TECHNICAL ASSISTANCE REPORT

REPUBLIC OF SLOVENIA

Public Investment Management Assessment – PIMA

JULY 2023

Prepared By

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Authoring Departments

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Abbreviations and Acronyms

CEE	Central and Eastern European
CG	Central Government
EBE	Extra Budgetary Entity
EIA	Environmental Impact Assessment
ESIF	European Structural and Investment Funds
EU	European Union
FAD	Fiscal Affairs Department
FRA	Fiscal Rule Act
GDP	Gross Domestic Product
GG	General Government
MOCRD	Ministry of Cohesion and Regional Development
MOF	Ministry of Finance
MOI	Ministry of Infrastructure
MTFF	Medium term fiscal framework
NDC	Nationally Determined Contribution
NRP	Načrt Razvojnih Programov, the third part of the State Budget
NRRP	National Recovery and Resilience Plan
PC	Public Corporation
PFM	Public financial management
PIM	Public investment management
PIMA	Public Investment Management Assessment
PPD	Public Procurement Directorate, in the Ministry of Public Administration
PPP	Public-private partnership
SP	Stability Program
SSH	Slovenia Sovereign Holdings

Preface

At the request of the Ministry of Finance of Slovenia, a team from the IMF's Fiscal Affairs Department (FAD) undertook a Public Investment Management Assessment (PIMA) during the period from April 11–26, 2023. The mission team was led by Mr. Vincent Tang (FAD) and comprised Mr. Rossen Rozenov (IMF European Department), Mr. Paul Harnett, Mr. Rui Monteiro and Mr. Willie du Preez (FAD Short Term Experts)

The team met with Mr. Klemen Boštjančič, Minister of Finance, and with representatives of the Ministry of Finance including Ms. Saša Jazbec (State Secretary), Ms. Mojca Pirnat (Director General, Budget Directorate), Ms. Miranda Groff-Ferjančič (Deputy Director, Budget Directorate), Ms. Katja Lautar (Director General, Economic and Fiscal Policy Directorate), and Mr. Aleksander Nagode (Director General, Public Property Directorate). Meetings were held with Ministry of Finance representatives of the Budget Directorate, the Treasury Directorate, and the Public Accounting Directorate.

The mission also met representatives of the Ministry of Infrastructure, the Ministry of Cohesion and Regional Development (MOCRD), the Ministry of Health, the Ministry of the Environment, Climate and Energy, the Ministry of Public Administration, the Ministry of Natural Resources and Spatial Planning, Medvode Municipality Government, the Fiscal Council, the Institute of Macroeconomic Analysis and Development (IMAD), the Court of Audit, Slovenian Sovereign Holdings, GEN Energija, and DARS.

The report builds on, and is consistent with, the analysis of the Fiscal Council; 'Public Investment in Slovenia: Trends, Structure and Challenges' (2021).

The mission team would like to thank the Government of Slovenia for their cooperation and participation in constructive discussions during the mission, and particularly Ms. Miranda Groff-Ferjančič and Ms. Karmen Rus for excellent leadership and coordination for the mission. Finally, the team would like to thank the interpreters, Ms. Maja Viteznik, Ms. Meta Kozuh and Ms. Mojca Marija Bozic.

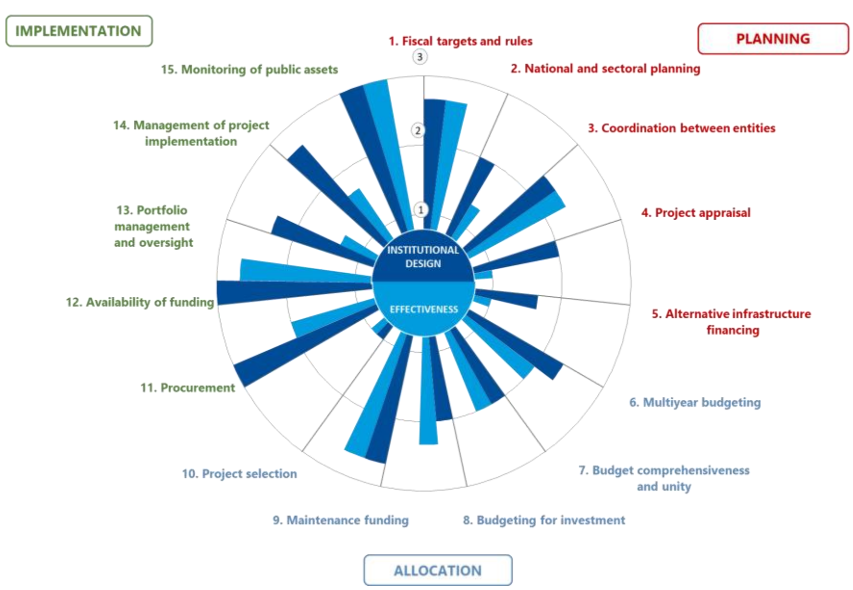
Executive Summary

Slovenia has a high public capital stock relative to Southeastern European peers. This reflects public investment levels above the EU average over the past two decades. EU funds play an important role in the financing and programming of public investment, accounting for nearly a third of public investment in 2022. In the 2014−20 programming period, Slovenia received EU investment funding of 6.2 percent of the 2022 GDP and achieved one of the highest absorption rates (87 percent) among the CESEE-EU countries. Over the 2021−27 programming period, a comparable amount of EU-funded investment is planned.

The public investment efficiency gap relative to the frontier is 17 percent, which is broadly in line with the EU average. Slovenia is performing well in certain areas, especially with regards to quantitative indicators such as motorway and railway density. However, perceptions of infrastructure quality have somewhat deteriorated after the 2013 banking crisis, which could be related to the decline in public investment in 2014−17. Closing the gap relative to the most efficient economies would bring tangible gains in terms of availability and quality of infrastructure per euro spent on investment and improve the absorption of EU funds.

Slovenia's public investment management institutions, as assessed by the PIMA, perform well overall relative to European peers. Availability of funding for public investment, fiscal targets and rules, maintenance funding and monitoring of public assets are areas of strength. The programmatic presentation of the budget (Načrt Razvojnih Programov) provides strong transparency of investment projects, and the online project visualization portal (SAPPrA) makes the public investment budget highly accessible to the public. While there are differences between EU-funded and domestically financed projects, including in planning and appraisal, there is a good level of integration in the budget.

Figure 1. Institutional Design and Effectiveness



Source: Staff calculations

Key areas for improvement are appraisal and selection of projects, procurement, and portfolio management and oversight. Appraisal for projects is seldom done before project selection to the budget, which can lead to delays and significant changes in the project during the execution phase. While

EU-funded projects have their appraisal reports produced and presented to the European Commission, as a required condition for funding, they are usually only after the project is already included in the Budget. Major projects are not centrally monitored for physical or financial challenges. There is scarce competition for construction contracts in major projects, which results in both higher project costs and delays.

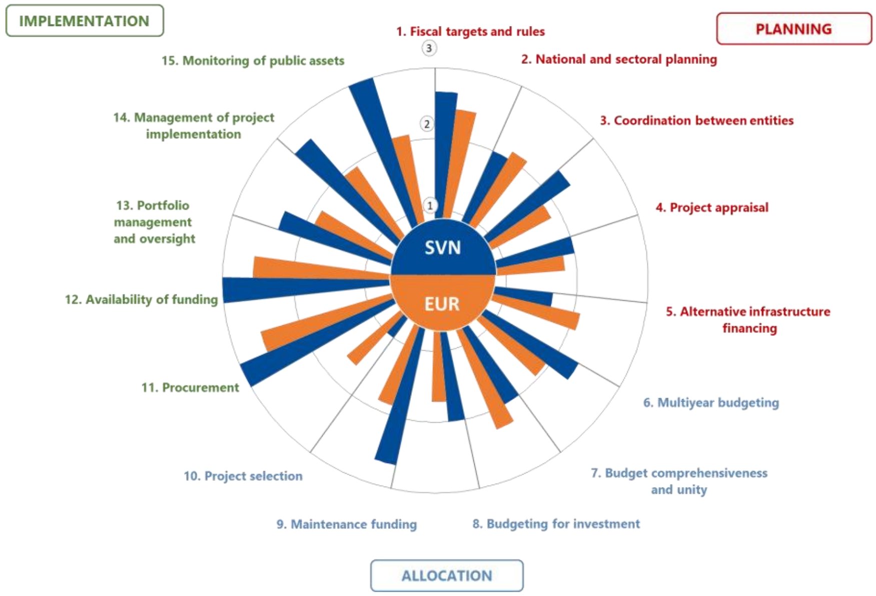
The near-term challenge will be to address bottlenecks in the execution of capital projects. Slovenia has ambitious plans to increase public investment, underpinned by higher EU funds. Achieving this would require raising public investment execution over the coming three years by over 25 percent relative to the average over the preceding decade. Meanwhile, the general government capital budget has under-executed by an average of approximately 20 percent in 2021 and 2022. Priority should be given to: (i) increasing project preparation and design as well as the capacity of implementing agencies; (ii) reducing delays in spatial planning and obtaining permits; and (iii) addressing low levels of competition in the procurement of construction contracts.

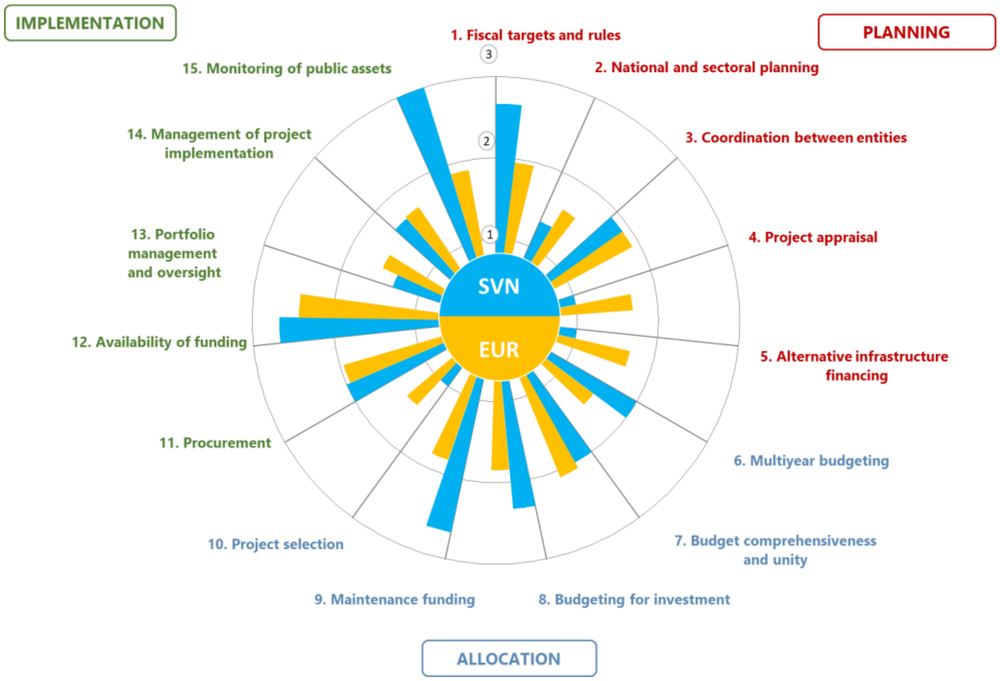
To sustain the higher levels of capital investment over the medium term, keeping the public investment portfolio on track and managing fiscal risks will grow in importance. Managing deviations in terms of project cost, time and scope will be important as the portfolio of major projects grows and the pressure for execution rises throughout the 2021-2027 EU programming period. A central function to monitor physical and financial progress of major projects, and associated fiscal risks, would enable the proactive identification and elevation of issues.

Over the medium to longer term, tighter fiscal constraints will raise the premium for stronger appraisal and selection processes. Binding fiscal rules, potentially falling EU investment funds after 2027, an aging population and other fiscal pressures will lead to increasing competition for public investment funds. While line ministries prepare, appraise, and select investment projects for the budget, a central challenge function would help to ensure consistency of approach, greater objectivity in the appraisal, visibility of the project pipeline, and prioritized selection of projects.

The report is structured as follows. Section I presents a picture of historic trends and composition of public investment in Slovenia. Section II shows the efficiency of public investment in Slovenia relative to regional peers. Section III sets out a brief summary of the challenges and recommendations in the near, medium and longer term. Section IV provides the full assessment of the PIMA, broken down by the phases of the investment cycle (planning, allocation, and implementation), as well as cross cutting issues. Section V articulates recommendations in more detail.

Figure 2. Design and Effectiveness of Public Investment Management Institutions Relative to Europe





Source: Staff calculations. Design (top chart), effectiveness (bottom chart).

Table 0.1. PIMA Summary Assessment for Slovenia

Phase / Institution			Institutional Strength	Effectiveness	Reform priority
PLANNING	1	Fiscal targets and rules	**HIGH** Fiscal policy in Slovenia is subject to EU and national fiscal rules and a MTFF sets medium-term deficit and expenditure ceilings.	**HIGH.** Fiscal rules are complied with (excluding COVID period). Debt is on a downward trend. MTFF has guided budget reparation.	Low
	2	National and sectoral planning	**MEDIUM** The National Plan has no costings. Sectoral Plans have costings but are not constrained by medium term ceilings. Outputs are measured. Outcomes less so though they are linked to the national plan's outcome targets.	**LOW** Projects from sectoral Plans are not adequately linked to medium term budget constraints. They do identify major projects, sometimes costed. Large and EU projects include outputs and sometimes outcomes.	Medium
	3	Coordination between entities	**MEDIUM** Major municipal projects coordinated with central government. Transfers to municipalities as co-funding of EU-funded projects or by competition. Only PPP contingent liabilities required to be monitored.	**MEDIUM** Major municipal projects effectively coordinated with central government. Transfers to the municipalities done according to published criteria. Contingent liabilities of municipalities and PCs not monitored by MoF.	Medium
	4	Project appraisal	**MEDIUM** Project appraisal is required, but not review nor publication. Standard appraisal methodology but no central support. Risk assessment required, but not risk management.	**LOW** Appraisal seldom done before project selection to the Budget. MOF has no interaction with ministries on project appraisal. Weak risk assessment.	High
	5	Alternative infrastructure financing	**MEDIUM** Not enough incentives for private investment in infrastructure. Strong legal framework for PPPs. Government not required to review PC investment plans.	**LOW** Many public-sector local monopolies in infrastructure. No PPP strategy. No government review of investment plans of PCs.	Medium
ALLOCATION	6	Multi-year budgeting	**MEDIUM** The MTEF displays capital and current budgets over 4 years. Ceilings provided during budget preparation are aggregate. Full project costs are shown for all projects.	**MEDIUM** Capital appropriations are decided by ministries within an aggregate ceiling and then entered in the MTEF. Total project costs are entered into the MTEF before projects are approved for implementation.	Low
	7	Budget comprehensive-ness and unity	**MEDIUM** Most capital spending is disclosed in the budget documentation. Capital expenditure of companies under SSH is not reported in budget documents. Capital and Current budgets are presented together in the budget.	**MEDIUM** Capital and Current budgets are developed together, though significant project spending is carried out outside the budget. Some 30 percent of public investment is undertaken by extra-budgetary entities.	Low
	8	Budgeting for investment	**MEDIUM** Full project cost approved when entering the budget. Virements from capital to current budgets not restricted. No explicit protection of ongoing projects in budget.	**MEDIUM** Parliament approves total capital costs of projects. Low incidence of virements from capital to current spending. Ongoing projects do not suffer from lack of funding.	Medium
	9	Maintenance funding	**HIGH** Routine and capital maintenance costing based on standard methodologies. Maintenance systematically identified in the budget.	**HIGH** Appropriate amounts for maintenance. Capital maintenance projects well visible in the budget. Maintenance expenditure presented for each budget entity.	Low
	10	Project selection	**LOW** There is no requirement for project review prior to inclusion in the Budget. Publication of selection criteria not required. No requirement for maintaining a pipeline of appraised projects.	**LOW** There is no project review before projects enter the Budget. No criteria nor required process for project selection. No pipeline of appraised investment projects.	High
IMPLEMENTATION	11	Procurement	**HIGH** Competitive procurement of major projects is required. There is a procurement database and requirement for analytical reporting. Complaints reviewed by an independent body.	**MEDIUM** Scarce effective competition for large projects. Procurement database is comprehensive, easy to navigate. Review of complaints is timely, published, enforced.	High
	12	Availability of funding	**HIGH** Commitment ceilings are provided. Time for payment documentation is specified by law. External financing integrated in the government accounts as required by law.	**HIGH** Cash flow projections done. Cash for projects are released in a timely manner with no delays. External funds are integrated.	Low
	13	Portfolio management and oversight	**MEDIUM** No central monitoring of financial and physical progress is required for major projects. Re-allocation of funds is permitted by law. Ex-post reviews required by law.	**LOW** Major projects are not centrally monitored. Re-allocations not generally conducted. Ex-post reviews not done, except for some EU projects.	High
	14	Management of project implementation	**HIGH** Project management personnel are required by law. Cost adjustments are allowed. External audits are required by law.	**MEDIUM** Project oversight is done monthly. Cost adjustments not done regularly. Audits are conducted.	Low
	15	Monitoring of public assets	**HIGH** Asset registers are required to be comprehensive, updated regularly, and values should be in the financial accounts. Assets are required to be depreciated on asset specific rules.	**HIGH** Assets registers are comprehensive. Assets are revalued yearly. Depreciations are done and entered in the financial accounts.	Low

Table 0.2. Summary of Recommendations

Recommendations	Responsibility	Timeframe	PIMA Inst.
Accelerate capital investment execution and absorption of EU funds (near to medium term)			

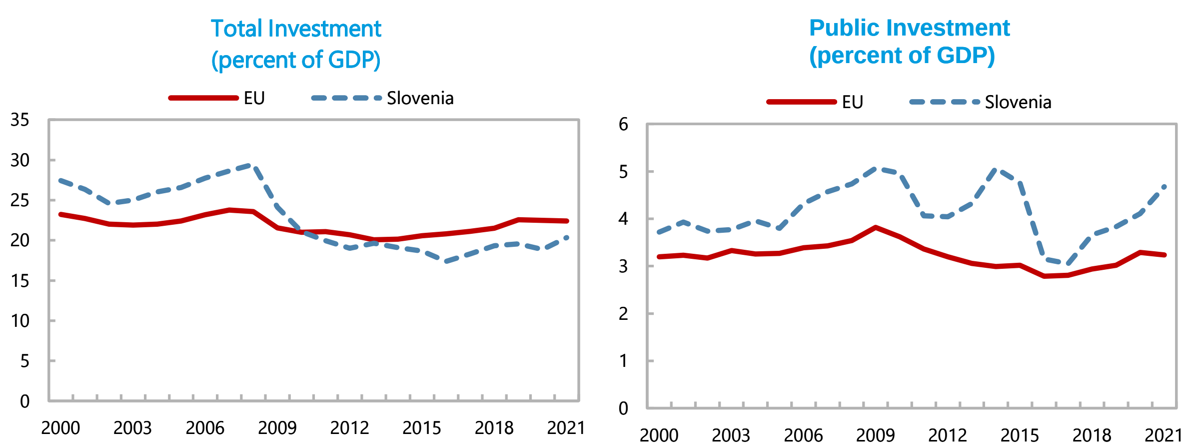
1. Provide explicit funding for project preparation, avoiding the presentation to the Budget of insufficiently developed projects.	Line ministries	Near/Medium term	4, 10
2. Increase internal capacity of line ministries for development of project preparation and design	MOF, Line ministries	Medium term	4, 10
3. Establish inter-ministerial Steering Committees for major projects	MOF, Line ministries	Medium term	3, 4, 10
4. Establish and adhere to clear timeframes for spatial planning	Ministry of Environment, Climate and Energy	Medium term	3
5. Undertake analysis to identify reasons for scarce competition in the procurement of construction contracts and produce recommendations for correction	Ministry of Public Administration	Near term	11
6. Development of market for domestic and international competition in order to facilitate investment project procurement.	Line ministries, Ministry of Public Administration	Medium term	11
Keep the growing portfolio on track and managing fiscal risks (near to medium term)			
7. Establish central function for physical and financial monitoring of project progress.	MOF	Medium term	13, 14
8. Establish central monitoring of portfolio for fiscal risks	MOF	Medium term	13, 14
Strengthen planning and budgeting for investment as fiscal space tightens (medium to longer term)			
9. Clear up capital project pipeline in budget	MOF, Line ministries	Medium/long term	7, 8
10. Introduce central review and central selection function	MOF	Medium/long term	4, 10
11. Strengthen appraisal methodology to enable the compilation of a single pipeline of appraised projects for selection	MOF	Medium term	4, 10

I. Public Investment in Slovenia

A. Public Investment, Capital Stock and Fiscal Policy

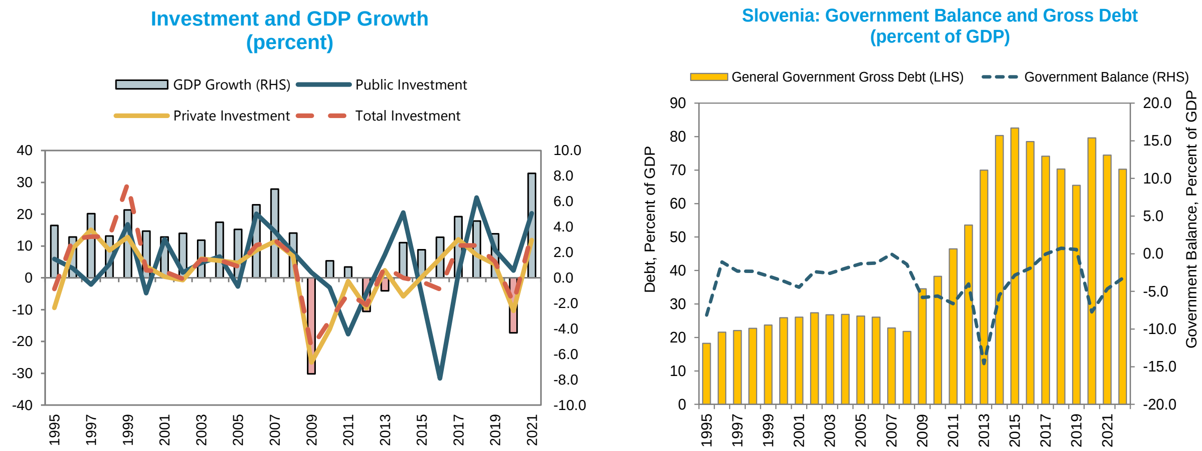
1. Public investment has remained above the EU average but with significant fluctuations. Total investment has experienced a notable decline as a percentage of GDP compared to the pre-global financial crisis (GFC) period, with the last decade consistently experiencing levels below the EU average (Figure 1.1). This downward trend can be primarily attributed to weaker private investment activity, while general government's investment has exceeded the EU average by approximately 1 percent of GDP, although with greater volatility. The banking crisis of 2012-13 and the surge in public debt due to capital injections reduced fiscal space and prompted Slovenia to undertake a sustained fiscal consolidation (Figure 1.2). This resulted in a decrease in government spending, especially current expenditure, which declined by over 5 percent of GDP. Capital outlays were also affected and fell to 3 percent of GDP in 2016-17 but recovered in the subsequent years.

Figure 1.1. Total and Public Investment



Source: Eurostat, IMF staff calculations.

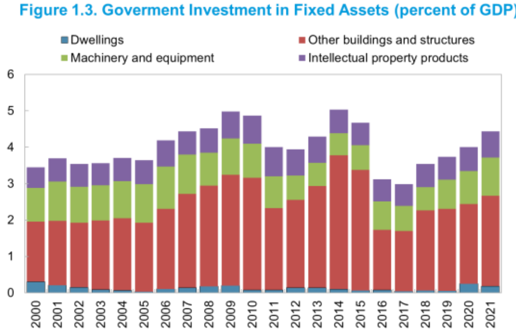
Figure 1.2. Public Investment, Deficit and Debt



Source: SURS, IMF staff calculations.

2. Buildings and structures comprise the bulk of public investment. Over half of the general government spending on acquisition of fixed assets has been directed towards buildings and structures. This component is also the one that exhibits the highest volatility. Meanwhile, investments in intellectual property products have remained relatively stable at around 0.7 percent of GDP or less than a quarter of the total for the economy.

Figure 1.3. Goverment Investment in Fixed Assets (percent of GDP)

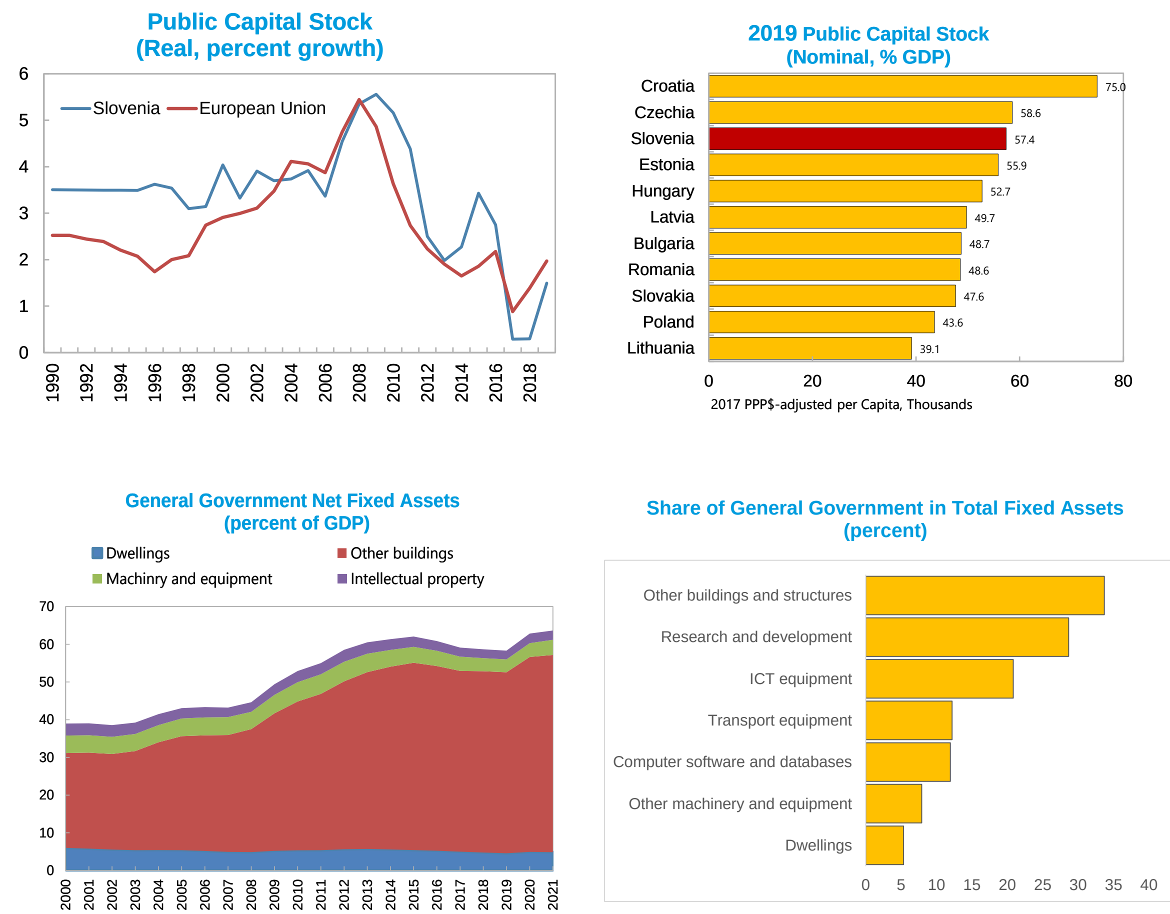


Source: SURS, IMF staff calculations

Slovenia has a relatively high public capital stock compared to peers. The growth of public capital stock in Slovenia has slowed down considerably after the GFC (Figure 1.4). However, similar trends have also been observed in other EU countries and Slovenia continues to have one of the highest public capital stock in the EU members from Central, Eastern and Southeastern Europe (CESEE-EU), both relative to GDP and in per capita terms.[1] Its ranking is consistent with the country's GDP per capita which is among the highest in this comparator group. The composition of investment in fixed assets has shaped the structure of public capital stock, with the share of other buildings and structures more than doubling, while the other components remaining broadly stable relative to GDP. Notably, in certain asset classes, such as intellectual property products, the general government sector owns close to 30 percent of total non-financial assets.

[1] This group of countries include Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia. It is used to calculate comparator averages referenced in the report.

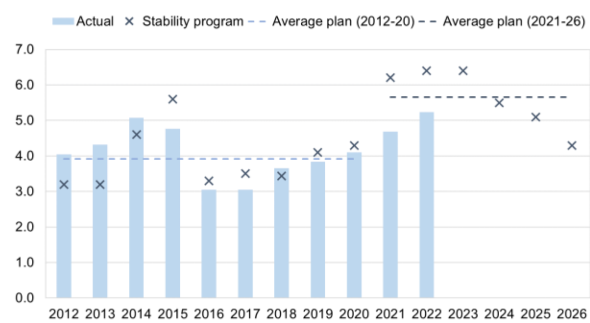
Figure 1.4. Public Capital Stock



Source: Eurostat, IMF staff calculations.

3. Public investment is expected to pick up noticeably, underpinned by increased EU funds. Increasing growth-friendly investment, digitalization and the green transition is a key medium-term priority for Slovenia. The 2023 Stability Program envisages public investment to increase further to above 6 percent of GDP on average in the current year and remain elevated in the medium term (Figure 1.5). This increase is largely driven by the investments and reforms included in the National Recovery and Resilience Plan (NRRP) and is supported by EU grants and loans, equivalent to about 4 percent of 2021 GDP. The NRRP includes large projects in infrastructure, e.g., to reduce the risks related to floods and other climate-related disasters, promote sustainable transport (railroad infrastructure) and enhance energy efficiency, as well as significant investment in healthcare and long-term care to address long-term demographic challenges. While the planned stepping up of public investment is justified to ensure that Slovenia remains on a sustainable

Figure 1.5. Actual and Planned Public Investment from Planned (percent of GDP) 1/



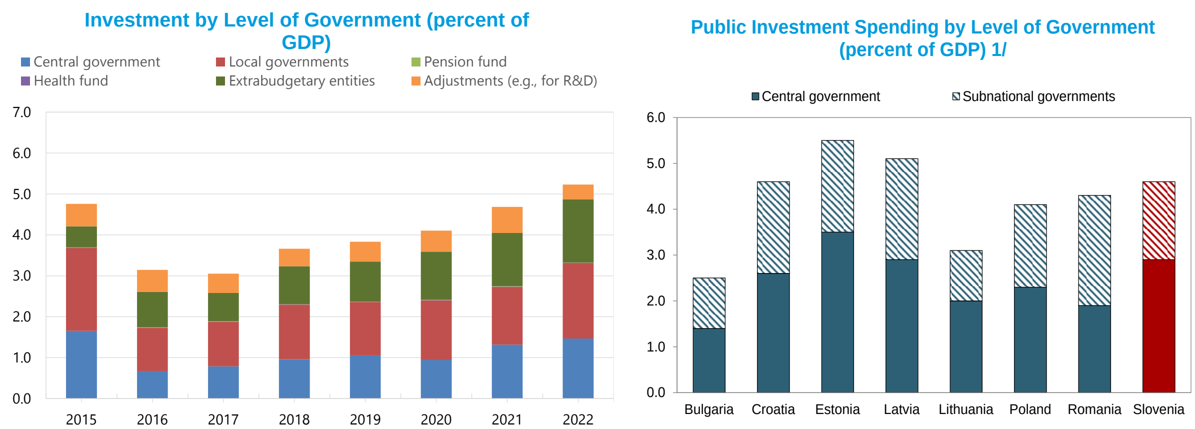
Source: Stability Programs 2012-23, SURS, IMF staff calculations.

growth path, there are implementation challenges, including related to rising costs and labor market constraints. This underscores the importance of increasing investment efficiency and absorption capacity.

B. Composition and Financing of Public Investment

4. Most public investment projects are undertaken by the central government and extra budgetary entities. The share of local governments has hovered around 40 percent of the general government's investment, although at times it has comprised more than half of it (Figure 1.6). However, a significant part of the capital expenditure is carried out by special funds, such as the health investment fund or the climate fund, and extra-budgetary units (e.g., the entity in charge of the Divača–Koper railway second track construction 2TDK). Investment by the social security funds is minimal. PPPs are much less represented in Slovenia than on average in the EU and other advanced economies (Figure 1.7).

Figure 1.6. Public Investment by Level of Government

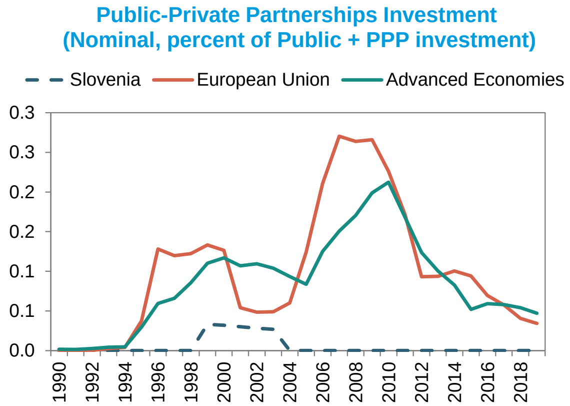


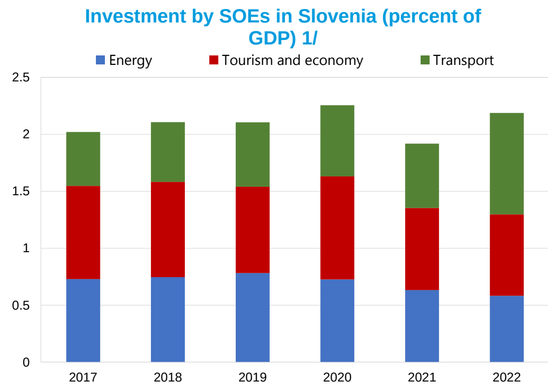
1/ Subnational governments include local governments, and social security funds. For Slovenia, central government includes extrabudgetary entities.
Source: Eurostat, IMF staff calculations.

5. Public Corporations (PCs), on the other hand, represent an important part of the broader public sector, with state equity holdings of about 17 percent of GDP and investment of around 2 percent of GDP. These include both strategic holdings, where the state has a controlling stake, notably companies in the energy sector and the motorway construction company, as well as portfolio investments, e.g., in tourism, finance and other sectors of the economy. Key categories of capital expenditure for different entities of government include:

- Central government: national roads, rail tracks, hospitals, schools.
- Municipalities: water, sanitation, solid waste disposal, sports facilities, kindergartens, elementary schools, municipal roads, primary healthcare facilities.
- Extra budgetary entities: specific projects (e.g., railway).
- Public corporations: highways, energy infrastructure, natural gas infrastructure, and power plants.
- PPPs: international airport (Fraport), specific municipal projects (e.g., renovation of Ljubljana office buildings, Ljubljana football stadium and sports arena).

Figure 1.7. Public Private Partnerships and SOE Investments

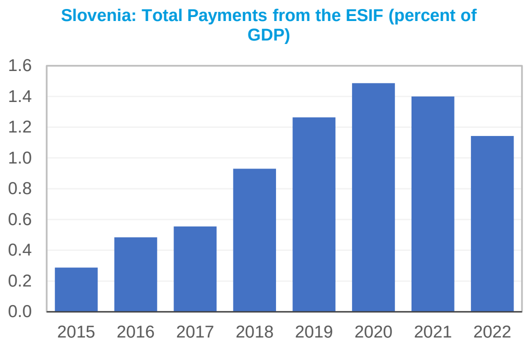


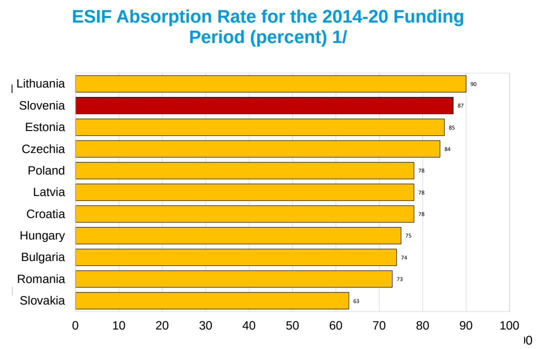


1/ Investment by companies included in the SSH, in some of which the SSH is a minority shareholder.
Source: Eurostat, Slovenian authorities, IMF staff calculations

6. **EU funds play an important role in the financing of public investment in Slovenia.** In 2022, their share of total project cost was 31 percent, entailing an additional 6 percent in co-financing. In the 2014-20 programming period, Slovenia received about EUR 3.7 billion (6.2 percent of 2022 GDP) in payments from the European Structural and Investment Funds (ESIF, Figure 1.8). Slovenia had among the highest absorption rates among the CESEE-EU countries. Estimates suggest a significant impact of these funds on investment and economic activity; a 1 percent GDP shock in ESIF leads to an increase in GDP and private investment by about 1.3 percent. The majority of financing was used for SME support, followed by research and innovation. In addition to grants, Slovenia companies have access to loans, e.g., from the EIB.

Figure 1.8. European Structural and Investment Funds (ESIF)



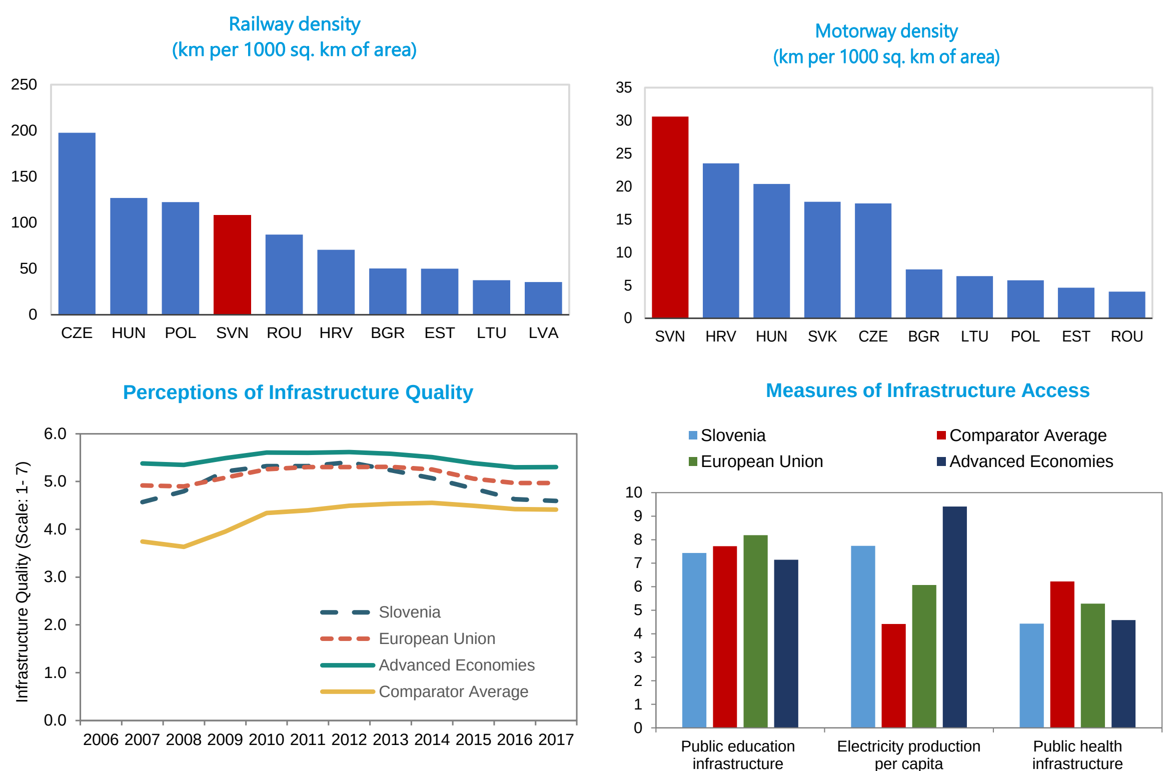


1/ Ratio between funds spent and plan.
Source: Cohesion Open Data Platform, IMF staff calculations

II. The Efficiency of Public Investment

7. Indicators of quality of infrastructure and access reveal a mixed picture. Quantitative indicators suggest that Slovenia is performing well in certain areas compared to peers, especially with regard to quantitative indicators such as motorway and railway density (Figure 2.1). A fuller exposition is set out in Brloznik, J. (2021), "Public Investment in Slovenia: Trends, Structure and Challenges", Republic of Slovenia Fiscal Council. However, perceptions of infrastructure quality have deteriorated. While a decade ago, Slovenia was at par with the EU average and above regional peers, after the banking crisis there was a clear downward trend which could be related to the decline in public investment in 2014-17. Based on the Logistics Performance Index scores, Slovenia falls behind the EU in most areas, although it fairs relatively well in the CESEE-EU group. Access to education infrastructure is slightly better than the average for advanced economies but lower than the EU. There is also a negative gap in terms of access to health infrastructure, which the government's recent focus on investments in the health sector aims to address.

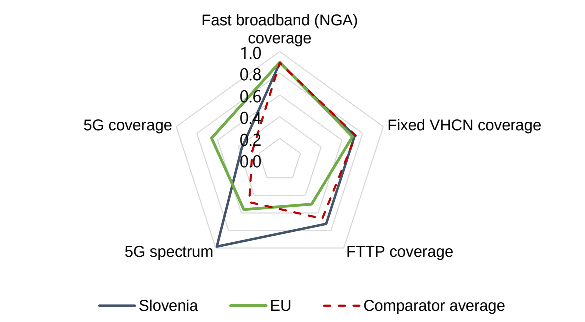
Figure 2.1. Infrastructure Indicators



Source: Eurostat, IMF staff calculations.

8. Slovenia performs well also with regard to connectivity and digital infrastructure. It is among the leaders in the amount of spectrum assigned and ready for 5G use within the pioneer spectrum bands (text figure). However, the percentage of populated areas with 5G coverage is well-below the EU average, albeit not very different from the other CESEE-EU countries. The percentage of households covered with very high-capacity networks (VHCN) and access to fiber optics is also greater compared to peers. One of the objectives in the government's strategy for digital transformation is to provide all households with high-speed broadband internet connection by 2025 and the NRRP includes investments in VHCN for households in "white spot" areas.

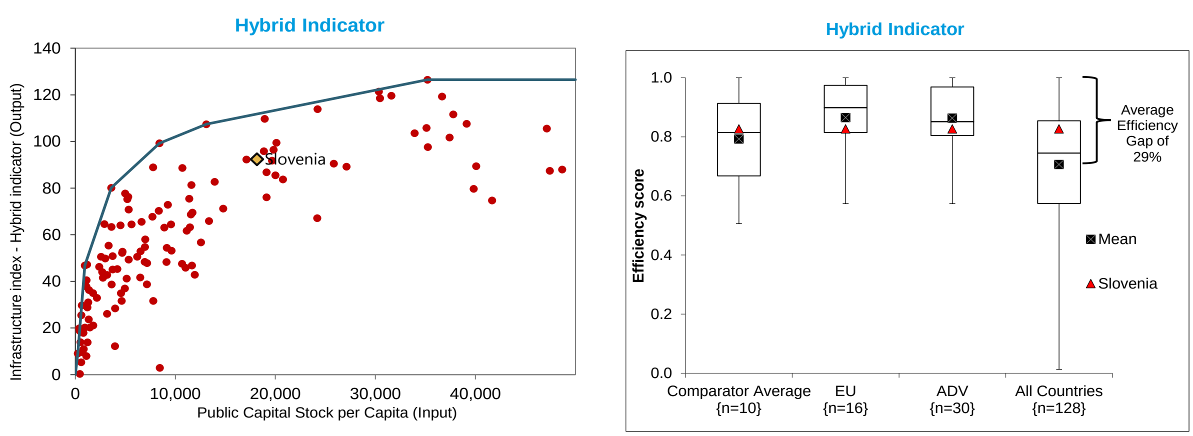
Indicators of Digital Infrastructure



Source: The Digital Economy and Society Index and IMF staff calculations.

9. There is scope for increasing public investment efficiency in Slovenia. Based on the IMF methodology [2] which uses standard quantitative and qualitative indicators for a large number of countries, the estimated efficiency gap between Slovenia and the most efficient countries with comparable per capita capital stock is 17 percent for the hybrid indicator (Figure 2.2).[3] The distance between Slovenia's efficiency gap and that of other advanced economies and the EU is about 4 percent. These results suggest room for improvement as closing the gap relative to the most efficient economy would bring tangible gains in terms of availability and quality of infrastructure per dollar spent on investment.

Figure 2.2. Public Investment Efficiency



Source: IMF staff calculations.

[2] The IMF has developed a methodology for estimating the efficiency of public investment. Efficiency of public investment is defined as the relationship between the value of the public capital stock and the measure coverages and quality and quantity of infrastructure assets. The methodology is detailed in the 2015 paper "Making Public Investment More Efficient". A "frontier" is estimated, consisting of the countries achieving the highest "output" (i.e., quality and access of infrastructure) per unit of "input" (capital spending for similar income level). Using a consistent set of data, the performance of a total of 128 countries is compared against the frontier.

[3] The hybrid indicator combines the physical and survey-based indicators into a synthetic index of the coverage and quality of infrastructure networks.

III. Summary of Challenges and Recommendations

10. This section summarizes the key challenges identified through the PIMA in the context of the broader ambitions and constraints of the Slovenian authorities. The challenges are set out over the short term to accelerate execution of public investment and absorption of EU funds; over the short-medium term to keep the public investment portfolio on track and manage associated fiscal risks, and over the medium-longer term to maximize the impact of investment against the backdrop of mounting fiscal pressures. The relevant recommendations are articulated in further detail in Section V.

11. In the near term, a key challenge is to execute the capital budget and optimize use of EU funds over the 2021-2027 programming period. Slovenia plans to increase public investment to between 5-6 percent of GDP over the coming three years, underpinned by increased EU funds. However, capital expenditure has under executed by approximately 20 percent relative to plans in 2021 and 2022. Bottlenecks to execution of capital projects will need to be addressed, including:

- **Project preparation and design capacity.** Line ministries and municipalities are responsible for preparing and designing projects and achieving implementation readiness. The limited capacity in some line ministries and municipalities for preparation and design is highly likely to act as a constraint on the preparation of robust projects. This can lead to delays in achieving implementation readiness, or reduced quality of the project proposals, which can lead to further delays and cost overruns during the implementation phase. *Ensuring explicit funding for project preparation (Recommendation 1) and bolstering capacity within line ministries and municipalities to undertake project preparation would help to mitigate this constraint (Recommendation 2).*[4]

- **Delays in final project approval.** Some projects have been hampered by lengthy processes in obtaining design decisions and approvals, and too-late consultations with key stakeholders and ministries which have led to delays and avoidable iterations in project design. *High-level project steering committees for major projects can be appointed for improved coordination. They can be tasked with presenting recommendations to the government on actions and decisions needed to facilitate the development and preparation of all documentation, including appraisal studies, and the obtaining of licenses (Recommendation 3).*

- **Issues with obtaining spatial planning and permits.** Challenges in obtaining spatial planning and permits have led to significant delays in numerous projects. *Clear timeframes could be set out and adhered to for spatial planning to minimize the planning phase timeframe and to expedite readiness of major projects (Recommendation 4).*

- **Construction sector capacity.** Obtaining domestic or international contractors for construction work is a common challenge, as reflected in poor competition in procurement. *Addressing scarce competition in the procurement of construction contracts should start with an analysis of the causes of low-competition tender processes (Recommendation 5) and produce recommendations for supporting the development of the market for domestic and international competition (Recommendation 6).*

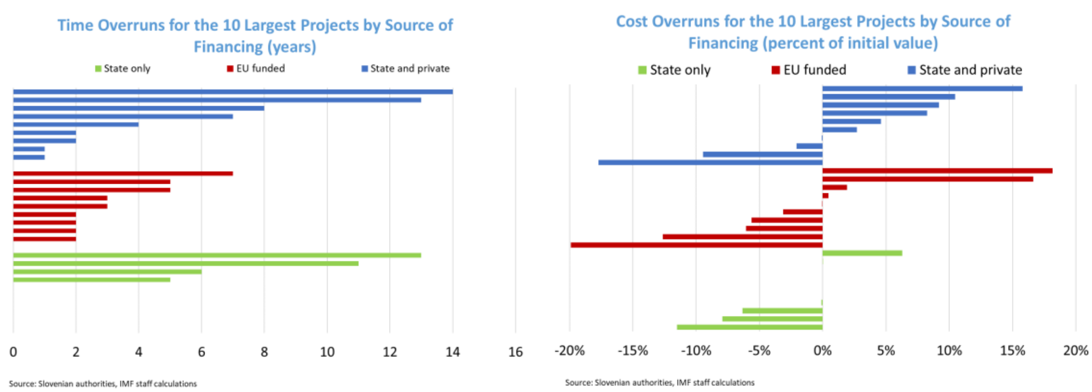
[4] Design consultants, including the firm DRI (a public corporation), can support ministries but cannot substitute for permanent staff who need to commission and oversee this work.

12. **As capital investment reaches high levels, keeping the public investment portfolio on track and managing fiscal risks will become a priority.** As shown in Figure 3.1, deviations in terms of project costs and time are prominent in major projects. Further analysis should be undertaken to understand the causes of these deviations; it is likely that weaknesses in the planning phase are often primary causes (see Institution 14). Implementation and fiscal risks will become more prominent towards the end of the EU programming period as pressure rises to finalize projects. Issues include:

- **Growing implementation challenges from the public investment portfolio.** Monitoring the physical and financial progress of major projects, supporting and challenging ministries and municipalities, can help to manage cost and time overruns. *A central function to monitor both physical and financial progress will enable the proactive identification and elevation of issues throughout the implementation cycle of major projects. (Recommendation 7).*

- **Growing potential fiscal risks from the public investment portfolio.** Fiscal risks from a large and growing portfolio can result in calls on state budget resources, including from guarantees issued to implementing entities, legal risks during construction, and significant increases in expected costs that cannot be absorbed within entities' budgets. *A central function will enable the proactive monitoring of the major fiscal risks stemming from the portfolio of public investment and make recommendations to manage and mitigate them in a timely manner. (Recommendation 8).*

Figure 3.1. Cost and Time Overruns for Largest Projects



13. **Over the medium to longer term, competition for investment space will increase across government.** Binding fiscal rules, potentially falling EU investment funds after 2027 (reflecting the convergence of Slovenia to average EU income levels), and other fiscal pressures including those from planned increases in health spending and from an ageing population, will lead to increasing competition for public investment funds.

14. **Maximizing the impact of public investment projects will require addressing issues in the appraisal, selection, and budgeting process.** Ensuring that projects are well appraised, that the highest value projects are selected, and that scarce capital funding is well planned and allocated, will become increasingly important as fiscal space becomes constrained. A number of issues in the public investment system still need to be addressed.

- **Immature projects in the budget which are not implementation ready**. Projects can enter the budget without substantive project appraisal. This can lead to significant changes in scope from what was accepted into the budget, reducing the effective oversight of legislature and its approval process. As projects are often not yet ready for implementation, this can lead to projects with a ‘long and uncertain tail’ in the budget before they make substantial progress. Uncertainty in what is realistic can undermine the credibility of capital allocations and create inefficiencies in the use of fiscal space. *Clearing up the capital pipeline of line ministries or setting requirements for review of projects that fail to implement after several years could free up fiscal space for priority projects. (Recommendation 9).*

- **Appraisal and selection do not face external challenges or central review.** Line ministries prepare, appraise, and select investment projects for the Budget, but there is no external challenge to ensure consistency of approach and challenge to the appraisal and selection of projects. The MOF should have an increased role in reviewing project appraisals and budget priorities. *Establishing a central function to review line ministries’ appraisals and application of selection criteria would raise appraisal standards and strengthen MOF budget prioritization to optimize the use of the available fiscal space (Recommendation 10). Strengthening appraisal methodology will enable the compilation of a single pipeline of appraised projects for selection (Recommendation 11).*

15. The reforms set out take years to establish and become effective. Slovenia should use the coming years as a window of opportunity to strengthen functions, and to integrate good practices, where appropriate, from the public investment processes of EU funded projects. Some international examples of central functions that support public investment appraisal, selection and monitoring are presented in Box 1.

Box 1. International Examples of Central Public Investment Units

To address the need for the central functions outlined above, a number of advanced and emerging market countries have established special entities to provide advisory services such as the independent review of major projects, development of best practice methodologies, medium to long-term demand analysis, development of alternative financing models, and monitoring the implementation of major projects. In some of the countries, the entities are established within the executive, usually the finance ministry, in other cases they are at arms' length from the government.

- **United Kingdom:** The Infrastructure and Projects Authority (IPA), established in 2018, reports jointly to the UK's Cabinet Office and HM Treasury. A core task of the IPA is to prepare and publish a National Infrastructure and Construction Pipeline. The Pipeline includes about 700 major projects at all stages of the cycle in seven different sectors with a value of £700 billion over 10 years. The IPA tracks progress in delivering the projects included in the Pipeline. In addition, the IPA provides expertise and advisory services to government departments and agencies on building capacity to deliver capital projects, especially for the most critical and complex projects, and provides assurance on the mitigation of project risks.[5]
- **Ireland:** Appraisals of all major projects are subject to review by the Department for Public Expenditure and Reform (DPER), with input from external expertise on an as-needed basis. Review within the DPER is supported by the in-house appraisal and evaluation team. This team forms part of the Irish Government Economic and Evaluation Service (IGEES), which provides central support for the application of appraisal and evaluation methodologies across government. IGEES economists are also seconded to departments to provide expertise in economic analysis of projects.[6]
- **South Africa:** The Budget Facility for Infrastructure within the Budget Department of the National Treasury, reviews appraisals of major infrastructure projects. They are also supported by the Capital Projects Appraisal Unit Capital, which is part of the Government Technical Assistance Center (GTAC), itself an agency of the National Treasury. GTAC also develops and maintains methodologies for cost benefit analysis and cost-effectiveness analysis for different elements of proposed investment programs.[7] The Municipal Infrastructure Support Agent (MISA) provides technical support to municipalities in infrastructure planning, implementation, as well as operations and maintenance. MISA is overseen by the Department of Cooperative Governance.
- **New Zealand:** The Treasury leads the government's investment management system and oversees and provides guidance on the performance of investments and assets. The Investment Management and Asset Performance (IMAP) team within The Treasury acts to advise government on investment decisions to ensure they are informed and prioritized well and align with government's long-term goals.
- **Mexico:** The Investment Unit within the Ministry of Finance and Public Credit participates in the processes of regulation, planning, programming, evaluation, budgeting and monitoring of investment programs and projects. It promotes investments in accordance with the objectives and strategies of the National Development Plan, analyzes projects in accordance with regulations, and prepares a package of prioritized projects which it submits to the Intersectoral Public Expenditure Commission for validation. During project execution, it prepares regular reports to Congress based on monitoring reports of implementing entities.

Source: IMF mission

[5] https://www.imf.org/en/Publications/CR/Issues/2022/09/01/United-Kingdom-Technical-Assistance-Report-Public-Investment-Management-Assessment-522790

[6] https://infrastructuregovern.imf.org/content/dam/PIMA/Countries/Ireland/Documents/IrelandPIMATAR.pdf

[7] https://www.gtac.gov.za/programmes-services/capital-projects-appraisal/

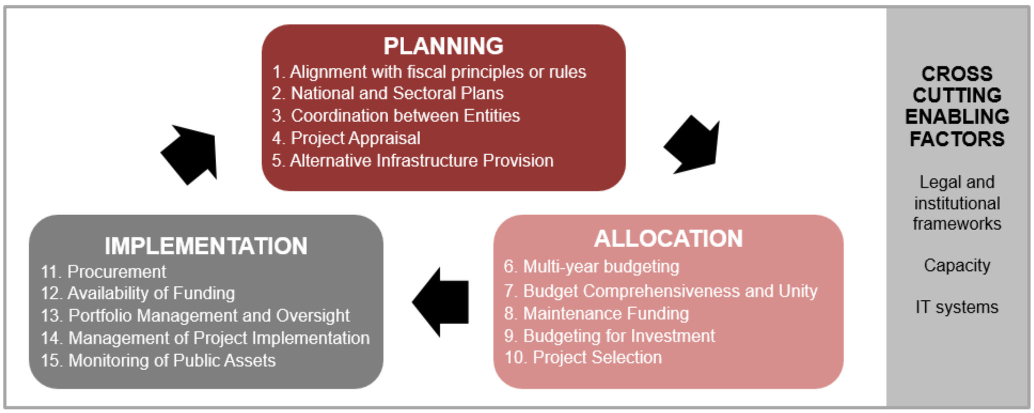
IV. Public Investment Management Institutions

A. The PIMA Framework

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

17. The tool evaluates 15 "institutions" involved in the three major stages of the public investment cycle (Figure 4.1). 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 4.1. PIMA Framework



Source: Public Investment Management Assessment Handbook.

18. For each of these 15 institutions, three indicators are analyzed and scored according to a scale that determines whether the criterion is met in full, in part, or not met (see Annex 2 for the PIMA Questionnaire). Each dimension 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, which may be high, medium, or low.
- *Reform priority* refers to whether the issues contained within the institution are important to be improved in the specific conditions faced by Slovenia.

The following sections provide a detailed assessment of Slovenia according to this methodology.

B. Investment Planning

1. Fiscal Targets and Rules (Strength—High; Effectiveness—High; Reform Priority—Low)

19. Efficient investment planning requires institutions to ensure public investment is fiscally sustainable over time. Clear objectives guiding fiscal policy help to ensure debt sustainability and to align planning, budgeting, and the funding for public investment. This first PIMA institution aims to ensure that long-term fiscal targets are in place to promote long-term debt sustainability, there are limits to fiscal aggregates to achieve sustainability objectives over the medium term, and a Medium-Term Fiscal Framework (MTFF) is prepared and contains macro-fiscal targets and forecasts that are consistent with these rules.

20. Fiscal policy in Slovenia is subject to the provisions of the Stability and Growth Pact (SGP), which has helped ensure debt sustainability. As an EU member state, Slovenia needs to abide by the SGP to keep the budget deficit below 3 percent of GDP and public debt below 60 percent of GDP. In the years leading up to the COVID-19 pandemic, fiscal consolidation efforts resulted in fiscal balances below the 3 percent benchmark from 2017-19. This reduced public debt significantly although it remained slightly above 60 percent of GDP in 2019. While the pandemic caused gross debt to rise in 2020, net debt did not increase as much due to the build-up of cash buffers at a time of high uncertainty and low interest rates. Public debt has since been on a declining path and is projected to converge toward 60 percent in the medium term.

21. In addition to the EU rules, national fiscal rules have played an important role in guiding fiscal policy. The national fiscal rules are defined in the Fiscal Rule Act (Official Gazette 55/15 of 24 July 2015 or ZFisP) and comprise a structural balance threshold and an expenditure ceiling (Box 2). They cover the state budgets and general government sector. Compliance with the fiscal rule and more broadly, the appropriateness of fiscal policy, is assessed by the Fiscal Council which enjoys significant operational independence. Overall, fiscal policy has been largely compliant with the fiscal rules, although at times compliance has been challenging to ascertain, particularly due to difficulties in estimating the output gap. The COVID-19 outbreak triggered the activation of the escape clause, allowing fiscal policy to temporarily deviate from the main goal of achieving a balanced budget.

Box 2. The Fiscal Rule Act

The Fiscal Rule Act (FRA) was adopted in 2015, following an amendment to the Constitution which stipulates that government revenue and expenditure must be at least in balance in the medium term (Art. 148). This general principle is operationalized in the FRA, where the balance is defined as the structural balance of the general government sector in the medium term is taken to mean the duration of the business cycle.

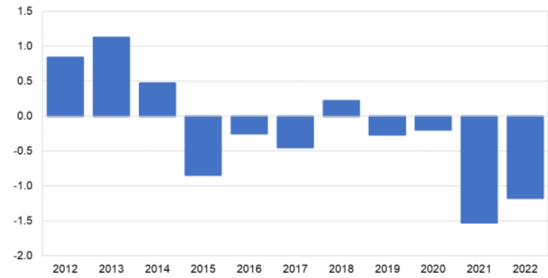
In addition, the FRA sets a maximum level of expenditure based on a formula which depends on whether GDP is above or below its potential level such that to ensure that the structural balance is not lower than the level envisaged by the fiscal compact.

Deviations from the balanced budget principle are only allowed in exceptional circumstances, defined as periods of severe economic downturn and extreme events with a major impact on the general government, as long as such deviations do not endanger fiscal sustainability.

The FRA provides the legal foundations for the operation of the Fiscal Council, which is tasked with conducting ex-ante and ex-post assessments of fiscal policy in relation to the rules. The members of the Fiscal Council are elected for a five-year term by the National Assembly with a two-thirds majority, which shields the institution from the political cycle.

Source: IMF mission

Figure 4.2. Deviations of Actual Public Investment from Planned (percent of GDP) 1/



1/ Difference between actual pubic investment and the level presented in the Stability Program for the same year.

Source: Stability Programs 2012-23, SURS, IMF staff calculations.

22. **A medium-term fiscal framework (MTFF) is used to guide the budget preparation.** The MTFF in Slovenia is regulated by the Public Finance Act (Official Gazette 79/99 of 30 September 1999 or ZJF) and the FRA and takes the form of a decree establishing limits on the balance and expenditures of the general government and separately, the central and local governments and the pension and health funds for the next three years. The medium-term fiscal policy is elaborated in the Stability Program (SP) which is an integral part of the MTFF and is forwarded to the National Assembly, along with an assessment by the Fiscal Council. The SP contains a breakdown of expenditure, including current and capital, as well as forecasts of the main categories of revenue and public debt developments and government guarantees, among others. Slovenia's fiscal framework has served well in supporting public investment planning, with deviation of capital spending in the draft budgetary plan from the level indicated in the SP of less than 10 percent in the recent years. However, the gap between planned and realized investment is larger.

23. **Reducing the fiscal deficit in a growth-friendly manner and strengthening the MTFF should be a priority.** The exceptional circumstances allowing for temporary deviations from the fiscal rules will cease to apply from next year and it is important that the deficit is reduced in a way that protects productive capital spending. Improved medium-term planning could help achieve this goal, including by ensuring that the annual budgets are tightly linked to the MTFF and the outturns are in line with the plans. Distinction in the SP between capital expenditure on new and ongoing projects is currently not made and could be useful to facilitate the planning process and improve the investment outcomes.

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

24. **This institution is intended to determine if there is an overall framework of strategic development goals and objectives to be achieved through public investment spending.** First, it looks at whether there are national and sectoral strategies published by the government which cover all public investment projects regardless of their financing source. It also highlights the importance of anchoring these strategies in a realistic macroeconomic and fiscal environment in order to guide the allocation of investment spending over the medium term. Finally, it looks beyond the fiscal envelope and reinforces the concept of nonfinancial project benefits - the value of an individual project, and its contribution to overall goals, should be ultimately assessed through its contribution to outputs and outcomes.

25. **The Slovenian Development Strategy 2030, prepared in 2017, is accompanied by numerous sectoral strategies developed over recent years.** Plans are developed for most sectors, with varying degrees of project identification and costing, and often driven by eligibility criterion for EU funding. Some strategies include comprehensive project identification and sources of financing (e.g., the Transport Development Strategy, Health Sector Strategy) while others are less specific and are intended

as broad guidance to relevant Government Departments and SOEs (e.g., the National Energy and Climate Plan). Many of the major projects identified in strategies are included in subsequent budgets or in the implementation plans of SOEs, although they often undergo significant changes before implementation.

26. Some sectoral strategies provide costings for broad portfolios of projects as required for EU funding. While the Slovenian Development Strategy does not include costing, sector strategies such as Water Resources and Transport do provide sector costings and sometimes include financial constraints, although these are linked to EU funds rather than national fiscal resource envelopes. They also include detailed financial costing for major projects, such as motorways and flood defenses. For these, there is good alignment with the total project cost that is included in the budget. Others have seen significant increases since appraisal. However, sector strategies include many un-appraised projects in the budget with costings estimated at identification stage. Overall, it is difficult to compare cost estimates in sectoral plans and those included in subsequent budgets.

27. There are examples of good practice in defining performance indicators for monitoring sectoral strategies, including some specification of outcome indicators. Output indicators are included in most sectoral plans. The Transport Development Strategy contains both output and outcome indicators, for which quantitative baseline figures and targets are set, with verification and frequency of monitoring. Sectoral strategies covering major infrastructure projects identify objectives, outputs, outcomes and sources of funding. Major projects on budget all have performance data but other major projects exist which do not disclose such information e.g., Nuclear Power Plant Krško.

28. Authorities should seek to improve the development of strategic national and sectoral priorities and their translation into the budget. Sector Strategies could be strengthened by acknowledging medium-term financing constraints on investment expenditure, in order to provide a stronger link between strategic planning and the budget.

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

29. Various levels of government and agencies should coordinate public investment initiatives and funding to allow coherent project planning and implementation. This institution first assesses the level of coordination between the central government and subnational administrations and whether the central government uses a transparent rule-based system for making capital transfers to municipalities. It also analyzes the framework for the reporting and disclosure of the central government's exposure to major fiscal risks related to public investment projects carried out by other public entities (Public Corporations (PCs) and Public-Private Partnerships (PPPs)).

30. Major municipal investment projects are coordinated with central government, and there are formal discussions between municipalities and central government on investment priorities. Municipal strategies and priorities must comply with sectoral strategies, and projects eligible for EU funds must be coordinated with the Ministry of Cohesion and Regional Development (MOCRD) and the line ministries with intermediate responsibilities in managing EU funds. In practice, a significant volume of formal interaction occurs between government and municipalities, because not only municipal investment projects are scrutinized by line ministries and the MOCRD, but also because central government projects must be approved by the municipalities where they will be implemented.

31. Following the Act on Municipal Finances (Act 123/06 of 30 November 2006, or ZFO), transfers to the municipalities are done by open competition. Prior to the relevant fiscal year, or even during the fiscal year when funds will be used, line ministries organize competitions for the disbursement of their allocated budget for transfers to municipalities.[8] The system is highly transparent, with published rules and criteria, but does not always allow for significant advance notification of recipient entities which can affect planning. The system has been operating with no apparent challenges, in a context where major municipal projects benefit from European funds, coordinated in advance with the MOCRD. In the water and wastewater sector, the most relevant investment sector for municipalities, funds for approved municipal projects are managed by the Ministry of Natural Resources, which controls invoices and pays directly to contractors.

32. Contingent liabilities from investment projects of general government are published, but those arising from major projects of PCs are not reported to the central government. The Budget Department monitors the finances of municipalities and the MoF publishes general government contingent liabilities on its website.9 The PPP Law (Act 127/06, of 7 December 2006, Article 20) mandates the MOF to monitor PPP contingent liabilities, but currently the central government has no significant volume of PPPs. No central government entity monitors the contingent liabilities of PCs and their individual projects. Not all line ministries monitor the contingent liabilities of PCs in their sectors.

33. The MOF should monitor the contingent liabilities of municipalities and PCs, including from PPPs. The current monitoring of municipal finances by the Budget Department should be extended to their contingent liabilities (including the ones arising from the public corporations managing infrastructure services. The MOF should also monitor the contingent liabilities of PCs either in the context of public investment implementation monitoring, or in the context of fiscal risk management — although most are registered under commercial law, they create implicit (if not explicit) contingent liabilities for government.

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

34. Good practice in project appraisal ensures that all projects are rigorously analyzed before they become eligible for financing. Project appraisal refers to project analyses and preparation before project approval. It is often conducted by the project proponent and includes the steps of project concept, pre-feasibility study (for large projects), feasibility study and detailed design. It is important that major projects are subject to rigorous economic, financial, and technical analyses and ideally, their summary selected results should be published or undergo independent external review. Standard appraisal methodologies enable comparison among projects in the review of project appraisal results which occur in a later stage as a part of project selection (Institution 10). Because major projects are exposed to uncertainty that may disrupt project implementation, risk assessment and mitigation are an essential part of project appraisal.

35. The legislation on investment projects requires major projects to be subject to rigorous technical, economic, and financial analysis, but does not require a review process nor publication. The regulation on Uniform Methodology describes and sets requirements for the components of project

[8] The relevant line ministry checks the procedures for selecting contractors, verifies the eligibility of expenditure and finally checks whether the project has been implemented in accordance with the funds allocated

[9] https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-poltika/Blagajne-JF/Pogojne-obveznosti-sektorja-drzava-in-udelezba-drzave-v-kapitalu-zasebnih-in-javnih-druzb.xlsx

preparation and appraisal, according to project size.[10] Currently, the appraisal process is not used for its main purpose: the elimination of negative- or poor-value projects before they are approved in the Budget. Many projects are not appraised before inclusion in the Budget, and there is no evidence that projects are later eliminated or redesigned because of deficient performance in an appraisal process. Line ministries appraise their own projects, except those prepared by the PCs in their sector. The MOF typically receives the project concept (a project fiche presented in the APPrA online budget portal) and not the appraisal studies. EU-funded projects have their appraisal reports produced and presented to the European Commission, as a required condition for funding—but usually only after the project is already included in the Budget. Appraisal reports are usually not published, and only some EU-funded projects undergo independent external review (for example, review of projects above EUR 5m by the Jaspers program).

36. There is a standard methodology for project appraisal, but no government department is responsible for supporting proposing entities in applying the methodology. The Uniform Methodology applies to all central government investment projects, and to projects requiring state guarantees. Although the Uniform Methodology has been in place for many years, appraisal reports are not forwarded to the MOF, and the need for central support has not been assessed.

37. Regulations require the inclusion of risk assessment in project appraisal, but not a risk management plan. The Uniform Methodology requires project preparation to include a risk analysis with sensitivity analysis, both for the assessment of project variants, and for the appraisal of the selected project design. Risk assessment is not systematically used in project preparation and implementation. The challenges currently affecting major investment projects (for example, licensing and geological issues) hint at insufficient risk assessment and poor risk management in the initial stages of project development.

38. A systematic review of the appraisal reports of major projects by the MOF would ensure the development of more credible and resilient investment projects. The current standard methodology for project preparation could be developed in what relates to large projects, detailing appraisal requirements and addressing risk mitigation plans. In general, the risk assessment methodology could be strengthened, addressing a broad range of risk factors (from geological and other site risks to licensing issues, cost of materials, and even future operational risks) and explicitly requiring risk mitigation plans.

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

39. This institution assesses the institutional arrangements for the private sector, PPPs, and PCs to finance economic infrastructure. Creating opportunities for the private sector to finance infrastructure can help mobilize additional resources; however, adequate monitoring and risk management mechanisms should be in place to limit potential fiscal risks. To this end, the first dimension assesses if a sound regulatory framework is in place to promote competition in the key infrastructure markets. The second dimension assesses whether the government has a solid policy and legal framework for PPPs. The third dimension examines whether PCs' investment activities and financial

[10] Published in the official gazette as the "Regulation on a uniform methodology for the preparation and handling of investment documentation", on 9 June 2006 - "Uniform Methodology".

performance are overseen by the government in a way that would ensure sufficient coordination with national infrastructure investment priorities.

40. The legal and institutional framework does not create enough incentives for private sector engagement, and the provision of economic infrastructure is restricted to domestic public-sector monopolies or to competition between mainly public corporations. In sectors such as water and wastewater, or electricity transmission, local monopoly by a public corporation is the norm. Other sectors are formally open to competition (e.g., electricity generation, gas, rail freight, telecoms) but still have public corporations dominating or leading the market. There is scarce private sector investment in infrastructure, and the perceived competition comes mainly from (directly or indirectly) public corporations. The former telecom monopolist operator is still the market leader in the several submarkets, although its position has been gradually eroded by new operators. Repeated attempts to privatize the major telecom corporation have not been successful. In the rail sector, the state company is also the leader, with only the freight subsector seeing significant participation from private companies. The Agency for Communication Networks and Services of the Republic of Slovenia (AKOS) regulator was established in 2001 and regulates these two markets. Several subsectors were successfully deregulated (e.g., electricity generation) and are currently dominated by public corporations, although they are part of wider European markets.

41. The government created a strong legal framework for PPPs, but there is limited appetite to implement PPP projects. The PPP Law (Act 127/06, of 7 December 2006, or ZJZP) clearly defines the principles and procedures governing PPPs, including a strong fiscal management role of the MOF (a critical piece often missing in PPP laws, but not in Slovenia). No strategy for PPP implementation has been approved, and a few concessions were signed with private companies (e.g., Ljubljana airport) and public corporations (as in the case of the rail and highway networks).

42. The government does not systematically review the investment plans of PCs, and the government-appointed board members on PC boards report to the state holding SSH and not to government. There are no legally mandated arrangements for systematic and consistent information sharing regarding PC investment activities. The holding company SSH, the centralized manager of most SOEs, monitors their financial performance but does not publish a consolidated report on their investment plans. SSH does not assess nor oversee individual investment projects, except on an ad-hoc basis.

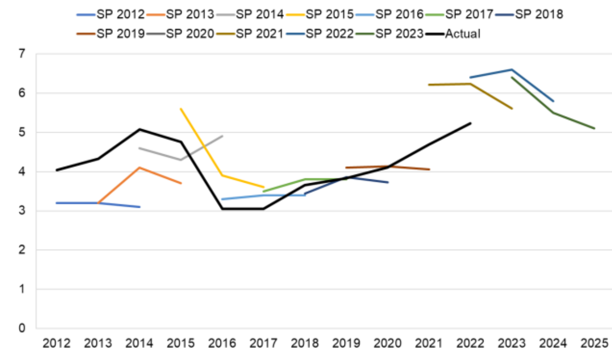
43. The size of Slovenia's economy constrains private sector investment in infrastructure, but the sizing of individual investment projects is also relevant. In some markets, for example telecoms and freight transportation, private investment is already present, but the commanding presence of PCs may prevent private investment in other sectors. In PPPs, there is no strategy defining priority sectors, and the small size of many projects does not allow for significant scale economies and so may dissuade private investors from investing. Nonetheless, municipalities have been able to sign PPPs for sports facilities and for office buildings energy-efficient renewal. There is a need for a clear strategy on private sector participation, identifying priority sectors for private investment and innovation, as purely private investment or under PPP/concessions, and addressing the main obstacles for private engagement.

C. Investment Allocation

6. Multi-year Budgeting (Strength— Medium; Effectiveness— Medium; Reform Priority— Low)

44. This institution is intended to assess the transparency and the predictability of investment by ministries, programs and projects over the medium term. Major public investment projects take more than one year to implement, and spending is not evenly spread over the duration of the construction phase. This simple fact complicates capital budgeting. There are three dimensions to thinking about a multiyear budgeting framework. The first dimension looks at multiyear overall estimates of resources available for public investment spending. The second dimension looks at the existence of multiyear ceilings by ministry or sector. Because most major projects are proposed by line ministries, projects can be prioritized most effectively if the multiyear funding constraint is brought down to their level. The third dimension identifies if the total construction cost for each project and required spending for each year within that total are known.

Fig. 4.3. Public Investment Plans and Realizations (percent of GDP)



Source: Stability Programs 2012-23, SURS, IMF staff calculations.

45. Medium term expenditure frameworks are presented by program. Aggregate capital expenditure ceilings are presented two years ahead as Slovenia adopts budgets for two years. The third representation of the budget, the Načrt Razvojnih Programov (NRP), presents expenditure by project over a four-year horizon.[11] All capital projects with any financing from the state budget, or EU funds, or with state guarantees are included in the budget documentation. Total capital expenditures by ministry are not presented, but in principle could be aggregated by summing capital-projects in the NRP for each ministry.[12] Between 2015-2020, there was moderate under-execution of the general government capital budget averaging 6 percent. However, under-execution rose in 2021 and 2022 to 25 and 18 percent respectively, coinciding with significantly increased ambitions and implementation constraints.

46. The budget circular issues multiyear ceilings at a ministry level. Line ministries are not provided with a capital ceiling and are expected to manage current and capital expenditures themselves. There is no mechanism to contain capital expenditure which could crowd out other recurrent spending – although the MOF monitors submissions to ensure that sufficient funds for salaries are provided. In practice, ministries manage capital spending within appropriate levels and are also able to leverage external funding to avoid crowding out recurrent expenditures.

47. Projections of the total construction cost of all capital projects are published, together with the annual breakdown of these costs over a four-year horizon. The NRP details the baseline cost, initial projected total cost of projects, the current estimate of total cost, and the expenditure profile

[11] There are three representations of the State Budget: 1) General, 2) Special and 3) Development, each with the same aggregate expenditure. These present the budget by economic classification, by ministry and policy area, and by program/sub-program, respectively. https://www.gov.si/teme/sprejeti-proracun/

[12] At an aggregate level, State level capital expenditures are presented in the Special part of the budget for the two years ahead. General Government capital expenditures are presented for the three years ahead in the Stability Program.

for the budget year and three further years, and remaining costs thereafter. Changes in cost estimates are explained in supplementary budget documents.

7. Budget comprehensiveness and unity (Strength—Medium; Effectiveness— Medium; Reform priority — Low)

48. A central tenet of budgeting is that all spending proposals should be evaluated together in order to allocate money most efficiently. Public investment projects should be selected from among all proposed projects, regardless of the status of the responsible entity or funding source. Doing so ensures that the most impactful projects are selected; and disclosure in the budget conveys the full extent to which infrastructure needs are being met. This is referred to as the *comprehensiveness* of the budget. In addition, capital projects should be selected with the related operating activities in mind. All completed infrastructure must be operated and maintained, and infrastructure supported activities are financed in the operating budget. Capital projects and services and activities supported by them should be viewed in the same program classification. The integration of the operating and capital budgets is referred to as the *unity* of the budget process.

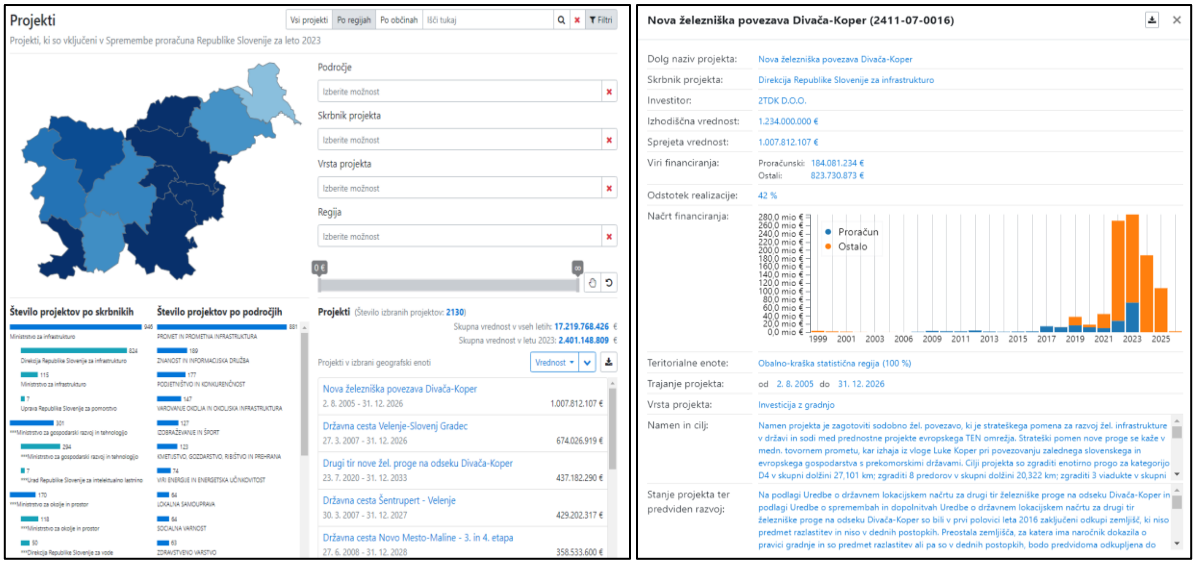
49. There are a number of significant non-commercial extrabudgetary entities (EBEs), although their expenditures are disclosed in the Budget. Project expenditures of large extrabudgetary funds are documented in the NRP. For example, this includes 2TDK (established for construction of the Divača–Koper railway) and the Healthcare Capital Expenditure Fund. Capital expenditures are substantial, at approximately 30 percent of general government investments in 2022 (see Figure 1.4). These were established with specific Acts, as required for every EBE. There are substantial number of other EBEs and there are no rules constraining their creation, although as far as the mission could ascertain, their expenditures are presented in the budget.

50. Public corporations' investment projects are included in budget documentation only if there is counterpart funding from the budget, EU funds, or if guarantees were issued. Such projects include large projects such as the Karavanke Tunnel and the Divača–Koper railway. Although concessions are not significant, they are not presented in the budget. All projects implemented by budget users with external funds are included in the budget. A highly commendable feature of budget transparency in Slovenia is the publication of the budget visualization tool, SAPPrA, which allows users to explore investment projects across the country, consistent with approved budgets (see Box 3).

51. Budgets are presented and prepared by program classification, which integrates recurrent and capital expenditures. Capital and recurrent needs are identified in a single program within each line ministry, which ensures coordination. Program budgets can be split by recurrent and capital components, although these are not shown in budget presentation. The MOF does not review the current budget implications of any capital projects to ensure that identified ongoing costs are appropriate. It is assumed that this task is carried out at Budget User level, which was the case at the Ministry of Health.

Box 3. Online Budget Visualization Tool - SAPPrA[13]

All investment projects funded through the budget can be viewed online the SAPPrA visualization portal. Projects can be viewed by region, with brief project descriptions, as well as total project costs broken down by year and by funding source. This provides a high degree of transparency and usability to members of the public. An example for the Divača–Koper project is shown below.



Source: IMF mission, Ministry of Finance

8. Budgeting for Investment (Strength— Medium; Effectiveness—Medium; Reform priority — Low)

52. **In theory, money for a project may not be sufficient even after it has been allocated budget funds.** Within the annual budget, pressure may arise to shift budget authorization to spend from capital to recurrent budgets.[14] This would necessitate that some project funding would be reduced. Strong rules are necessary to resist this temptation, which often takes the form of requiring approval from the legislature. Also, over the medium term, money may not be made available to complete a project on time. This might happen because total funding requirements were not well understood when the project was first approved, or approval of new projects may cause reductions in funding for projects already started.

53. **Total project budget costs are required to be included in the Budget under Article 12 of the Public Finance Act, but contractual commitments are not included in the budget documentation.** The budget is presented to the legislature which approves total project costs up front. Future costs associated with the project for each of the forthcoming four years are included. However, explicit information on contractual commitments is not included. The IT system prohibits line ministries from

[13] https://proracun.gov.si/Public/ProjectsVisualization

[14] Such transfers reduce the total size of the capital budget. Institution 13 addresses transfers between capital projects without affecting the total size of the capital budget.

committing over 80 percent of their capital budget to contractual commitments in the forthcoming year, to support flexibility in case of changes to fiscal space.[15]

54. There are no explicit rules preventing transfers from capital to current expenditure, although in practice this is limited by constraints on transfers between programs and sub-programs. Ministries can redistribute funds within their budgets up to 5 percent at program level and 10 percent at subprogram level.[16] Further changes require a supplementary budget approval from the legislature. This puts some constraint on the reallocation of funds from programs and sub-programs which are primarily capital focused to those which are primarily recurrent (and vice versa). In practice, there is no evidence of any significant reallocation of capital resources to current expenditure in aggregate, although quantification of the total virements between capital and current expenditure could not be obtained by the mission.

55. There is no legal requirement that ongoing projects are given priority in budget allocation each year, although there was no evidence of major projects stalled due to budget constraints. Total project costs and multi-year appropriations are included in budget approval, which helps to ensure that ongoing projects funding requirements are well captured in the budget preparation process. The mission did not encounter any instances of major projects stalled because of budget constraints.

9. Maintenance Funding (Institutional Strength—High; Effectiveness—High; Reform Priority—Low)

56. This institution focuses mainly on how the government assesses the maintenance needs of major infrastructure assets as it prepares the budget. Infrastructure cannot deliver long-lasting services and benefits if it is not maintained properly. It is thus important to ensure that sufficient funding is allocated to maintenance, and that funding needs are measured through systematic methodologies. The first two dimensions assess the existence of such methodologies for routine maintenance and for capital maintenance (that is, major improvements such as renovations, reconstruction, and enlargements) respectively. The third dimension focuses on the availability of information in the budget as to how much maintenance funding is actually allocated.

57. Standard methodologies for current maintenance have been developed and are contractually implemented and translated into budgetary allocations. The government in general uses good maintenance practices, based on contractual mechanisms — for instance, road maintenance is done through regional maintenance contracts, and hospital equipment maintenance is done through whole-life maintenance contracts signed by the Ministry of Health and hospital management. Because contractual terms of reference are based on standard methodologies, the public administration is able to retain asset values, while requiring budgetary allocations in line with the market value of maintenance needs. The state budget shows evidence of adequate levels of maintenance.

58. The identification of capital maintenance needs follows standard methodologies, and capital maintenance projects are well visible in the budget and in the online budget tool SAPPrA. Methodologies for capital maintenance of roads were published in the Official Gazette 7/12, and the Ministry of Health defines standards for the capital maintenance of its assets. Slovenian Railways has a subsidiary dedicated to infrastructure maintenance, under methodology published in the Official Gazette

[15] Budget Execution Act: Article 30.

[16] Budget Execution Act: Article 24.

103/11. Many major projects, and also many small projects deal with renovation and rehabilitation investment, with 15-16 percent of realized capital expenditure in each of the last 3 years being dedicated to capital maintenance.

59. Both current and capital maintenance are systematically identified in the Budget for each budget entity. Most estimated maintenance funding, including for roads, railways, water, and social infrastructure, is identified in the budget. Budget entities are not required to provide an assessment of maintenance needs based on the relevant methodologies when submitting their budget proposals to the MOF, and the MOF is not expected to prioritize the funding of these maintenance needs within the available fiscal envelopes. Although budgetary information on maintenance is very rich and budgeted maintenance figures expectedly allow for reasonable maintenance of existing assets, there is scarce evidence that it is actively used for decision-making. There are no reports or analyses of actual maintenance compared to budget allocations.

60. Maintenance is high in the priorities of government and public corporations, and it is based on standard methodologies. Maintenance data could be used actively and systematically for analysis and decision-making during the budgeting process, and budget documents could provide an overview of actual maintenance spending compared with target levels and outline corrective measures if needed.

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

61. Project selection is about identifying priority projects that are ready for implementation. Project selection is a separate process from planning and appraising projects. Plans commonly lay out more projects than can be funded in a single year (Institution 2), and project appraisals typically address the qualities of individual projects without ranking them relative to other projects (Institution 4). The first dimension assesses the review of major projects prior to inclusion in the budget, ensuring that the unit that selects projects is different from the organization that develops the project proposal. Published selection criteria and a clearly defined selection process, addressed in the second dimension, increase the objectivity of project selection. The third dimension ensures that only projects in the pipeline of already appraised projects are selected for budgeting.

62. There is no requirement for a review of investment projects prior to inclusion in the Budget. Project preparation and appraisal are responsibilities of the proponent budget entities, and no central ministry is required to review them. Many major projects are prepared by public corporations, with no appraisal review by line ministries or central ministries, except when receiving EU or budgetary funding. Some major projects that receive EU funding are subject to external independent review (e.g., by the Jaspers program), often by European Commission requirement, sometimes by government request.

63. There are no published criteria nor a required process for project selection. Article 23 of the Public Finance Act requires the finance minister to define the criteria for selecting projects to the budget from competing proposals. In each line ministry, departments and public corporations are broadly required to identify and prepare projects aligned with the approved sectoral strategy, but with no centrally defined prioritization criteria and no required formal assessment of individual project contributions to strategic goals and sectoral strategies. In the absence of a pipeline of projects, the actual selection is guided by the availability of projects aligned with sectoral strategies, and without explicit attention to economic appraisal (often done after the project is already selected to the budget). In practice, the availability of European funds, centrally negotiated by the MOCRD, strongly influences project selection to the Budget, while departments and public corporations do select additional projects for the Budget, with the MOF focusing on ministerial ceilings and not on individual projects. An example of project selection criteria is shown in Annex 3.

64. The government does not maintain a pipeline of appraised investment projects. The projects to be included in the Budget each year are presented by the line ministries during the budget preparation process, with no requirement for review or prior appraisal. The regulations require projects to be appraised before implementation, but neither the MOF, nor line ministries are required to check effective appraisal. In practice, investment projects are annually presented for inclusion in the Budget without prior appraisal, and projects are accepted based on a mere project concept. Real project preparation and appraisal are done after the approval of the Budget, using funds provided by the inclusion of the projects in the Budget. The MOF receives no project documentation or appraisal reports.

65. Over time, EU funds can be expected to decline, and projects will increasingly compete against one another for fiscal space. Slovenia should use the transition to ensure that institutions are in place for the selection of investment projects out of a pipeline of well-appraised projects. First of all, a mechanism should be in place for providing funds for project preparation, after a summary preliminary assessment and approval of project concepts; second, a mechanism for independent review of project appraisals, creating incentives for building a pipeline of appraised projects, to be ready for the current and future budget preparation processes; and third, a mechanism for the selection of projects for the Budget, each year, on the basis of published prioritization criteria.

D. Investment Implementation

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

66. Weak procurement practices can waste government resources and reduce the effectiveness of capital budget execution. This institution first evaluates the competitiveness, openness, and transparency of the tender process. Rules should be in place to ensure that major projects are procured in a fair and transparent way and with effective competition. It then analyzes the monitoring arrangements and complaint mechanisms for the procurement process. Evaluating the ongoing performance of the procurement system should be conducted through a procurement database, and standard procurement performance reports. Independent procurement review entities improve the reliability and credibility of the procurement system. The institution covers all central government procurement, including the procurement of PPPs.

67. There are legal and regulatory requirements for competitive procurement of major projects, and publication of timely and complete procurement information is required, but in practice effective competition is scarce for large projects. The Public Procurement Act (ZJN-3, 1915), aligned with European directives, requires open, transparent, and competitive procurement for major projects, and the exclusion of bidders convicted of unlawful restriction of competition. There are institutions mandated to monitor and propose correction of noncompetitive behavior of procuring agencies and bidders. Procuring entities are required to prepare a detailed report of the procurement process. Data show that a few major projects are subject to effective competition, but the use of open procedures for the procurement of construction contracts has gradually declined over time, and last year close to one third of competitions had a single bidder. Of a sample of major capital projects in the last three years, the majority were concluded with single bidders. For the road works of the Infrastructure Agency, 13 percent of the tender processes had a single bidder in 2021, and 14 percent had a single bidder in 2022; but for their railway works, 67 percent of the tender processes had a single bidder in 2021, and 75 percent had a single bidder in 2022.

68. There is a procurement database with abundant information, easy to search and navigate, and standard analytical reports are produced annually. The Public Procurement Directorate (PPD) in the Ministry of Public Administration manages the procurement database e-JN, which proactively discloses complete, reliable, and timely information on all public procurement. Annual reports provide detailed statistical information but do not include data on effective competition (number of bidders) or provide recommendations for improvement.

69. Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced. The National Review Commission, or DKOM, is regulated by the Public Procurement Act (ZJN-3) and the Act on Legal Protection in Public Procurement Procedures (ZPVPJN). Acting by request of procuring entities, bidders, and other interested parties, the Commission independently reviews public procurement decisions, deciding on the sanctioning of offenses and annulment of illegal actions of the contracting authority, or on the punishment of anti-competitive actions. DKOM decisions are published on the website and in the public procurement portal. For DKOM to decide on review claims in 2021, on average, it took 16 days from receiving all documentation, and 27 days from receiving the request for review.

70. Slovenia can improve competitiveness in public procurement, using the legal and institutional arrangements it has in place. Two years ago, several modifications to the public procurement law were already introduced by Act ZJN-3B, some of them aiming at the mitigation of the current low-competition situation — but more needs to be done. The annual statistical report can identify entities or sectors where poor effective competition occurs (namely deserted tenders and single bidders) and, after consultation with procurement teams and private contractors and their business associations, measures for improving competition can be presented by PPD and translated into concrete legal changes and training activities. Considering the relative scarcity of domestic contractors, training can be extended from public administration to private firms potentially interested in bidding for public investment.

12. Availability of Funding (Institutional Strength—High; Effectiveness—High; Reform Priority — Low)

71. To implement public investment projects efficiently, ministries and agencies must have certainty that funds will be made available for contractors to progress projects as planned. To assess this, this institution assesses whether ministries and agencies plan and commit expenditure on capital projects on reliable cash flow forecasts. When project proponents do not have certainty and invoice payments are delayed, contract implementation can be delayed, projects assets can become degraded, government may incur penalties, interest and arrears accumulate and contractors trust in government declines.

72. There is a legal requirement for cash-flow forecasts.[17] The law prescribes a quarterly forecast for the implementation of financial plans. Cash management arrangements are adequate to ensure timely availability of funds for effective project implementation. The government sets the expenditure ceilings for the year which are provided to the line ministries. The line ministries can plan and commit expenditure based on the ceilings. The Treasury, which forms part of the MOF provides the resources for financing

[17] Act on the Implementation of the Budgets, for the years 2023 and 2024 (2 December 2022).

the state budget and manages cash resources so that liquidity is guaranteed. The Ministry of Infrastructure has a monthly liquidity plan from which they derive the cashflow forecasts for projects under implementation. The monthly cashflow plan is shared with the Treasury.

73. The Act on the Implementation of the Budgets requires timely release of cash, and this is well respected by the Treasury.[18] Article 4 of the Act states that documentation for the payment from the budget should be submitted 25 days before the date of payment to the contractor. The MOF and Treasury experienced no delay in payments for Infrastructure Projects, which was confirmed by The Ministry of Infrastructure. The Ministry of Infrastructure requires payment certificates by the fifth day of the month, to comply with the payment period of 30 days.

74. External financing is fully integrated into the main government account. Article 81 of the Public Finance Act as well as Article 61 of the Act on the Implementation of the Budgets 2023 and 2024 ensure full integration of external funds in the government account. All external funding, inclusive of EU funding, is integrated into the government account system.

13. Portfolio Management and Oversight (Strength—Medium; Effectiveness—Low; Reform priority—High)

75. Portfolio management of all major projects is of utmost importance to identify projects within the portfolio with high risks. Through this process, 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.

76. Some line ministries monitor portfolios of major projects, but there is no systematic or central monitoring, and no requirement in regulation. Slovenia has no central monitoring of major projects in relation to cost or physical progress during the implementation, either in the MOF or elsewhere. The Ministry of Infrastructure monitors only the portfolio of projects implemented within the Ministry of Infrastructure. The Ministry of the Environment, Climate and Energy has no oversight of the portfolio of investment projects in the energy sector. SSH has no oversight of the financial and physical progress of the portfolio of major projects implemented by PCs with limited liability. The negative consequence of the lack of central portfolio management of major infrastructure projects is summarized in Annex 4. The Ministry of Cohesion and Regional Development monitors the portfolio of EU funded projects, however only for financial progress and not for physical progress and possible risks.

77. The Act on the Implementation of the Budget makes provisions for the re-allocation of funds.[19] Art 31 of the Act allows re-allocation without approval with a total increase or decrease in each sub-program not exceeding 20 percent of the sub-program adopted budget, and reallocation with a total increase or decrease in each main program not exceeding 10 percent of the adopted budget. Re-allocation of funds below the 20 percent threshold is conducted by line ministries, and government approval must be sought beyond this.

[18] Act on the Implementation of the Budgets of the Republic of Slovenia for the years 2023-2024–2 December 2022.

[19] Act on the Implementation of the Budget of the Republic of Slovenia, 2023-2024- ZIPRS2324

78. The Regulation on the Single Methodology does require ex-post reviews to be conducted.[20] However, there are no guidelines to indicate the format or how long after the completion of the report they should be conducted. Slovenia does not conduct ex-post reviews as a standard but only on a few previous major projects completed with EU funding.

79. Improvement in portfolio monitoring is a high priority reform. There is a clear opportunity to improve management at the aggregated public investment level through developing a portfolio monitoring function. Ex-post reviews should be considered an intrinsic part of the investment life cycle and findings should be used to enhance investment governance in the future. A detailed summary table of all major projects is required, which includes all necessary information to enable top management to identify critical major projects effectively, to act urgently to resolve risks issues, and to prevent delays and additional cost. Box 4 sets out good practices for ex-post project reviews. Annex 5 shows an example of the minimum requirements for a monitoring template.

Box 4. Good Practice in Ex-post Project Reviews and Action on Findings

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

Infrastructure Australia has issued detailed requirements for post completion review. Required information includes forecast and outturn data on cost, schedule and benefits, key findings from interviews with the project delivery team and the approach and timing for communicating findings and recommendations for future projects.

In the UK, the Green Book documents requirements for ex-post evaluation, covering both process evaluation and impact evaluation. The IPA undertakes periodic reviews of completed projects to distil lessons learned and improve future project delivery. In 2019, the IPA documented 24 lessons from close review of four transport megaprojects with application for major public projects in all sectors of public investment.

In Ireland, a review of problems in the construction of the National Children's Hospital recommended reforms of the governance process for public investment projects. This directly informed changes to the Public Spending Code – the requirements for evaluation, planning and management of public investment. Adjustments included new arrangements for project governance, risk management and cost forecasting.

Source**:** Ireland Department of Public Expenditure and Reform (2019) The Public Spending Code: A Guide to Evaluating, Planning and Managing Public Investment.

14. Management of Project Implementation (Strength— High; Effectiveness— Medium; Reform Priority— Low)

80. During the implementation stage, the management of time, money and quality is of utmost importance. During the project cycle, it is important to address core strategic issues at the commencement of the project, to draft the scope and goals for the project. It is important to communicate roles, expectations, and objectives to finalize the project. The first dimension assesses project management arrangements. The second dimension assesses rules for project cost adjustment and the third dimension assesses ex-post audits of major projects.

[20] Regulation on the Single Methodology for Preparation and Processing the investment documentation in the field of Public Finances. Official Gazette No 27/16 of 11 April 2016, Article 10.

81. Regulations require senior responsible officers for major projects, but implementation plans are not mandatory.[21] The MOI has project management arrangements in place and an Expert Commission to oversee the implementation of major projects. Public corporations GEN and DARS have project management arrangements in place for their respective major projects. The Ministry of Infrastructure receives weekly project progress reports, which information is used to prepare a monthly report for management. DARS receives monthly progress reports at project level and issues a monthly progress report to the Ministry of Infrastructure. Implementation plans with key elements are not in place before projects are approved. Table 4.1 indicates cost-and time overruns in housing and infrastructure projects, with data indicating that issues in the planning process are common culprits.

82. Cost adjustments above 20 percent are subject to approval by the Government, but cost adjustment reports for when this occurs are seldom conducted.[22] in such cases, a new investment plans must be prepared as the basis for a decision for whether to approve the adjustment or to cancel the project. Cost adjustments above 20 percent are also required to be communicated to MOF. It is reported that cost adjustments are not made often. No evidence could be observed of a systematic cost adjustment procedure in practice, and the Court of Audit suggests that cost adjustments are seldom conducted.

83. External audits of major projects are mandated and often conducted.[23] Performance audits were conducted on the Divača–Koper railway line as well as the Third Axis Road project and weaknesses were identified and reported (see Institution 13). The audits are well executed and in detail. Audit reports are published on the Court of Audit's website (Audit summary of statistics is shown in Annex 4). Only in the case of a severe violation of the requirements for operational efficiency will the audit be referred to the National Assembly. Major projects of the Ministry of Infrastructure are audited for legal, financial and technical aspects once a year by the Court of Audits if selected. The major projects at DARS are audited annually.

Table 4.1. Housing Projects and Ministry of Infrastructure Projects: Time and Cost Overruns

<table>
<tr><th>Project</th><th>Percentage cost overrun</th><th>Percentage time overrun</th><th>Reasons for cost- and time overruns in general</th></tr>
<tr><td>POLJE IV</td><td>8</td><td>55</td><td rowspan="6">Housing: Redesigning of project, Construction of wastewater collection system late. Delay in release of permits. Lack of work force in construction sector. Under value in the planning phase. Rise in the cost of materials.

Ministry of Infrastructure: Fifty percent of projects implemented by the Ministry of Infrastructure over a period of 9-10 years experienced cost overruns of between 6 and 20 percent. All cost increases resulted from additional work during the implementation stage.</td></tr>
<tr><td>Novo Brdo</td><td>0.5</td><td>0</td></tr>
<tr><td>Rakova Jelša II</td><td>28</td><td>44</td></tr>
<tr><td>Pod pekersko gorco faza 1</td><td>8</td><td>13</td></tr>
<tr><td>Dolgi most</td><td>5</td><td>21</td></tr>
<tr><td>Pod pekersko gorco faza 2</td><td>23</td><td>25</td></tr>
</table>

[21] Regulations amending and supplementing the Single Methodology for preparation of investment documentation in the field of public financing. Gazette No 27/16

[22] Article 31 of the Act on the Implementation of the Budgets of the Republic of Slovenia 2023 2024

[23] Court of Audits Act, Gazette No 11/01 and 109/12

Dečkovo Naselje	6	0	**Summary:** All reasons mentioned above result from poor planning and poor project development in the project appraisal stage. Project managers had to manage poorly designed and poorly planned projects.

Source: Ministry of Housing and Ministry of Infrastructure

15. Monitoring of Public Assets (Strength—High; Effectiveness—High; Reform priority—Low)

84. It is important for the government to maintain an up-to-date register of non-financial assets to enable effective management of the public sector asset portfolio. Asset values are important and cuts across the entire PIM cycle to enhance the usefulness of financial statement requirements. When developing sustainable fiscal policy, knowledge of existing physical assets is an essential input to national and sectoral plans, and the condition of facilities is important when budgeting for maintenance. It is important to regularly update asset values and conditions and reflect the value of the asset stock in government financial statements.

85. Asset registers are required to be kept updated across the general government and are inspected regularly. Accounting Act and the Slovenian Accounting Standards 2016 set accounting requirements for land, property, and equipment. Fixed asset registers are maintained by line ministries, municipalities and PCs. Asset register inspections are conducted regularly by the Census Commission to verify number of assets, location of assets, asset values, depreciation of assets and asset disposals procedures, which are well documented and duly signed off. The outcomes of the asset inspections are reported to the Directorate for Public Accounting at the MOF.

86. Fixed assets are included in government financial statements. This is as required by the Accounting Standards, which apply to the bookkeeping of land, property, plant and equipment. The Standards also deal with the revaluation of property, plants and equipment. Government assets are within the PC's and line ministries. The value of the assets of line ministries is in the government financial statements, and PC fixed assets are revalued annually and contained in financial statements. Table 4.2 below contains the balance sheet with data from the Ministry of Health, as an example, which includes revalued values of assets. The Accounting Act of Slovenia requires yearly stock taking and depreciation of assets. The stock taking is done with roads, and health as well as the revaluation. These figures are embedded in the financial statements.[24] Asset registers are in place; revaluations are conducted yearly and are in the financial accounts.

Table 4.2. Balance Sheet of Ministry of Health (EUR).

Balance sheet data as of:	Buildings:	Adjusted value of buildings:	Equipment and other fixed assets:	Adjusted value of equipment and fixed assets:

[24] Art 32 of the Act require that assets shall be valued at purchase value, which is done by ministries we had meetings with. Art 46 of the Act makes provision for revaluation at the end of the fiscal year Art 48 of the Act requires the disclosure of the revaluations effect of the assets.

Hospitals: 31 December 2021	1 137 565 335	495 866 676	857 512 460	679 464 009
Hospitals: 31 December 2022	1 174 649 640	522 495 985	887 944 191	715 084 923
Other medical centers: 31 December 2021	31 450 840	18 873 579	73 999 456	59 093 685
Other medical centers: 31 December 2022	32 585 720	19 620 273	79 964 182	62 640 212

Source: Ministry of Health

87. The 2016Slovenian Accounting System defines the depreciation process. Rules require that the depreciation methods be used consistently to allocate the depreciable amount of an asset, on a systematic basis over its useful life, such as straight-line method or the diminishing balance method. There is, however, not a comprehensive centralized asset register. The Rules on the method and rates of write-off of intangible assets, property and equipment are defined. The Rules describe exactly the type of asset as well as the annual depreciation rate in percentage for the asset. The depreciation of assets is done and recorded in the financial statements. Depreciation values are also well documented in the annual financial statements of PCs.

E. Cross-Cutting Issues

Legal and Regulatory Framework

88. The legal framework provides the foundation for PIM processes. The table below outlines the relevant laws and regulations governing public investment management, which are broadly comprehensive in terms of coverage of key issues.

Table 4.3. Legal Framework for Public Investment Management

Law / Regulation	Comments
Public Finance Act	Regulates the structure, preparation and implementation of the state budget including the DRP
Budget Execution Act	Further defines rules for budget execution
Decree on the uniform methodology for the preparation and treatment of investment documentation in the field of public finance (Uniform Methodology)	Defines minimum requirements for project implementation. Requires strengthening and project documentation thresholds to be updated as well as an emphasis on independent review to be mandatory.
Decree on the methodology for the preparation and study of investment documents in the field of national roads and public railway infrastructure and	Elaborates Uniform Methodology in the areas of railways
Decree on the methodology for the elaboration and management of the investment documentation in the field of defense	Elaborates Uniform Methodology in the areas of defense

Decree on development planning documents and procedures for the preparation of the central government budget	Regulates the preparation of the strategic development documents
Implementation of the Republic of Slovenia's Budget for 2022 and 2023 Act	Defines rules governing budget implementation, updated each year
Rules on the procedures for implementing the budget of the Republic of Slovenia	Further defines execution rules and procedures
Public-private partnership Act	Regulates PPPs
Investment Promotion Act	Orientated towards private Investment.
Decree on investment incentives and strategic investments	Establishes the eligibility for investment incentives
Financing of Municipalities Act	Includes formulae for transfers to municipalities from State Budget
Fiscal Rule Act	Also subject to EU directives on fiscal rules
Public Procurement Act	Aligned to international standards, though may need review in the light of the increasing number of tenders with few or no bidders.
Act on Provision of Funds for Investments in Slovenian Healthcare in the Years 2021 to 2031	This secures about €2.1 Billion of healthcare investments, primarily in Infection Control.

Source: IMF mission

Information Technology

89. The government has extensive IT Systems in place, which are all integrated. The primary systems supporting public investment management are shown in Table 4.4. These systems provide operational support to strengthen PIMA Institutions 6, 7, 8, 9,10, 11, 12 and 15. The systems are integrated, and all well developed for their relevant functions.

Table 4.4: Systems Supporting Public Investment Management.

System	Functionality	Coverage
SAAPrA and APPrA	Budgeting	Government Agencies
MFERAC	Financial accounting, human resources functions, Residential loans and rents, fixed asset management and general ledgers. The system also caters for EU funded projects	Government Agencies
e-JN	Procurement	Government Agencies, EU, private sector

90. Within the MFERAC System there is the e-business part and the e-documents part. The MFERAC Systems is used by all State direct budget users, as well as the Municipality of Ljubljana (170 organizations and more than 7000 users).

91. **Documents are exchanged with outer systems and processed in MFERAC.** This includes**:** Received e-invoices and issued e-invoices; E- payment orders; E – Bank statements; E – Reports; E – Signed supply orders; E – Signed contracts. The e- Business system also ensures that data is entered/captured once, and that documents are visible in all parts of the information system. It has helped to improve the audit trail of documents, lower the cost of archiving and shortened processing time, and overall has simplified operations.

92. **E-JN is the public procurement system.** The system contains all live tenders; all blacklisted suppliers; historical information on tenders for the past 10 years; signed contract documents. The system is also open to the public and captures all EU tenders.

Capacity

93. **Adequate staff capacity is essential for public investment management institutions to perform well.** Even equipped with well-designed infrastructure governance mechanisms, a government cannot implement them effectively without a sufficient number of qualified staff.

94. **In Slovenia, PIM capacity is unevenly distributed across institutions which creates challenges.** Some line ministries managing large investment portfolios such as the Ministry of Infrastructure appear to be better equipped with human resources to carry out the tasks related to project design and appraisal, whereas in other ministries and municipalities, capacity is already significantly constrained. The constraints would become more acute as the volume of projects increases. For instance, the Ministry of Health may have to manage a much larger capital budget over the next ten years, which would be difficult with existing resources. Design consultants, including the firm DRI (a PC), can support ministries but cannot substitute for permanent staff who need to commission and oversee this work. Ensuring the right balance between salaried staff and consultants is critical.

95. **Going forward, as public investment increases and oversight is strengthened, the need for hiring and retaining skilled staff would grow.** The establishment of a central function to monitor implementation, assess appraisals and fiscal risks would require qualified staff. For some technical skills, the authorities will need to address issues related to attracting and retaining staff due to large wage differentials between the private and public sectors in the relevant professions. The MOF, with the support of development partners, could take the lead in disseminating good practices in project appraisal, selection and risk monitoring, and provide training. Valuable experience could be gained in shadowing EU funded major project design and implementation cycles, secondments to relevant EU institutions, and availing of the IMF Centre for Excellence in Finance in Slovenia. Finally, the forthcoming public sector wage reform is an opportunity to introduce appropriate incentives for those with in-demand skills to work in the government.

V. Recommendations

<u>Objective: Accelerate capital investment execution and absorption of EU funds (near term)</u>

Issue: Need to strengthen project preparation and design capacity.

Recommendation 1. Provide explicit funding for project preparation, avoiding the presentation to the Budget of insufficiently developed projects.

- All line ministries should include in the Budget a line of funding for the preparation and appraisal of major projects.
- All line ministries should only propose concrete projects for the Budget after their Investment Programs are ready, allowing adequate appraisal.

Recommendation 2. Increase internal capacity of line ministries for development of project preparation and design

- A review should be undertaken of the capacity of line ministries for the development of major projects (including preliminary design, pre-feasibility studies, detailed design, and feasibility studies).

Issue: Delays in project design decisions and approval

Recommendation 3. Establish inter-ministerial Steering Committees for major projects

- For major infrastructure projects facing challenges or potential challenges, create a high-level committee, with members appointed by the finance minister, and the relevant line minister

Box 5 – Project Steering Committees for Improved Coordination

Several major projects face significant delays until being ready for execution, due to a number of reasons, from lack of resources for project concept development, to lengthy spatial planning and licensing processes. A significant part of the delays can be attributed to insufficient coordination between ministries. Regarding major projects, a measure for helping inter-ministerial coordination and accelerating project development, is the creation of high-level committees tasked with overseeing the project and presenting to the members of government recommendations on actions to allow for faster development of documentation, including design and full appraisal of a project, having it ready for being proposed to the Budget after review by the MOF.

Steering Committees with a clear mandate to oversee project development can present recommendations to the government on any actions needed for faster and more robust project development. For a particularly important project, for example a major power plant project, the committee may also be tasked with reaching a project design, and corresponding fiscal costs and risks, that are acceptable by both the line ministry and the MOF.

Source: IMF mission

Issue: Issues with obtaining spatial planning and permits

Recommendation 4. Establish and adhere to clear timeframes for spatial planning

- Clear timeframes should be set out and adhered to for spatial planning to minimize the planning phase timeframe and to expedite readiness of major projects. Spatial planning processes require specific timeframes per activity. The process normally is concluded in between 200–250 days, as additional information might be required at various stages.

Issue: Need to expand construction sector capacity

Recommendation 5. Undertake analysis to identify reasons for scarce competition in the procurement of construction contracts and produce recommendations for correction

- Include in the annual statistical report on public procurement a section on effective competition, looking at the number of bidders, measuring the occurrence of deserted tender processes and processes with one/ two bidders, and identify reasons for having deserted tenders and single bids.
- Initiate the publication of recommendations on public procurement including recommendations on procurement strategy (assessing the market in advance to prevent low-competition tender processes and tailor tender rules in ways that attract competition)
- Launch a series of workshops with sectoral ministries, municipalities, and other public entities, addressing the main reasons for low effective competition in their sectors, and ways for fostering competition.

Recommendation 6. Develop a market for domestic and international competition in order to facilitate investment project procurement.

- Mandate project managers (and large projects' steering committees) to assess the ability of the domestic market to cope with additional projects being procured, and how to attract new domestic contractors or external contractors.
- Initiate contacts with business associations / confederation to assess ways for developing the contractor market and improve competition, including suggestions for simplifying procurement, and concrete training programs for private firms on public procurement (making them more comfortable with public procurement rules and practices).
- Create an inter-ministerial committee on private sector participation, to identify priority areas where private investment/innovation is more relevant, major constraints to private investment, and solutions.

Objective: Keeping the growing portfolio on track and managing fiscal risks (near to medium term)

Issue: Growing implementation challenges and fiscal risks from public investment portfolio

Recommendation 7. Establish a central function for physical and financial monitoring of project progress and fiscal risks, possibly within the MOF.

- Entity should monitor financial progress versus physical progress of all major projects, monitoring risks, elevating projects in distress, and proposing mitigations for time and cost overruns. Establish a template for the information required to monitor all major projects effectively.

Recommendation 8. Establish central monitoring of portfolio for fiscal risks, possibly within the MOF.

- With support from external experts, map the sources of fiscal risk from infrastructure, and establish a database of fiscal risks identifying, for each risk, the potential impact (as quantified as possible), probability of occurrence, and mitigation measures (already implemented or requiring implementation).
- Identify the departments/units that will oversee contingent liabilities in the relevant areas: municipalities, municipally owned corporations, public corporations (including subsidiaries), PPPs, concessions, PPA and similar agreements.
- Receive quarterly reports on infrastructure fiscal risks, ensure immediate communication in case of major risk events.

Objective: Strengthen planning and budgeting for investment as fiscal space tightens (medium to longer term)

Issue: Immature projects in the budget which are not implementation ready.

Recommendation 9. Clear up capital project pipeline in budget

- Set requirements for an independent review of projects that fail to implement after several years to provide fiscal space for priority projects.
- Strengthen review process for project amendments to incentivize robust design and avoid cost and time overruns

Issue: Need for strengthened appraisal and selection

Recommendation 10. Introduce central review and central selection function within the MOF.

- Under the mandate established by the Public Finance Act, Article 23, Item 2, the finance minister should prepare regulations on the process for the selection of investment projects to the budget, requiring full appraisal before selection, presenting criteria for selection by the line ministries, and including a final review by the MOF

Recommendation 11. Strengthen appraisal methodology to enable the compilation of a single pipeline of appraised projects for selection

- Under the mandate established by the Public Finance Act, Article 23, Item 2, the MOF should revise the standard methodology for investment project preparation (“Unified Methodology"), clarifying the appraisal requirements. Examples of possible next steps are shown in annex 6.

Annex 1. PIMA Questionnaire

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

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

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

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

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

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

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

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

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

Annex 2. Detailed PIMA Scores

The following color coding is used in presenting the scores.

Score	1	2	3
Color	Red	Yellow	Green

I. PLANNING		
	Strength	Effectiveness
1.a.	Green	Yellow
1.b.	Green	Green
1.c.	Yellow	Green
2.a.	Yellow	Yellow
2.b.	Yellow	Yellow
2.c.	Yellow	Red
3.a.	Green	Green
3.b.	Yellow	Yellow
3.c.	Yellow	Yellow
4.a.	Yellow	Red
4.b.	Yellow	Red
4.c.	Yellow	Red
5.a.	Red	Red
5.b.	Green	Red
5.c.	Red	Red

II. ALLOCATION		
	Strength	Effectiveness
6.a.	Green	Yellow
6.b.	Red	Red
6.c.	Green	Green
7.a.	Yellow	Yellow
7.b.	Yellow	Yellow
7.c.	Green	Yellow
8.a.	Yellow	Yellow
8.b.	Yellow	Yellow
8.c.	Yellow	Green
9.a.	Green	Green
9.b.	Green	Green
9.c.	Yellow	Yellow
10.a.	Red	Red
10.b.	Red	Red
10.c.	Red	Red

III. IMPLEMENTATION		
	Strength	Effectiveness
11.a.	Green	Red
11.b.	Green	Yellow
11.c.	Green	Green
12.a.	Green	Yellow
12.b.	Green	Green
12.c.	Green	Green
13.a.	Red	Red
13.b.	Green	Yellow
13.c.	Green	Red
14.a.	Yellow	Yellow
14.b.	Green	Red
14.c.	Green	Yellow
15.a.	Green	Green
15.b.	Green	Green
15.c.	Green	Green

Annex 3. Example Project Selection Criteria

Principles and criteria for prioritizing new projects

	Principles	Criteria for Prioritizing: New Major Projects	Criteria for Prioritizing: New Minor Projects	Scoring of New Projects: Major	Scoring of New Projects: Minor
Principle 1: Strategic relevance assessment	1.1: Strategic fit of the project to the **National Development Strategy** (NDS) [40 points]	1.1.1: Does the project fit with the NDS measure? [20 points]	1.1.1: Does the project fit with the NDS measure? [20 points]	20	20
		1.1.2: Is the project part of the concrete activities within the measure? [20 points]	1.1.2: Is the project part of the concrete activities within the measure? [20 points]	20	20
	1.2: Strategic fir of the project to **Declaration of Priorities** and **MTEF** [20 points]	1.2.1: Does the project fit to Declaration of Priorities? [10 points]	1.2.1: Does the project fit to Declaration of Priorities? [10 points]	10	10
		1.2.2: Does the project fit to the MTEF priorities? [10 points]	1.2.2: Does the project fit to the MTEF priorities? [10 points]	10	10
	1.3: Strategic fit to **EU Strategies Papers** [30 points]	1.3.1: Does the project fit to IPA II Strategy Paper for Kosovo? [10 points]	1.3.1: Does the project fit to IPA II Strategy Paper for Kosovo? [10 points]	10	10
		1.3.2: Does the project fit to Single Project Pipeline of Infrastructural Investments? [10 points]	1.3.2: Does the project fit to Single Project Pipeline of Infrastructural Investments? [10 points]	10	10
		1.3.3: Does the project fit to National Economic Reform Programme (NERP)? [10 points]	1.3.3: Does the project fit to National Economic Reform Programme (NERP)? [10 points]	10	10
	1.4: Strategic fit to **budget organization priority** or **sector strategy** [10 points]	1.4.1: Does the project fit to any of the sector strategies? [5 points]	1.4.1: Does the project fit to any of the sector strategies? [5 points]	5	5
		1.4.2: Does the project fit to any of the budget organization priorities? [5 points]	1.4.2: Does the project fit to any of the budget organization priorities? [5 points]	5	5
				100	**100**
Principle 2: Economic Justification	2.1: **Current situation** and **objectives** of the project [10 points / 30 points]	2.1.1: Is there description of the current situation (including problems)? [5 points]	2.1.1: Is there description of the current situation (including problems)? [10 points]	5	10
		2.1.2: Are there provided objectives of the proposed investment? Are they addressing the problems outlined in the current situation? [5 points]	2.1.2: Are there provided objectives of the proposed investment? Are they addressing the problems outlined in the current situation? Could the project be done private investor? [20 points]	5	20
	2.2: **Cost Benefit Analyses / investment options** [20 points / 0 points]	2.2.1: Was CBA prepared? [10 points]		10	
		2.2.2: Were investment options considered and described? [10 points]		10	
	2.3: **Environmental / health / social** impact (For projects > 5 million € - Feasibility study necessary) [10 points]	2.3.1: Is the environmental impact described? Is assessment by the Ministry of Environment and Spatial Planning required? Was obtained? [4 points]	2.3.1: Is the environmental impact described? Is assessment by the Ministry of Environment and Spatial Planning required? Was obtained? [4 points]	4	4
		2.3.2: Is impact of the project on public health described? [3 points]	2.3.2: Is impact of the project on public health described? [3 points]	3	3
		2.3.3: How project will assist poverty alleviation? How project will support government services / public benefits to women, girls and people communities resident in Kosovo? [3 points]	2.3.3: How project will assist poverty alleviation? How project will support government services / public benefits to women, girls and people communities resident in Kosovo? [3 points]	3	3
	2.4: Impact on recurrent costs, i.e. **operational** and **maintenance** costs [10 points]	2.4.1: Are recurrent (operational and maintenance) costs recognized within the CBA (projects > 1 million €)? [5 points]	2.4.1: Are recurrent cost recognized in PIP system? [10 points]	5	10
		2.4.2: Are recurrent cost recognized in PIP system? [5 points]		5	
	2.5: **Funding** by EU / donor / or loans from IFIs? [50 points]	Is project to be funded by EU funds, donor grants or IFI loans? between 0 and 20 -> [10 points] between 20 and 40 -> [20 points] between 40 and 60 -> [30 points] between 60 and 80 -> [40 points] between 80 and 100 -> [50 points]	Is project to be funded by EU funds, donor grants or IFI loans? between 0 and 20 -> [10 points] between 20 and 40 -> [20 points] between 40 and 60 -> [30 points] between 60 and 80 -> [40 points] between 80 and 100 -> [50 points]	50	50
				100	**100**
Principle 3: Maturity / Implementation Assessment	3.1: **Risks** that may impact project implementation [10 points]	3.1.1: Are the project risks identified? [5 points]	3.1.1: Are the project risks identified? [5 points]	5	5
		3.1.2: Are the actions to minimize the impact of the risks on the project described? [5 points]	3.1.2: Are the actions to minimize the impact of the risks on the project described? [5 points]	5	5
	3.2: Ownership of **asset**	3.2.1: Who will own the assets? [5 points] - If there is no asset [5 points]	3.2.1: Who will own the assets? [5 points] - If there is no asset [5 points]	5	5
	3.3: **Project manager** & **Project management** arrangements	3.3.1: Is project manager defined? [5 points]	3.3.1: Is project manager defined? [5 points]	5	5
		3.3.2: Are project management arrangements explained? [5 points]	3.3.2: Are project management arrangements explained? [5 points]	5	5
	3.4: Project **preparation phase**	3.4.1: Are start and end dates of project preparation phase set? [5 points]	3.4.1: Are start and end dates of project preparation phase set? [5 points]	5	5
		3.4.2: Is date of planning permission approval provided? Are key activities preparation of the phase defined and dates/milestones set? [20 points]	3.4.2: Is date of planning permission approval provided? Are key activities preparation of the phase defined and dates/milestones set? [20 points]	20	20
	3.5: Project **implementation phase**	3.5.1: Are start and end dates of project implementation phase set? [5 points]	3.5.1: Are start and end dates of project implementation phase set? [5 points]	5	5
		3.5.2: Are key activities preparation phase defined for and dates/milestones set? [15 points]	3.5.2: Are key activities preparation phase defined for and dates/milestones set? [15 points]	15	15
	3.6: Financial plan	3.6.1: Is the right economic classification used? Are other project costs not funded by KCB defined? Are source of funds define? [30 points]	3.6.1: Is the right economic classification used? Are other project costs not funded by KCB defined? Are source of funds define? [30 points]	30	30
				100	**100**
Priority by SPSG		Priority given by SPSG [100 points]	Priority given by SPSG [100 points]	**100**	**100**
Priority by NIC		Priority given by NIC [200 points]	Priority given by NIC [200 points]	**200**	**200**
Priority by SPC		Priority given by SPC [400 points]	Priority given by SPC [400 points]	**400**	**400**
				1000	**1000**

Annex 4. Negative Consequence of Lack of Portfolio Management

Project description	Audit period	Cost increase	Implementing Agency	Critical delay causes
Third Development Axis Project	1 January 2015 – 31 December 2020	Euro 2.2 billion to Euro 4,2 billion. 92 percent cost increase	Ministry of Infrastructure	**Delay period:** 16 years Failed to monitor the implementation measures. Failed to determine reasons for delays and to implement corrective measures. Ministry of Environment and Spatial Planning failed to timely implement all general measures
The second track of the Dvaca – Koper Railway Line Project	1 January 2015 – 30 June 2020	Euro 1,25 billion + Euro 340 million	Government and Ministry of Infrastructure	**Delay period:** 15 years Gov. and Min. of Infrastructure were not efficient when establishing bases for construction and management of the second track railway line. Gov. And Min. Of Infrastructure were partially efficient when exerting control over the implementation of the second railway track. Decades of non-strategic decisions have resulted in rising costs and extended deadlines for construction.

Efficiency of strategic planning of long – term use of nuclear energy in electricity generation	1 January 2006 – 31 December 2016	122 studies on feasibility and viability of NEK2 to the value of Euro 16 million	Government and Ministry responsible for Energy	**Delay period:** 13 years The government was inefficient in the Strategic Planning. Ministry responsible for Energy was partially inefficient in the Strategic Planning
Note: The reasons for the critical delays as summarized by the Court of Audits are all elements that could have been identified at a very early stage. If there was proper portfolio management of major projects, where these issues could have been identified and escalated to a higher level of authority, time frames could have been reduced considerably, inclusive of large cost savings.				
Source: Court of Audits, Republic of Slovenia 19 April 2023				

Court of Audit: Audit summary of statistics.

Topic	**Number**
Number of audits conducted in 28 years.	2 300
Audits per year in the past 10 years	60
Regulatory audits	33
Audits on financial statements	5 of which 4 were unqualified and 1 was qualified
Performance audits	29
Demands to submit response documents	20
Audit reports without demands	38
Discussions in the National Assembly and the National Council	11
Source: Presentation from Court of Audits 19 April 2023	

Annex 5. Example Minimum Requirements for a Monitoring Template

MONITORING INFORMATION.

PROJECT DESCRIPTION

PROGRESS MONITORING REPORT NO:

Date:

PROJECT SUMMARY

Employer	
Engineer	
Contractor	
Contract commencement date	
Original contract duration	
Original contract completion date	
Approved extension of time to the contract	

Revised completion date	
Original contract sum (Including contingencies & VAT)	
Value of approved cost adjustments	
Estimated final cost.	
% of contract sum certified:	
% of contract time lapsed	
% of scheduled items certified	
Cumulative VAT amount certified	
Overall progress status	
Actual progress status	
Number of months of contract time lapsed.	

Risks identified.	
Mitigation steps taken to avoid risks.	
Any other important information that might be applicable	
Projected cash flow for the next three months	

Annex 6 - Strengthening Project Appraisal and the Selection Process – Example of Next Steps

1. Create a taskforce to prepare regulations and revised methodology
2. Ensure that the Selection Regulations include:
    a. Requirement that presentation to the Budget should be preceded by a review of appraisal by the MOF;
    b. Formal consideration of a permanent pipeline of well-appraised investment projects independently from the budget process, allowing for appraisal review to be done before the budget preparation process;
    c. Annual publication of selection criteria in the budget circular launching the budget preparation process;
    d. MoF review of project selection by line ministries, ensuring that the Capital Budget is aligned with national priorities.
3. Ensure that the revised Standard Methodology includes:
    a. Requirement for the preparation of budget requests for the development of major projects, allowing for adequate funding of preliminary design, pre-feasibility studies, detailed design, and feasibility studies.
    b. Clearer differentiation between simplified appraisal requirements for smaller projects, and more rigorous and detailed appraisal of major projects.
    c. Requirement for systematic review of the appraisal reports of major projects by the MOF, ensuring the development of more credible and resilient investment projects.
    d. Strengthening of risk assessment methodology, explicitly addressing a broad range of risk factors (from geological and other site risks to licensing issues, cost of materials, and even future operational risks) and requiring risk mitigation plans for large projects.
4. Publish the Selection Regulations and updated Unified Methodology, rrequiring implementation for the budget process
5. Train MOF staff on the new Uniform Methodology to support line ministries.
6. Identify two relevant line ministries willing to act as pilot ministries in applying the new project preparation rules already in the budget process occurring in 2024; provide MOF support to the two pilot ministries; review project appraisals presented by pilot ministries; review criteria-based project selection with pilot ministries; identify lessons from that experience and develop guidance for all line ministries.
7. Extend MoF project-preparation support to all ministries.
8. Start reviewing line ministries' project selection.

Source: IMF mission