



Kosovo—PIMA

Relevance and progress so far

***STRENGTHENING GOVERNANCE OF
PUBLIC INFRASTRUCTURE***

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Kosovo—Public Investment Portfolio

- Composition of public investment spending by
- Levels of government (central) Investment in the transport sector has been a priority. Compared to EDE countries, Kosovo's capital spending in economic infrastructure, including transport, comprises a slightly larger share of total public capital spending (around 60%). However, capital spending in the social sectors, such as health, education, and housing, is only about half the level in EDE countries.
- Subnational Subnational governments are strong contributors to public investment in Kosovo. The municipalities' share of capital expenditure is expected to increase to 26 percent in 2018 (from 22 percent in 2009)
- State-owned enterprises The contribution of publicly owned enterprises (POEs) to total public sector investment is marginal, representing about 0.1 percent of GDP in 2013.
- Funding sources, domestically funded-Public investment is mostly financed through domestic sources. Externally funded-External funding for investment fell sharply from the levels observed in the early 2000s. By 2013, donors financed less than 7 percent of public investment. However, around 40 percent of this external funding takes place off-budget (i.e., it is administered directly by donors and is not included in the budget).⁵
- Type of public procurement (traditionally procured, PPPs)-The Procurement Law is broadly in line with EU standards. In 2013, 12,551 public procurement contracts were awarded with a value of €444 million. Contracts awarded through open competition represented 88 percent of the total value of awarded contracts, whereas the use of negotiated procedures, particularly those with no publication of contract notification, amounted to 6 percent.
- Level of public investment spending [11.1 GDP]

Evolution in the last decade :

This is in economic reforms the fiscal policies planned in the ERP and MTEF support economic growth and structural reform agendas, ensuring that public investment spending is maintained at over 10% of GDP, and in addition to improving transport infrastructure, include investment in infrastructure. educational and health institutions, agriculture and rural development, irrigation and sewage treatment. Also, the 2019 budget proposal includes substantial funding increases for priority areas: judiciary reform, and enhancing the quality of education and health.

- ▶ MTEF Capital expenditures, on the other hand, are projected to account for about 10.3% of GDP over the medium term.
- ▶ Comparison between planned capital budget vs. executed
- ▶ *Plan capital expenditures in for year 2015 for central level 27.83 % for municipality 28.44% what does it mean in many of 337 for central level and for municipality 119*
- ▶ Expenditure plan for central level in for year 2016 for central level 29.27% for municipality is 28.01% in many of 380 euro for central level and for municipality 119 euro
- ▶ Expenditure plan for central level in 2017 26.99% for municipality is 29.75% in many 369 euro for central level and for municipality 131 euro
- ▶ Expenditure plan for central level in *For the year 2018* are 34.35% fell to the municipal level 30.24% in many of 545 euro for central level and for municipality 148 euro
Expenditure or year 2019 the percent is 33.46 % for municipality are level 31.02 % in many of 600 euro for central level and for municipality 164 euro
- ▶ Capital expenditure - represents a significant portion of total expenditure and is expected to represent about 32.4% of total spending or an average of about 10.3% of GDP for the period 2020- 2022. During the medium term, it is expected the implementation of capital projects based on a priority list which includes projects that improve the transport network, electricity grid and conditions in education, social and health systems. This category of expenditure is expected to increase at a rate of 2.4% in the medium term. Most of the capital investment over the medium term will be funded from regular budget funding, but a large number of projects in different sectors are planned to be financed by foreign financing and socially owned enterprises liquidation fund
- ▶ Current capital budget and medium-term expenditure framework for years 2019 in total are 789 euro from Regular Budget Financing 515 euro in investment clause 123 euro, Liquidation Proceeds 151 , Donor Designated Grants 12 mil euro
- ▶ *Spending on capital projects compared to the 2015 plan is 84.28 %, for 2016 years is 89.48,2017 is 98.48% for 2018 expenditures is 78.31% end 2019 is 39.53 %*
- ▶ 35 % of capital expenditure is allocates to infrastructure in years 2015. in 2016 are separated 44.90 %,2017 44.4% , 2018 44.43 % end 2019 39.53 %.

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■ Summary of PIMA recommendations

- Improve the interface between the PIP system and KFMIS to enable the possibility to identify and record all non-capital activities
- Provide training to all PIP users on how to enter a capital or non-capital project:
- BD to clean the PIP by properly reclassifying existing projects. BD will send to each BO the list of projects to be “cleaned” and will ask the BO to enter the correct classification at the project level or sub-level (By December 2019)
- Ensure consistency between different strategic documents to reinforce medium-term strategic planning:
- Analyze in a systematic manner the gaps between forecasts and actuals and include the analysis in the MTEF (BD / for budget 2020). Table 5 can serve as a model and should be complemented by a qualitative analysis of the deviation
- Strengthen the monitoring of sector strategies and capital expenditures budgeting:

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- The BD should control the quality and reliability of the data entered in the PIP for existing and new projects through (i) system features; and (ii) quality checks
- The BD in coordination with the MEI should increase transparency over donor funding to avoid duplication of funding and ensure better prioritization of project selection:
- Centralize and strengthen the capacity of PIUs within each BO to benefit from scarce pool of expertise now dispersed around different PIUs and rely on public officials/experts to be hired on an as-needed basis, depending on the nature of the project:
- Include an annex on PPPs transactions and POE investments and related fiscal risks in the budget document, as recommended in the PIMA mission (2019 budget)
- The TD should implement the multi-annual commitment control functionality in the KFMIS (from budget year 2020 onwards).

Kosovo—Challenges

- Summary of main public investment challenges

Fiscal rules

- Despite spending pressures, the fiscal deficit has been kept below the 2 percent of GDP fiscal rule, but the investments realized under the investment clause is still low.
- Funds from the Privatization Agency of Kosovo (PAK) liquidation process should contribute to the economic growth driven by the increase in public investment under the investment clause.
- The requirement to report semi-annually on the projects under the investment clause has been discontinued.
- The contingency reserve for the investment clause projects, introduced in the 2017 budget, does no longer exist.
- The contingency reserve set for urgent or unforeseen expenses, has been used for other purposes.

Budget comprehensiveness

- Donor assistance (grants and capital expenditures) remains largely off-budget and is not guided by the PIM framework.
- The integration of the donors' projects in the PIP has been an ongoing issue in Kosovo.

Kosovo—Challenges

Budget unity

- The different PIMA follow-up missions provided a proposal to address the misclassification of capital expenditure and recommendations to be implemented as a priority
- Projects' maintenance and operating costs are still not systematically assessed nor included in the PIP system.

Protection of investments

- The Kosovo budget execution has been characterized by a large number of in-year transfers.
- The Budget Department drafted an Administrative Instruction to regulate the use of budget reallocations and transfers.

Project management

- Project management remains fragmented in line ministries.
- The authorities, together with the donors, confirmed the feasibility of the centralization of the project implementation units in every budget organizations.

Kosovo—Specific topic

- **Specific topic to be raised in the workshop**
- A range of new initiatives should be done to enhance the investments in other sectors such as improving the efficiency of investment in energy, as well drinking water, wastewater treatment, and flood protection.
- Since the capital spending in the social sectors, such as health, education, and housing, is only about half the level in EDE countries, it would be good to make specific steps and pipelines projects for these categories.