TECHNICAL ASSISTANCE REPORT

BOSNIA AND HERZEGOVINA REPUBLIKA SRPSKA

Public Investment Management Assessment

FEBRUARY 2024

Prepared By

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Abbreviations and Acronyms

BFD	Budget Framework Document
BiH	Bosnia and Herzegovina
CDPP	Commission for Determining of Priorities
CG	Central Government
CL	Contingent liabilities
EBE	Extrabudgetary Entity
EBRD	European Bank for Reconstruction and Development
EDE	Emerging and Developing Europe
EIB	European Investment Bank
EME	Emerging Market Economies
FAD	Fiscal Affairs Department
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
GFF	Global Fiscal Framework
IAS	International Accounting Standards
IFI	International Funding Institutions
IMF	International Monetary Fund
LFR	Law on Fiscal Responsibility
LSG	Local Self Government
MTEF	Medium-term Expenditure Framework
PC	Public Corporation
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIMIS	Public Investment Management Information System
PIP	Public Investment Plan
PIU	Project Implementation Unit
PMU	Project Management Unit
PPA	Public Procurement Authority
PPL	Public Procurement Law
PPP	Public Private Partnership
RS	Republic of Srpska
SEE	South-East Europe
TA	Technical Assistance
TSA	Treasury Single Account
WIM	Weigh in Motion

Preface

At the request of the Government of Republika Srpska (RS), Bosnia and Herzegovina (BiH), an FAD mission visited Banja Luka from October 18 to 31 to carry out a Public Investment Management Assessment (PIMA). The mission comprised Eivind Tandberg (FAD, Head), Ian Hawkesworth and Yasemin Hürcan (both FAD), Mary Betley and Willie du Preez (FAD experts) and Bobana Čegar (economist in the IMF's resident representative office) and Tamara Travar, World Bank.

The mission met with Assistant Finance Ministers Suzana Šalić, Bojana Vasiljević Poljašević and Jelena Popović, Assistant to Minister Snježana Kelečević, Department Heads Željka Anđelić, Gina Grubišić, Dušica Tomić, Andreja Voutsa and Sanja Nježić Mišić, and several other senior staff in the Ministry of Finance.

The mission also met with Vesna Vožni, Assistant Minister, Ministry of Transport and Communications; Nada Milovčević, Head of Department, Ministry of Energy and Mining; Sanja Tonković, Head of Department, Ministry of Health and Social Welfare; Branka Milivojac, Head of Department, Ministry of Education and Culture; Darko Telić, Head of Division, Ministry of European Integration and International Cooperation; Đorđe Papak, Assistant Minister, and Ognjen Obradović, Department head, Ministry of Administration and Local Self-Government and several other senior line ministry officials.

In addition, the mission had meetings with Bojan Tomaš, Head engineer, Elektroprivreda RS; Violeta Došen and Aleksandar Stupar, Department Heads, Elektrokrajina; Željko Ćulum, Advisor, Roads RS; Dragana Bajić, Department Head and Davor Vučković, Chief Construction Engineer, Motorways RS; Gordana Ilinčić, Assistant General Director, Railways RS.

The mission had discussions with Jovo Radukić Auditor General, RS Supreme Audit Office; Lejla Džozlić-Čusto, Head of unit, Public Procurement Agency; and Dejan Gojković and Mirko Bošnjak, Department Heads, RS Investment-Development Bank. The Secretariat General of the RS Government provided answers to questions in written form.

The mission visited the City of Banja Luka and met with Mayor Draško Stanivuković, advisor Valentina Aničić, Department Heads Boriša Mandić and Suzana Jović, and several senior City officials. The mission also visited the ongoing restoration project for the Milanović House.

The mission is grateful to the authorities for the frank and constructive discussions and the valuable information that was provided. Special thanks to Assistant Minister Suzana Šalić, who was the main counterpart, and to Ivana Grgić, Ministry of Finance, who helped organize and coordinate the mission's work.

The mission thanks the interpreters, Gordana Ivančevic and Sandra Barjaktarović for their valuable services.

Finally, the mission thanks the IMF Resident Representative in BiH, Andreas Tudyka, for outstanding support from him and his office.

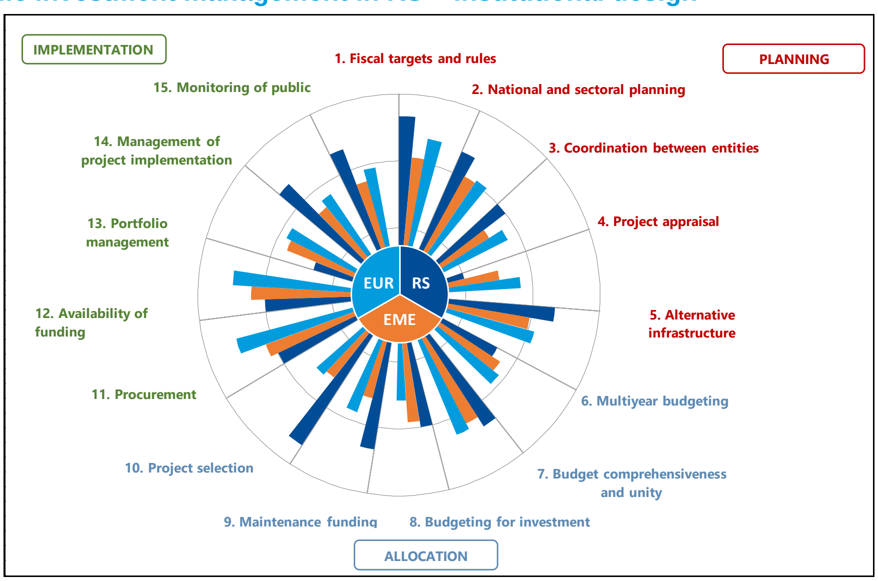
Executive Summary

There have been significant improvements in public investment management (PIM) in Republika Srpska (RS) over the last decade and the legal and institutional design is now ahead of many regional comparators. The effectiveness of the PIM framework is lagging behind its design, and continued strong and consistent reform efforts will be important to eliminate remaining obstacles to efficient public investment. Many of these reforms are already underway or planned.

Public investment in BiH and RS has been falling in the last ten years, but this has been compensated for by higher private investment, and public investment in RS is now at the same level as regional comparators. Despite the reduction in public investment over time, the public capital stock has been quite stable. Most public investment in RS is allocated to energy and transport, and investments are implemented by both central and local government entities and by public corporations.The execution rate for public investment in the RS is variable but quite high and the share of external financing of the capital budget has fallen significantly in recent years. There are no separate, internationally comparable data for infrastructure access and quality in RS, but aggregate data for BiH indicate that access to public infrastructure varies across different infrastructure classes and that the perceived quality of infrastructure is lower than in comparator countries, suggesting that adequate maintenance of existing assets should be an important priority.

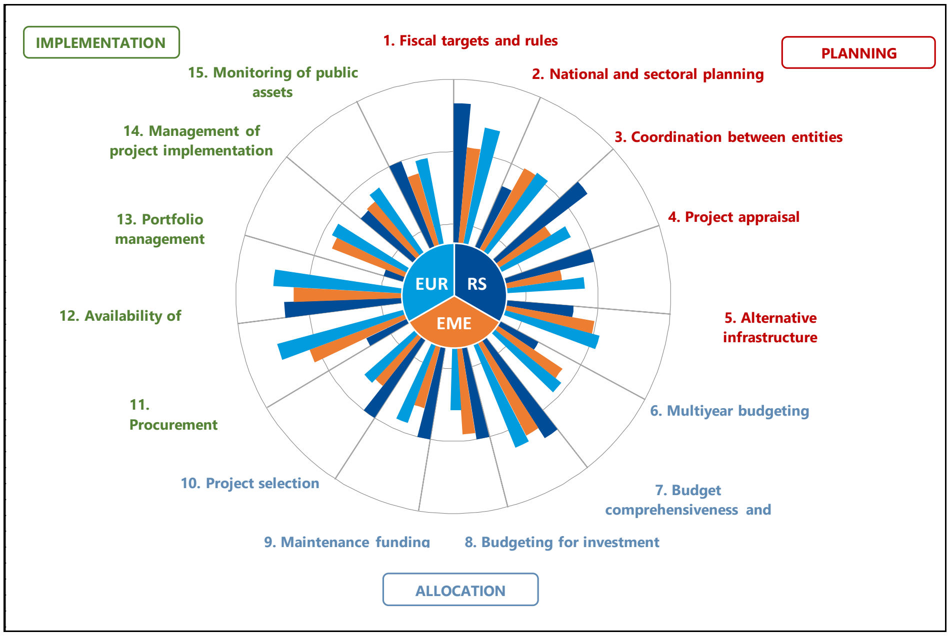
The institutional design of public investment institutions in RS is stronger than in many emerging market and European comparators. The design of fiscal targets and rules, national and sectoral planning, alternative infrastructure financing, budget comprehensiveness and unity, maintenance funding, project selection, project management and asset monitoring are all stronger than the comparator groups. On the other hand, project appraisal, multi-year budgeting, and portfolio management are still weaker than comparators (Figure 0.1).

Figure 0.1 Public investment management in RS – Institutional design



Public investment effectiveness in RS is weaker than its institutional design, but it is still quite similar to many comparators. The seven institutions that had a high design score are quite similar to the comparators when it comes to effectiveness. Lower effectiveness reflects that many important PIM reforms are fairly recent and have not yet had full impact on the actual performance of the PIM systems, (Figure 0.2).

Figure 0.2 Public investment management in RS – Effectiveness



Further improved PIM in RS will require continued strong and consistent reform efforts, in particular to ensure that legal and regulatory initiatives are effectively implemented and have the desired impact. There are some areas where PIM reforms will be critically important in the next few years. Many of these are related to developing a stronger and more consolidated multi-year framework for management of public investments. The Government is already implementing or planning reforms in some of these areas. Table 0.1 provides an overview of the PIMA for RS and indicates the priority reforms in the different PIM institutions. It shows that further improvement in project appraisal, in multiyear budgeting of investments and in portfolio oversight and monitoring are particularly high reform priorities.

This report provides 4 high priority recommendations for PIM improvements. These respond to the PIM weaknesses that are considered particularly high reform priorities in table 0.1. The report also provides 4 medium priority recommendations to enhance the robustness and quality of public investment management. The recommendations are summarized in table 0.2. Annex 1 to this report proposes a detailed action plan for implementation of the recommendations.

Strengthened PIM in RS will also require improvements in the BiH level procurement framework. These improvements are not discussed in detail in this report but will be addressed in the BiH PIMA planned for 2024.

Table 0.1 Summary Assessment

Phase/Institution			Institutional Strength	Effectiveness	Reform priority
A. Planning	1	**Fiscal targets and rules**	HIGH. There are fiscal rules related to the debt and deficit, but MTFF does not distinguish between planned and projects in the implementation.	HIGH. The fiscal rules are almost always respected, but MTFF does not include all necessary information.	**Low**
	2	**National and sectoral planning**	MEDIUM. There are entity and BiH sector strategies with costings for major projects and output targets. Resources and outcomes are not included consistently.	MEDIUM. Many strategic projects in PIP, output/outcome data used, but significant differences between plan estimates and budgeted costs.	**Medium**
	3	**Coordination between entities**	MEDIUM. Budget and PIP process both include SNGs. A rule based system in place for transfers to municipalities. No legal provision for CLs reporting.	MEDIUM. Coordination is effective but room for improvement in the data and methods informing the coordination. Going forward CLs require close monitoring.	**Medium**
	4	**Project appraisal**	LOW. There is no legally mandated mechanism, methodology or support for systematic appraisal of major projects.	MEDIUM. Major projects financed by IFIs are subject to rigorous analysis, but this does not cover all major projects.	**High**
	5	**Alternative infrastructure financing**	MEDIUM. Regulatory framework support competition. PPP law and regulations in place. No regulatory framework for effective PC oversights.	MEDIUM. Few private companies active in market. No PPP projects in place. No consolidated report on financials of PCs	**Medium**
B. Allocation	6	**Multi-year budgeting**	MEDIUM. MT (3-year) aggregate capital spending projections are published (indicative for outer years), but not total project costs	LOW. Large deviations between MT aggregate capital projections and approved spending for same years. No disaggregated multi-year capital ceilings	**High**
	7	**Budget comprehensive-ness and unity**	MEDIUM. Capital budget disclosure by main sources except PCs explicitly legally required. Unified budget preparation and presentation based on functional classification.	MEDIUM. Projects by all funding sources disclosed; EBEs insignificant. On-going current costs not reviewed by central budget authority during preparation.	**Low**
	8	**Budgeting for investment**	MEDIUM. Multi-annual appropriations not required; capital to current virement requires NA approval, project appropriation carryovers permitted.	MEDIUM. Few issues with project funding or virement from capital to current but total costs not included in budget	**Medium**
	9	**Maintenance funding**	MEDIUM. Routine and major maintenance methodologies in some sectors. Not included in sectoral plans. Routine maintenance not requied to be visible in budget	MEDIUM. Some entities conduct systematic maintenance, some only reactive maintenance. Routine maintenance numbers not visible in budget.	**Medium**
	10	**Project selection**	HIGH. A stringent process defined in regulation, stipulating central review, use of criteria, and the creation of a pipeline of projects, but no independent input.	MEDIUM. Majority of projects selected in accordance with defined process, criteria; some are returned, but no independents inputs and a few are 'parachuted'.	**low**
C. Implementation	11	**Procurement**	MEDIUM. Major projects are required to be tendered through competitive process, but the public has only limited access to procurement information	LOW. There are important weaknesses in the BiH level procurement framework.	**Medium**
	12	**Availability of funding**	MEDIUM. Legal framework supports cash forecasting and quarterly fund allocations. However, donor accounts are not incorporated in TSA.	MEDIUM. Cash flow forecasting exists. No delays at the payment stage but some delays occur in budget releases causing uncertainties.	**Medium**
	13	**Portfolio management and oversight**	LOW. No portfolio management of major projects required. Funds can be re-allocated. No fundamental review. No requirement for ex-post reviews.	LOW. No oversight of major projects. No effectiveness of re-allocations could be observed. No ex-post reviews conducted.	**High**
	14	**Management of project implementation**	MEDIUM. Project management arrangements required. Rules in place for project cost adjustment, no limits set. Ex-post audits are required, as well as publication.	MEDIUM. PMU and PIU in place in major entities. Limited information on cost adjustments. Limited performance audits of some small projects.	**Low**
	15	**Monitoring of public assets**	MEDIUM. Legal requirements cover asset register updating, AFS asset coverage, and asset-specific depreciation but do not specify regular revaluations or comprehensive AFS.	MEDIUM. Decentralized asset registers regularly updated and centrally consolidated, full revaluations not systematic, and 1-2% depreciation provision.	**Low**

Table 0.2 PIM Recommendations for Republika Srpska

High priority recommendations		
Inst. 4	Create a regulatory requirement for systematic and rigorous appraisal at international standard and build central capacity to ensure its effective implementation	2024 - 2025
Inst. 6	Improve medium-term budget planning by explaining in the successive Budget Framework Documents (BFDs) changes in medium-term ceilings, providing more detailed information on multi-year commitments and reducing carried-over appropriations	2024 - 2025
Inst. 8	Publish total costs for multi-year projects in an appendix to the BFD and/or in the Annual Budget Law	2024
Inst. 13	Establish portfolio management framework for all major projects to analyze project performance and act with immediate effect if projects are in need of attention, to minimize time- and cost overruns.	2025
Medium priority recommendations		
Inst. 3	Start collecting information about contingent liabilities related to local government, public corporations and PPPs and provide a consolidated overview of these risks in the BFD.	2025
Inst. 7	Include in budget instructions the requirement to estimate the post-project amounts for operations and maintenance	2025
Inst. 9	Compile uniform methodologies and guidelines for maintenance to be utilized by all government agencies to ensure good maintenance standards and costing of maintenance	2026
Inst. 6, 12	Introduce a limit on the capital budget appropriations to be carried over between budget years, to avoid unrealistic budget allocations.	2026

I. Trends in Public Investment

A. Trends in Public Investment and Capital Stock

1. **Public investment in BiH, including in RS, has been falling in the last ten years, but this has been compensated for by higher private investment.** Figure 1.1 shows public, private and total investment in BiH from 1990 to 2019, and public investment in RS from 2009 to 2019. Both public and private investment were very high after the end of the civil war from 1992 to 1995. Private investment has stayed at a fairly high level since then, whereas public investment as a share of GDP has gradually tapered off**.** Since 2010 the increase in private investment is broadly equivalent to the reduction in public investment. Public investment as a share of entity GDP is slightly higher in RS than in BiH as a whole but shows a similar reduction from 2009 to 2019.

2. **Public investment in BiH was considerably higher than in comparator countries up to 2000, but has been reduced, and public investment in RS is now at the same level as comparators**. Figure 1.2 shows the public investment levels in BiH and three comparator groups (South-East Europe (SEE), Emerging Market Economies (EME) and Emerging and Developing Europe (EDE)) from 1990 to 2019 as well as in RS from 2009 to 2019. BiH investment fell from 15 percent in 1996 to 3.1 percent in 2019. RS public investment has fallen from 9.7 percent in 2009 to 4.4 percent in 2019, equivalent to South-East European countries and EDEs, but slightly lower than EMEs as a group.

Figure 1.1. Public Investment in BIH and RS and Private Investment in BiH (percent of GDP)

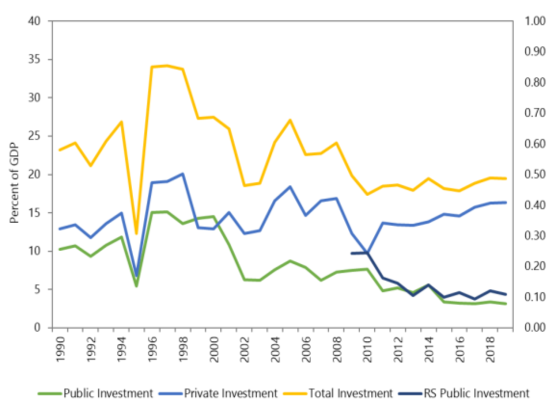
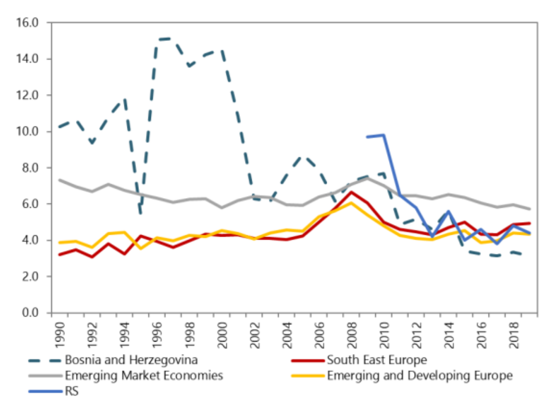


Figure 1.2. Public Investment in BiH, RS and Comparators (percent of GDP)



Source: IMF staff estimates based on official data.

3. **Despite the reduction in public investment over time, the public capital stock has been quite stable in BiH and presumably in RS**. Figure 1.3 shows the development in public investment and public capital stock in BiH from 1990 to 2019. It shows that the level of investment has been sufficient to maintain the level of capital stock at around 80 percent of GDP during 1996 – 2016, but with a slight deterioration to 73.9 percent in 2019. Because of the lack of historic data for public investment in RS, it is

not possible to estimate the public capital stock with the same consistency as for BiH. But it is reasonable to assume that public capital stock as a share of GDP is in the same range as for BiH.

4. Public capital stock in BiH is lower than in EMEs, but slightly higher than in other comparator groups. Figure 1.4 compares public capital stock in BiH to SEE, EME and EDE. EME countries have a significantly higher public capital stock as a share of GDP, which is consistent with their persistent higher levels of public investment in recent years. The other two groups have had lower investment than BiH in previous years and the accumulated capital stock is somewhat lower.

Figure 1.3. Public Investment and Public Capital Stock in BIH (percent of GDP)

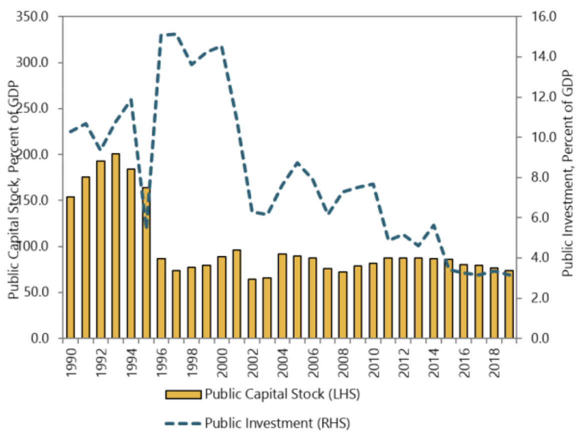
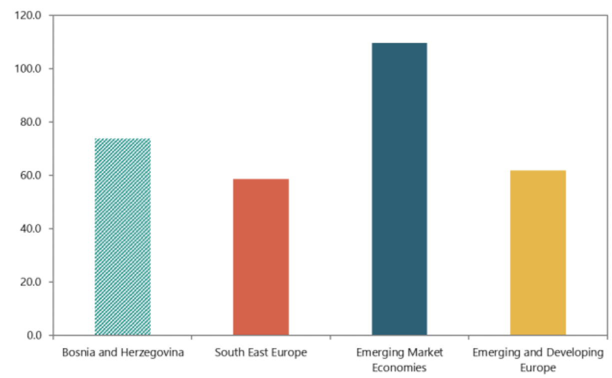


Figure 1.4. Public capital Stock in BiH and Comparators (percent of GDP)



Source: IMF staff estimates based on official data.

B. Composition of Public Investment

5. Most public investment in RS is allocated to the energy and transport ministries. Table 1.1 describes the allocation of the planned RS capital spending for 2024-26 to different institutions. It shows that the Ministry of Energy and Mining is expected to manage about half of the public investment during this period, and the Ministry of Transport and Communications about a quarter.

Table 1.1 Allocations to Public Investment 2024 – 26 (Million KM)

	2024	2025	2026	Total	Share
Ministry of Energy and Mining	621	389.3	274	1284.3	49%
Ministry of Transport and Communications	218.6	268	227.8	714.4	27%
Ministry of Health and Social Protection	107.2	89.7	68	264.9	10%
Ministry of Agriculture, Forestry and Water	88	34.8	41.5	164.3	6%
Local Self-Government Units	31.4	18.2	5.8	55.4	2%
Other	85.8	22.2	12.4	120.4	5%
Overall	**1152**	**822.2**	**629.5**	**2603.7**	**100%**

Source: Budget Framework Document 2024 – 26

6. **The capital budget is largely allocated to economic affairs, reflecting the dominant role of the transport and energy ministries**. Figure 1.5 shows the allocation of the planned capital spending for 2024 – 26 allocated to functions, according to COFOG. Compared to the most recent estimate for Emerging and developing Europe as a group (figure 1.6), the share of public investment going to economic affairs is much higher in RS, reflecting a very strong public role in the energy sector.

Figure 1.5. RS public Investment by Function 2024-26 (share of total)

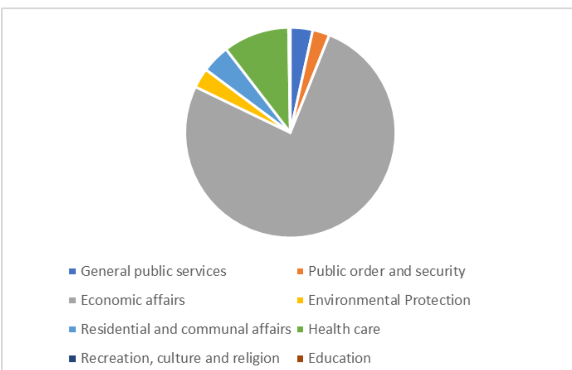
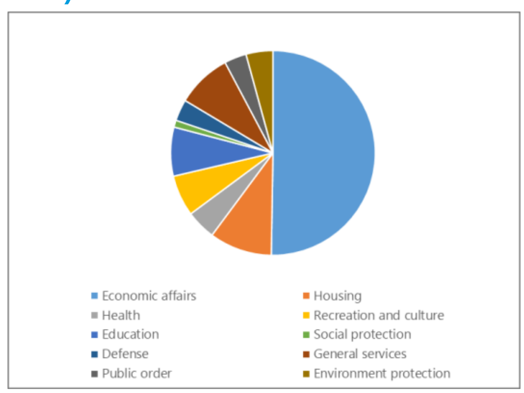


Figure 1.6. Emerging and Developing Europe Public Investment by Function 2018 (share of total)



Source: Staff estimates based on RS BFD 2024 – 26 and IMF public investment database

7. **Public investment is implemented by different levels of government, as well as public corporations**. Table 1.2 shows how capital spending has been implemented by different government levels over the last 10 years. Subnational governments also implement projects that are funded by the sector ministries. PCs in this table refers to Roads RS and Motorways RS and excludes energy sector investments. The table shows that public investment has been fairly evenly divided between RS central government, local government and public corporations, while social security fund investments are significantly smaller than the other groups.

Table 1.2 Capital Budget Implementation 2013 – 2022 (Million KM)

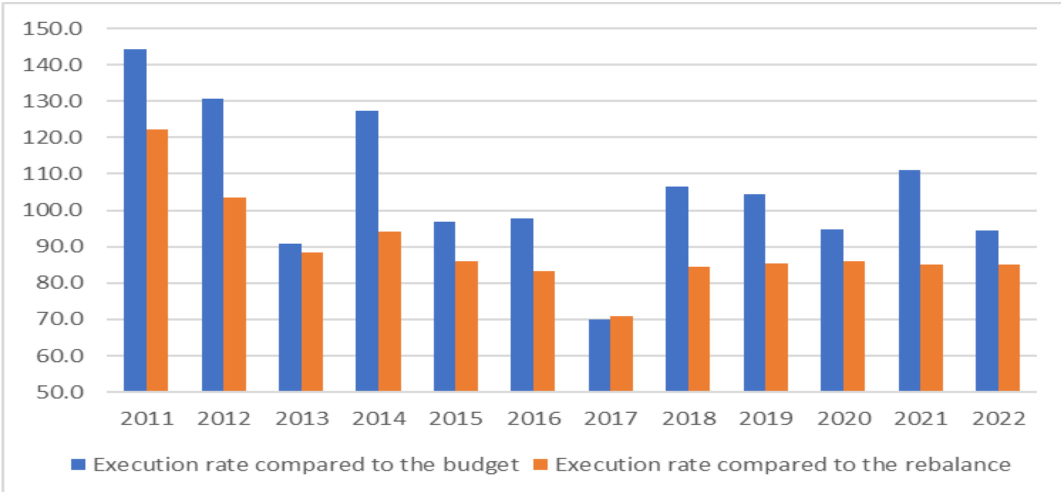
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Share
Central government	129.1	256.1	156.5	157.4	147.1	216.3	203.8	200.8	177.2	185.3	1829.6	33.7%
Subnational government	77.1	90.0	91.9	123.6	107.0	165.2	165.4	242.1	138.0	207.7	1407.9	26.0%
Social security	23.9	20.3	21.8	24.6	21.5	26.1	70.6	132.8	103.1	98.8	543.4	10.0%
Public corporations	167.5	173.2	156.9	181.4	145.8	153.6	104.0	191.5	152.0	217.3	1643.1	30.3%
Total	397.5	539.6	427.0	487.0	421.4	561.3	543.7	767.2	570.3	709.0	5423.9	100.0%

Source: Staff estimates based on RS budget documents

C. Execution and Financing of Public Investment

8. The execution rate for public investment in the RS is highly variable and quite high in most years. Figure 1.7 shows capital budget execution rates for the period 2011 – 2022. The execution rate has fluctuated between a low of 70 percent for 2017, and a high of 144 percent (against original budget) and 122 percent (against rebalanced budget) in 2011. For most years, execution of the original budget is close to or exceeds 100 percent. The rebalanced (supplementary) budgets have generally added to the capital allocation, and these execution rates are systematically lower, indicating that the resources for projects approved during the year often are carried forward to the following years. As indicated in figure 1.7. the execution rate for the rebalanced budget is around 85 percent the last five years.

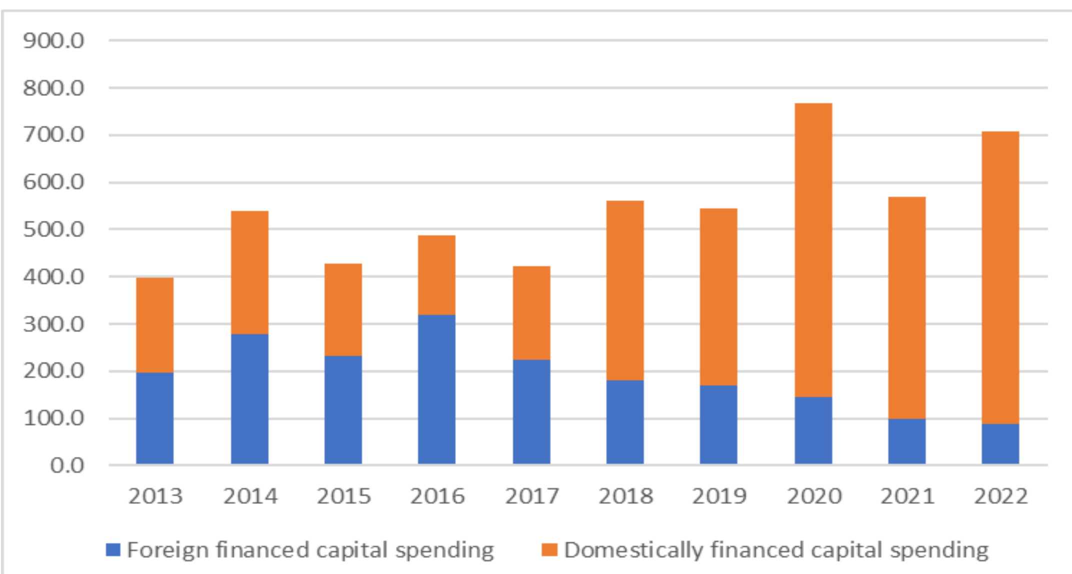
Figure 1.7. Execution of Capital Expenditures, 2011–2022 (in percent of approved budget)



Source: Staff estimates based on RS budget documents

9. **There has also been significant fluctuation in the financing of the capital budget, with a shrinking share of foreign financing.** While most major projects in the past were financed by external financial institutions, in particular the World Bank, EBRD, and EIB, the foreign financed share of the overall capital budget has fallen in recent years. Figure 1.8 indicates that foreign financing covered 65 percent of the capital budget in 2016 but fell to a low of 12 percent in 2022.

Figure 1.8 Financing of Public Investments (Million KM)

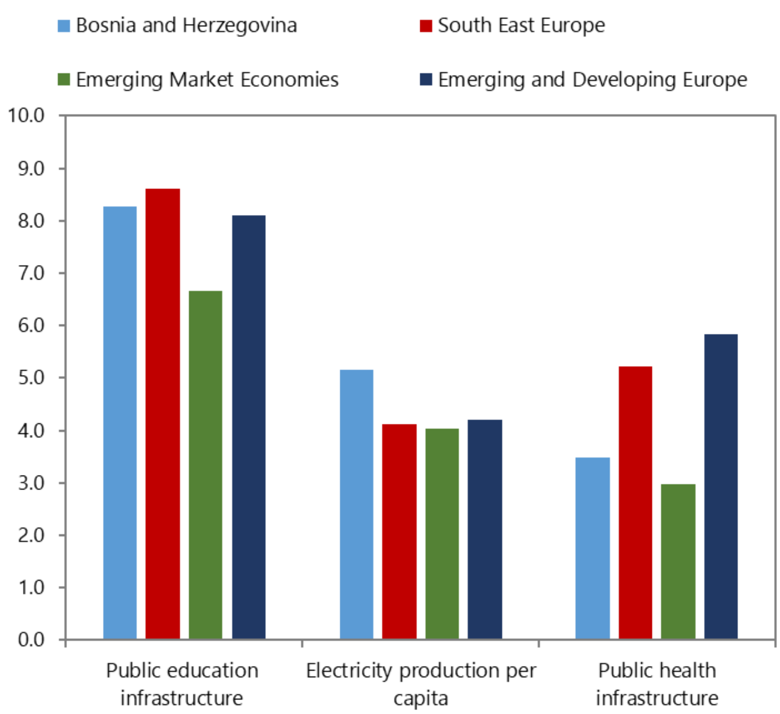


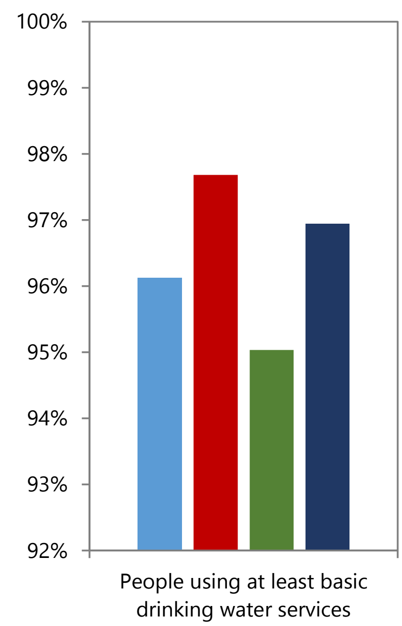
II. Efficiency of Public Investment

10. Access to public infrastructure in BiH varies across different infrastructure classes, compared to other country groups. Figure 2.1 provides a comparison of infrastructure access, based on a comparison of World Bank Development indicators. These data are not available at the RS level, but it is reasonable to assume that the RS results would be relatively similar to the BiH results. The figures shows that BiH is on par with SEE and EDE countries, but higher than EMEs, for education infrastructure. For electricity production, BiH is a large net exporter and is somewhat higher than all the comparators. For public health infrastructure and for access to drinking water, BiH is lower than SEE and EDE countries, but higher than EMEs.

Figure 2.1. Access to Basic Infrastructure Services in BiH and Comparators, 2019

2.1 A: Education, Electricity and Health Infrastructure **2.1 B. Water services**

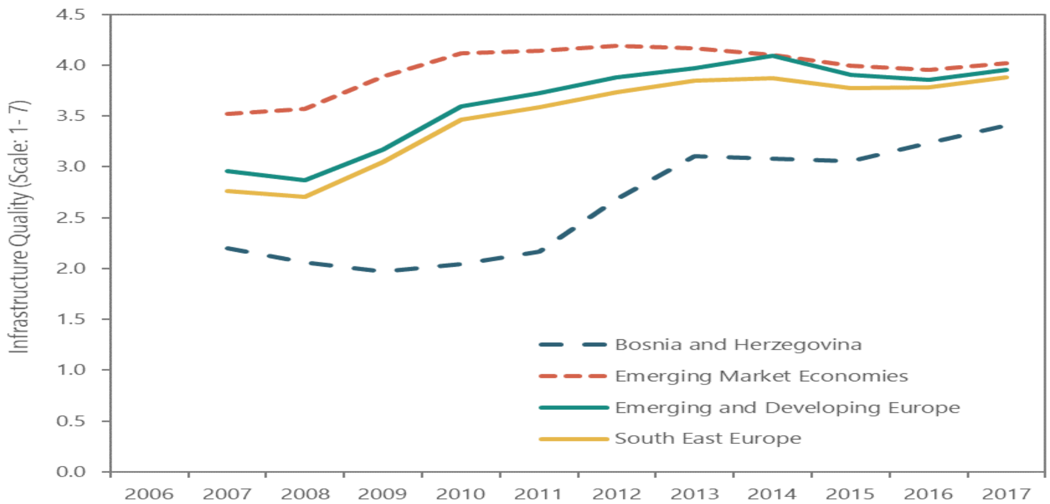




Source: Staff estimates based on World Bank Development Indicators. Left figure shows index for infrastructure access.

11. The perceived quality of infrastructure in BiH is lower than in comparator countries. Figure 2.2 shows that infrastructure quality in BiH was very low 10 – 15 years ago, but has increased in more recent years, both in absolute terms and compared to other groups.

Figure 2.2. Quality of Infrastructure Services in BiH and Comparators, 2006-2019



Source: Staff estimates based on Global Competitiveness Index, World Economic Forum

12. When comparing the infrastructure access and quality measures with the public capital stock, we see that BiH is quite far from the efficiency frontier for public investment management. Figure 2.3 plots the relationships between public investment inputs (public capital stock per capita) and outputs (hybrid indicator combining infrastructure access and quality). The most efficient countries form the frontier. BiH is indicated by the yellow diamond.

13. The estimated efficiency gap for BiH is as high as 52 percent. Figure 2.4 provides estimates for public investment efficiency gaps in BiH (red triangle) and comparator countries. The estimate implies that the outputs of public investments in BiH is only half of what is achieved by the most efficient countries. The efficiency gap is also significantly higher than in comparator countries. The low efficiency is strongly influenced by the low perception of infrastructure quality, as illustrated in figure 2.2.

Figure 2.3. Efficiency Frontier for Public Investment Management

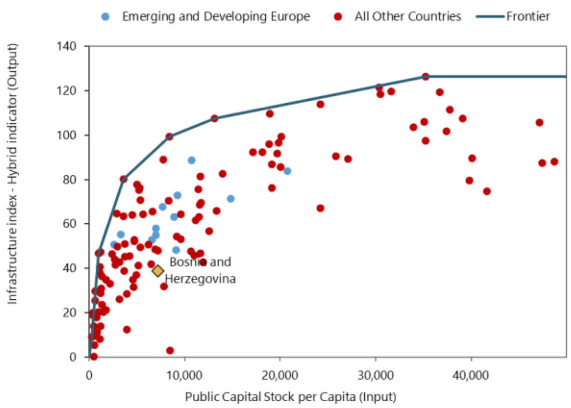
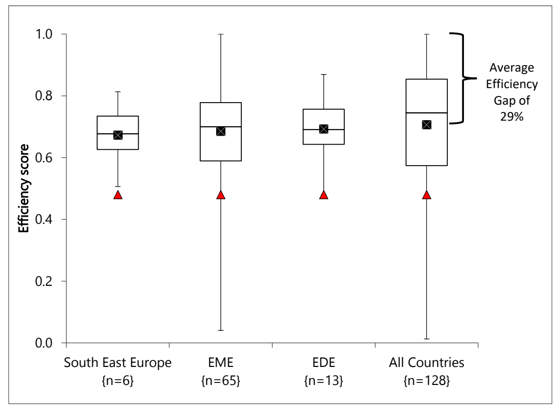


Figure 2.4. Efficiency of Public Investment Management in BiH



Source: IMF staff estimates

III. Public Investment Management Institutions

A. The PIMA Framework

14. The PIMA framework assesses 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. The PIMA uses the term "institution" in a broad sense, to comprise public investment management laws, regulations and organizational features as well as procedures, activities and outputs. The tool evaluates 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.

Figure 3.1. PIMA Framework

Sources: Public Investment Management Assessment: Review and Update, April 2018, IMF. http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/05/10/pp042518public-investment-management-assessment-review-and-update.

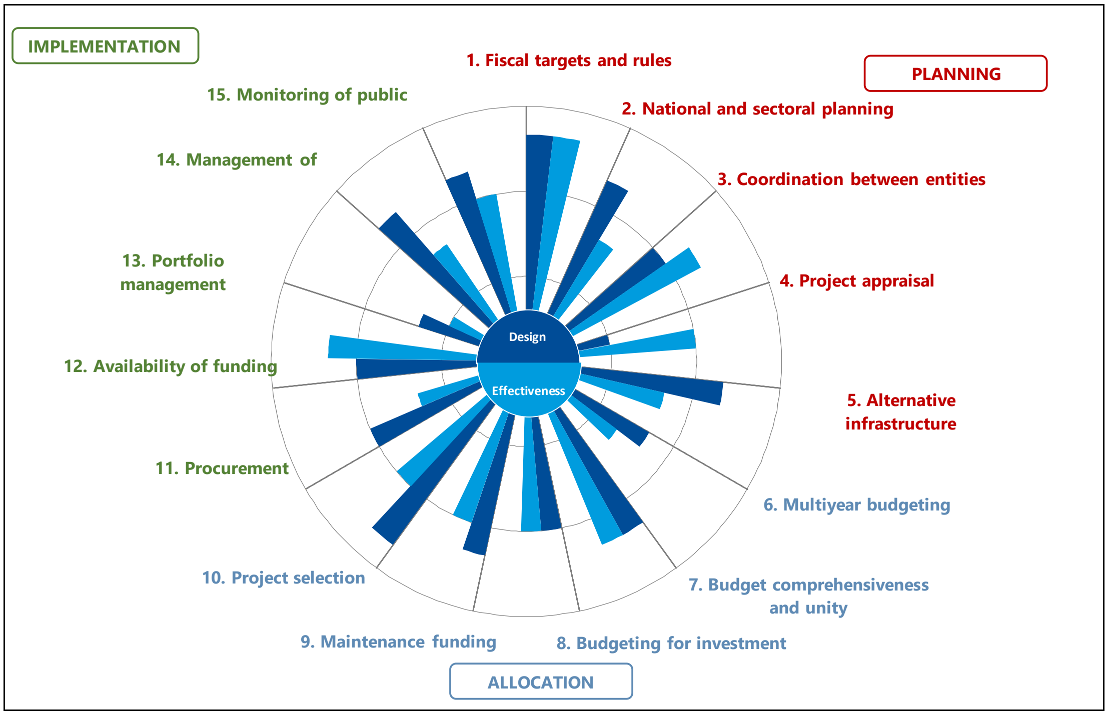
15. For each institution, three indicators are analyzed and scored, according to a scale that determines whether the criterion is met in full, in part, or not met (see Annex 2 for the PIMA Questionnaire). Each is scored on three aspects: institutional design, effectiveness, and reform priority:

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

B. Overall Assessment

16. The institutional design of public investment institutions in RS is stronger than in many comparators, but effectiveness is weaker. Figures 0.1 and 0.2 compared RS to comparator groups. Figure 3.2 compares the institutional design and effectiveness scores for RS. For nine of the institutions, effectiveness is lower than design. For three of the institutions the scores are equal, and for three effectiveness is actually higher than design. This is the case for coordination between entities, project appraisal and availability of funding. The scores for each institution are discussed in detail in the following parts of the report.

Figure 3.2. BiH Republika Srpska: Institutional Design and Effectiveness



Source: PIMA.

C. Investment Planning

1. Fiscal targets and rules (Strength— High; Effectiveness— High; Reform Priority— Low)

17. Public investments are of crucial importance for economic growth, but the government must be sure that new investments will not jeopardize fiscal and debt sustainability. It is important to have fiscal space for investments and to ensure that new borrowing will not threaten the fiscal position. This institution analyzes whether fiscal policy is guided by one or more permanent fiscal rules and if there is a target or limit for government to ensure debt sustainability. The existence of a medium-term fiscal framework is also important to align budget preparation with fiscal policy.

18. There are several fiscal rules in the RS aiming to provide a stable anchor for the medium-term fiscal and budgetary frameworks. The Law on Fiscal Responsibility (LFR) defines rules on public debt and consolidated budget deficit that covers all institutions and funds (RS budget, budgets of cities and municipalities and budgets of extra-budgetary funds). Deviation from the fiscal rules requires the preparation of a fiscal consolidation program, submitted to the RS Fiscal Council (RS FC) for their opinion, and then adopted by the National Assembly. In addition to the rules in the LFR, the Law on Borrowing, Debt and Guarantees also defines rules for total debt, the level of short-term debt and the degree of exposure from issued guarantees. Table 3.1 presents a summary of the fiscal rules and Box 3.1 describes the role of the RS FC. An MTFF is included in the budget framework document that is adopted for the next three years.

Table 3.1 Fiscal Rules in Republika Srpska

Fiscal rules for debt and guarantees	The total debt of the RS at the end of the fiscal year cannot exceed 60 percent of the actual GDP in that year	The Law on Borrowing, Debt and Guarantees, Article 15.
	The public debt of the RS at the end of the fiscal year cannot exceed 55 percent of the actual GDP in that year	The Law on Borrowing, Debt and Guarantees, Article 15. The Law on Fiscal Responsibility, Article 6.
	The short-term debt of the RS cannot be higher than 8 percent of the amount of regular revenues realized in the previous year	The Law on Borrowing, Debt and Guarantees, Article 15.
	The total exposure of the RS to issued guarantees cannot be higher than 15 percent of the actual GDP in that year	The Law on Borrowing, Debt and Guarantees, Article 40.
	Local self-government units can take on long-term debt only if, during the period of debt creation, the total amount due for repayment does not exceed 18 percent of regular income (the same applies to social funds)	The Law on Borrowing, Debt and Guarantees, Article 59.
	The short-term debt of local self-government units cannot at any time exceed 5 percent of the regular income generated in that year (the same applies to social funds)	The Law on Borrowing, Debt and Guarantees, Article 60.
	The total exposure of local self-government units according to the issued guarantees cannot be higher than 30 percent of the amount of regular revenues realized in the previous fiscal year	The Law on Borrowing, Debt and Guarantees, Article 61.

	If the public debt of the RS at the end of the fiscal year reaches 50 percent of the actual GDP in that year, the budget for the following year must have a budget surplus	The Law on Fiscal Responsibility, Article 7.
Fiscal rules for deficit	The consolidated budget deficit at the end of the fiscal year cannot exceed 3 percent of the actual GDP in that year	The Law on Fiscal Responsibility, Article 6.
	If the consolidated budget deficit at the end of the fiscal year reaches 2.5 percent of the actual GDP in that year, the budget for the following year must have a budget surplus	The Law on Fiscal Responsibility, Article 7.

Box 3.1. The Role of the RS Fiscal Council

The RS Fiscal Council (RS FC) was established to improve fiscal responsibility and policy in the RS. It was founded in 2017 as an independent body based on the Law on Fiscal Responsibility. The RS FC reports to the RS National Assembly. The RS FC has a president and two members who are independent of the government and any political party. and who are appointed by the National Assembly based on the RS President's proposal. For the administrative tasks, RS FC has a professional service made up of FC employees, and for certain analysis it is possible to hire external consultants. Financial resources for the operations of the FC are provided in the RS budget.

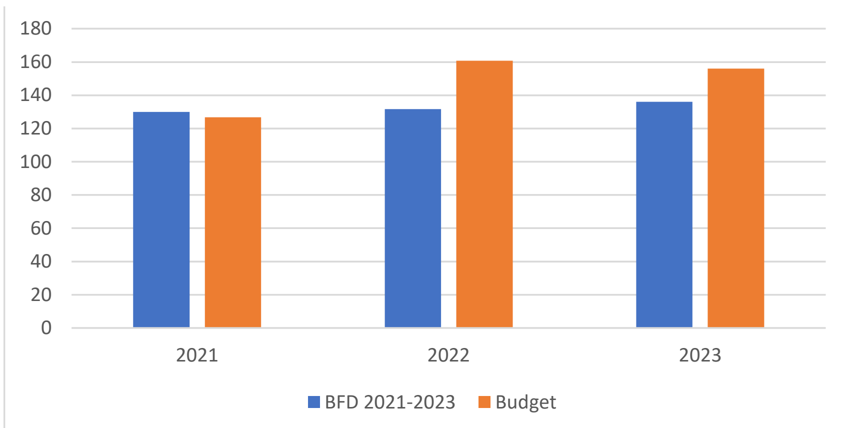
The basic functions of the RS FC are: (i) analyzing macro-economic and fiscal assumptions and projections used for the preparation of budget documents and economic reform program (ERP), (ii) providing an independent and credible assessment of economic policy measures proposed by the Government in order to achieve quantitative fiscal goals, (iii) assessing fiscal risks, (iv) assessing the extent to which the government has met its fiscal goals and fiscal rules, (v) assessing whether there is a basis for approving a temporary deviation from the prescribed fiscal rules, and (vi) checking the adequacy of economic classifications to ensure proper measurement of fiscal goals.

To fulfill its functions, the RS FC has several main tasks. Those tasks, among other things, refer to giving opinions and analyses to the National Assembly on the budget framework document, budget, rebalanced budget, the report on budget execution, ERP and giving opinions on the settlement of arrears carried over from the previous period. The RS FC gives its opinion on the proposed legal changes in the area of fiscal policy. It has the authority to request all the data needed to perform analyses from budget users, local self-government units and public companies. Analysis and opinions of the fiscal council are publicly available.

Source: RS Fiscal Responsibility Law

19. Fiscal rules are generally followed in practice, but the medium-term fiscal framework is not as effective as its design. Since the establishment of the fiscal rules in 2015, the debt rule has not been violated once, while the realized deficit was above the target twice. The first time was due to the pandemic in 2020, when the RS FC decided to approve a temporary deviation from the fiscal rules. In 2022, the deviation from the deficit rule was minimal, but without explicit RS FC approval. MTFF is included in the budget framework document that is adopted for the next three years. The legislation does not require that a distinction be made between planned projects and projects in implementation within the framework of capital expenditure projections. The RS should adopt its BFD after the adoption of the global fiscal framework (GFF) at the country level, but the adoption of the GFF is often delayed, and in some years the GFF was not even adopted.[1] Even in the years when the GFF was not adopted, the RS adopted the BFD. As shown in figure 3.4, the amounts in the adopted budget often deviate from those in GFF and BFD, especially compared to the 2- and 3- year forecasts.

Figure 3.3. Deviations Between BFD and Adopted Budget 2021 - 2023



Source: Budget framework documents and budgets

20. Improvement of the medium-term fiscal framework is a low priority. However, deviations between medium-term plans, the annual budget and budget execution outturns increase fiscal risks and may negatively affect the implementation of multi-year investment projects if the funds for their realization are not well planned and available. It is important to strengthen the credibility of these projections over time. It will also be useful if the MTFF clearly distinguishes between ongoing and new investments.

2. National and Sectoral Plans (Strength—Medium; Effectiveness— Medium; Reform Priority—Medium)

21. Strategic planning should define government's main investment priorities, for a period of five to ten years, typically on the basis of longer-term vision documents. It sets the overall development framework and maps the direction for individual sectors. If this stage of planning is effective, it defines verifiable baseline performance indicators and targets for key programs. It should also identify

[1] The GFF is a country-wide, medium-term fiscal framework, with its main focus on tax estimates and sharing of tax revenues among the BiH institutions and entities.

the major strategic public projects to be delivered, costed if possible, and align the planned investments to the overall financing envelope that is expected to be available.

22. **The planning framework design in RS is well developed and plans are coordinated between BiH institutions and entities, but stronger streamlining between the levels of government and financing would be beneficial**. Given the constitutional structure of BiH and RS and the natural interdependence of key sectors such as transportation, there are a number of sector strategies such as economic development, energy[2], transport, and plans covering the country and the entity level which are published. For example, the BiH level strategy for transport covers roads, railways, inland waterways, air traffic, and identifies in detail planned major projects for RS, covering both budget and foreign financing. The country transport strategy provides aggregate estimates for groups of projects and individual major projects. The energy strategy likewise covers a multiplicity of key energy sub-areas and provides a detailed project list by entity in the electricity generation area with indicative costing. However, neither strategy indicates resource availability for these projects. There are specific output investment targets (e.g., hydro plants, bridges, roads, ports) in the BiH sector strategies. These are linked to overall policy priorities, specific required actions, and proposed in a time bound format.

23. **The linkage between plan, budget and implementation functions quite effectively but could be further enhanced.** Many projects, or sub-projects, found in the BiH transport and energy plans can be identified in the RS PIP and are under implementation - mostly with IFI partners. The differences between initial estimates in the two strategies and the budget are significant. There is evidence that output data in the form of monitoring reports (e.g., the performance of an asset) is used by Roads RS to assess annual performance and needed changes and investments.

24. **Further improvement in strategic planning is a medium priority.** The country and entity levels should continue to enhance their cooperation to ensure that there is consistency in the planning framework commensurate with the governing unit's areas of responsibility. A key concern will be to further ensure that projects, estimated costs and time bound outputs are aligned, measurable and fully integrated into the PIP process and monitoring and evaluation procedures of budget holders. The introduction of overall planning limits for the sectors would further enhance the realism and value of the strategic planning framework.

3. Coordination between Entities (Strength—Medium; Effectiveness—Medium; Reform Priority—Medium)

25. **To ensure efficient investment across the government, investments at different levels must be well coordinated and complementary.** This institution assesses how investment plans at different government levels are discussed and coordinated. Coordination also includes how central

[2] RS Energy Strategy: https://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/Documents/energy%20strategy%20of%20republic%20of%20srpska%20up%20to%202030.pdf; Transport Framework Strategy 2015-2030 for Bosnia Herzegovina; Energy Framework Strategy for Bosnia and Herzegovina's 2035; Strategy and Policy of Industrial Development of Republika Srpska 2016-2020; Public Financial Management Strategy of Republika Srpska 2021-2025

government (CG) provides financing to local self-governments (LSG) and focuses on fiscal relations including monitoring contingent liabilities (CL) related to other parts of the public sector.

26. Capital spending in RS local governments is coordinated with the RS central government by design. The budget and PIP processes help coordination as they both cover LSGs. A rules-based system is in place for transfers to LSG but there is no legal provision for CLs reporting.

- The budget includes both CG and LSGs as set out in the Budget System Law. The budget process therefore drives the coordination of investment plans and capital projects between the CG and the LSG. The PIP has included LSGs' investments alongside CG investments for the last two years. The LSGs' investments are published alongside the CG investments in the Budget Framework Document and in the PIP. The LSGs formally discuss their development strategies, budget proposals and investment plans and their alignment with the government's strategic plans. Own resource funded projects are not discussed formally but they are listed in the PIP document among the candidate projects for budget funding.

- There is a transparent formula for calculating the revenue shares of LSGs from state level indirect taxes and for the transfers for social protection and disabilities. LSGs also receives equalization transfers based on their development level[3]. LSGs are notified about the transfers by September 30 (less than 6 months before the start of each fiscal year) and the funds are distributed to the LSGs quarterly. The Ministry of Administration and Local Self-Government calculates the transfers. The Ministry also provides grants to the LSGs to support their projects with the IFIs.

- Contingent liabilities arising from capital projects of LSGs, public corporations and PPPs are not required to be reported and published in budget documentation in the legal framework.

27. In practice, the coordination mechanisms with LSGs are effective, but there is some scope for improvement. There are formal discussions between the central government and LSGs on investment priorities within the budget and PIP process. A coordinator (budget analyst) at the MoF's budget department reviews the budget submissions of the LSGs during the budget process. The LSGs each present their seven priority projects to the MoF for the PIP decision making process. In practice, there is room for improvement in the data and methods informing the coordination.

- The LSGs 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 (e.g., maintenance spending).

- Transfers are fairly predictable for LSGs although they faced some challenges in 2022 and 2023 due to the delay in quarterly equalization transfers. the increase in the number of social protection beneficiaries, and the government's announcement of an increase in the social protection benefit.

[3] There are nine parameters to calculate the transfers for the municipalities categorized by four different development levels. These parameters are adopted by the National Assembly for three years.

- Although the nine parameters used for the equalization transfers are transparent PIP updated every three years, some of the main parameters are outdated. For example, for the population parameter, the latest census data from 2013 is used.

- Even though there is no CLs' reporting requirement, the annual debt report and the BFD include CLs from LSGs and PCs. However, there is no information on the CLs related to PPPs, of which currently there are none.

28. Going forward the MoF should start monitoring the CLs as a medium priority. A requirement for reporting of contingent liabilities arising from major projects of municipalities, PCs and PPPs should be introduced, and fiscal risk disclosure, analysis and management needs to be improved. LSGs could also be provided better guidance and training by the MoF on technical issues regarding project costing and capital budgeting issues. This will help facilitate more strategic discussions on PIM.

4. Project Appraisal (Strength— Low; Effectiveness—Medium; Reform Priority—High)

29. Project appraisal is important to ensure that all relevant project costs, benefits and risks are fully assessed before deciding on whether to develop projects further or to fund them. Project appraisal comprises different stages, requiring increasing levels of analytical scope and depth, for instance concept, pre-feasibility and feasibility stages. Simple, standardized projects may be approved for funding consideration based on a concept note or pre-feasibility study, whereas large, complex, and risky projects should be subject to full feasibility analysis. To ensure consistent analysis of different projects, there should be common and standardized methodologies for project appraisal, including for risk assessment and risk mitigation. Good appraisal of projects is necessary to ensure that the selection process (See Institution 10) takes place on a sound evidence-based foundation.

30. There is currently no legally mandated mechanism for systematic appraisal of major projects in RS. There is no standard methodology nor central support for project appraisal. There is no regulatory requirement for systematic risk assessment. This lack of a regulatory requirement cuts across sectors and municipalities.

31. The large role of IFIs in the investment program has ensured an acceptable effectiveness of appraisal despite the regulatory gap. The vast majority of major projects are co-financed by IFIs and development partners such as the World Bank, EIB and the EBRD. Implementing agencies use industry-established norms for feasibility studies - oftentimes the World Bank's appraisal framework is used by different financing partners. EU and World Bank appraisal frameworks are used widely, ensuring some rigor across projects and the inclusion of risk identification and mitigation plans.

32. Establishing the regulatory and methodological design of appraisal should be a high priority. The appraisal design should be enhanced with a legal requirement for systematic and rigorous appraisal of projects and that appraisals of major projects be published and independently reviewed. Consistent, reliable, and valid project information at the appraisal stage makes it possible to pursue other important improvements in public investment, including realistic budgeting for investments, consistent selection of projects for implementation and effective project management and portfolio monitoring. The current process will be enhanced if systematic appraisal is applied rigorously and proportionally with the size of the project, using dedicated methodological guidance, and yields a realistic assessment. This will ensure rigorous, in-depth appraisal of major projects, while applying simplified procedures for small, routing projects. The differentiation should also apply to project monitoring arrangements, which should focus on major projects with the highest risk. There are several examples of good practices for PIM guidelines from other countries and Box 3.2 below gives an overview of possible approaches. The need for modernizing and strengthening the appraisal institution is well understood by the authorities and an obvious issue where the development community could assist the entity.

Box 3.2. How to Tailor Project Appraisal to the Size of the Project

The project appraisal process should be structured in accordance with the size and risk of the proposed project. The development period for large, complex projects may be several years, but medium and small projects should require less time.

Large Projects: Large projects are normally major infrastructure projects with i) major risks, such as paved roads, bridges and large buildings, energy infrastructure, tunnels, rail, major IT transformations, with greater budget allocations and resource allocations; ii) higher task complexity, including many tasks that need to be done concurrently; and iii) 2 years or more construction phase.

Medium Projects: Medium projects are projects with i) significant risks; ii) medium impact, important to reach the strategic plan, and iii) 1 – 2 years construction phase

Small Projects: Small projects are normally: conceptualized in weeks, with their development and design done within one month, and executed within up to one year. They are also oftentimes replicable, non-complex, with a limited number of stakeholders.

The following phases and elements are considered good practice for a comprehensive project appraisal for a large project.

Stage1: Project idea note
Stage 2: Pre-feasibility

- Needs and demand analysis with specified outputs of the project *****
- Option analysis

Stage 3: Feasibility

- Demand analysis
- Technical engineering analysis *****
- Environmental analysis *
- Socio-economic analysis (Local procurement, community development, job creation) *
- Legal and regulatory due diligence
- Financial analysis (investment phase, and maintenance and operating phase) *
- Economic analysis (CBA, economic impact) *
- Risk assessment and sensitivity analysis (natural, economic, political, financial, litigation, disaster) *

Stage 4: Implementation preparation

- Detailed implementation plan and readiness confirmation *****
- Institutional capacity (project management arrangements, in house, outsourcing) *
- Procurement plan *

Stage 5: Budget application

- Project concepts note (summary of appraisal information to apply for funding) *

Requirements for medium-sized projects are indicated by *.

Small projects only require needs assessment, terms of reference with description and key outputs of the project, and financial assessment.

Source: IMF Staff

5. Alternative Infrastructure Financing (Strength—Medium; Effectiveness—Medium; Reform Priority—Medium)

33. Private sector entities, PPPs, and public corporations (PCs) can be efficient vehicles to develop economic infrastructure in key sectors, supporting economic development while containing the burden on public finances. If private firms find a stable environment in which they can achieve a fair return on long-term investment, private investment in certain infrastructure sectors can complement and substitute public spending, thus relieving pressure on public finances. As a prerequisite, a robust legal and institutional framework providing regulatory certainty about future market conditions should be in place as well as a capacity and willingness by users to pay. Moreover, PPPs, a potential source of private finance and expertise in infrastructure, must be structured carefully to ensure a fair allocation of risk and reward. Finally, public corporation performance will depend on whether there is a clear set of procedures to coordinate investments and efficiently allocate resources to the country's needs.

34. The RS regulatory framework supports competition and PPP regulations are in place, but the government does not effectively oversee PCs. The Energy Strategy up to 2030 has as one main objective to develop a free and open energy market, and the telecommunications market is open for competition The government has a PPP Law in place as well as regulations for initiating a PPP, selection of a PPP and procedure for contracting PPP projects. Risk sharing for PPP Projects is defined, and all PPP projects are procured through an open and competitive process. Investment plans for major PC investments are required to be presented to the government, through the line ministries during the budget and PIP process, but the government and line ministries do not systematically oversee PC's financial performance.

35. Some private companies are active in infrastructure markets and major PC projects are reflected in the budget and PIP, but there are no PPP projects in place and no consolidated reports on the financials of the PCs. There are private generation companies in thermal power, small hydro plants, wind generation plants and bio-gas generation plants. These private companies have the choice to whom they will sell electricity. The private sector involvement in power generation is only 27 percent. There are also private companies in telecommunications, but the penetration of private companies in other sectors is still at a low level. Central Government and Line Ministries have limited oversight over the financial matters of PCs. No PPP Projects are in place as per the regulations, and there are no consolidated reports available regarding the financials of the PC's. The PPP Law and regulations are well developed but have not been tested for effectiveness yet.

36. It is a medium reform priority to improve the quality of Government oversight over PCs, as well as to attract more alternative funding. Line ministries oversee PCs to a limited extent, but at Government level there is no quality information available regarding the financial performance of PCs and the MOF does not perform financial oversight. More attention will be required to attract alternative infrastructure financing.

Recommendations for Planning Institutions

Issue 1. There is no systematic collection and publication of information about fiscal risks from CLs related to LSGs, PCs and PPPs.

Recommendation 1. Start collecting information about CLs related to LSGs, PCs and PPPs at the newly established unit under the Department for macro-economic analysis and policies and provide a consolidated overview of these risks in the BFD.

Issue 2. There no regulation ensuring systematic appraisal of major projects, methodological guidance, nor MoF capacity to scrutinize or support feasibility studies.

Recommendation 2. Create a regulatory requirement for systematic and rigorous appraisal at international standards, in proportion to project size, and publish the appraisal results. Build capacity through training and guidance to ensure its effective implementation. The regulation should

- Require that the feasibility assessment effort is undertaken in proportion to the size and risk of the project (see Box 3.2) and issue detailed methodological guidelines, including for estimation of project costs and benefits, as well as risk analysis.
- Require that all projects irrespective of finance are subject to the regulation that the results of all major project feasibility assessments are published and independently reviewed, and that the government creates a detailed manual explaining how the regulation should be applied.
- Establish a procedure in the MoF to determine key inputs – e.g. discount rate, shadow prices.
- Compel the government to undertake a capacity building program, initially targeting MoF and finance functions in line departments to enable these to understand, scrutinize, and support the creation of feasibility studies.

D. Investment Allocation

6. Multiyear Budgeting (Strength— Medium; Effectiveness—Low; Reform Priority—High)

37. Since major capital projects are multi-year in nature and involve uneven distributions of spending during the project's life, ensuring the budget process can manage such complexity is crucial. In particular, enabling sufficient available capital funding over the lifespan of projects is essential, which requires both realistic estimates of total project costs and credible medium-term spending plans, including at the level of budget users.[4] Specifically, information including projections of multi-year capital spending by ministry or sector, multi-year ceilings on capital expenditures for major projects, and projections of total construction costs for major projects should be authorized in the budget process and published in budget documentation.

38. Three-year capital spending projections disaggregated by ministry are included in budget documentation, and projections of total construction costs are published, but no multi-year capital ceilings are provided. The Budget Framework Document (BFD) provides the spending framework for the coming budget year and, indicatively, for the following two years. The BFD contains medium-term aggregate ceilings for capital spending, but there are no disaggregated ceilings for capital spending.[5] The total costs of major capital projects are published in the Public Investment Program (PIP) and are updated each year, with data on spending to date, annual projections for the coming three years, and the estimated balance remaining.[6] Together with the initial estimate of the total construction cost at project commencement, this information enables officials to calculate the difference between the total cost at the end of the project with that at the beginning.

39. Approved capital budget allocations deviate significantly from capital spending projections, and, while total construction cost projections for major projects are included in budget documentation, any subsequent changes are not identified or explained. Deviations between allocations and projections of the capital budget are more than 20 percent of approved spending

[4] Budget users is the term used in RS to refer to spending ministries and departments receiving budgetary allocations.

[5] Disaggregation of ceilings is only provided for total (capital plus current) spending.

[6] The information presents actual expenditures from project commencement to the end of the previous year, and planned spending for the current year. The estimated balance remaining is calculated using the initial estimate for total project costs.

for capital.[7] The current practice of adding significant capital allocations in the rebalanced budgets, which are not executed during the year and leads to significant carry-over, also undermines the credibility of medium-term budgeting. This was discussed in subsection I.C and illustrated in figure I.7. While aggregate ceilings are provided for capital and current spending, no disaggregated multiyear ceilings are provided for capital spending. Changes in total project costs during project implementation are not explicitly tracked in the PIMIS.

40. Improved multi-year budgeting of capital spending is a high reform priority. Legislative oversight of multi-year capital spending projections is currently hampered by the lack of information on total project costs for major projects and weak credibility of outer-year capital spending projections. Table 3.2 provides an illustration of how revisions to previous capital expenditure projections in one BFD can be identified and explained in the following BFD: this helps build accountability for, and credibility of, outer year projections. While the information in the PIP on total project costs is provided to the government, it is not provided formally to the legislature as part of its budget scrutiny. Oversight would be strengthened by incorporating more information on total project costs and highlighting changes in the estimates over time. Limitations on carry-over of capital budget allocations would also help discipline the process.

Table 3.2. Illustration of Reconciliation of Rolled-Over Capital Expenditure Limits

Capital expenditure limits for 2026 in 2025-2027 BFD	XXXX
Increased expenditure adjustments	
Roll-over of funds from previous year	*Aaa*
Unforeseeable and unavoidable expenditure	*Bbb*
New policies announced in the 2024 Budget	*Ccc*
Decreased expenditure adjustments	
Declared unspent funds (additional savings)	*(ddd)*
Direct charges against the General Fund: freezing of salaries for legislators	*(eee)*
Contingency reserve: reduction in amount to be held in reserve	*(fff)*
Revised 2026 expenditure limits in 2025-2027 BFD	YYYY
Note: Increased and decreased expenditure adjustments reflect changes at the margin compared to the original assumptions for the 2025 ceiling used in the 2025-2027 BFD.	

7. Budget Comprehensiveness and Unity (Strength—Medium; Effectiveness—Medium; Reform Priority—Low)

41. Efficient PIM reflects the key principles of consideration together of all capital spending proposals (comprehensiveness) and one unified budget for capital and current spending (unity). Issues that can undermine these principles include the existence of capital investment spending outside of the budget (extra-budgetary entities), and investments in public infrastructure financed by other sources of financing (e.g., public corporations, external financing, or PPPs) which are not disclosed in

[7] Due to limitations on data consistency over time, it was not possible to construct a consistent and meaningful time series of the differences between medium-term projections for capital investment and approved budget allocations for the same years. For 2023, the approved budget for capital investment was more than 20% higher than the relevant ceiling for the same year.

budget documentation, preventing the legislature from having a full overview of all public investments. In addition, actively planning forward for the necessary operations and maintenance costs in the budget following the completion of projects must be an integral part of an efficient capital budget process.

42. Capital spending by all sources of funds except PPPs is legally required to be disclosed in the budget. There are no legal restrictions or limits on capital spending by extra-budgetary entities (EBEs), and such spending is authorized by the legislature and disclosed in the budget. **C**apital and current expenditures are prepared and presented together by a single ministry, the Ministry of Finance, using a common functional budget classification for both. Budget legislation requires that the financing of projects by budget users (including central government ministries/agencies, EBEs, and external financing, but not including public companies) be disclosed in the budget documentation, by type of user. Following an amendment to the Budget System Law, spending by EBEs is included in the appropriations in the Annual Budget Law.

43. Funding for projects by EBEs, external sources and public companies is included in budget documentation, with most projects in these categories included in the budget. Capital spending by EBEs is not significant, representing less than 10 percent of total capital spending, and is authorized, included and disclosed in the budget. The coverage of PC and PPP (public) investment in the budget represents more than 75 percent of the total (public) investment undertaken by each of these sources. However, there is no evidence that the current costs of major capital projects are reviewed by the departments responsible for the current budget during budget preparation.

44. Reforms in this area are a low priority. However, the link between the completion of capital projects and the services provided by the resulting asset is currently weak and potentially results in inefficient usage of new assets. Introducing in the Budget Instructions a requirement for budget users of proposed major capital projects to include estimated current costs for operations and maintenance of the relevant service associated with the asset would strengthen multi-year budgeting. External reviews by MoF of the estimated operations and maintenance costs of major projects provided by budget users would provide additional credibility of the estimates.

8. Budgeting for Investment (Strength—Medium; Effectiveness—Medium; Reform Priority—Medium

45. Ensuring adequate funding is available over a project's lifetime can be hampered by the lack of upfront multi-year expenditure commitments, in-year reductions in approved capital spending, and inadequate prioritization of on-going projects. This institution assesses the extent to which: (i) future commitments related to investment projects are reflected in budget documentation so that the legislature has a clear overview of necessary funding commitments; (ii) reallocations of planned capital spending to current take place, thereby undermining existing capital budget plans; and (iii) on-going projects are prioritized over new projects during budget planning, potentially facilitating the timely completion of projects.

46. Total project costs are not legally required to be presented in the budget, but a legal mechanism is in place to protect funding for on-going projects and prohibit transfers from capital to current spending during the budget year. The legally stipulated reallocations, with approval by the executive, are within (not between) both current and capital spending. Reallocations of appropriated resources from capital to current spending can legally take place only through supplementary budgets (known as Rebalanced Budgets), with the approval of the legislature. A mechanism to protect funding for on-going projects is contained in the Regulations on Accounting Policies (see Institution 12 for a discussion of this mechanism). Budget legislation does not provide for multi-year appropriations for capital projects.

47. Approved budgets do not include information on total project costs, but there is almost no virement from capital to current spending, and on-going projects receive priority over new proposals during budget planning. Virement from capital to current spending represents less than 5 percent of appropriated capital spending during the year. The reallocations are made with legislative approval in the form of Rebalanced (Supplementary) Budgets. Most (more than 75 percent) on-going projects receive funding as needed in the budget. While the PIP contains projections of total project costs for major on-going projects, it is not considered for approved by the legislature (only by the government). The approved budget focuses on capital spending allocations for the coming budget year only and does not include total project costs for major (multi-annual) projects.

48. Reforms to the process for budgeting for capital investments are a medium priority. In the absence of total project costs, the legislature does not have a clear overview of the necessary funding commitments for capital projects over the medium term. Requiring such information in the budget would facilitate the legislature's oversight role of public investment. In addition, requiring budget users to provide estimates of on-going current operational and maintenance costs for capital projects and ensuring the estimates are included in the BFD's forward projections would strengthen their credibility.

9. Maintenance Funding (Strength— Medium; Effectiveness—Medium; Reform Priority—Medium)

49. Maintaining public infrastructure in good condition is critical for the economy. Public infrastructure assets are fundamental to economic development. Neglected infrastructure will result in degraded assets with negative effects on the economy, and lead to greater cost of reconstruction over time. For maintenance allocations to be effective they should be based on the stock of investment, its replacement cost, age, and condition.

50. Methodologies are in place for routine maintenance and major improvements in the road sector, which comprises a large share of government infrastructure, and some routine maintenance is visible in budget documents. Motorways RS has a methodology for routine maintenance (visual inspections on roads as well as bridges inspections on a yearly basis. Roads RS also conducts visual inspections as well as some International Roughness Index (IRI) measurements and deflection measurements, but currently on a limited scale. Most government agencies do not have maintenance methodologies in place, but their share of fixed assets is limited. Elektroprivreda does condition assessments for yearly maintenance on plants and structures as the generation plants are many years in service. Distribution line maintenance is also determined by condition assessments. Expenditure for major improvements can be identified in the budget; however only some expenditure for routine maintenance could be observed. The financial statements for Banja Luka City also contain routine maintenance numbers.

51. Routine maintenance and major improvements are implemented; however, routine maintenance figures are not fully visible in the budget. The Education sector only does reactive maintenance. For the Railways, preventative maintenance is carried out on rolling stock in accordance with legal requirements, and corrective or reactive maintenance is carried out on the infrastructure. Roads RS spend 50 percent of the allocated budget on maintenance because of the age of the roads. Motorways RS only spend 2 – 3 percent of the budget on maintenance as the roads are relatively new. Both Roads and Motorways RS implement four-year framework contracts for routine maintenance. Motorways RS has weigh-in-motion stations at the beginning and end of the motorway section to prevent overloading by heavy vehicles and to preserve the road sub-structures. Roads RS utilizes a mobile WIM station to prevent overloading. Elektroprivreda power generation plants undergo annual maintenance yearly with durations of 20 – 30 days. Major rehabilitation of generation units is done every 3–4 years, with a duration of 4–5 months. The City of Banja Luka spent 2.2 percent of the budget allocation on maintenance. Budgets for major improvements are in the budget, however, routine maintenance figures are only partly visible which means an analysis cannot be done to determine adequacy of maintenance funding.

Table 3.3. Good Practice for Calculation of Maintenance Budgets (South Africa)

Type of infrastructure	Average annual maintenance budget as percentage of replacement cost	Replacement of major rehabilitation over and above the annual maintenance budget requiring specific capital budget
Bulk water storage	4-8	Every 30 to 50 years
Water treatment works	4-8	Every 20 to 30 years
Water reservoirs	2-3	Every 20 to 30 years
Water reticulation	4-8	Every 20 to 30 years
Sewage treatment works	4-8	Every 20 to 30 years
Roads and stormwater	5-10	Every 20 to 30 years
Public buildings	4-6	Every 30 to 50 years

Source: South Africa MOF

52. The reform priority of maintenance is medium. It is important that all ministries adopt a methodology/ guideline to determine routine maintenance requirement as well as methodologies/ guidelines to cost routine maintenance. The delay of road maintenance of 3 - 4 years will increase maintenance cost by a factor of 6 and the delay of road maintenance by 6 - 8 years will increase maintenance costs by a factor of 16. Routine maintenance, which is relatively low cost, will thus prevent expensive replacement costs. It is good practice to have fixed guidelines to determine maintenance costs of assets on an annual basis. It is also advantageous to set a limit on the percentage replacement cost to be spent on an asset before the assets should be replaced.

10. Project Selection (Strength—High; Effectiveness—Medium; Reform Priority—Low)

53. The project selection process is essential to ensure that well-prepared investment projects are selected for budgeting and implementation. Project selection is in its nature a separate process from the planning and appraising of projects. Selection involves choosing projects from a pool of appraised projects, with due consideration to relevant economic, social, environmental, and other objectives. 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. The criteria for project selection should be well-defined and transparent. Good project selection ensures that only high value projects go forward based solid appraisal whilst allowing for the political leadership to represent the public interest when undertaking the final prioritization.

54. The project selection process is essential to ensure that well-prepared investment projects are selected for budgeting and implementation. Project selection is in its nature a separate process from the planning and appraising of projects. Selection involves choosing projects from a pool of appraised projects, with due consideration to relevant economic, social, environmental, and other objectives. 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. The criteria for project selection should be well-defined and transparent. Good project selection ensures that only high value projects go forward based solid appraisal whilst allowing for the political leadership to represent the public interest when undertaking the final prioritization.

55. The selection process in RS is stringent, defined in regulation, stipulating central review, use of criteria, and the creation of a pipeline of projects, but no independent input. The MoF is required to perform a check of the formal correctness of the submitted project documentation and the ministerial Commission for Determining the Priorities of Public Investments (CDPPI) is to undertake an analysis of the project documentations quality and completeness before it is submitted to the Government for final approval. No independent agency is required to participate in the process. There is a stringent selection process defined in regulation. There are published criteria for project selection, and these provide clear guidance on which projects are to be selected. The government maintains a comprehensive pipeline of projects, by ministry, which is used to select projects for inclusion in the annual budget and for ad hoc investment decisions. The pipeline encompasses all funding modalities, including externally financed projects and PPPs. There is a formal requirement that projects be selected from this pipeline except in exceptional cases.

Box 3.3. Selection Process for Developing the Public Investment Program in RS

The Budget System Law Art 17[8] (2012) stipulates that the Public Investment Program (PIP) is a Government Act. It shall contain an overview of public investments for the next budget year and two out years, covering both ongoing projects, newly funded priority projects and unfunded priority projects.

The Decree on the rules for the selection, assessment and prioritization of public investment projects of RS was promulgated in June 2016[9] and lays out the process, key information requirements and prioritization process. It also stipulates the responsibilities of project proponents, MoF and the ministerial Committee in this process. It contains detailed instructions on what key information must be part of the Project Information sheet (IP Form), that each budget holder should prioritize its seven most important projects and a methodology for the ministerial committee to score the quality of each project prior to inclusion in the PIP. This regulation is applicable for RS.

The project proponents are directed by the Budget Instruction to consult with the MoF regarding their upcoming submissions of the IP forms in the PIMIS system in accordance with the Budgetary Instructions. The project proponents submit the completed IP forms containing the key parameters of the project (objectives, costs, timeline, risks) to the MoF for approval in the PIMIS system. The information is usually limited to about 1000 characters per subject. After approval, the project proponents submit the IP form in signed and certified form and supporting documentation if available. With the signed IP form, the proponent submits a signed and certified ranking of the projects that are nominated for selection.

The regulation requires the project proponents to score (1 (best) to N) and prioritize their projects on the basis of specified criteria. The criteria are the following: 1) compliance with strategic goals, 2) level of available technical documentation, 3) financial readiness and profitability, 4) institutional readiness for project implementation, 5) the impact of the project on society and environment. In addition, there may be special criteria to a given policy area that the proponent may insert.

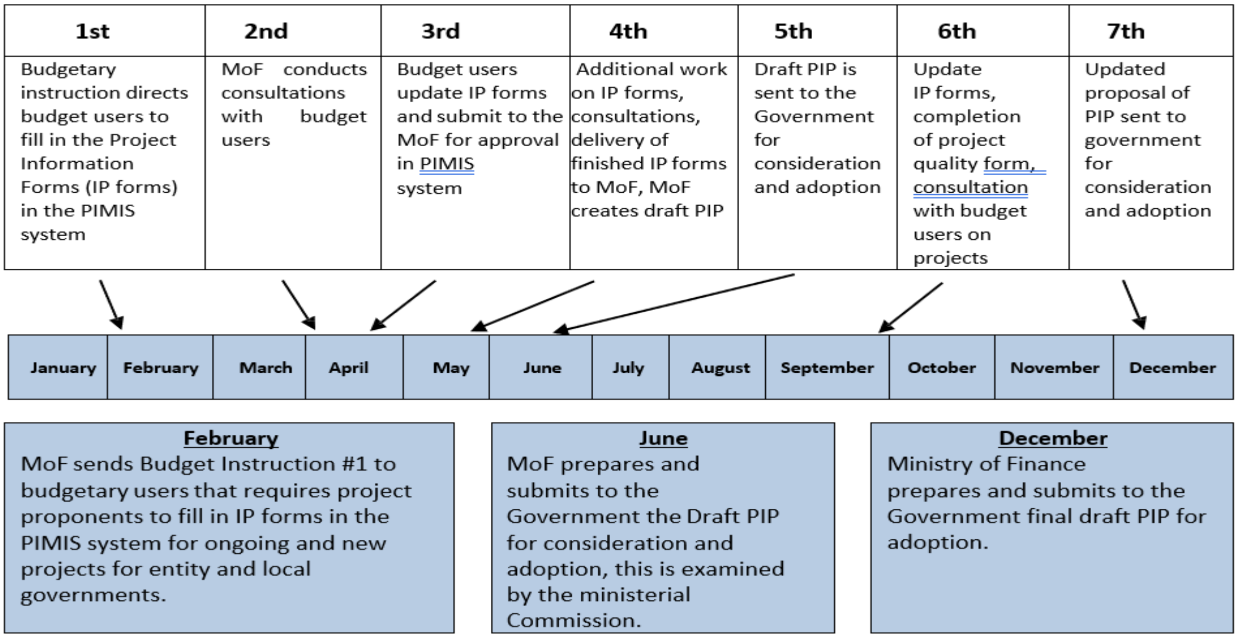
The project proponents are responsible for the completeness and accuracy of project data and timeliness of delivery of documentation. On the basis of the projects in the PIMIS the MoF prepares the draft Proposal of the Public Investment Program of RS (PIP), in preliminary form. The Preliminary list contains all projects that have a rank from one to seven by ministry. The Government approves the draft PIP for further analysis by June 30th and for final submission by December 31st of the current year. In order to assess the quality of proposals, a questionnaire is sent to all project proponents regarding their seven projects which collects more information regarding the five criteria listed above. The MoF uses this to indicate whether a project is ready for implementation (1) or needs further work (2). Taking this into account the ministerial Commission approves the Single List of new projects which are included in the PIP as ready for implementation. The Commission can also reject or return projects for further preparation. The PIP is then approved by the government by the end of the calendar year. Exceptionally, the Government may decide to finance projects outside the Single List if their implementation significantly contributes to the strategic interests and development priorities of the entity.

56. **The majority of projects are effectively selected in accordance with the defined process and criteria, while some projects are returned, independents inputs are not used, and a few projects are 'parachuted' into the selection process.** The review undertaken by the CDPPI has a reasonable level of rigor. For major projects there is an iterative process where a project is critically examined by the CDPPI in dialogue with the project proponents and technical agencies and then returned for refinement before final submission. The majority of projects are selected in accordance with the prescribed process and criteria. There is a pipeline of projects organized according to ministries, but not across ministries. There are a few projects which have been selected from outside the pipeline (three projects in 2023 according to the MoF) which is allowed under the regulation.

[8] Official Gazette of the Republic of Srpska, No 121, 2021 Law on Budget System, December 25, 2012, Banja Luca.

[9] Official Gazette of the Republic of Srpska No. 66, 2016

Figure 3.4. Steps for Producing the Public Investment Plan



57. **The reform priority of project selection is currently low because other institutions require more urgent improvements.** However, over time, stronger feasibility studies, creation of an integrated project list, independent scrutiny of projects, specific documentation and transparency of selection judgments would strengthen the process. As recommended under Dimension 6 on Feasibility, the selection process must necessarily rely on solid feasibility assessments for it to perform its scrutiny and prioritization role properly. The selection pipeline should consist of a single list across ministries rather than lists for each ministry. If the government decided to use a highly skilled independent advisor (e.g., a relevant university department, an independent agency or a specialized consultancy) in the selection process this would ensure a solid foundation for decisions. Documenting selection deliberations and publishing the judgments would strengthen transparency, scrutiny, and accountability, hereby ensuring project effectiveness.

Recommendations for Allocation Institutions

Issue 3. Approved budget amounts for capital spending deviate significantly from projections for the medium term (years 2 and 3), which undermines strategic investment planning efforts.

Recommendation 3. Improve medium-term budget planning by:

- Explaining in the successive BFDs changes in medium-term ceilings and the reasons for these changes when rolled over.
- Providing more detailed information on multi-year commitments, including carried-over appropriations; and
- Over time, reducing the use of carried-over appropriations.

Issue 4. The total costs of major projects are not published in the budget documentation, which prevents effective legislative oversight.

Recommendation 4. Publish total costs for multi-year projects in an appendix to the Budget Framework Document and/or in the Annual Budget Law, covering:

- Initial project cost; spending up to the current year; annual spending allocations for the current year and for the coming budget year; annual estimates for the two outer years (years 2 and 3); the remaining balance relative to the initial project cost; changes to initial project costs (addition or subtraction); and reasons for these changes.

Issue 5. The current spending requirements for public services associated with the use of project-developed assets are not actively planned or reviewed by the central budget authority during budget preparation, which risks inefficient utilization of these assets and higher costs.

Recommendation 5 Include in budget instructions the requirement for budget users with multi-year capital projects (those proposed and those on-going) to estimate the post-project current annual costs for operations and maintenance for the relevant public services to be provided by the asset by:

- Including a pro forma table for the relevant information to be filled in by those budget users with multi-year projects.

Issue 6 There are no standard methodologies/ guidelines at the RS level for routine maintenance, but only for some sectors.

Recommendation 6 Compile uniform methodologies/ guidelines for routine maintenance to be utilized by all spending entities to ensure good maintenance standards and costing of maintenance.

E. Investment Implementation

11. Procurement (Strength—Medium; Effectiveness—Low; Reform Priority—Medium)

58. **Effective procurement is essential to ensure that public investment projects are delivered in line with specifications**. This institution assesses whether public procurement arrangements promote competition among suppliers, the procurement system is adequately monitored, and complaints are handled in an effective manner.

59. **In the RS, the procurement system is decentralized, i.e., all public sector authorities and institutions funded from the entity public budget conduct procurement procedures individually**. The umbrella institution for the Republika Srpska, Brcko District and Federation of Bosnia and Herzegovina is Public Procurement Agency of Bosnia and Herzegovina (PPA), which is also responsible for the Public Procurement Portal (PPP) as one of its e-services and its regular maintenance and upgrades (Box 3.5).

60. **Major projects are required to be tendered in a competitive process, but the public has only limited access to procurement information as this requires web-user registration**. The PPL requires the use of competitive procedures, with some limitations and exceptions. There is a single sector within PPA mandated to monitor and propose correction of noncompetitive behavior of procuring agencies and bidders. However, there is absence of institutions aiming at fostering competition and handling implementation issues (for example, low capacity, corruption). The legal and regulatory framework ensures that the independent Procurement Review Body (PRB) has the necessary legal standing to produce decisions that are timely, published and rigorously enforced. The decisions of the PRB have legal force and cannot be institutionally disregarded and the law requires that complaints are resolved within 30 days.

61. **Most major projects are competitively procured, and there is a procurement database with reasonably complete procurement information and some standard analytical reports, but reports are limited and not timely.** 87.7 percent of contracts were awarded through open competitive procedures in 2022. A sector within PPA is responsible for monitoring violations in procurement procedures based on data and documents available on the Public Procurement Portal. Annual analytic reports are not produced and published in a timely manner. Even though there is no system for compiling and analyzing complaints, the complaint system is partly effective. Not all core indicators for effectiveness of the complaint mechanism are met, timeliness in resolving the complaints in particular. Annual standard analytical reports are prepared and published but also not in a timely manner (only the report for 2021 is currently available on the PRB website). In the Annual report for 2021, a high discrepancy between the number of cases and PRB reviews was noted.

62. **Improvement in the procurement framework at the BiH level is a high priority and is not limited to public investments.** The PPA and PRB are BIH level institutions, and the PPL is a BiH level law. The mission will not make specific recommendations regarding BiH level procurement reform in this report, which focuses on RS. This will be addressed in the PIMA for BiH, planned to be conducted in 2024, on the basis of more comprehensive analysis and data. The PPA and PRB could take several steps to address the lack of competition and reduce the delays in the procurement process:

- Perform a wider review of the barriers which prevent economic operators accessing the procurement market
- Improve dialogue between economic operators and contracting authorities to learn more about the issues which prevent economic operators from taking part in public procurement processes
- Develop tailored capacity building programs for economic operators to increase capacity to compete in public procurement.
- Review the PPL and operating procedures for the PRB and amend the appeals criteria to reduce opportunities for frivolous claims
- Review the efficiency of existing complaints procedures system
- Require contracting authorities to report on the timeliness of the procurement process in brief quarterly reports and centrally monitor the compliance with the deadlines in the PPL.

Box 3.4. Procurement in BiH – Transparency and Complaints Procedures

The PPA manages a procurement portal on which procurement plans, procurement notices, reports on procurement procedures, tender documents and the publication of clarification requests and answers about tender documents, decisions of the PRB and court decisions as second instance body as well as the annual reports of the PPA are published. The annual report summarizes the procurement activity by tender process and value. The amendments to the PPL as of September 2022 introduced mandatory publishing of procurement plans in the PPA portal along with their amendments whereas in earlier versions of the law this was optional. Contracting authorities also publish procurement plans and tender documents on their own websites.

The procurement process is regulated by the Law on Public Procurement (PPL) that applies to all levels of the public sector in Bosnia and Herzegovina. In 2022, 83.93 percent of tenders were advertised on the public procurement portal of the PPA whereas 87.70 percent of contracts were awarded through open competitive procedure. However, the criterion of lowest price is the most represented one with 2/3 of all tenders whereas the most economically advantageous offer is much less used. Foreign financed projects are not subject to the PPL but are subject to the procurement rules of the international creditor. The published procurement plans and tender documents therefore only show procurements planned from the budget.

Monitoring public procurement system is a legal obligation in accordance with the PPL, which has been harmonized with EU Directive 2014/2024 regulating the monitoring system of member countries. The system for monitoring public procurement procedures and the correct application of the law is not automated but is carried out by the monitoring institute within the PPA, which tracks irregularities based on information available in the public procurement portal and issues written orders for their corrections to the contracting authority. The monitoring results are summarized in annual reports and published on the PPA website, but not in a timely manner due to lack of capacity. The PPA is committed to further and continuous upgrades of public procurement portal related to commissioning of the module for electronic submission of bids, electronic opening and evaluation of bids, and electronic decision-making on the termination of the procurement procedure as well as the module for audit offices of institutions in Bosnia and Herzegovina, which was noted in their Annual report for 2022 and Action plan for 2023, both published on PPA website.

There is an overarching theme that manifests throughout the assessment exercise, and it is that competition levels are exceedingly low in Republika Srpska and Bosnia and Herzegovina in general. The single bid rate is also very high. This detrimental phenomenon may be due to: (i) the capacity of economic operators to respond to procurement requirements; (ii) the existence of high entry barriers (e.g., a regulatory environment that does not foster competition in certain sectors, for example licenses and standards requirements); or (iii) qualification criteria and/or requirements designed to favor certain firms.

There are a large number of appeals despite a fee requirement to make an appeal. According to the type of irregularities, PRB noted that 52% referred to deficiencies in bids, 23% to deficiency in bidding documents and 25 percent to incorrect application of legal provisions. In 2021, 75 percent of appeals were resolved within the deadline provided by the law whereas 25 percent remained to be resolved beyond it. The law requires that appeals are resolved within 30 days, but discussions with procuring entities suggests that delays can be over three months, and more if a new procurement has to be initiated as a result of the appeal. Decisions of the PRB are published on public procurement portal.

The high number of appeals tends to delay the procurement process and project implementation and are reportedly due to: the poor quality of tender documentation - giving opportunities for frivolous complaints; a focus on procedural detail, leading to cancellation of tenders for insubstantial reasons; the competitive nature of the relatively small private sector, making public contracts the main revenue source of many companies, leading to a tendency to use any means for securing a contract or at least preventing others; and the inconsistency of decisions by the PRB, which is difficult to prevent in the absence of a good dataset of past decisions. In the past period, court decisions served as a guidance to PRB to be more consistent in their decision making which led to a slight reduction in the number of appeals.

Source: PPL, PPA portal, staff assessment.

12. Availability of Funding (Strength—Medium; Effectiveness—Medium; Reform Priority—Medium)

63. This institution assesses cash availability for capital expenditures, which is important to ensure effective project implementation and avoid delays during the year. Specifically, it focuses on the extent to which the budget execution, cash management and government banking arrangement systems, processes, and tools are in place to ensure the availability of cash when needed to make payments for public investments.

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

- There are explicit provisions on the requirement for preparing annual cash flow forecasting in the Law on Treasury (Articles 12 and 13). The Law indicates the plan can be prepared for shorter periods i.e., quarterly, and monthly. The budget users are provided quarterly budget allocations/releases for capital expenditures.

- Cash for project outlays is paid in a timely manner based on the appropriations. There is no legal provision authorizing the MoF to limit the budget releases and payments below the approved appropriations in the budget if there are cash shortages.

- RS has a Treasury Single Account (TSA). However, development partners' bank accounts related to externally funded projects and grants are outside the TSA. These bank accounts are at the BiH level because project loan agreements are approved by the state.

65. In practice, there is no delay in capital expenditures at the payment stage and no arrears to contractors. However, there have been delays in the budget releases causing uncertainties for the budget users to plan and commit the expenditure on capital projects.

- Cash flow forecasts are prepared daily, monthly, and annually. However, delays in quarterly budget allocations for capital expenditures results in budget users' initiating the procurement process late. In some cases, the budget is released in the last quarter for capital expenditure. As discussed under institution 6, there is significant carry over of capital budget allocations, particularly for projects added in the rebalanced budgets. According to BSL Article 39, budget users can expense and spend from the previous year's budget until the deadline for the preparation and delivery of annual financial statements if the legal conditions have been met. There are three conditions including completion or launching the procurement, However, there is no limit on the total amount carried over.[10]

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[10] The issue is that despite these general conditions, there is no explicitly defined overall limit on carry over from the overall budget management and budget discipline perspective. In addition to the general conditions explained in BSL Article 39 and Article 96 of the Rulebook on Accounting Policies, in some budget years *additional and special conditions may be prescribed that must be met in order to reserve budget funds for the acquisition of non-financial assets*. Therefore, from the budget discipline perspective, it would be better to have an explicitly defined and disclosed limit on the budget appropriations or funds to be carried over at the end of the fiscal year. Depending on the country, carryovers are allowed after a qualitative evaluation by the Ministry of Finance and/or based on a quantitative rule. In RS case, there are qualitative conditions are present, but no quantitative limit is identified for carry overs.

- There is no delay at the payment stage. After the payment order is submitted, the payments are realized within a few days (1-3 days). There are no arrears to the contractors.

- There are 47 bank accounts kept outside of the RS TSA. These bank accounts are in the commercial banks at the BiH level due to the state level loan agreements. The withdrawals from loans are with the MoF's approval and there are monthly and quarterly reports from the PIUs to the MoF.

66. The strength of availability of funding can be further enhanced, and this is a medium priority currently. Strengthening the integration of cash and debt management decision making, providing the capital expenditure budget allocations for the whole year at the beginning of the year, and introducing a clearer carry-over rule with a transparent limit would make arrangements more robust[11].

13. Portfolio Management and Oversight (Strength—Low; 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 over-arching policy objectives. The portfolio refers to the sum of all major capital projects which have been 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 if there are serious risks that require high level intervention. Systematic portfolio management also comprises optimizing available funds by assigning them to the best performing projects.

68. No requirement exists for portfolio management of major projects or for ex-post reviews, although funds can be re-allocated during implementation of projects. There is no regulatory requirement for the monitoring of the portfolio of major projects. The Law on the Budget System, Official Gazette 28/94, articles 45 and 47 requires that the Minister should report re-allocations with explanations of deviations as well as differences between the approved and the executed budget to Government. There is, however, no limit on the percentage of the project cost that might be re-allocated. There is no regulatory requirement for ex-post reviews to be conducted. The authorities acknowledge that the lack of ex-post reviews is a shortfall and regulations are currently being prepared to establish ex-post review procedures.

69. There is no oversight of major projects, the effectiveness of re-allocations is not visible, and no ex-post reviews are conducted. Ministries have no clear oversight of major projects during implementation, as none of the ministries conduct project portfolio oversight. The lack of project portfolio oversight also implies that ministries do not have any forward-looking perspective on the projects. The re-allocation of funds process and procedures could not be observed as it is done seldomly. There is no indication of whether the process for re-allocation of funds is effective and if it might accelerate project execution. Ex-post reviews are currently not conducted, only project completion reports. No confirmation

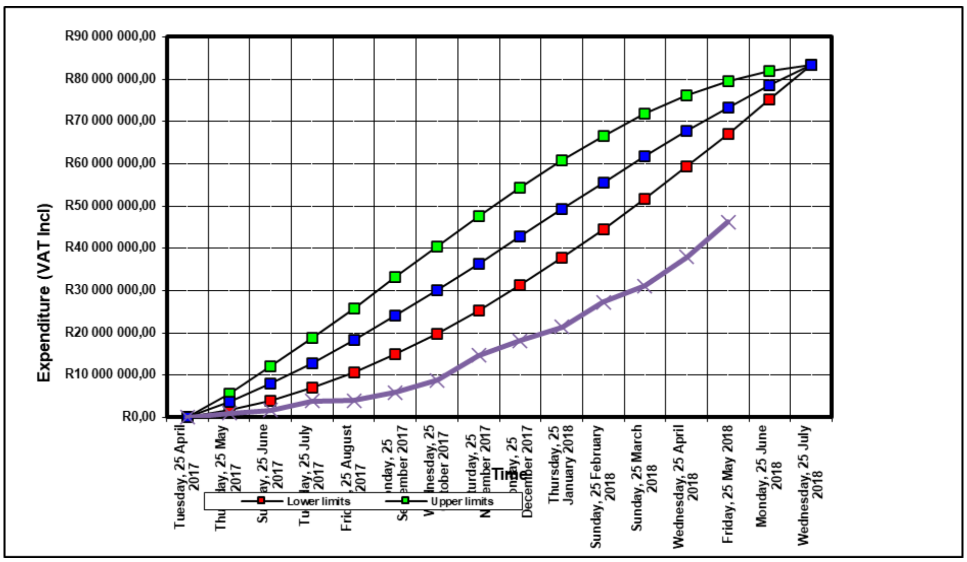
[11] In some countries the public finance legislation allows for carryovers to be added to appropriation of the following year's either automatically or at the discretion of the finance ministry. In many OECD countries, quantitative carry-over rules include: a limit on the amount of carry-forward allowed in any given year (usually 2-5 percent of the appropriation); a ceiling on the amount of accumulated carry forwards; or limits on the draw-down of accumulated carry-overs.

could be obtained if ex-post reviews were conducted for IFI-funded projects. It is important to have a mechanism to have a forward-looking perspective on project performance, such as the S-curve described in Box 3.6. Table 3.4 below lists key information required for project monitoring.

Box 3.5. S- Curve Project Monitoring Tool

The S-Curve provides a simple early warning tool to monitor whether projects are on track. Based on cash flow contained in the implementation plan, an S-Curve chart set out a lower and higher limit for expected project expenditure during the implementation timeframe. It plots project expenditure versus time expired, which should stay between the upper and lower curves to keep the project on track. However, if expenditures proceed too slowly (purple line), the project is delayed and likely facing challenges, which will result in time-and cost overruns. Intervention by the supervisor or senior official can be initiated as soon as warning signs emerge.

Figure 3.5.1: Example of S-Curve monitoring



Source: Mission assessment. Figure is constructed example with South Africa data.

Table 3.4. Information Required for Effective Project Monitoring.

Project number:	**Project code:**
Approved budget:	Variation orders approve:
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:	Risks identified during previous quarter:
Mitigation steps took to eliminate risks identified:	Action required at higher authority level to solve delaying issues:

Source: Mission

70. Establishment of project portfolio monitoring is a high priority reform. A summary table of all major projects is required, which includes all critical information to enable top management to identify critical major problems effectively and to act urgently to resolve risk issues to prevent delays and additional costs. A forward-looking perspective is important to resolve issues at an early stage.

14. Management of Project Implementation (Strength—Medium; 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 issues at the commencement of the project, and 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. Project management arrangements are required, rules are in place for project cost adjustments, and ex-post audits are required by law. The Regulation requires that there should be identified capacity for project implementation before a project could be selected[12]. Project cost adjustment is governed by the Procurement Law[13]. No fundamental review of the project rationale is required before the cost adjustment is approved. Table 3.5 contains the specific percentages. The Law on Public Sector Auditing describes the role of the Auditor General and sets the requirement for performance audits on programmes and projects[14]. The final audit report should be scrutinized by the Public Accounts Committee and presented to Parliament. Audit Reports are published.

Table 3.5. Limits for Cost Adjustments as per the Procurement Law

Procurement of Goods (Article 22): Cannot exceed 10 percent of the value of the basic contract.
Procurement of Services (Article 23): The total value of the contracts awarded for additional services may not exceed 30 percent of the value of the basic contract.
Procurement of Works (Article 24): The total value of the contract awarded for the additional works may not exceed 20 percent of the value of the basic contract.

73. PMU and PIUs are in place at major spending entities; however limited information is available on cost adjustments, and there are a limited number of performance audits conducted. Very little data on cost- and time overruns is available at ministry level. The Ministry of Energy and Mining acknowledged that data is an issue within the Ministry. The Ministry of Health and Social Welfare has a PMU in place to monitor project implementation with weekly progress meetings. Cost- and time overruns in projects of Roads RS are between 5 – 20 percent based on the quality of project preparation. Main reasons for cost- and time overruns are poor geotechnical investigations, inaccurate Bill of Quantities,

[12] The Regulation for the Selection, Evaluation and Priority Determination, July 2016, Art 6

[13] Procurement Law, Official Gazette, 39/14 and 59/22, Articles 22, 23 and 24

[14] The Law on Public Sector Auditing, Art 19

inadequate designs, and specifications. The factors causing delays are all a result of poor upstream planning, appraisal, and selection of projects. Motorways RS experience approximately 10 percent cost overruns, mainly contractual increase, and time overruns of between 16 percent and 33 percent. Project cost adjustments are seldom done, and no proof of effectiveness and procedure could be observed. Only a small number (6) of smaller projects are subject to performance audits, which are published. The Auditor General mainly conducts regulatory and financial audits. A financial audit is envisaged for Motorways RS during 2024. The City of Banja Luka has a major renovations project in implementation, Milanovic House, value of 5 million KM, with a duration of two years. The project management principles can be seen in Box 3.7.

BOX 3.6. City of Banja Luka: Milanovic House Project.

Major renovations of the Milanovic House, which is the second oldest building in Banja Luka. The Contract Value is 5 million KM, with a construction period of 2 years. The project is technically complicated as there were numerous structural challenges that had to be overcome, as the facility was vacant for a long period. A lift shaft is also added to the old structure to make provision for disabled persons.

The Contract type is the International Federation of Consulting Engineers (FIDIC) Yellow Book. The yellow book is the contract for Design and Build for projects. The overall responsibility and risk lie with the Contractor. The Works is supervised on a daily frequency by the two project managers from the City of Banja Luka, with no external consultants in place. There is currently only one Contractual variation, where the city changed the roof design. Except for the roof change, the project is on time and within budget.

Source: City of Banja Luka

74. **The collection of project performance data as well as the analysis of the data is a medium priority reform.** It is vital to have reliable data on project level and to analyze the data to take correct contractual decisions during the project implementation stage, and to keep the project on track in relation to time, cost, and quality.

15. Monitoring of public assets (Strength—Medium; Effectiveness—Medium; Reform Priority—Low)

75. **Accurate and up-to-date information on public assets is important for many PIM aspects, including fiscal policy, national and sectoral strategies, and maintenance requirements.** Relevant aspects covered by this institution include: (i) the extent to which asset registers exist and are updated regularly; (ii) the recording and updating of financial values related to fixed assets; and (iii) the calculation and recording of depreciation by fixed asset class, providing information for the level of reinvestment required to maintain assets' values over time.

76. **Regularly updated physical and financial information on fixed assets, including valuations and depreciation amounts, are required by law, but comprehensiveness is not legally stipulated**. The legal and regulatory requirements for information on fixed assets are set out in the Law on Accounting and Auditing and in detailed regulations (Rulebooks).[15] The Rulebooks include policies on asset revaluations and depreciation, set by asset class. Fixed asset registers are required by law to be regularly updated, but there is no specific legal requirement for comprehensiveness. Legal and regulatory requirements stipulate that fixed asset be included in the government's financial statements but there is no explicit requirement for regular revaluations. The Law on Accounting and Auditing refers to the mandatory application of IAS in the RS, with IAS 16 stipulating the required time interval (every 3 to 5 years) between revaluations of non-financial assets (property, plant and equipment). Regulations require depreciation of fixed assets to be recorded in government accounts based on asset-specific assumptions.

77. **Budget user-maintained fixed asset registers are regularly updated, cover most government fixed assets, and are readily accessible.** While many of government's fixed assets (up to 75 percent) are included in the government's accounts, there is no evidence of systematic full revaluations beyond the updated asset values included in the Statement of Financial Position in the Annual Financial Statements. Examination of the consolidated central government annual financial statements shows that depreciation has been between 1 and 2 percent of fixed assets during the last 3 years.

78. **Reforms in public asset monitoring are a low priority at this time.** A detailed legal/regulatory framework exists for monitoring public assets, but accounting standards rely on the mandatory application of IAS in RS, rather than a country-specific approach. In particular, the time interval between revaluations in IAS specifies between 3 and 5 years but it would be clearer to specify a more concrete time interval for RS. Data are not currently collected on the condition of fixed assets in the asset registers, but such information would be useful to facilitate the assessment of maintenance requirements.

15 Including Rulebooks on accounting policies, accounting practices, the Chart of Accounts, and financial reporting.

Recommendations for Implementation Institutions

Issue 7. There is no clear limit on the budget appropriations or funds to be carried over at the end of the fiscal year.

Recommendation 7. Introduce a limit for the appropriations/funds to be carried over. The limit could be on the amount of carry-forward allowed in any given year (usually 2-5 percent of the appropriation); a ceiling on the amount of accumulated carry forwards; or limits on the draw-down of accumulated carry-overs.

Issue 8. There is no forward-looking portfolio management mechanism to make sure that all major projects are completed on time, within budget and within specified quality.

Recommendation 8. Portfolio management of all major projects is critical to analyze project performance and to act with immediate effect if projects are in need of urgent attention, to minimize time- and cost overruns.

IV. Cross-Cutting Issues

A. Legal Framework

79. The legal and regulatory framework provides a reasonable foundation for PIM, underpinned by the Law on the Budget System and supported by auxiliary laws and bylaws. The Law covers the main elements for planning, allocating and managing public investments. It is supported by regulations for project prioritization and selection and by detailed Budget Instructions for the PIMIS (see Figure 4.1)

80. The legal and regulatory framework guides PIM activities and includes areas of good practice. In particular, regulations set out a stringent selection process, and there are published criteria for project selection, which provide clear guidance on which projects are to be selected. Also notable is the comprehensive disclosure in the budget documentation of public investment from all available funding sources. Accounting regulations on fixed asset registers; the coverage, updating and revaluation of fixed assets in financial statements; and the setting of depreciation rates by asset class are all set out clearly, with the Law on Accounting and Auditing explicitly requiring the application of international accounting standards, including IAS, for financial reporting.

Compliance with the existing legal framework appears reasonably high but some key elements for PIM are either missing or could be strengthened to improve PIM's efficiency. Clear and comprehensive requirements for a systematic and comprehensive appraisal and review process are lacking, and a standard methodology for project appraisals is not in place. The regulatory process for prioritization and selection of projects could be strengthened. Protection of funding commitments for more than one year is not covered, and there is no legal provision for reporting on contingent liabilities arising from capital projects. During project implementation, there is no regulatory requirement for central monitoring of the total portfolio of major projects to report on financial and physical progress. Finally, the lack of a regulatory requirement for ex-post reviews has been acknowledged as a shortfall, and the preparation of regulations to establish ex-post review procedures is currently in progress. Recommendations in this PIMA report address some of these issues.

Figure 4.1. Legal and Regulatory Arrangements for PIM in RS

PFM Area	Relevant Legislation and Regulations
Planning	Law on Republican Administration in RS Law on Strategic Planning and Development Management in RS Law on Fiscal Responsibility in RS Regulations for Selection, Evaluation and Priority Determination
Budgeting	Law on Budget System in RS Annual Budget Laws Law on Budget Execution in RS

Accounting and Treasury management	Law on Treasury of RS Law on Accounting and Auditing in RS Law on Finance of BiH Institutions Regulations on accounting policies, accounting practices, the Chart of Accounts, and financial reporting
Audit	Law on Audit of Public Sector of RS
Procurement	Law on Public Procurement in BiH
Debt management	Law on Borrowing, Debt and Guarantees in BiH Law on Borrowing, Debt and Guarantees in RS
Public Private Partnerships (PPPs)	Law on Public-Private Partnerships in RS Regulations for Initiating a PPP, Selection of a PPP and Procedure for Contracting PPP Projects
Public corporations	Law on Public Enterprises in RS
Sub-national government finances	Law on Budget System in RS

Source: Adapted from PEFA September 2022

B. IT Systems and Data Management

81. The Public Investment Management Information System (PIMIS) is a comprehensive information system for public investment management. It was established with support from the Netherlands in 2013 and is currently installed in three MoFs (the Institutions of BiH, Republika Srpska and the Federation of BiH). Project-level data for the local governments can be entered into the system and incorporated in the relevant investment plan.

82. PIMIS is not integrated with the Budget Planning and Management Information System (BPIMS) data on capital expenditure plans, which are currently entered manually. The PIMIS undergoes updates with inputs from its users[16].

83. The system structures and documents the PIM process and hereby serves as an anchor supporting the mandated PIM process. To submit proposals for the Public Investment Program, the PIMIS system requires each project proponent to enter project information (IP form) electronically. The IP form contains 8 cards with a total of 28 questions and can be filled out using the Latin or Cyrillic alphabet. The 28 questions cover the specifics of the project, classification according to COFOG, with OECD DAC, alignment with strategic plans, and sources of funding. Notably, the system requires project proponents to

[16] Ministry of Finance 'Instructions to fill out the Project Information (IP Form) in the PIMIS Information System'; IMF FAD Bosnia Herzegovina Public Investment Management Assessment, May 2018.

prioritize their project submissions using: (1) strategic criteria, 2) technical criteria, 3) financial criteria, 4) institutional criteria, and 5) social criteria. It also requires the proponents to fill out a logical framework for the project. The MoF subsequently rates projects' readiness in the system, with the information then submitted to the Investment Committee.

84. **The PIMIS registers projects in implementation, projects for which funding is certain or has been secured, and proposed projects (not funded) based on inputs of implementing bodies.** The system enables tracking of public investment projects and increases transparency. It includes total estimated cost, previous year's expenditure, the current budget year and three out years, but does not contain non-financial performance information. The existing PIMIS functionalities do not allow the MoF to check whether investment plans align with strategic objectives.

85. **The system serves to manage public investments at the relevant entity level and if necessary, align investments at the various levels of government**. As a single point of reference for all investment projects, across levels and sources of funds, the system has the potential to support planning, monitoring and reporting of capital investments. Data about the projects included in the PIP as entered into PIMIS on the level of the Institutions of BiH are publicly available on the BiH MoF website, and, using certain filters, interested parties can review these projects.

C. Capacity

86. **PIM capacity is quite strong, but further strengthening the technical capacity of the PIM Department to review budget users' project priorities is important.** Providing additional resources and training opportunities will enable the PIM 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 budget users.

87. **Improving the technical capacity of central and local government officials to manage the PIM process is also important.** Training needs on public investment management are large but there is no central function responsible for fostering capacity development in PIM. In addition to the training opportunities provided by development partners and international financial institutions, the MoF should consider increasing their own capacity to train both CG and LSGs staff in PIM. Strengthening capacity through training is also important given the number of new staff in the PIM and budget departments at the MoF noticed by the mission team during the meetings.

Appendix 1. RS PIMA Action Plan

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Recommendation 2: (Priority: High) Create a regulatory requirement for systematic and rigorous appraisal at international standard, in proportion to project size publish results and build central capacity through training and guidance to ensure its effective implementation.					
Draft regulation ensuring that All projects irrespective of financing are subject to the regulation. Norms, procedures and tools are aligned with major IFI requirements (e.g. The World Bank Group). Requirements for the analysis is in proportion to the size and risk of the project. Summaries of all major project assessments are published and independently reviewed. Develop detailed manual explaining how the regulation should be applied; developed tools, templates, and other support for implementation. Establish procedure for determining key inputs – e.g. discount rate, shadow prices.	Set up working group of key public sector stakeholders to provide guidance, current practices and challenges and ensure broad based implementation. Consult with non-government partners on current challenges and requirements (e.g. IFIs, donors, construction companies). Take stock of similar regulation from the region, EU countries and IFIs (e.g. the WBG). Undertake initial drafting of regulation. Establish MoF Committee for determining key inputs. Decide whether the committee should consist of experts from inside and outside government.	Hearing of public and non-public stakeholders Submit regulation to Parliament. Publish passed regulation. Adjust all other regulation (e.g. on selection) if needed. Convene cross ministerial working group to identify key articles in the regulation that requires detailed methodological guidance and will follow this work. Draft methodological guidance note and standardized tools, templates, PIMIS upgrades requirements. Publish methodological guidance and other tools.		Public Investment and Budget Sections of the Ministry of Finance	Y

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Set up dedicated capacity development program for public investment management	Utilize stakeholder group to identify major capacity bottlenecks in current situation. Draft a capacity building strategy based on the needs assessment and develop a plan for implementation. Develop partnerships with IFIs, donors, Universities, government training centers, and other actors that have interest and capacity to support a broad-based capacity development program Begin training for key stakeholders in central ministries and finance functions in line ministries	Undertake training of stakeholders Take stock of additional training needs.	Undertake training of stakeholders Take stock of additional training needs.	Public Investment and Budget Sections of the Ministry of Finance	Y
Recommendation 3: (Priority: High) Improve the credibility of medium-term budget planning					

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Introduce a pro forma table in the BFD for identifying and explaining the reasons for changes in MT expenditure limits in successive BFDs	Design the table. Develop a methodology for the analysis of rolled-over changes in successive BFDs. Produce instructions for filling in the table. Provide training for budget users. Include the pro forma table in the Budget Instructions for the 2025 Budget.	Assess the quality of information produced in the first year of implementation. Make any necessary changes in the table and/or methodology. Provide on-going training for budget users, as necessary.		Public Investment and Budget Sections of the Ministry of Finance	N
Introduce an appendix in the BFD on multi-year public investment spending commitments	Design the appendix. Develop the methodology for what will be included in the appendix. Collect the relevant information on existing multi-year commitments. Populate the appendix with the information for the 2025 BFD.	Assess the quality of information produced in the first year of implementation. Make any necessary changes in the appendix and/or methodology.			N
Recommendation 4: (Priority: High) Publish total costs for multi-year projects					
Expand Appendix 2 of the PIP to include three additional columns at the end, covering “changes to original total cost”, “reasons for change”, and “adjusted total cost”.	Make changes to the current Appendix 2. Introduce in 2025-2027 PIP.				

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Recommendation 8: (Priority: High) Establish portfolio management framework for all major projects to identify those in need of urgent attention					
Create guidelines for project portfolio management	Finalize the process of compilation of the guidelines currently in process within the Public Investment Unit.	Train personnel from spending entities. Underpin the regulations by the PMA to ensure compliance with the regulations. Develop an extra module in PIMIS to assist with portfolio management as well as project management, as these two elements drive project reporting. Compile proper spreadsheets to assist in simplifying the reporting system, but to make sure the relevant and correct data is captured, with credibility of data, and all reporting is uniform.		MoF	Y
Recommendation 1: (Priority: Medium) Collect information about CLs related to LSGs, PCs and PPPs and provide a consolidated overview of these risks in the BFD					
Collect information about CLs related to LSGs, PCs and PPPs at the newly established unit under the macro-fiscal forecasting department and provide a consolidated overview of these risks in the BFD.	Issue regulation on reporting of contingent liabilities.	Provide overview of contingent liabilities in BFD.		Macro-fiscal forecasting department, Ministry of Finance	Y

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Recommendation 5: Compile uniform methodologies/ guidelines for routine maintenance to be utilized by all spending entities to ensure good maintenance standards and costing for maintenance. Text (Priority: Medium)					

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Establish methodologies/ guidelines for routine maintenance, inclusive of costing principles			Compile working groups consisting of all spending entities to be involved in the process. Working groups to be driven by spending entities with current experience. Costing formulation to be driven by spending entities with current experience in the field. Refine the methodologies/ guidelines to cover all aspects and test for coverage. Underpin the methodologies/ regulations by law to ensure compliance. (Law on Public Property.) No new IT system necessary	Public Investment Unit, MoF	Y

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Recommendation 6: Introduce the requirement for medium-term annual cost estimates to be included in budget planning for on-going operations and maintenance for soon-to-be-completed capital investment projects (Priority: Medium)					
Include in the Budget Instructions a pro forma table for on-going operations and maintenance estimates to be filled in by budget users when preparing their budgets for the medium-term		Design the table and include it in the Budget Instructions for the 2026 Budget	Assess whether changes to the process should be made for the coming budget year	Public Investment and Budget Sections of the Ministry of Finance	N
Develop a methodology for estimating annual on-going current costs associated with capital investment projects	Develop the methodology	Implement the methodology during preparation of the 2026 budget		Public Investment and Budget Sections of the Ministry of Finance	N
Provide training to budget users on estimating the annual on-going current costs associated with capital investment projects	Prepare training materials	Provide training in the first part of the year, before preparation of the 2026 budget		Public Investment and Budget Sections of the Ministry of Finance	N
Recommendation 7: Include in the BFD analysis of deviations between previously adopted BFD, budgets and execution and distinguish between ongoing and new projects (Priority: Low)					
Calculate deviations between BFD, budgets, rebalances and execution		Do calculations of deviations and identify the reasons		Public Investment Unit, MoF	N

Actions	2024	2025	2026	Responsible Agency	Need for TA: Y/N
Distinguish between ongoing and new projects	Do analysis of all investment projects included in previous MTFF Determine in which stage of implementation each of project is Define the obligation to present separately ongoing and new projects in MTFF	Present in the MTFF which projects are new and which are ongoing		Public Investment Unit, MoF	N

Appendix 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?**			

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
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).
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.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
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.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
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.
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.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
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.
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.

Indicator		Scoring		
		1 = To no or a lesser extent	**2 = To some extent**	**3 = To a greater extent**
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.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
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.
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.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
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, 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?			

Appendix 3. Detailed PIMA Scores

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.	2	2
3.a.	3	3
3.b.	2	2
3.c.	1	2
4.a.	1	2
4.b.	1	2
4.c.	1	2
5.a.	2	2
5.b.	3	1
5.c.	2	2

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

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