrastructure should consider increasing their own capacity to train staff at a scale to materially meet the need for trained staff in public investment management and the climate change agenda. Training programs should focus on specific climate change measures in Kosovo. Regular participation to the regional initiatives and related working groups is also important and facilitates peer learning.

129. The "young cell scheme", which is a scholarship program, co-funded by the EU and by the Government of Kosovo proves to be effective to motivate the young government officials and to increase the technical capacity. There is a certain period of compulsory government service requirement for scholars i.e., three years. This program has helped officials gain technical knowledge, expand their horizon and improve their language abilities. The challenge is to keep these young government officials in the MoFLT after they complete their compulsory service due to the gap between the public and private sector salaries.

Annex 1 PIMA and Climate-PIMA Action Plan

Inst.	Issue	Recommendations	Action	Priority	Responsibility	Timing
Planning Sustainable Levels of Public Investment						
1,6	A strategic discussion about the room for new capital spending is not part of the MTEF	Strengthen MTEF-analysis of fiscal space for new capital projects	As part of the preparation of the April MTEF: ▪ Analyze the fiscal space available for new capital projects (after considering the obligations tied to ongoing projects and other expenditures) and include in the report the scope for new projects.	Low	MoFLT	Q2 2024
4, 13, 14	Project appraisals are not consistently done for major projects across funding sources	Strengthen project appraisal guidelines, methodologies	▪ Determine thresholds for small, medium, and large/major projects to guide project development and oversight. ▪ Determine the required appraisal methodology and procedures for each type of project and reflect these in an updated PIP manual. ▪ Underpin the appraisal process in the updated PFM Law	High	MoFLT	Q4 2024

4, 10	There is currently no central review of project appraisals	Strengthen central review of appraisals	▪ Establish a central review function to ensure:
			  ▪ consistent domestic review of major project appraisals, regardless of funding source
			  ▪ consistent review of medium projects.
				High	MoFLT	Q3 2024

Ensuring Public Investment is Allocated to the Right Sectors and Projects						
10	Project selection is not integrated across domestically and IFI funded projects	Establish a unified pipeline of major projects, regardless of funding source	▪ Create a single process for prioritization of major capital projects, irrespective of funding source. ▪ Establish a project flow chart describing gatekeeping levels where donors.	High High	MoFLT MoFLT in consult with agencies including PPP unit	Q2 2024 Q1 2025
10	There is a lack of critical information in relation to projects selected for implementation	Improve project quality and information	▪ Review the Administrative Instruction on selection of capital projects and make aspects mandatory e.g., completion of design, expropriation information, total costing, risk identification and mitigation. ▪ Progressively strengthen the use of PIP system throughout public investment cycle and link compliance to budget approvals	High High	MoFLT MoFLT	Q3 2024 Q1 2025

Inst.	Issue	Recommendations	Action	Priority	Responsibility	Timing
1, 6, 8, 9	Currently no robust review of capital expenditure estimates for capital expenditure as presented by BOs are conducted. In-year reallocations are regulated and while contracted projects are protected other transfers from capital to current projects are allowed. Also, some expenditure not directly contributing to the value of assets are included in the classification of capital expenditure. No standard methodology for the calculation of maintenance and capital improvements exists.	Improve reliability and accuracy of budget estimates for capital expenditure	▪ MoFLT to undertake a robust review of the estimates for capital expenditure provided by BOs in the annual budget process so that budget allocations better reflect spending capacity	High	MoFLT	Q3 2024
		Strengthen the identification and protection of investment expenditure	▪ Restrict in-year budget transfers from capital to current expenditure by strengthening the virement rule in the annual budget and the LPFMA	Medium	MoFLT	Q4 2024
		Improve budgeting for maintenance	▪ Develop standard methodologies to calculate routine maintenance and capital improvement needs and separately report maintenance resources needed in the Budget	Low	MoFLT	Q1 2025
Investment Implementation						
11	Procurement is a key source of project delays and inefficiency	Finalize and adopt the new law on procurement	▪ Finalize and adopt the new law on procurement and make allowance for typical construction contracts (FIDIC/ NEC) in secondary law	High	MoFLT with PPRA and Ministry of Infrastructure	Q1 2024
12	The challenges in the earlier stages than the payment stage causes delays in capital expenditure execution	Address the challenges encountered in the earlier stages before the payment stage of expenditure cycle to avoid delays in capital expenditures execution	▪ Accelerate establishing the linkages among the e-procurement, KFMIS, and PIP ▪ Introduce the multi-annual commitment controls in the IT platform ▪ Automate recording and verification of invoice receiving and registry mechanism	High High High	MoFLT MoFLT MoFLT	Starting from Q4 2023 Starting from Q4 2023 Starting from Q4 2023
13	There is currently no forward-looking monitoring of the total portfolio of major projects	Establish central major project monitoring regardless of funding source.	▪ Establish monitoring for the portfolio of major projects on a quarterly basis. ▪ Establish a database of all major project performance data and identified risks using the PIP functionality. ▪ Conduct ex-post reviews on all major projects	High High Medium	MoFLT MoFLT MoFLT	Q2 2024 Q2 2024 Q2 2024
12	The current allocation system introduced in 2022 could cause increasing delays in implementation	Reintroduce cash-flow forecasting to inform better fund allocation and discuss the new 2022 funding allocation mechanism changes with the BOs to understand and solve any issues in the implementation of capital expenditures	▪ Reintroduce cash-flow forecasting (as planned) ▪ Discuss the new 2022 funding allocation mechanism changes with the BOs to solve any causes of delays to capital expenditures.	Low Medium	MoFLT	Q3 2023

Inst.	Issue	Recommendations	Action	Priority	Responsibility	Timing
15	While asset registers are prepared, there is room to further strengthen the guidance and reporting around assets. No general guidance on valuation of assets exists and the registers are not presented with an integration between stocks and flows.	Develop general and sector specific guidance to strengthen asset management and reporting practices	▪ Develop a manual to clearly guide the integrated reporting and valuation of assets.	Low	MoFLT	Q1 2025
			▪ Develop standard methodologies to guide revaluation of assets that could be applied consistently in all BOs.	Low	MoFLT	Q1 2025
			▪ Consider reviewing whether reporting of assets should establish a minimum - threshold for exclusion of non-capital assets (less than 1,000 EUR), based on international good practices	Low	MoFLT in consultation with NAO	Q1 2025
			▪ Strengthen in the budget and fiscal reporting the international definitions of acquisition of assets in line with accounting standards to strengthen the link between spending and asset values.	Low	MoFLT, Treasury	Q1 2025
Climate Sensitive Public Investment (C-PIMA)						
C1, 2	There is not a strong connection between the national climate strategy and public investment plans, and little centralized guidance or support for government agencies on climate-aware planning and project preparation	Strengthen the linkages between the Climate Change Strategy and sectoral and spatial plans to inform public infrastructure investment	▪ Fill data gaps to enable the climate sensitive management of public investment and public assets.	Medium	KSA in consultation with OPM, MoESPI and MoFLT	Q2 2024
C3, 3, 10	Climate is not yet a required part of the appraisal and selection of capital projects	Embed a climate perspective in appraisal and selection of capital projects	▪ Add alignment with climate goals to the revised Administrative Instruction on project selection	High	MoFLT in consultation with OPM and MoESPI	Q1 2025
			▪ Revise the PIP Manual to include a climate perspective for both project appraisal and selection, giving additional weight to major projects that strengthen climate resilience.	High	MoFLT in consultation with OPM and MoESPI	Q1 2025
			▪ Prepare and publish a handbook on incorporating climate resilience and adaptability in sectoral planning and project preparation processes.	High	MoFLT in consultation with OPM and MoESPI	Q4 2025
C5	There is little available information about the fiscal risks related to the impact of climate change on infrastructure	Undertake an assessment of the macro-fiscal risks associated with climate-related factors, covering risks coming from both physical climate changes and the economic transition to a low carbon society	▪ Assess whether budget allocations dedicated to risk-reduction and prevention are appropriate	High	MoFLT	Q3 2025
			▪ Assess whether the general contingency appropriation in the annual budget should be strengthened and/or supplemented with an additional financing mechanism.	High	MoFLT	Q3 2025

Inst.	Issue	Recommendations	Action	Priority	Responsibility	Timing
			▪ Include an analysis of the fiscal impacts of climate change risks in the Fiscal Risks Statement	High	MoFLT	Q2 2025

Annex 2 PIMA Questionnaire

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
A.	**Planning Sustainable Levels of Public Investment**			
1.	**Fiscal targets and rules: Does the government have fiscal institutions to support fiscal sustainability and to facilitate medium-term planning for public investment?**			
1.a.	Is there a target or limit for government to ensure debt sustainability?	There is no target or limit to ensure debt sustainability.	There is at least one target or limit to ensure central government debt sustainability.	There is at least one target or limit to ensure general government debt sustainability.
1.b.	Is fiscal policy guided by one or more permanent fiscal rules?	There are no permanent fiscal rules.	There is at least one permanent fiscal rule applicable to central government.	There is at least one permanent fiscal rule applicable to central government, and at least one comparable rule applicable to a major additional component of general government, such as subnational government (SNG).
1.c.	Is there a medium-term fiscal framework (MTFF) to align budget preparation with fiscal policy?	There is no MTFF prepared prior to budget preparation.	There is an MTFF prepared prior to budget preparation but it is limited to fiscal aggregates, such as expenditure, revenue, the deficit, or total borrowing.	There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending, and ongoing and new projects.
2.	**National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?**			
2.a.	Does the government prepare national and sectoral strategies for public investment?	National or sectoral public investment strategies or plans are prepared, covering only some projects found in the budget.	National or sectoral public investment strategies or plans are published covering projects funded through the budget.	Both national and sectoral public investment strategies or plans are published and cover all projects funded through the budget regardless of financing source (e.g. donor, public corporation (PC), or PPP financing).
2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment.	The government's investment strategies include broad estimates of aggregate and sectoral investment plans.	The government's investment strategies include costing of individual, major investment projects within an overall financial constraint.
2.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes.	Sector strategies include measurable targets for outputs (e.g., miles of roads constructed).	Sector strategies include measurable targets for both outputs and outcomes (e.g., reduction in traffic congestion).

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
3. Coordination between Entities: Is there effective coordination of the investment plans of central and other government entities?				
3.a.	Is capital spending by SNGs, coordinated with the central government?	Capital spending plans of SNGs are not submitted to, nor discussed with central government.	Major SNG capital spending plans are published alongside central government investments, but there are no formal discussions, between the central government and SNGs on investment priorities.	Major SNG capital spending plans are published alongside central government investments, and there are formal discussions between central government and SNGs on investment priorities.
3.b.	Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	The central government does not have a transparent rule-based system for making capital transfers to SNGs.	The central government uses a transparent rule-based system for making capital transfers to SNGs, but SNGs are notified about expected transfers less than six months before the start of each fiscal year.	The central government uses a transparent rule-based system for making capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year.
3.c	Are contingent liabilities arising from capital projects of SNGs, PCs, and PPPs reported to the central government?	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are not reported to the central government.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, but are generally not presented in the central government's budget documents.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, and are presented in full in the central government's budget documents.
4. Project Appraisal: Are project proposals subject to systematic project appraisal?				
4.a.	Are major capital projects subject to rigorous technical, economic, and financial analysis?	Major capital projects are not systematically subject to rigorous, technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis, and selected results of this analysis are published or undergo independent external review.
4.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no standard methodology or central support for project appraisal.	There is either a standard methodology or central support for project appraisal.	There is both a standard methodology and central support for project appraisal.
4.c.	Are risks taken into account in conducting project appraisals?	Risks are not systematically assessed as part of the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal, and plans are prepared to mitigate these risks.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
5. Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?				
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.
5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.
B. Ensuring Public Investment is Allocated to the Right Sectors and Projects				
6. Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?				
6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year.	Projections of total capital spending are published over a three to five-year horizon.	Projections of capital spending disaggregated by ministry or sector are published over a three to five-year horizon.
6.b	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.
6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three-five-year horizon.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
7.	**Budget Comprehensiveness and Unity: To what extent is capital spending, and related recurrent spending, undertaken through the budget process?**			
7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extra-budgetary entities with no legislative authorization or disclosure in the budget documentation.	Significant capital spending is undertaken by extra-budgetary entities, but with legislative authorization and disclosure in the budget documentation.	Little or no capital spending is undertaken by extra-budgetary entities.
7.b.	Are all capital projects, regardless of financing source, shown in the budget documentation?	Capital projects are not comprehensively presented in the budget documentation, including PPPs, externally financed, and PCs' projects.	Most capital projects are included in the budget documentation, but either PPPs, externally financed, or PCs' projects are not shown.	All capital projects, regardless of financing sources, are included in the budget documentation.
7.c.	Are capital and recurrent budgets prepared and presented together in the budget?	Capital and recurrent budgets are prepared by separate ministries, and/or presented in separate budget documents.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, but without using a program or functional classification.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, using a program or functional classification.
8.	**Budgeting for Investment: Are investment projects protected during budget implementation?**			
8.a.	Are total project outlays appropriated by the legislature at the time of a project's commencement?	Outlays are appropriated on an annual basis, but information on total project costs is not included in the budget documentation.	Outlays are appropriated on an annual basis, and information on total project costs is included in the budget documentation.	Outlays are appropriated on an annual basis and information on total project costs, and multiyear commitments is included in the budget documentation.
8.b.	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending.	The finance ministry may approve virement from capital to current spending.	Virement from capital to current spending requires the approval of the legislature.
8.c	Is the completion of ongoing projects given priority over starting new projects?	There is no mechanism in place to protect funding of ongoing projects.	There is a mechanism to protect funding for ongoing projects in the annual budget.	There is a mechanism to protect funding for ongoing projects in the annual budget and over the medium term.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
9. Maintenance Funding: Are routine maintenance and major improvements receiving adequate funding?				
9.a.	Is there a standard methodology for estimating routine maintenance needs and budget funding?	There is no standard methodology for determining the needs for routine maintenance.	There is a standard methodology for determining the needs for routine maintenance and its cost.	There is a standard methodology for determining the needs for routine maintenance and its cost, and the appropriate amounts are generally allocated in the budget.
9.b.	Is there a standard methodology for determining major improvements (e.g. renovations, reconstructions, enlargements) to existing assets, and are they included in national and sectoral investment plans?	There is no standard methodology for determining major improvements, and they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, but they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, and they are included in national or sectoral plans.
9.c.	Can expenditures relating to routine maintenance and major improvements be identified in the budget?	Routine maintenance and major improvements are not systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget, and are reported.
10. Project Selection: Are there institutions and procedures in place to guide project selection?				
10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Major projects (including donor- or PPP-funded) are not reviewed by a central ministry prior to inclusion in the budget.	Major projects (including donor- or PPP-funded) are reviewed by a central ministry prior to inclusion in the budget.	All major projects (including donor- or PPP-funded) are scrutinized by a central ministry, with input from an independent agency or experts prior to inclusion in the budget.
10.b.	Does the government publish and adhere to standard criteria, and stipulate a required process for project selection?	There are no published criteria or a required process for project selection.	There are published criteria for project selection, but projects can be selected without going through the required process.	There are published criteria for project selection, and generally projects are selected through the required process.
10.c.	Does the government maintain a pipeline of appraised investment projects for inclusion in the annual budget?	The government does not maintain a pipeline of appraised investment projects.	The government maintains a pipeline of appraised investment projects but other projects may be selected for financing through the annual budget.	The government maintains a comprehensive pipeline of appraised investment projects, which is used for selecting projects for inclusion in the annual budget, and over the medium term.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C. Delivering Productive and Durable Public Assets				
11. Procurement				
11.a.	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process, and the public has limited access to procurement information.	Many major projects are tendered in a competitive process, but the public has only limited access to procurement information.	Most major projects are tendered in a competitive process, and the public has access to complete, reliable and timely procurement information.
11.b	Is there a system in place to ensure that procurement is monitored adequately?	There is no procurement database, or the information is incomplete or not timely for most phases of the procurement process.	There is a procurement database with reasonably complete information, but no standard analytical reports are produced from the database.	There is a procurement database with reasonably complete information, and standard analytical reports are produced to support a formal monitoring system.
11.c	Are procurement complaints review process conducted in a fair and timely manner?	Procurement complaints are not reviewed by an independent body.	Procurement complaints are reviewed by an independent body, but the recommendations of this body are not produced on a timely basis, nor published, nor rigorously enforced.	Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced.
12. Availability of Funding: Is financing for capital spending made available in a timely manner?				
12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash-flow forecasts?	Cash-flow forecasts are not prepared or updated regularly, and ministries/agencies are not provided with commitment ceilings in a timely manner.	Cash-flow forecasts are prepared or updated quarterly, and ministries/agencies are provided with commitment ceilings at least a quarter in advance.	Cash-flow forecasts are prepared or updated monthly, and ministries/agencies are provided with commitment ceilings for the full fiscal year.
12.b	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing.	Cash for project outlays is sometimes released with delays.	Cash for project outlays is normally released in a timely manner, based on the appropriation.
12.c	Is external (donor) funding of capital projects fully integrated into the main government bank account structure?	External financing is largely held in commercial bank accounts outside the central bank.	External financing is held at the central bank, but is not part of the main government bank account structure.	External financing is fully integrated into the main government bank account structure.

	Indicator	Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
13. Portfolio Management and Oversight: Is adequate oversight exercised over implementation of the entire public investment portfolio				
13.a	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation.	For most major projects, annual project costs, as well as physical progress, are monitored during project implementation.	For all major projects, total project costs, as well as physical progress, are centrally monitored during project implementation.
13.b	Can funds be re-allocated between investment projects during implementation?	Funds cannot be re-allocated between projects during implementation.	Funds can be reallocated between projects during implementation, but not using systematic monitoring and transparent procedures.	Funds can be re-allocated between projects during implementation, using systematic monitoring and transparent procedures.
13.c	Does the government adjust project implementation policies and procedures by systematically conducting ex post reviews of projects that have completed their construction phase?	Ex post reviews of major projects are neither systematically required, nor frequently conducted.	Ex post reviews of major projects, focusing on project costs, deliverables and outputs, are sometimes conducted.	Ex post reviews of major projects focusing on project costs, deliverables, and outputs are conducted regularly by an independent entity or experts, and are used to adjust project implementation policies and procedures.
14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?				
14.a	Do ministries/agencies have effective project management arrangements in place?	Ministries/agencies do not systematically identify senior responsible officers for major investment projects, and implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, but implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval.
14.b.	Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	There are no standardized rules and procedures for project adjustments.	For major projects, there are standardized rules and procedures for project adjustments, but do not include, if required, a fundamental review and reappraisal of a project's rationale, costs, and expected outputs.	For all projects, there are standardized rules and procedures for project adjustments and, if required, include a fundamental review of the project's rationale, costs, and expected outputs.
14.c.	Are ex post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex post external audits.	Some major capital projects are subject to ex post external audit, information on which is published by the external auditor.	Most major capital projects are subject to ex post external audit information on which is regularly published and scrutinized by the legislature.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
15. Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?				
15.a	Are asset registers updated by surveys of the stocks, values, and conditions of public assets regularly?	Asset registers are neither comprehensive nor updated regularly.	Asset registers are either comprehensive or updated regularly at reasonable intervals.	Asset registers are comprehensive and updated regularly at reasonable intervals.
15.b	Are nonfinancial asset values recorded in the government financial accounts?	Government financial accounts do not include the value of non- financial assets.	Government financial accounts include the value of some non- financial assets, which are revalued irregularly.	Government financial accounts include the value of most nonfinancial assets, which are revalued regularly.
15.c	Is the depreciation of fixed assets captured in the government's operating statements?	The depreciation of fixed assets is not recorded in operating statements.	The depreciation of fixed assets is recorded in operating statements, based on statistical estimates.	The depreciation of fixed assets is recorded in operating expenditures, based on asset-specific assumptions.

Cross-cutting issues	
A	**IT support**. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?
B	**Legal Framework**. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, procedures, standards and accountability for effective PIM?
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective institutions?

Annex 3 The updated 2018 PIMA framework

In 2018 the PIMA framework was enhanced with a more in-depth focus on four major aspects of a country's public investment management institutions. The additional areas were:

- **Maintenance:** The revised framework includes a specific institution of maintenance.
- **Procurement:** Procurement was addressed only partially in the original PIMA framework. The revised framework establishes a dedicated PIMA institution devoted to this important area.
- **Independent review of projects:** the input of independent experts and organizations in project appraisal, selection and ex-post review is important to ensure high-quality and unbiased assessments. It also can be a counterweight to political influence and reduce corruption. Therefore, independent review was expanded as an evaluation criterion in the updated framework.
- **Enabling environment:** for public investment institutions to perform well, countries need at least three "enablers": (1) a supportive legal framework; (2) good systems for managing information; and (3) adequate staff capacity, with clear roles and responsibilities. As these are cross-cutting, they are assessed qualitatively and separately, with a focus on how they support the framework.

The updated 2018 PIMA framework streamlines some overlaps and provides more precise language on selected principles or criteria previously included in the 2015 questionnaire.[48] Examples of such changes are:

- **Fiscal principles and rules:** significant revisions were made to emphasize the importance of fiscal policy to provide a stable and predictable context to support public investment planning, budgeting, financing, and execution.
- **Public-private partnerships (PPPs)** are addressed in the context of several relevant public investment management institutions, rather than in one.
- **Budget comprehensiveness and the budget unity** were merged into a single, new institution.
- **Portfolio management and oversight:** several previously existing evaluation criteria were modified to clarify the challenges of managing a portfolio of projects.
- **Public corporations and financing sources:** coverage of the PIMA was expanded to include public corporations and all potential financing sources.

Three-point scoring (high/medium/low) was introduced as standard. This is based on the rounded score of the average of the three sub dimension scores. The first Kosovo assessment used an additional category of "good" which covered institutions with either i) two medium and one high score or ii) two highest scores and one low score, both of which in later assessments are presented as medium.

Publication of the PIMA Handbook in 2022 has also supported consistent application of the 2018 scoring methodology.[49] Some earlier assessments would likely be rescored if assessed again after the release of the Handbook.

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[48] The original PIMA questionnaire is available in IMF, *Making Public Investment More Efficient*, 2015.

[49] IMF, *PIMA Handbook*, 2022.

Annex 4 Detailed PIMA Scores

The following color coding is used in presenting the scores:

Score	1	2	3
Color	Red	Yellow	Green

A. Planning		
	Institutional Design	Effectiveness
1.a.	3	3
1.b.	3	3
1.c.	2	2
2.a.	3	2
2.b.	2	1
2.c.	3	2
3.a.	3	1
3.b.	2	2
3.c.	3	3
4.a.	1	1
4.b.	2	1
4.c.	1	1
5.a.	3	2
5.b.	2	1
5.c.	2	1

B. Allocation		
	Institutional Design	Effectiveness
6.a.	3	2
6.b.	2	2
6.c.	3	3
7.a.	3	3
7.b.	2	2
7.c.	3	3
8.a.	3	3
8.b.	2	2
8.c.	3	3
9.a.	1	2
9.b.	1	2
9.c.	1	2
10.a.	2	2
10.b.	2	1
10.c.	1	1

C. Implementation		
	Institutional Design	Effectiveness
11.a.	3	2
11.b.	2	2
11.c.	2	1
12.a.	2	2
12.b.	3	2
12.c.	3	3
13.a.	2	1
13.b.	3	2
13.c.	1	1
14.a.	3	1
14.b.	2	1
14.c.	3	3
15.a.	3	2
15.b.	2	2
15.c.	1	3

Annex 5 Implementation of 2015 recommendations

Recommendation from PIMA 2015	Current status
Recommendation 1:	
Implement and publish the National Development Strategy (2016)	**Completed.** The new strategy, NDP2030, was subsequently completed and published in March 2023. It is a significant improvement over the 2016 strategy
Consolidate sector strategies as outlined in the government's new Integrated Planning System (2016–19).	**Largely completed.** Four strategies have been completed (energy, transport, health and education). Other strategies are being prepared on a rolling basis
Recommendation 2:	
Increase the transparency of the budget documentation by including an annex for PPPs and POE investments (2016).	**Not implemented.** Budget documentation does not include an annex for PPPs and POE investments.
Record the assets, liabilities, and fiscal risks relating to PPPs, and the contingent liabilities arising from POE investments in the government's annual financial statements (2017).	**Not implemented.** Existing PPPs are concession arrangements with all assets and liabilities reported on the private sector balance sheets. Contingent liabilities from POE investments are not reported on in the financial statements.
Recommendation 3:	
Include a schedule of multi-annual commitments /contracts in the budget (2017) and financial statements (2017);	**Partly completed.** Multi-annual commitments/ contracts for capital projects are included as an Annex to budget documentation.
Include an analysis showing the fiscal space available for financing new projects (2016);	**Not implemented.** No distinction between new and ongoing capital projects in MTEF, though budget distinguishes between new and ongoing projects.
Add total project costs and project duration in Tables 3.2 and 4.2 of the annual draft law on the budget (2016).	**Completed.** Budget documents include all project costs for full duration of the project.
Recommendation 4:	
Plan capital projects and their subsequent maintenance costs comprehensively (e.g., in sector strategies).	**Largely completed.** Administrative Instructions issued, adopted, and implemented, and makes a distinction. Asset management policy needs to consider both when determining the resource requirement.
Include a specific item for maintenance costs in the budget, and carry out a study of maintenance needs in relevant BOs (2016–17).	**Not implemented.** Maintenance continues to be included as goods and services. However, in the chart of account and annual financial reports, maintenance costs are presented separately.
Recommendation 5:	
Formalize project appraisal and selection procedures, and the documentation required in the PIP in a regulation or law (2016–17).	**Partly completed.** An Administrative Instruction was made to guide selection but utilization of is not yet enforced
Streamline institutional arrangements for taking decisions on the pipeline of eligible projects.	**Change since 2015 not assessed.** After little action, separate sector-based pipelines are being updated.
The PIP system should be upgraded to include links to strategic documents.	**Partly completed.** The PIP now has a field for strategic alignment.

Recommendation from PIMA 2015	Current status
Recommendation 6:	
Establish quality control checks by the Budget Department (and other relevant entities of the MoF) for data entered by BOs in the PIP system (2016).	**Not implemented.**
Review the functionalities and use of the PIP system (2016)	**Not implemented.**
Expand the range of standard reports for monitoring investment projects (2016–17)	**Change since 2015 not assessed.**
Provide the PIP procedures with an explicit legal basis (2017) (also part of *)	**Completed.** The Administrative Instruction on selection of capital projects was adopted, however enforcement is currently lacking.
Recommendation 7:	
Pilot ex-post reviews for selected high-risk projects, such as Route 6 and 7 (2016/2017), by MoF together with BOs.	**Not implemented.**
Recommendation 8:	
Examine the changes to legislation required to authorize the Auditor General to conduct audits of projects that are under litigation to permit timely assessment of all investment projects based on a risk-oriented approach. (2016).	**Not reviewed.**

Annex 6 Risks to availability of funding

The cash plans are prepared by the BOs at the beginning of the year inform the fund allocations and are not updated during the year to reflect the changes and actual needs unless there is a change in the budget. The new regulation (No. 01/2022) on the fund allocation has caused some delays in capital projects. According to the new regulation, if the monthly expenditures are not realized as planned and entered in the KFMIS system, BOs cannot carry unspent fund allocations to the following month automatically within the quarterly allocated funds but need to wait until the end of the quarter. The BOs have indicated that this causes delays in their capital project execution.

The current manual invoice receipt and registry process and lack of multiyear commitment controls in the earlier stages of the expenditure cycle also result in some further challenges for timely execution of capital expenditures.[50]

The 2022 annual financial statement indicates that timely payment of total invoices including capital expenditures have been improved since 2020, COVID-19 crises. Unpaid obligations (accounts payable) for more than 30 days (which is the arrears definition used by Treasury) have declined and reported for general government for 2022 is EUR 36 million while the amounts for 2021 and 2020 were EUR 89 and EUR 196 million, respectively. In practice these numbers can be potentially higher given the current manual invoice receiving, and verification process.[51] [52]

The strength of availability of funding can be further enhanced by reintroducing cash flow forecasting, reviewing the recent changes in fund allocation mechanism and addressing the challenges in the earlier stages before the payment stage of expenditure cycle through further automation. Analyzing the future cash inflows and outflows and preparing a quarterly cash flow forecasting could be an important input during the fund allocation decision while strengthening cash management. Discussing the recent fund allocation system reducing the flexibility of moving the available funds among months during a quarter would help understand BOs problems during the implementation of capital expenditures and solve these bottlenecks. Accelerating the work on the automatization of the invoice receipt and registry process and covering the multi-year contracts in the IT systems (KFMIS, PIP and BSMS) would also improve the timely execution of capital expenditures. [53]

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[50] Systematic recording of multi-annual contracts is important for both the Budget Department in its analysis of budget submissions by BOs and the Treasury in planning the fund allocations and government's liquidity needs. It would also aid monitoring implementation of the public investment pipeline. The Treasury has worked on linking KFMIS with e-procurement system to improve the access to information on multi-annual contracts by the government's KFMIS. This includes leveraging the e-procurement system contract management module to make contract data available to the KFMIS users. The Budget Department has also been working on linking their IT systems (PIP and BDMS) to KFMIS to have this information. They expect to establish these links in 2024.

[51] The manual invoice receiving and registry mechanism causes irregularities identified in the Auditor General's report and delays in capital projects. This manual process causes delays in registration of invoices in KFMIS particularly at local government levels related to budget availability, contractual disputes with economic operators, or inefficiencies. There is no procedural mechanism to ensure data validation and internal controls during the process.

[52] FAD TA report S. Flynn et al. *Strengthening Arrears and Multi-annual Contractual Commitment Recording*, January 2022.

[53] Integration between the systems will allow the e-procurement to check the commitment (fund reservation) in the KFMIS to prevent overcommitment by the BOs. This arrangement would have the benefit of allowing KFMIS access to all signed contracts in real time and avoiding duplication of work.

Annex 7 Climate-PIMA Questionnaire

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C1. Climate-aware planning: Is public investment planned from a climate change perspective?				
C.1.a	Are national and sectoral public investment strategies and plans consistent with NDC or other overarching climate change strategy on mitigation and adaptation?	National and sectoral public investment strategies and plans are not consistent with NDC or other overarching climate change strategy.	National public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***some*** sectors.	National and sectoral public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***most*** sectors.
C.1.b	Do central government and/or sub-national government regulations on spatial and urban planning, and construction address climate-related risks and impacts on public investment?	Central government and/or sub-national government regulations on spatial and urban planning, and construction do not address climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***or*** construction (through building codes) addresses climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***and*** construction (through building codes) address climate-related risks and impacts on public investment.
C.1.c	Is there centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies?	There is no centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation*** of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation and costing*** of climate-aware public investment strategies.
C2. Coordination between entities: Is there effective coordination of decision making on climate change-related public investment across the public sector?				
C.2.a	Is decision making on public investment coordinated across central government from a climate-change perspective?	Decision making on public investment is not coordinated across central government from a climate-change perspective.	Decision making on public investment is coordinated across budgetary central government from a climate-change perspective.	Decision making on public investment is coordinated across all central government, including externally financed projects, PPPs and extra-budgetary entities, from a climate-change perspective.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C.2.b	Is the planning and implementation of capital spending of SNGs coordinated with the central government from a climate-change perspective?	The planning and implementation of capital spending of SNGs is not coordinated with the central government from a climate-change perspective.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective and information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective, information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects, and there are formal discussions between central government and SNGs on the planning and implementation of climate-related investments.
C.2.c	Does the regulatory and oversight framework for public corporations ensure that their climate-related investments are consistent with national climate policies and guidelines?	The regulatory and oversight framework for public corporations does not promote consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations promotes consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations requires that their climate-related investments be consistent with national climate policies and guidelines.
C3. Do project appraisal and selection include climate-related analysis and criteria?				
C.3.a	Does the appraisal of major infrastructure projects require climate-related analysis to be conducted according to a standard methodology with central support?	The appraisal of major infrastructure projects does not require climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology, and a summary of appraisals is published or subject to independent external review.
C3b	Does the framework for managing longer-term public investment contracts, such as PPPs, explicitly address climate-related challenges?	The referred framework does not include explicit consideration of climate change for risk allocation or contract management.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts, and contract managers in government departments and agencies are mandated to address climate-related challenges.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
C.3.c	Are climate-related elements included among the criteria used by the government for the selection of infrastructure projects?	Either there are no explicit selection criteria or climate-related elements are not included among the criteria used by the government for the selection of projects for financing.	Climate-related elements are included among the criteria used by the government for the selection of all major budget-funded projects, and the criteria are published.	Climate-related elements are included among the criteria used by the government for the selection of all major projects, including externally financed projects, projects financed by extra-budgetary entities, and PPPs, and the criteria are published.
C.4 Budgeting and portfolio management: Is climate-related investment spending subject to active management and oversight?				
C.4.a.	Are planned climate-related public investment expenditure, sources of financing, outputs and outcomes identified in the budget and related documents, monitored, and reported?	Planned climate-related public investment expenditure are not identified in the budget and related documents.	Some planned climate-related public investment expenditure are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs.	Most planned climate-related public investment expenditure, sources of financing, and outputs and outcomes are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs, and expenditure on these projects is monitored and reported.
C4.b.	Are ex-post reviews or audits conducted of the climate change mitigation and adaptation outcomes of public investments?	No ex-post reviews or audits are conducted of the climate change mitigation and adaptation outcomes of public investments.	Ex-post reviews or audits are conducted for selected major public investments of either the climate change mitigation or adaptation outcomes.	Ex-post reviews or audits are conducted and published for selected major public investments of both the climate change mitigation and adaptation outcomes.
C4.c.	Do the government's asset management policies and practices, including the maintenance of assets, address climate-related risks?	Neither the government's asset management policies and practices nor methodologies for estimating the maintenance needs of climate change-exposed infrastructure assets address climate-related risks.	Methodologies prepared by the government for estimating the maintenance needs of some climate change-exposed infrastructure assets address climate-related risks.	Methodologies prepared by the government for estimating the maintenance needs and associated costs of most climate change-exposed infrastructure assets address climate-related risks, and government asset registers include climate-related information of these assets.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C5. Risk management: Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan?				
C5.a.	Does the government publish a national disaster risk management strategy that incorporates the potential impact of climate change on public infrastructure assets and networks?	Either there is no published national disaster risk management strategy, or the strategy does not identify the key climate-related risks to public infrastructure assets and networks.	The government publishes a national disaster risk management strategy that identifies the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure, and vulnerability.	The government publishes a national disaster risk management strategy that identifies and analyses the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure and vulnerability, and includes the government's plans to mitigate and respond to these risks.
C5.b.	Has the government put in place ex ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks?	The government has not put in place any ex-ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks.	There is an annual contingency appropriation in the budget or other financing mechanisms that is available to meet the costs of climate-related damages to public infrastructure.	There is an annual contingency appropriation in the budget and other financing mechanisms that are available to meet the costs of climate-related damages to public infrastructure.
C5.c.	Does the government conduct and publish a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets?	The government does not conduct a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets.	The government conducts and publishes a fiscal risk analysis that incorporates a qualitative assessment of climate-related risks to public infrastructure assets over the medium term.	The government conducts and publishes a fiscal risk analysis that incorporates a quantitative assessment of climate-related risks to public infrastructure assets over the medium term and policies to mitigate these risks, and a qualitative assessment of the risks that may arise over the long-term.
Cross-cutting issues				
A	**IT support**. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			
B	**Legal Framework**. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, standards and accountability for effective			
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective			