



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

REPUBLIC OF KOSOVO

Public Investment Management Assessment Update
and Climate PIMA

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Republic of Kosovo: Public Investment Management Assessment Update and Climate PIMA
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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Kosovo is working to improve its public investment management to support future economic growth and improvements in wellbeing. This assessment applies the IMF Public Investment Management Assessment (PIMA) framework, including the Climate-PIMA module. It finds that there have been improvements in Kosovo's public investment management institutions since the original 2015 PIMA assessment. Nonetheless, there is room to continue to strengthen public investment management institutions and their climate sensitivity in Kosovo.

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Background

At the request of the Ministry of Finance, Labor and Transfers (MoFLT) of Kosovo, a team from the IMF's Fiscal Affairs Department (FAD) undertook a combined Public Investment Management Assessment Update (PIMA) and Climate PIMA from May 17 to 30, 2023.

Kosovo's Government is rightly committed to boosting the delivery of efficient infrastructure to support future economic growth and improvements in wellbeing. 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 are delivered efficiently. Boosting the efficiency of public investment is a goal under the IMF Stand-by Arrangement and Resilience and Sustainability Facility Arrangement that was approved by the IMF Executive Board in May 2023.

The PIMA framework identifies the strengths and weaknesses of government institutions across the planning, allocation, and implementation phases of public investment—and from the perspectives of both design and effectiveness in practice. The Climate PIMA assesses how well public investment management contributes to the achievement of a country's climate mitigation and adaptation goals. PIMA reports also provide targeted recommendations to help countries address these challenges.

This assessment followed the original PIMA Assessment of Kosovo in 2015 and in-depth capacity development support provided by the IMF and other development partners to assist in the implementation of the 2015 recommendations. The assessment was undertaken with the financial support of the European Union and the State Secretariat for Economic Affairs of Switzerland. Both donors have supported IMF capacity development in public financial management in South East Europe over many years.

Summary of Findings

Since the initial 2015 PIMA assessment, the overall strength of Kosovo's public investment management institutions has increased—but the design of these institutions is stronger than their effectiveness in practice. Overall, PIMA 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, aspects of asset management, and expanding the scope of ex-post audit to include capital projects. Kosovo's path to European Union Accession 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 is due to recent reforms not being fully in place.

Reform priorities in the investment planning phase include strengthening the appraisal process. Some feasibility studies are undertaken to meet the requirements of development partners, but a process that requires appraisals to be done consistently and reviewed by national experts is lacking. The selection criteria introduced in 2019 are intended to ensure that projects are ready for funding decisions at the time they are formally budgeted and approved, but they are not consistently applied in practice. More guidance could be provided to sectors and municipalities to frame how their public investments should contribute to national climate strategies and goals. The framework for public private partnerships (PPPs) is robust.

In the investment allocation phase, comprehensive budget presentation and practices for budgeting for investment have improved. However, project selection is not based on a single prioritized pipeline of appraised projects covering all sectors and all funding sources. There is also scope to improve the planning and management of maintenance expenditure.

In the investment implementation phase, design is markedly stronger than effectiveness. Some projects were immature when added to the budget, which generates problems and delays in implementation. The operation of the current procurement process is also a common source of delays, and procurement reforms are planned to tackle many of the issues identified. Some good project implementation arrangements are in place, though qualified staff are not always available to follow them. Portfolio management across the entire portfolio of projects could also be strengthened.

Like most other countries, Kosovo is at an early stage of incorporating climate aspects into public investment management. Efforts are underway to create a new strategic framework for climate with the support of development partners, which is also relevant to the opportunity to seek funding from the EU Western Balkans Investment Framework. Areas where Kosovo is showing promising developments across the Climate PIMA framework include the coverage of climate in the recently finalized 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.

Summary of Recommendations

The report includes recommendations and an action plan to strengthen public investment management and its climate sensitivity. The recommendations cover both the PIMA and Climate-PIMA. Dedicated effort and leadership from MoFLT and the Ministry for Environment, Spatial Planning and Infrastructure will be needed to support their implementation.

The report recommends strengthening the appraisal and review process. Kosovo already plans to establish a team in MoFLT to manage donor-funded projects more actively. However, a more comprehensive approach could be taken to improve the management and impact of all major projects, regardless of funding source. The report also recommends other reforms to public investment management processes including reinforcing project selection, improving the quality of information in the PIP system, progressing procurement reforms, and expanding project monitoring.

Understanding how climate change impacts public investment can be further developed. The report provides recommendations in areas including embedding a climate perspective in appraisal and selection of capital projects, understanding macro-fiscal risks from climate change to public assets, and frameworks for national disaster risk management.