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Implementation of the Kosovo government capital investment projects: an analysis of the project budgeting and the project implementation performance / [presentation given in May 2011]

Selim Thaci

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Implementation of the Kosovo Government Capital Investment Projects:

An analysis of the project budgeting and the project implementation performance

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Research Objectives:

- Evaluate the performance of budgeting and implementation practices, with a focus on public capital investment projects
- Identify key obstacles to a better budgeting and a better implementation process
- Based on findings, present recommendations for feasible solutions, with the aim of improving the overall budgeting and implementation process.

Methodology Employed:
- Qualitative analysis: Comprehensive Survey
- Quantitative analysis: Comparison of Historical Data
## Structure of the Budget, in millions of Euros

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Budget</td>
<td>661</td>
<td>942</td>
<td>1,135</td>
<td>1,202</td>
<td>1,434</td>
<td>1,457</td>
<td>1,485</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>155</td>
<td>347</td>
<td>400</td>
<td>455</td>
<td>572</td>
<td>587</td>
<td>605</td>
</tr>
<tr>
<td>Capital expenditures % of total budget</td>
<td>23%</td>
<td>37%</td>
<td>35%</td>
<td>38%</td>
<td>40%</td>
<td>40%</td>
<td>41%</td>
</tr>
</tbody>
</table>

- Higher capital spending as a share of total budget.
- Better budgeting and implementation performance vital for an effective policy.
- Based on the survey, key identified problems for a better performance:
  - Procurement Procedures
  - Procedural issues related to the construction phase
  - Legal Confusion
  - Staff Training
  - Lack of Coordination between the Budget Department and the Procurement Office
Outline:

- Background and Context:
  - General overview of Kosovo’s economic developments
  - Legal Framework for Public Capital Project Implementation
  - Kosovo capital projects: implementation
  - Kosovo capital expenditure projects and implementation in 2009 and 2010
- Investigative results from the survey with line ministries.
- Main problems identified
  - Public Procurement Problems
  - Procedural issues
- Final discussion and policy recommendations
## Main Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real growth rates (in percent)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>6.3%</td>
<td>6.9%</td>
<td>2.9%</td>
<td>4.0%</td>
<td>5.3%</td>
<td>5.1%</td>
<td>5.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>CPI</td>
<td>4.5%</td>
<td>9.2%</td>
<td>-2.4%</td>
<td>3.5%</td>
<td>5.3%</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Revenues</td>
<td>26%</td>
<td>24%</td>
<td>26%</td>
<td>26%</td>
<td>27%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Primary expenditures</td>
<td>17%</td>
<td>24%</td>
<td>26%</td>
<td>28%</td>
<td>31%</td>
<td>29%</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>4%</td>
<td>9%</td>
<td>9%</td>
<td>11%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Overall balance</td>
<td>10%</td>
<td>0%</td>
<td>-1%</td>
<td>-3%</td>
<td>-5%</td>
<td>-3%</td>
<td>-2%</td>
<td>-1%</td>
</tr>
<tr>
<td><strong>Main aggregates (in millions of euros)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>3,394</td>
<td>3,851</td>
<td>3,912</td>
<td>4,289</td>
<td>4,639</td>
<td>4,978</td>
<td>5,214</td>
<td>5,501</td>
</tr>
<tr>
<td>GDP per capita (in euros)</td>
<td>1,652</td>
<td>1,847</td>
<td>1,848</td>
<td>1,996</td>
<td>2,127</td>
<td>2,249</td>
<td>2,321</td>
<td>2,412</td>
</tr>
</tbody>
</table>
Legal Framework for Public Capital Project Implementation


- The LPFMA specifies that a capital spending plan should include:
  - A statement setting forth a long-range capital investment plan for Kosovo that identifies and includes the higher priority needs within affordable spending limits
  - A capital program consisting of proposed capital projects for the upcoming year and the two succeeding fiscal years
  - Statement of the purpose of each project
  - Statement about the proposed site, size and estimated life of the project
  - Estimated on-going operating budget costs or savings resulting from the project, including staffing and maintenance costs.
Capital Expenditures, in millions of Euros

- 2007: 155
- 2008: 347
- 2009: 400
- 2010: 455 (red)
- 2011: 572
- 2012: 587
- 2013: 605
Under-Execution of Kosovo Capital Expenditures, in Euros (Value)

<table>
<thead>
<tr>
<th>Ministries</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Energy and Mining</td>
<td>47,202</td>
<td>40,579</td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>125,534</td>
<td>587,759</td>
</tr>
<tr>
<td>Ministry of labor and Social Welfare.</td>
<td>226,278</td>
<td>427,789</td>
</tr>
<tr>
<td>Ministry of Justice</td>
<td>332,202</td>
<td>474,626</td>
</tr>
<tr>
<td>Ministry of Environment</td>
<td>338,577</td>
<td>2,241,708</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>569,037</td>
<td>2,631,599</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>581,356</td>
<td>10,519,513</td>
</tr>
<tr>
<td>Ministry of Comunities and returns</td>
<td>735,162</td>
<td>1,257,824</td>
</tr>
<tr>
<td>Ministry of Culture</td>
<td>772,969</td>
<td>1,223,268</td>
</tr>
<tr>
<td>Ministry of Security force</td>
<td>952,272</td>
<td>4,139,455</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>1,039,091</td>
<td>3,734,302</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>1,059,992</td>
<td>719,924</td>
</tr>
<tr>
<td>Ministry of Local Government</td>
<td>1,078,790</td>
<td>1,128,173</td>
</tr>
<tr>
<td>Ministry of Trade and Industry</td>
<td>1,107,769</td>
<td>2,272,728</td>
</tr>
<tr>
<td>Ministry of Public Administration</td>
<td>1,872,826</td>
<td>2,412,012</td>
</tr>
<tr>
<td>Ministry of Finance and Economy</td>
<td>1,936,519</td>
<td>2,760,297</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>3,177,182</td>
<td>23,433,355</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,952,758</td>
<td>60,004,912</td>
</tr>
</tbody>
</table>
Execution of Kosovo Capital Investment Projects, in 2009 (by Ministry)
Execution of Kosovo Capital investment Projects, in 2010 (by Ministry)
Execution Rate for Public Capital Investment Projects, in 2009 and 2010 (by Ministry)
Investigative results of the Survey

- Capital investment has been oriented on road infrastructure and road maintenance projects
- Investment on IT and other equipment
- Most of the Ministries have asked for higher capital investment funds for the future.
Main problems identified from the survey

- Procurement procedures
- Procedural issues related to construction process
- Legal problems
- Need to improve staff training
- Lack of Coordination between Budget Department and Procurement Office
Conclusions from the Survey

- There are positive developments in policy-making for an efficient allocation of capital projects.
- Improvements in all ministries and as a result in the overall level of execution during past years.
- Capital investment proposals are still very small and they are generally identified and prepared as single year projects without analysis for the cost in subsequent years.
- Emphasis needs to be oriented on implementing a more strategic capital spending program.
Summary of Recommendations

- Better Planning and a Clear Schedule of Procurement Activities
- Better Planning at the Starting Phase of Procurement Procedures
- Training of Staff for Procurement Procedures
- Creation of an Investment Project Unit.
- Better Project Selection
- Monitoring mechanisms for the project implementation process.
Better Planning and Clear Schedule of Procurement Activities

- Budget Organizations should develop a clear schedule for the up-coming year, setting out a timetable for planned procurement activities.
- This schedule should take into account the capacity constraints and the work demand within the Procurement Department.
- Each Ministry should ensure that technical design and tender documentation is finalized before the start of the Fiscal Year.
Better Planning at the Start of the Procurement Procedures

- Initiation of Procurement Activities on time
- Evaluation of projects from line Ministries, before they are proposed for budgeting
- Projects need to be assessed against alternative options to assure appropriate value for money
- Weather/Climate should be taken into consideration
Training of Staff for Procurement Procedures

- Creation of staff capacities within each Ministry, especially for procurement process
- Training of the staff dealing with procurement procedures
- Engagement of Public Institutions for staff training for procurement activities
- Strengthening the linkage between policy planning and budgeting
Creation of an Investment Project Unit

- Better coordination between Procurement Office and Budget Office
- It will positively reflect on reducing the length of some procedures
- It will have a positive impact on better policy planning
Better project selection and better monitoring of the project implementation

- Inclusion of capital projects into the budget should be done very carefully
- Selection of individual projects from line ministries within the overall strategic plan should be driven by high-quality analytical assessments
- Budget organizations should try to incorporate small projects into a large project
- Preparation of cash flow estimates from line ministries should be done on time
Thank You for Your Attention!