
FINANCIAL MANAGEMENT OF CONSTRUCTION PROJECTS

Besart Shabani

Faculty of Economy, Kolegji AAB, Prishtina, Kosovo, bessi.10@hotmail.com

Abstract: In an increasingly complex economic environment—where competition and the demand for housing are rising rapidly—financial planning represents a crucial component for the successful implementation of construction projects. Every municipality, characterized by fast urban development and significant population growth over the last decade, faces increasing demands for quality housing.

In this context, the lack of proper financial planning often leads to issues such as budget overruns, delays in project execution, or even project failures. The construction sector is one of the main drivers of both local and national economic development, and studying the financial factors that influence this sector contributes directly to the sustainable development of the municipality.

Financial planning is defined as the process of forecasting, organizing, and managing financial resources in order for a project or organization to achieve its objectives in a sustainable and efficient manner.

Keywords: planning, finance, budget, project, construction, management

1. INTRODUCTION

FINANCIAL PLANNING IN THE CONSTRUCTION OF BUILDING PROJECTS

The importance of financial planning lies in the fact that it serves as a strategic guideline that ensures balance between financial resources and project objectives. A solid financial plan directly influences the final project cost, the duration of implementation, the quality of work, and the level of satisfaction among investors and end users (Pinto, 2019). In construction projects, where investments are often capital-intensive and long-term, early financial planning can be decisive for the success or failure of a project.

One of the main benefits of financial planning is the reduction of uncertainty and risk. Through careful planning, project managers can identify potential sources of additional costs, forecast cash flows, and develop strategies to avoid financial crises (Hillier, D., Ross, S., Westerfield, Jaffe, & Jordan, 2021). Moreover, financial planning helps create transparency and accountability, increasing the trust of stakeholders such as investors, banking institutions, and public authorities (Damodaran, 2012).

In practical terms, successful financial planning enables construction companies to maintain financial stability even during periods of economic fluctuations or crises, thus ensuring the completion of the project within the predetermined time and financial parameters. This is particularly important in the context of municipalities, where the demand for housing is increasing and projects are often carried out under high time and budget pressure.

Cost estimation is the initial and one of the most critical steps in the financial planning process. It includes identifying and analyzing the expenses of materials, labor, equipment, logistics, and other supporting services. An accurate cost estimation forms the foundation for sustainable budgeting and financial management (Brigham & Ehrhardt, 2017).

In practice, the lack of a detailed cost estimation often results in cost overruns and delays. Studies by Flyvbjerg, Skamris Holm, and Buhl (2013) show that public and construction projects frequently underestimate costs, causing financial uncertainty and failures. In some countries, there have been cases where social housing projects have faced delays and increased costs due to inefficient financial planning.

2. METHODS OF FINANCIAL PLANNING FOR BUILDING CONSTRUCTION PROJECTS

Cash flow management is the element that ensures the availability of funds at the time they are needed. Its purpose is to avoid payment delays and work interruptions, which are often among the main causes of stagnation in construction projects (Damodaran, 2012). Careful cash flow management allows companies to withstand market fluctuations, meet contractual obligations, and maintain long-term financial stability.

In international practice, the use of techniques such as net cash flow analysis and financial simulation models increases flexibility and reduces the risk of insolvency. At the global level, financial planning practices have been developed based on project management standards that ensure a systematic and transparent approach to the use of financial resources. Two of the most widely used frameworks are PMBOK (Project Management Body of Knowledge) and PRINCE2, which provide detailed guidelines for cost management, financial forecasting, and control mechanisms (Pinto, 2019).

One of the most advanced methods used internationally is Earned Value Analysis (EVA). This method combines data on time and costs to measure project progress and evaluate whether it is moving according to the planned financial

framework. The use of EVA is widespread in large infrastructure projects and has been shown to significantly reduce budget deviations (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2021).

Another widely adopted practice is the use of digital technologies such as Building Information Modeling (BIM), which integrates financial planning with design and the construction phase. BIM allows the simulation of different financial and technical scenarios, making projects more transparent and reducing unforeseen costs (Gollakota, Gupta, & Srinivasan, 2020).

In many developed countries, one of the strategic approaches is the diversification of funding sources. By combining private capital, public funds, and international financial instruments, construction companies are able to reduce dependence on a single source and increase the financial sustainability of their projects (Damodaran, 2012). For example, the World Bank and IFC have supported major housing and infrastructure projects in developing countries, demonstrating the importance of public-private partnerships (IFC, 2022; World Bank, 2023).

3. SECURING FINANCES FOR CONSTRUCTION PROJECTS

Cash flow is critical to the success of construction projects. Delays in payments from investors or financial institutions often lead to liquidity shortages, causing interruptions in construction work. Damodaran emphasizes that the lack of funds at the right time is one of the main causes of financial failure in construction companies (Damodaran, 2012). IFC also notes that such challenges are particularly pronounced in developing markets, where access to long-term financing is limited (IFC, 2022).

Inflation, fiscal changes, and economic crises are factors that directly affect the construction sector. An increase in interest rates can make project financing unaffordable, while fiscal policies may influence the cost of materials or construction-related taxes (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2021). World Bank (2023) studies on urbanization indicate that managing macroeconomic risks is essential to ensure financial sustainability in urban development projects.

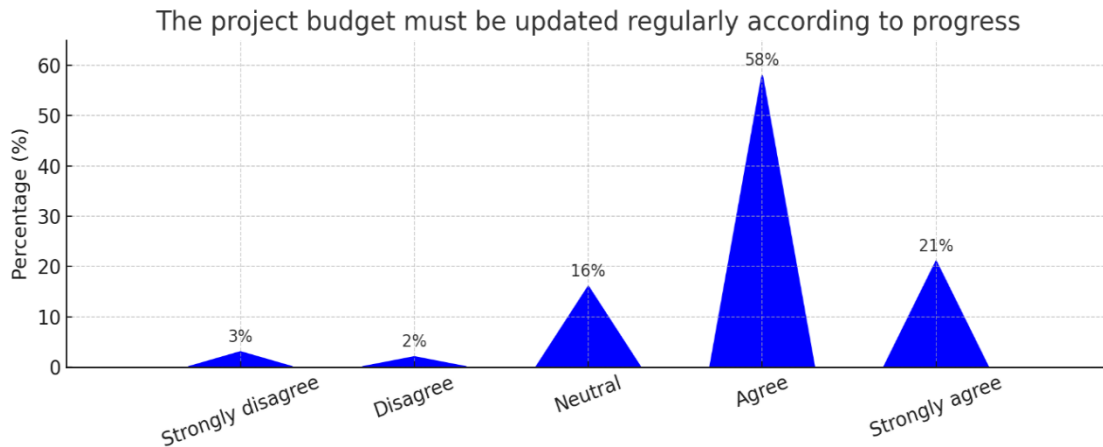
Another challenge is the lack of specialized staff in financial planning. Inaccurate cost estimates, unrealistic revenue forecasts, and inefficient budget management often lead to major deviations from the initial plan. Veseli, in a study on residential construction companies, identifies the lack of professional expertise as one of the main reasons for project failure in the private sector (Veseli, 2020).

4. BUDGETARY REQUIREMENTS FOR PROJECT IMPLEMENTATION

The budgetary requirements (according to the Likert scale) of the project must be updated regularly in accordance with the progress and phases of construction. Fig. 1. The results show that the majority of respondents consider budget updating during the project as a common and standard practice.

Overall, the trend is very positive and indicates that regular budget updating is a well-established practice in most projects; however, a small percentage still highlights the need for further standardization and more consistent implementation.

Figure 1.



Source: Author's own elaboration

The questionnaire analysis reflects the following results:

- 79% (58% agree + 21% strongly agree) confirm this practice, indicating a high level of financial management discipline and transparency in project monitoring.
- 5% (3% strongly disagree + 2% disagree) suggest that there are isolated cases where the budget is not followed or updated properly, possibly due to lack of resources or poor management.
- 16% are neutral, suggesting that budget updating is not conducted regularly in all projects, or that some respondents may not have had clear experience with this process.

5. AVOIDING COST OVERRUNS

One of the main causes of cost overruns are changes made during construction, when the client or designer requests modifications. Likewise, sudden increases in material prices significantly affect the budget. Delays in permit procedures or issues with suppliers are also common, raising the final project cost. We conduct a preliminary risk analysis, including pessimistic scenarios for prices and delays. Cost management is carried out through various insurance instruments, clear contracts with suppliers, and clauses that protect the company. As an owner, a contingency reserve of 10–15% of the budget should always be maintained for unforeseen situations.

In the construction company, financial planning is carried out through close collaboration between the technical and financial departments. A preliminary budget plan is created and continuously updated according to project progress. The director monitors every expense through monthly reports, while the architect and project manager ensure that the design does not exceed the financial framework.

A practice that has proven effective is the involvement of financial consultants from the design phase, which helps avoid unnecessary spending. What should be improved is greater standardization of internal processes and training for project managers in financial management. Every project begins with a risk plan that anticipates delays, price fluctuations, and legal issues. Alternative agreements with multiple suppliers are maintained, and financial reserves are created to support regular monitoring through monthly team reports and meetings.

Risks are identified as early as the feasibility stage by conducting sensitivity analyses for different scenarios. Fixed-price contracts with suppliers are used to protect against sudden price increases. In more serious cases, contingency funds are allocated to cover potential losses. One of the most common causes of cost overruns is the change of client requirements during the construction process. Additionally, supply delays often extend deadlines and increase expenses, while inflation and labor market fluctuations also affect the final cost.

6. CONCLUSION

The analysis indicates that risk management in the construction sector largely relies on well-established protective measures such as contingency funds, clear contractual provisions, and preliminary risk assessments. These practices suggest that financial management processes are generally mature and standardized. Best practices tend to emphasize transparency, strong collaboration among teams, the integration of technology for financial monitoring, and consistent reporting—all of which contribute to greater control over project progress.

However, perceptions of bureaucracy vary across stakeholders. While some view bureaucratic procedures as a major obstacle to efficient project execution, others identify the lack of internal standardization as the more significant challenge. The range of risks highlighted by respondents is broad, including increases in steel prices and import costs, project delays, client-driven changes, inflationary pressures, and issues with subcontractors. This diversity reflects how each professional role perceives risk according to its specific responsibilities within the organization.

Despite this variation, material price fluctuations—particularly in iron and steel—remain the primary source of cost deviations, making price forecasting and early price securing essential. Several weaknesses were identified within current practices, including inconsistent identification and documentation of risks during the early project phases and non-standardized interim financial reporting in some cases. At an institutional level, bureaucratic procedures and documentation delays can significantly increase indirect costs and extend project timelines, particularly when financial plans or contractual frameworks are incomplete.

To mitigate external risks, contractual structures such as indexation or escalation clauses, long-term supplier agreements, and contingency reserves (typically 8–12%), along with robust financing arrangements—including pre-arranged credit lines or blended financing models combining private capital and loans—play an essential protective role. Furthermore, the relationship between investors and buyers strengthens when transparency is maintained through periodic progress and cost reports, and when financial security mechanisms such as escrow accounts or milestone-based payment systems are in place. These measures help preserve trust while ensuring stable cash flow throughout the project lifecycle.

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