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Ministria e Financave – Ministarstvo za Finansije
Ministry of Finance

**IMPLEMENTATION REPORT OF PUBLIC
ADMINISTRATION REFORM:
PUBLIC FINANCE MANAGEMENT REFORM
STRATEGY 2016-2020 DURING PERIOD
JANUARY-SEPTEMBER 2020**

MINISTRY OF FINANCE
2020, Pristina, Kosovo

Acronyms

IA - Internal Audit
TAK - Tax Administration of Kosovo
EU - European Union
BDMS - Budget Development and Management System
COSO - Committee of Sponsoring Organizations of the Treadway Commission
CSO – Civil Society Organizations
DMPIFC - Department of Macroeconomic Policies and International Financial Cooperation
DEIPC - Department for European Integration and Policy Coordination
KC - Kosovo Customs
RMD - Risk Management Division
IMF - International Monetary Fund
SPSG – Strategic Planning Steering Group
PFMCG – Public Finance Management Coordination Group
IPSAS - International Public Sector Accounting Standards
BFC- Budget and Finance Committee
MTEF - Medium Term Expenditure Framework
EC - European Commission
EFC – Economic Fiscal Council
PIC – Public Investments Committee
PIFC - Public Internal Financial Control
PPRC- Public Procurement Regulatory Commission
LPP – Law on Public Procurement
LPFMA - Law on Public Financial Management and Accountability
MF - Ministry of Finance
PFM - Public Finance Management
SAA - Stabilisation and Association Agreement
BO - Budget Organisation
PEFA – Public Expenditure and Financial Accountability
PIP - Public Investment Program
AFS – Annual Financial Statements
PPF – Project Preparation Facility
SBS - Sector Budget Support
SIGMA - Support for Improvement in Governance and Management
KFMIS - Kosovo Financial Management Information System
SNAO - Swedish National Audit Office
PFMRS - PFM Reform Strategy
IT – Information Technology
NAO – National Audit Office
SPO/OPM – Strategic Planning Office in Prime Minister Office
OPM - Office of Prime Minister

Table of Contents

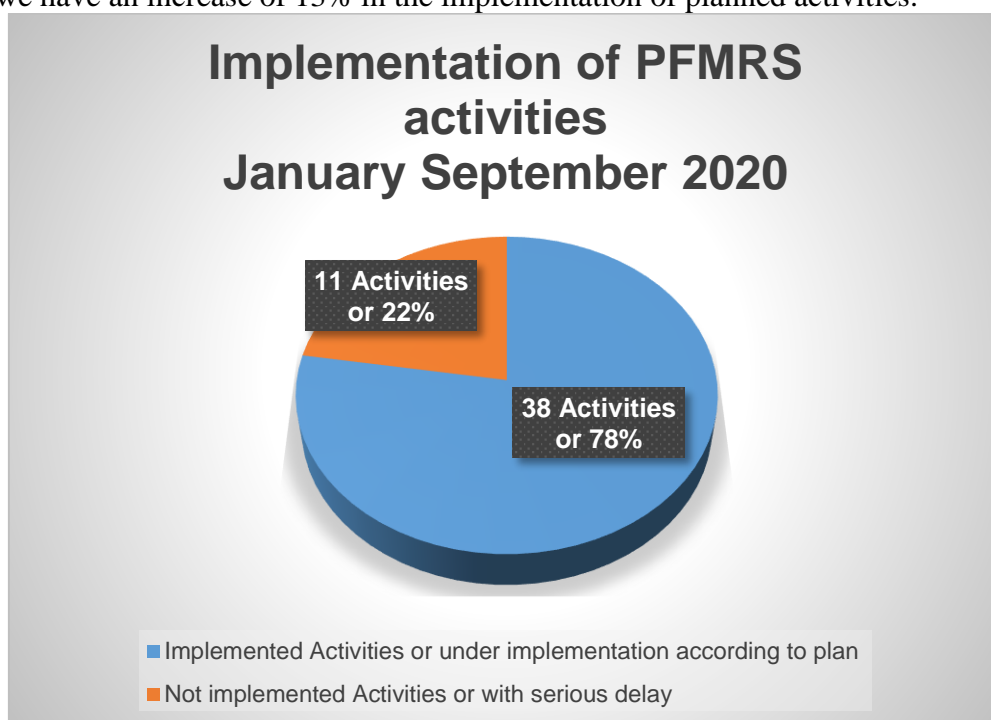
Acronyms	2
Executive summary	4
Aggregate overview	7
Table 1.- Report card of results level of PFMRS activities, January-September 2020	8
Pillar I: Fiscal discipline	13
Pillar II: Allocation efficiency	17
Pillar III: Operational Efficiency	18
Pillar IV: Related PFM Issues	22
Table 2: Reporting card of the implementation of PFMRS Activities in 2020 ACCORDING to the Responsible Structures	24
Risk Management	26
Challenges in the implementation of PFMRS during 2020.....	27
Feasibility and Communications	28

Executive summary

The Public Finance Management Reform Strategy (PFMRS 2016-2020) is the main strategic document of reforms in this pillar. The Government of the Republic of Kosovo, despite the negative impact of the Covid19 pandemic, has remained committed to provide a modern Public Financial Management System (PFM) which is in harmony with best international practices and enables efficient and effective functioning of all stages of Public Finance Management¹. PFMRS 2016-2020 is organized around 4 pillars, which contains 12 key priorities for the Government of the Republic of Kosovo and 20 indicators of success. In 2018 the Coordination Group on Public Finance Management (CGPFM)² developed updating of Action Plan 2019-2020 for implementation of PFMRS 2016-2020. The current plan contains 49 activities and 63 benchmarks for 2020, to ensure focus on priorities for all priority areas of Public Financial Management Reform³. The updated action plan was the result of extensive public consultation and has been discussed with the European Commission in the framework of the PFM Dialogue. The update reflects the mid-term review of PFMRS 2016-2020 that was completed in 2018⁴.

Implementation of PFMRS activities 2016-2020

Satisfactory progress was reported during 2020, where 38 of the 49 planned activities were implemented or under implementation according to plan, or 78%, while the remaining 11 activities, or 22%, are not implemented or have stagnated. Compared to the Annual Report 2019, we have an increase of 13% in the implementation of planned activities.



¹ See: PFMRS 2016-2020, available at: <https://mf.rks-gov.net/desk/inc/media/FF8DA146-CB8B-4BFD-8DF5-38A1A6162E35.pdf>

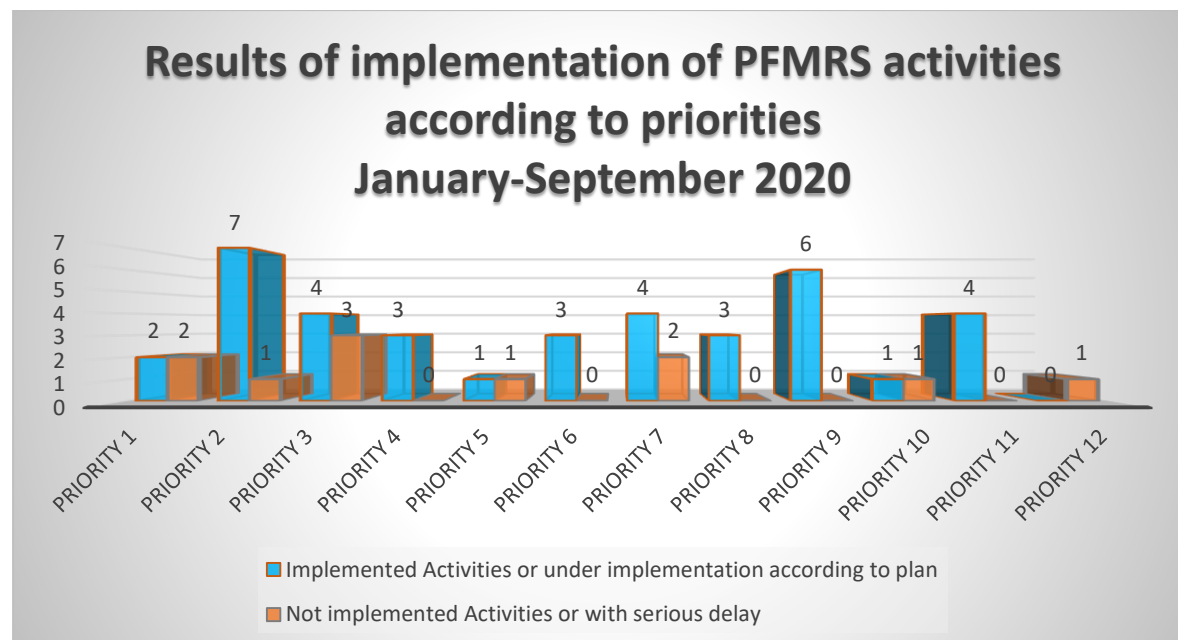
² Government of Kosovo, Ministry of Finance Decision No. 33/2018

³ See: Revised Action Plan covering period 2019-2020, available at: <https://mf.rks-gov.net/desk/inc/media/1A893E26-1757-44D9-8538-555CE66C202F.pdf>

⁴ See: Mid-Term Review of the PFMRS 2016-2020, available at: <https://mf.rks-gov.net/desk/inc/media/FF8DA146-CB8B-4BFD-8DF5-38A1A6162E35.pdf>

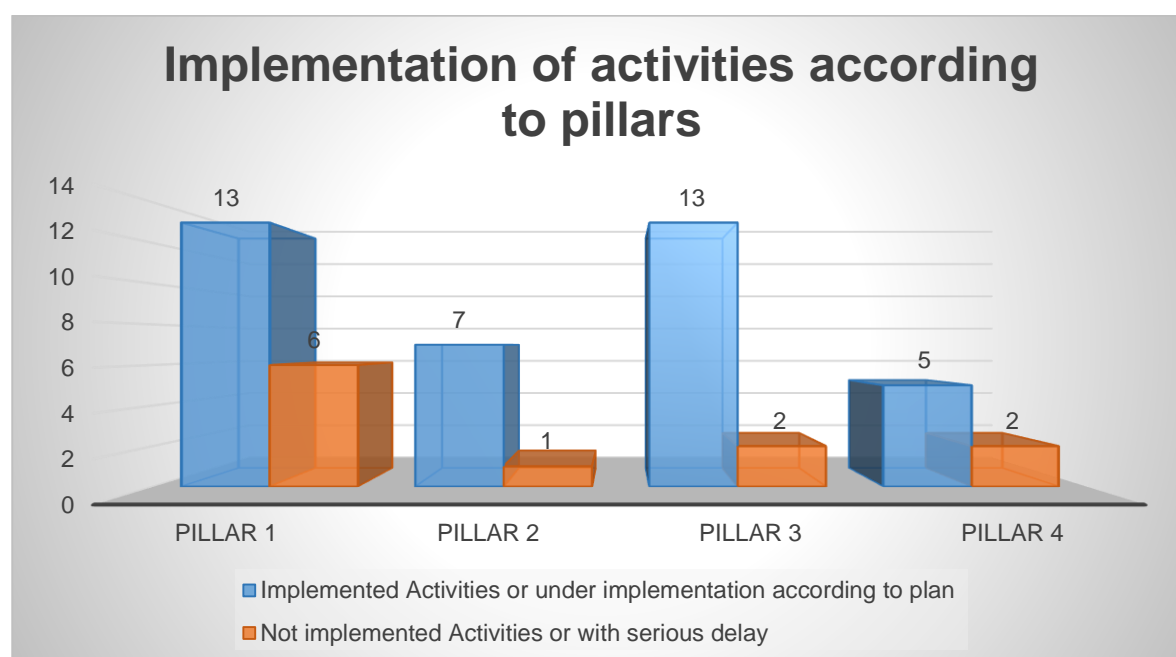
Implementation of activities according to priorities

In regard to the performance implementation of activities according to priorities, the report concludes that we have five priorities (priorities 4, 6, 8, 9 and 11) that have the highest performance rate in 2020, where all activities are implemented or are being implemented according to plan. Whereas priority 12 has only one planned activity, which has not been implemented.



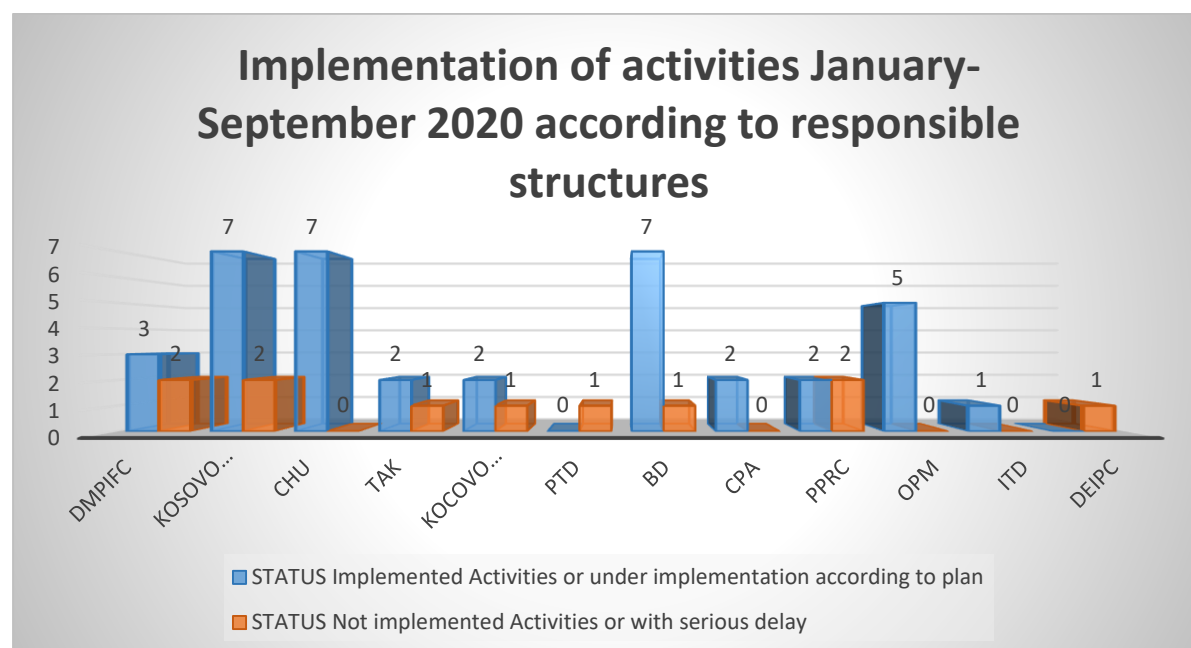
Implementation of activities according to pillars

The report assesses a positive trend in all pillars (I, II, III and IV). The highest trend is in pillar II with 87.5% of the activities implemented or being implemented according to the plan. In following is presented the graph related to the implementation of activities according to the four PFMRS pillars.



Implementation of activities according to responsible structures

The report also assesses the trend of implementation of activities for the 12 structures responsible for the implementation of activities. In following is presented the graph related to the implementation of activities according to responsible structures.



Trend of achieving Indicators

Although in this reporting period the implementation of 19 indicators cannot be assessed, based on the data received from the holders of their implementation, the report assesses that the trend of implementation of some of the indicators continues to be good.

It is worth noting that during the reporting period, despite the complicated situation from the Covid19 pandemic, **in priority 3**, indicator related to the reduction of the level of tax debt as a percentage of total annual revenues, as collectible tax debts, at the end of September 2020 the value amounts to 270,034,774, whereas tax collection during the period January-September 2020 was 61,965,595 EUR. If we express it in percentage it is 22.95% (target value for 2020 is 25%).

During the reporting period, **in priority 5**, the indicator regarding the number of transfers during the fiscal year, we have a positive trend with 74 transfers at the central and local level (targeted value for year 2020 is 120 transfers).

The indicator of **priority 6**, the number of reallocations for central level BO/s, in the reporting period has marked a total of 14 reallocations (targeted value for year 2020 is 30 reallocations).

Preliminary data also concludes some challenges in the implementation of some of the indicators. The obstacles identified are mainly related to the impact of the pandemic as well as political developments in the country. The implementation of the following indicators is considered challenging.

In priority 4, the deviation between the ceiling provided by the MTEF-2020 and the approved budget for year 2020 is 6.02% (the target value for 2020 is 5%). The comparison is in the total budget and not the average deviation, because the approved budget 2020 had major changes in the organizational structure, in which case the number of ministries has been reduced and merged into several other ministries. During the drafting of MTEF 2020-2022 were planned 21 ministries, whereas with the budget approved in March of year 2020, there are a total of 15 ministries. By this, the number of Budget Organizations has been significantly reduced, from the existing 57 to the current 52.

Priority 6, indicator maintaining the level of planned capital expenditures in relation to the overall expenditure structure has been affected by the Covid19 pandemic. In year 2020 the percentage of participation of capital expenditures in the budget structure approved in March of year 2020 was 29%, whereas with the revised budget in August of year 2020 the value is 28% (targeted value for year 2020 is 33.5%).

In priority 12, the indicator regarding the achievement of a systematic, sustainable and integrated way of capacity building of civil servants in Public Financial Management using local, public administration and external expertise, has no developments. It remains for this challenging indicator to be reviewed when drafting the PFMRS action plan for year 2021.

Aggregate overview

The annual report on implementation of PFMRS 2016-2020 in period January-September 2020 is based on the revised action plan 2019-2020, reporting at the level of activities and possibly even indicators. The process of preparation of this six months' report followed the regular procedures and practices that the Ministry of Finance (MF) implements. The process started with data collection from responsible institutions in accordance with the action plan in the third quarter of 2020. The context created with the Covid-19 pandemic resulted with new difficulties for data collection, so online platforms were utilized to access and discuss data. Due to the difficult circumstances and lack of support from the TA project of SBS in PFM, data collection was completed at the end of October 2020, and the contribution analysis process began, including the review of reports and other relevant materials. This also included online consultations with PFMCG members, with an emphasis on members of the key structures responsible for each of the 12 priorities of PFMRS.

As a result of the process of data analysis, the preliminarily table draft of the report was prepared, in accordance with reviewed and approved manual in year 2020. The next step involved filtering and verifying information in order to prepare the Annual Table Report January-September for year 2020, which provided the overall picture of the state of play and the grounds for the development of the narrative of the report. The workload for MF has increased significantly as a result of Covid-19 especially in planning and implementing policies to ease economic impact of the pandemic. Due to the impact of the Covid-19 pandemic, the report was not discussed with civil society, as a result of logistical and technical difficulties to accommodate such a process. This marks the first time the report has not been consulted with CSO/s.

Regarding the broader context of the implementation of the planned reform actions in year 2019, it is important to note that there was an important positive moment that was created with the support of the EU, respectively with the confirmation by the European Commission of the additional fixed Tranche and the Variable Indicators Review for year 2020. However, as a result of developments outside the influence of the MF, there were difficulties in coordinating and mobilizing institutions in the implementation of planned actions, as well as monitoring and reporting. The PFM Coordination Group (PFMCG), assisted by the Secretariat (DEIPC/MF) despite the objective difficulties caused by Covid19, drafted the report for the period January-September 2020. PFMCG has also prepared the Annual Report 2019 on the implementation of PFMRS.

Despite the difficulties, the results for year 2020 regarding the implementation of the activities planned in the PFMRS are satisfactory, with 78% of them implemented or being implemented according to the plan, and 22% not implemented or with serious delays. The report concludes a satisfactory trend of PFMRS implementation in the period January-September 2020. In following is presented the reporting card of the implementation of activities during the period January-September 2020.

Table 1.- Report card of results level of PFMRS activities, January-September 2020

Activity	Benchmark for 2020	ACHIEVABILITY
		Implemented or under implementation according to the plan
		Unimplemented or with serious delays
Pillar 1: Fiscal discipline		
Priority 1: Accuracy of macroeconomic indicator and revenue forecasting		
1.1 Ensuring sufficient capacities of macroeconomic unit.	Technical and analytical capacities of macro officials, established through on-the-job training and at least 3 professional trainings.	
1.2 Publication of methodology for drafting economic forecasting.	Methodology of drafting economic projections on MTEF planning and Budget Book published in the MF website.	
1.3 Enhancing Macroeconomic model with purpose of improving forecast of key macroeconomic indicators including tax revenues.	At least four sub-models (cumulative) for forecasting macroeconomic and fiscal indicators established.	
1.4 Addressing the recommendation of the European Commission from the meeting on economic and financial dialog between the EU and Western Balkans 2018, (Review of options EFC).	Addressing the agreed option with stakeholders.	
Priority 2: Effective control of commitments		
2.1 Amending and supplementing legislation and implementation of financial Regulations.	<p>Increased capacities of BO/s officials for implementation of monitoring regulation.</p> <p>Monitoring of BO/s and reporting of cases when BO/s have failed to implement financial rules, implemented.</p> <p>Monitoring and reporting of payment delays by sanctioning BO/s that have payment delays, implemented.</p>	
2.2 Introducing modified cash-basis accounting in reporting.	Legal basis for using modified cash-basis accounting in reporting drafted.	
2.3 Extension of KFMIS functions.	Payment delays monitored by the Treasury through KFMIS and electronic archives.	
2.4 Implementation of the Law on Public Internal Financial Control (PIFC).	At least 70 financial officers trained on the implementation of PIFC.	

2.5 Monitoring internal control in BO.	Six (8) reviews of internal control implemented. Six (8) reports drafted after each monitoring of BO/s.	
2.6 Implementing process description and unique standard of risk management.	Implementing process description and unique standard of risk management at the central level.	
2.7 Drafting and sending for approval to the Government of the consolidated annual report on the PIFC system.	Received self-assessment questionnaires analyzed. Reports from IAU received and analyzed. Annual consolidated report on PIFC system sent to the Government for approval.	
2.8 Drafting legal framework on the regulation of three-year commitments.	Implementation of three-year commitments.	
Priority 3: Sustainable revenue collection		
3.1 Increased timely filing compliance.	Implementation of the module for managing non-filers and late filers. Capacity building in the unit for treatment of non-filers and late filers.	
3.2 Automated risk assessment to enable immediate approval and payment for the VAT which presents a low risk.	Full implementation of procedures for strengthening automated risk assessment of VAT refund claims.	
3.3 Modernization of information technology system.	Completing the second project phase/putting the system in function.	
3.4 Intensifying activities in fighting smuggling	Increasing controls/patrolling for detecting smuggling cases compared to the previous year.	
3.5 Fighting smuggling of goods and facilitation of trade.	Full monitoring of movement and transit of shipments through RFID system (customs monitoring system).	
3.6 Increasing capacities of KC for sustainable revenue collections.	Increased human capacities through trainings, workshops, conferences, etc.	
3.7 Capacity Building in the Property Tax Department (PTD) in implementing the new Law No. 06/L-005 on Immovable Property Tax.	Increase of property tax revenues, in the current year compared to 2019.	
Pillar 2: Allocation efficiency		
Priority 4: Development of Medium Term Expenditure Framework (MTEF)		

4.1 Strengthening capacities for drafting budget impact assessment of new government initiatives.	At least 90 officers trained for budget impact assessment.	
4.2 Enhancing planning documents (NDS - Sectorial Strategy - MTEF)	Harmonization of sectors between MTEF and NDS. Allocation of budget funds in line with priorities identified in the Statement of Priorities.	
4.3 Impact assessment of proposed policies with impact on budget revenues and expenditures	Preliminary fiscal impact assessment on revenues and expenditures of new policies. Enhanced control by the Budget Department of BIA drafted by BO/s.	
Priority 5.- Credibility and execution control of the annual budget		
5.1 Implementation of Administrative Instruction (AI) on transfers - re-allocations.	About 100 BO officers trained on AI on transfers -reallocations.	
5.2 Drafting analytical document on Performance management.		
Priority 6: Quality of capital budget information		
6.1 Adoption of Administrative Instruction (AI) on the selection criteria and prioritization of capital projects.	About 100 BO officers trained on the "AI on the selection criteria and prioritization of capital projects".	
6.2 Organization of training on PIP system (training of new officers and upgrading the knowledge of existing officers)	At least 120 BO officers of central and local level trained on PIP system, training upon request.	
6.3 Adoption of Administrative Instruction (AI) on the definition of capital projects.	About 100 BO officers trained on "AI on the definition of capital projects".	
Pillar 3: Operational Efficiency		
Priority 7: Public procurement		
7.1 Development of centralized procedures	Implementing procedures and new methodology by the CPA to facilitate procurement and contract management.	
7.2 Strengthening the CPA with necessary staff and professional capacity development.	Professional capacities in the CPA, developed.	
7.3 Advancing and strengthening of e-procurement system for conducting procurement activities.	Application of contract management functions/modules in the electronic procurement system (for large values). Piloting of procurement tools and techniques, auction and reverse auction or dynamic purchase in the electronic procurement system.	
7.4 Comprehensive monitoring of the cycle of public procurement activities	Identification of cases of canceled procedures and including them in PPRC annual report.	

in order to reduce the number of canceled activities.	Monitoring procurement activities through e-procurement platform and recording omissions during the procurement process.	
7.5 Legal amendments in Public Procurement system.	Issuance of the New Law on Public Procurement, adopted. Issuance of new sub-legal acts on the implementation of new PP Law.	
7.6 Basic and advanced training for public procurement officers.	223 officers trained in advanced level of public procurement. 60 officers trained in basic professional training in public procurement.	
Priority 8: Strengthening internal audit		
8.1. Harmonization of methodology for monitoring IAU with new requirements of the PIFC Law.	Implementation of methodology for monitoring of IAU.	
8.2 Monitoring of Internal Audit units	10 internal audit units monitored.	
8.3 Drafting of training plan for internal auditors and organization of training according to the plan.	150 internal auditors trained.	
Priority 9: Strengthening external audit		
9.1 Maintaining institutional independence of NAO.	Maintaining the independence and mandate of the NAO, according to the International Standards of Supreme Audit Institutions (ISSAI/s).	
9.2 Enhancing audit methodology through automation.	Complete operationalization of the audit automation software.	
9.3 Updating of Guidelines for Regularity Audit.	Manual on regularity audits (financial and compliance audits) and Guideline on quality management updated in accordance with ISSAI.	
9.4 Further development of NAO performance audit practice.	Manual on performance audits and the set of paperwork, updated. 17 Performance Reports published.	
9.5 Inclusion of Assembly in reviewing audit reports.	Increased cooperation with Assembly of Republic of Kosovo and Assembly Committees in order to enhance accountability in the public sector. Number of reports that are discussed in assembly committees increased.	
9.6 Supervision/Monitoring of implementation of NAO recommendation.	Report on the plan for implementation of NAO	

	recommendations on statements of GRK, on semiannual basis.	
Pillar 4.- PFM related matters		
Priority 10: Improvement of IT systems		
10.1 Integration of IT systems in MF and its subordinate agencies.	Maintenance and development of the reporting system (BI-Business Intelligence).	
10.2 Establishment of the financial data center (Disaster Recovery System).	Complete operationalization of financial data (Disaster Recovery System).	
Priority 11.-		
11.1 Modification of KFMIS to enable automated preparation of budget reports in accordance with GFSM 2014.	Preparation of KFMIS so that through Crystal Reports it generates standard reports harmonizing the data from the same database with structure according to two standards. Automated reporting from KFMIS functionalized according to international accounting standards for public sector.	
11.2 Reviewing of Government's chart of accounts.	Implementation of the regulation on chart of accounts in the process of budgeting and execution.	
11.3 Developing a friendly budget document (Narrative).	Friendly Budget Document (Narrative) for 2020 drafted and published online.	
11.4 Regular financial reporting on the execution of Budget of Republic of Kosovo.	Monthly, quarterly and annual reports published. Full operationalization of Transparency Portal.	
Priority 12.-		
12.1 The development of a feasibility study on the PFM Training Centre, including training needs assessment.	Addressing recommendations deriving from the finalization of feasibility study.	

Pillar I: Fiscal discipline

First Pillar aims to establish a prudent macroeconomic framework and fiscal policy with the objective to strengthen financial oversight and management of the fiscal risks. The Ministry of Finance (MF) continued to work on reinforcing the medium term macro-fiscal framework and eliminating the risk of systematic biases in revenues forecasts. The Pillar of Fiscal Discipline includes three objectives that relate to the enhancement of macroeconomic forecasts, reduction of payment delays and extension of tax base by fighting fiscal evasion. During 2019, a total of 19 activities were planned for fiscal discipline, and a total of thirteen (13) have been implemented or are under implementation as planned, whereas the remaining six (6) activities have not been implemented or have serious delays.

In the first priority, the forecasting accuracy of macroeconomic and revenue indicators, the report assesses as follows. Out of four (4) planned activities, two (2) activities (activities 1.1, and 1.3) have been implemented or are under implementation according to the plan, whereas two (2) activities are assessed to be unimplemented or have serious delays (activities 1.2 and 1.4).

1.1 Providing sufficient capacities to the macroeconomic unit.

During the period January-February trainings were held with the contracted expert in the project "Support to the Office of Strategic Planning" funded by the European Commission, but after closing due to the pandemic the trainings were interrupted, also during the period January-September trainings were held with the expert contracted by USAID, after the spread of the pandemic and the measures taken by the Government for free movement of citizens, the trainings were held virtually. Regular virtual training will continue to be conducted with the expert contracted by USAID.

1.2 Publication of the drafting methodology on economic forecasts.

There are no actions related to this activity. The possibility of publishing the methodology of drafting macro-fiscal forecasts in the future will be considered.

1.3 Advancing of the Macroeconomic model in order to improve the forecast of key macroeconomic indicators including even tax revenues.

During this period, no new sub-models were established for forecasting macro-fiscal indicators. But, with the assistance of the expert contracted by USAID (who is also the creator of the model in use), work has been done on advancing the existing model.

In the future we will continue with the further advancement of the model, and where it is not possible to advance the existing model, sub-models related to the existing model should be established.

1.4 Addressing the recommendation of the European Commission from the meeting of economic and financial dialogue between the EU and the Western Balkans, 2018, (Review of options KEF).

A working group has been set up to start drafting a study that will identify options for establishing of a fiscal council. Options are expected to be discussed with stakeholders, including the European Commission. This activity marks a delay in the implementation.

In regard to the second priority, effective control of commitments, the report assesses as follows. Out of eight (8) planned activities, seven (7) activities have been implemented or are under implementation according to the plan (activities 2.1, 2.2, 2.3, 2.4, 2.5, 2.6 and 2.7), whereas in one (1) activity it is assessed that there is a serious delay (activity 2.8).

2.1 Amending and supplementing legislation and implementation of financial Regulations.

At beginning of year 2020 the Treasury sent a notification submission to all Budget Organizations in regard to the process of monitoring of accounting records in KFMIS and the implementation of timelines for registration of transactions in KFMIS. During 2020 BO/s were monitored and mainly Certifying Officers and the implementation of timelines for certification of expenditures in KFMIS.

Also, reports on payment delays were received and consolidated by BO/s, and the same report was submitted to the Budget Department to prioritize these obligations during budget planning. Monitoring of expenditures recorded in KFMIS by Budget Organizations has recorded 28 requests/emails, and 149 cases. Monitoring of expenditure coupon approval, 100 remarks and 689 expenditure coupons were forwarded.

In the last quarter of 2020 it is planned to approve the monitoring procedure which provides even the advancement in the process of monitoring accounting records in KFMIS.

2.2 Introducing modified cash-basis accounting in reporting.

In the annual financial report 2019 are presented elements as: receivables, payables, non-financial capital assets, which establishes the baseline for a slight advancement towards the transitional phase in modified cash.

Initially legislative amendments and intensive training of MF staff and Budget Organizations are required, then advancement of KFMIS and other systems.

2.3 Extension of KFMIS functions.

Within KFMIS it has become mandatory to attach the contract and invoice during the process of registering a cost in KFMIS. This enables the audit to have both information in one place, respectively the financial transaction and the financial documentation scanned and attached to KFMIS.

During 2021, advancement of control levels in KFMIS is foreseen and this will create opportunities for BO/s to be monitored if during the expenditures they have caused delays in payments.

2.4 Implementation of the Law on Public Internal Financial Control (PIFC).

Law on PIFC is applicable to all BO/s. CHU/FMC in cooperation with USAID has held 3 workshops at the local level on this issue where 36 participants have been trained.

CHU has planned trainings on 17-18-19 and 20 November/2020 for all BO/s. Agendas and materials for the development of this training have been prepared.

Training of 60 participants by PSE is foreseen (considering the aggravated situation with Covid19, it is the risk that this may fail), we're making preparations to possibly organize these trainings online).

2.5 Monitoring internal control in BO.

During the reporting period, six (6) Internal Audit Reviews were conducted. Four (4) Reports have been drafted after each monitoring of BO, whereas two (2) of them are in draft form, pending comments from the monitored PSE/s on the finalization of these reports.

Two PSE/s are also in the monitoring process. In the monitoring program is the monitoring of eight (8) PSE/s for FMC. Despite efforts to implement the plan, due to Covid19, the last two (2) monitoring may be jeopardized.

2.6 Implementing process description and unique standard of risk management.

The process description register is applicable to all BO/s. The process description register is under implementation by all central level PSE/s.

Currently CHU/FMC in cooperation with USAID is working, monitoring 15 municipalities for the implementation of the process description register, part of which is even risk management. By the end of the year we will have results from these municipalities.

2. Drafting and sending for approval to the Government of the consolidated annual report on the PIFC system.

104 self-assessment questionnaires were received and analyzed for year 2019. The CHU has also received 68 reports from the IAU from the Central and Local Level and 19 reports from the IAU from public enterprises on activities carried out in the field of internal audit during year 2019.

The consolidated annual report for the PIFC system for 2019 has been processed to the Minister of Finance. The report was approved by the Minister and the Government of the Republic of Kosovo (GRK). GRK on 07.06.2020 has issued a decision issuing some recommendations. The decision obliges PSE/s to implement the issued recommendations, in order to improve the PIFC system.

2.8 Drafting legal framework on the regulation of three-year commitments.

The Treasury has realized the necessary developments and made the KFMIS operational for the multi-year commitments. The implementation of multi-year commitments in KFMIS is related to the multi-year budget in KFMIS.

Registering of multi-year commitments in KFMIS for capital projects (new contracts), operational testing and necessary modifications for BO/s, can occur after the implementation of the Cash module and the implementation of multi-year commitments in the budget system. This activity marks a delay in the implementation.

In third priority, Sustainable revenue collection, we have the following results. Out of seven (7) planned activities have been implemented or are under implementation according to the plan four (4) activities (activities 3.1, 3.2, 3.4, and 3.6), whereas in three (3) activities it is assessed to be unimplemented or having serious delays (activities 3.3, 3.5 and 3.7).

3.1 Increased timely filing compliance.

In order to increase the number of declaring taxpayers, the activity of cleaning the register of taxpayers is being regularly implemented by removing from the register those taxpayers who are not active and by monitoring the non-declarants, through the management tool of non-declarants. During the reporting period, the procedures for clearing tax accounts were drafted and approved. With the implementation of procedures for clearing tax accounts, the clearing of tax accounts for businesses in VAT has been done; Individual Businesses and Legal persons. In total 4,573 tax accounts have been cleared. In regard to the capacity building in the non-declarants and declarants unit, during the reporting period an official was added, whereas as unit has no needs for training, as it is in charged only for the administration and monitoring of these two categories of taxpayers.

In order to improve the timely declaration of taxes, in cooperation with GIZ and the World Bank it is planned to carry out communication activities with taxpayers of these two categories. The activities that are expected to be carried out are: conducting of various online surveys to identify the factors of non-declaration; sending of notification letters reminding the timeline for declaration; making calls through the Call Center to notify them for the non-declaration and declaration with delay.

3.2 Automated risk assessment to enable immediate approval and payment for the VAT which presents a low risk.

In January 2020 the consolidated Reimbursement Management Unit started functioning, where currently as a function it is concentrated in only one unit and covers the requirements in the entire territory of Kosovo. For the period January-September 2020, the data related to the requested-approved reimbursements for the type of VAT tax are as follows:

- the number of online VAT claims through the reimbursement module is 470 claims,
- the number of approved claims is 322, and out of this:

- by short visit were approved 269 (83.5% of total) claims,
- by control were approved 53 (16.5% of total).
- The average number of days for reimbursement is 22.7 days (data are taken from the summary statistical report).

Compared to the same period last year, the data are as follows:

- 195 less approved claims compared to the same periods of the previous year;
- by a short visit 163 less approved less claims than in the same periods of the previous year;
- by control 32 less reimbursements approved than in the previous year.
- The average review of reimbursement cases with activity for the cases which the system categorizes in the category A is 7, for those that the system categorizes in category B – with activity is 15 days, whereas for those of category C, that are reviewed by control is 30 days.

Considering that the activity has not been fully implemented, due to the fact that the time spent on reviewing applications meets the criteria of 30 days, but the time of transfer of funds to the business account is not realized within 30 days, it is planned to reconsider once again the reimbursement criteria. In addition, it is planned to make changes in work processes so that the reimbursement management unit conducts audits in cases where the errors in the claim are small, and the tax periods for which reimbursement is requested are not long.

3.3 Modernization of information technology system.

Regarding the progress of the IT System Modernization Project according to the Requirements and Needs of TAK, the project is within the main contract timelines and the Initial Phase has been completed with the content; Plan, Architecture, software and license. Whereas, currently we're in the phase where we are expected to accept the Risk Management and Control module, from which we are expected to have trainings and then conduct the tests. The second phase of the project is the launch of the service function with taxpayers, where at the time of reviewing the action plan in coordination with the project implementing operator, it is foreseen that the second phase be postponed due to the pandemic situation.

3.4 Intensifying activities in fighting smuggling

During the reporting period January-September 2020, a total of 4396 activities were conducted in order to detect cases of smuggled goods. The activities will continue even in the future.

3.5 Fighting smuggling of goods and facilitation of trade.

As a result of the situation created by the pandemic, but also as a result of the fact that the tendering of this project has failed several times, KC has decided to suspend this project for this year. The budget for this project has been carried forward for 2022. This activity marks a delay in the implementation.

3.6 Increasing capacities of KC for sustainable revenue collections.

As a result of the pandemic situation, the training plan has not been fully implemented. During this time period 27 training activities were held and 183 customs officials were trained. KC will continue holding online training activities where possible.

3.7 Capacity Building in the Property Tax Department (PTD) in implementing the new Law No. 06/L-005 on Immovable Property Tax.

During the reporting period, property tax revenues declined by 5.9 million euros compared to the same period of the previous year, or a decline of 28.5%. This decline has to do with the situation created by the Covid19 pandemic. The targeted value for this activity has not been reached.

Pillar II: Allocation efficiency

Pillar II aims to ensure efficient and effective use of the approved budget resources by strengthening efficient budget execution through the linkage of National Strategy and budget planning for the next three years. The progress is marked in the realization of the activities especially in the development of Medium-Term Expenditure Framework (MTEF). This Pillar includes three priorities that are related to further enhancement of the role of MTEF as planning document, strengthening reliability in the annual budget and more efficient and effective management of public investments. During year 2020 a total of eight (8) activities were planned on allocation and efficiency, and a total of seven (7) are implemented or are under implementation according to the plan, whereas one (1) remaining activity hasn't been implemented or has serious delays.

Strengthening the credibility of the annual budget through improving budget planning and compliance with the macro-fiscal framework as well as the Government's strategic objectives, is an ongoing priority of the PFMRS. It is assessed that there is a sustainable trend in the implementation of activities, despite the difficulties created by COVID19, which may affect non-achieving of indicators.

In fourth priority, the development of a Medium Term Expenditure Framework (MTEF) by further enhancing the role of the MTEF as a document linking the National Strategy and budget planning, the Report assesses the state of implementation of the following activities. Out of three (3) planned activities, all three (3) activities have been implemented or are being implemented according to the plan (activities 4.1, 4.2 and 4.3).

4.1 Strengthening of capacities for drafting budgetary impact assessments for new government initiatives.

During the period January-June, until the formation of the new Government, there were no activities for new government initiatives, therefore after the formation of the new Government, during the period June-September, 30 officials were consulted. Likewise, for this activity trainings are planned to be held in T4 of 2020, but currently everything depends on the pandemic caused by CORONA virus. Relevant officials will continue to be consulted, based on the needs and requirements of BOs,

4.2 Advancement of planning documents (NDS-Sector Strategy - MTEF)

There is harmonization of the MTEF sectors with the NDS, BOs are obliged to give priority to their requests with regards to the measures and activities which are foreseen in the NDS.

The MTEF is drafted based on the Statement of Priorities of the Government, so BOs are obliged to give priority to the DG in planning their budgets with the MTEF, whilst these data are also required based on the instruction issued by the MoF for the preparation of the MTEF by BOs.

BOs will continue to strictly implement the instructions issued by the MoF for the preparation of the MTEF, and will be in full compliance with the NDS and with the Statement of Government Priorities.

4.3 The impact assessment of proposed policies with fiscal impact on budget revenues and expenditures.

During the reporting period, based on the requests from the MoF cabinet, analyses were made on fiscal impact for the policies proposed by the Government of Kosovo. In order to have as detailed information as possible on the impact of government policies on revenues and expenditures, budgetary impact assessment analyses will continue to be provided.

The opinions of the budgetary impact assessment include a detail from BD where we declare that the cost presented in the budgetary impact assessment form, is confirmed by the Budget Department, on whether the cost presented in the BIA form is actually assessed. The Budget Department will continue to verify the data presented in the BIA form completed by the BOs

and in case of any discrepancies in the data, a request for additional information will be filed regarding these discrepancies presented in the BIA form.

In the fifth priority, the indicator related to the percentage of deviation of the overall budget execution compared to the budget approved at the central level, the Report assesses the state of implementation of the following activities. Out of two (2) planned activities, one (1) activity (activity 5.1) has been implemented or is being implemented according to the plan, while one (1) activity has serious delays (activity 5.2).

5.1 Implementation of the Administrative Instruction (AI) on transfers - reallocations.

70 officials (October) through KIPA have been trained for the implementation of this AI. More trainings were planned to be held, but due to the pandemic these trainings were not organized earlier. Other trainings are to be held by the end of the year for this AI, but currently everything depends on the pandemic caused by the CORONA virus.

5.2 Drafting an analytical document for performance management.

There are no developments for the implementation of this activity. A working group is expected to be established in order to draft this document.

In the sixth priority, the indicator regarding the number of reallocations for central level BOs has yielded a good result so far, where in this reporting period (January-September) a total of 14 reallocations were made. Implementation of activities is reported as follows. Out of three (3) planned activities, all three (3) activities have been implemented or are being implemented according to the plan (activities 6.1, 6.2 and 6.3).

6.1 Approval of the administrative instruction (AI) on the selection criteria and prioritization of capital projects.

For the implementation of this AI through KIPA 70 officials (October) have been trained, whereas for this AI, an E-learning video was launched for public finances on the website of MF-DB.

If the need arises for another training even after this period, BD is ready to hold trainings for this AI, but currently everything depends on the pandemic caused by the CORONA virus.

6.2 Organization of training for PIP system (training of new officials as well as refreshing of the knowledge of existing officials).

88 KIPA officers were trained through KIPA (September-October).

If the needs arises for another training even after this period, BD is ready to hold trainings for this AI, but now everything depends on the pandemic caused by the CORONA virus.

6.3 Approval of the Administrative Instruction (AI) for the definition of capital projects.

For the implementation of this AI through KIPA 70 officials (October) have been trained, whereas for this AI, an E-learning video was launched for public finances on the website of MF-DB.

If the need arises for another training even after this period, BD is ready to hold trainings for this AI, but currently everything depends on the pandemic caused by the CORONA virus.

Pillar III: Operational Efficiency

Pillar III operational efficiency, includes three priorities which aims to improve the field of public procurement, audit advancement and internal control as well as the advancement of external audit. During 2020, a total of fifteen (15) activities are planned, where a total of

thirteen (13) activities have been implemented or are being implemented according to plan, while the remaining two (2) activities have serious delays.

In the seventh priority - Public Procurement, progress has been made in implementing the envisaged activities. In this reporting period the implementation of activities is reported as follows. Out of six (6) planned activities, four (4) activities have been implemented or are being implemented according to the plan (activities 7.1, 7.2, 7.4, and 7.6), while two (2) activities have serious delays (activities 7.3 and 7.5).

7.1 Development of centralized procedures.

CPA has developed procedures according to AI-06/2018 and Government decision no. 06/27, date: 30.04.2020. Has signed two (2) public draft agreements that help facilitate public procurement. The two ongoing proceedings are expected to be completed by the end of the year. The activity "Long-term use of rented vehicles" has been suspended after the decision of the Government no. 05/36, dated 19.10.2020.

7.2 Strengthening the CPA with the necessary staff and building professional capacity.

The professional capacities of CPA during the reporting period have been increased. Seven (7) CPA officials have attended the Basic Vocational Training Program for Procurement. Two (2) officials attended the training of trainers in the field of public procurement by ITC-ILO.

7.3 Advancing and strengthening the e-procurement system in carrying out procurement activities.

The module for managing contracts signed through the e-procurement system has not started to be implemented due to the situation created by the Covid19 pandemic. In the period Q4-2021, up to 100% of public procurement contracts will be managed through the electronic procurement system. Delays may be caused due to the situation created by the Covid19 pandemic.

Piloting of procurement tools and techniques, auction and reverse auction or dynamic purchasing in e-procurement system, was not done due to lack of legal basis. The legal changes will create a legal basis for the implementation of these procurement tools and techniques in the e-procurement system.

7.4 Comprehensive monitoring of the cycle of public procurement activities in order to reduce the number of cancelled activities.

PPRC, during this reporting period has monitored procurement activities set up and published on the e-procurement platform. A total of 272 notifications for cancellation of procurement activities were monitored, which data was included in the work report of the Monitoring Department of the PPRC for the period January-September 2020, with more detailed data on this issue. In order to identify, prevent and eliminate possible omissions related to compliance with public procurement law by contracting authorities, increasing the level of work in order to use fairly, transparently and efficiently the funds of the consolidated budget of Kosovo, the PPRC will continue with monitoring of procurement activities through the e-procurement system as well as case-by-case monitoring.

Likewise, other types of notifications were monitored during the implementation of procurement activities by the CA. Procurement activities were also monitored according to the requests of economic operators and other interested parties.

7.5 Legal changes in the Public Procurement system.

The concept document on the treatment of legislation in the field of public procurement was approved by the Government on 09.09.2020, with delays caused by changes in management, politics and the situation with the Covid19 pandemic. According to the Decision dated on 06.10.2020, the Team responsible for drafting the new Law has been established with a

deadline for drafting the law until 01.03.2021. The first meeting of the Responsible Team was held on 16.10.2020. The goal is to prepare and submit the draft Law on Public Procurement until December 2020. Delays in drafting and approving the new public procurement law may be caused by the situation created by the Covid19 pandemic.

The issuance of new sub-legal acts for the implementation of the new Law on Public Procurement will be done within a period of 6 months after the approval of the law.

7.6 Training of public procurement officers at basic and advanced level.

By the end of the year, about 230 officials will be trained for the advanced level of public procurement. The training is expected to start in November 2020. The number of procurement officers to be trained may change depending on the pandemic situation, their mobility, changing of job positions, etc. This is especially valid for the advanced level of training in the field of public procurement which is foreseen to be done within 3 years from when the officials complete the basic level of training.

The benchmark for 2020 has been exceeded in terms of 60 officers trained for basic professional public procurement training. 160 officials have attended basic level training for public procurement. The training was held online, due to the situation created by the Covid19 pandemic.

In the eighth priority, further strengthening of internal audit, progress has also been made in implementing the envisaged activities. In this reporting period the implementation of activities is reported as follows. Out of three (3) planned activities, all three (3) activities have been implemented or are being implemented according to the plan (activities 8.1, 8.2, and 8.3).

8.1 Harmonization of the IAU monitoring methodology with the new requirements of the PIFC Law.

The CHU is implementing the IAU monitoring methodology. The CHU monitoring methodology regulates the monitoring of the quality of internal audit in the Internal Audit Units in the SSP performed by the CHU / IA. Monitoring of Internal audit quality consists of: Analysis of the IAU quality assessment questionnaire. Analysis of information obtained from the reports of the Internal Audit Units on the activities carried out in the field of internal audit and field visits.

8.2 Monitoring of Internal Audit Units

6 IAUs were monitored. Monitoring of internal audit activities in the IAU in the SSP is done according to Article 30 of Law no. 06 / L-21 on Internal Control for Public Finance. The purpose of monitoring internal audit activities is to assess whether the internal audit activities are in compliance with the basic requirements of the standards of the Internal Audit Institute, legal requirements governing the internal audit function in Kosovo, the methodology developed by the CHU / IA and also to provide recommendations for further improvements.

Monitoring of internal audit activities is focused on the following areas:

- Organizational establishment of the internal audit function;
- Management of the internal audit function;
- Performing internal audit engagements;
- The impact of internal audit activities.

Four monitoring are planned to be carried out in K4. During October, the CHU has already started monitoring two IAUs.

8.3 Drafting a training plan for internal auditors and organizing trainings according to the plan.

A plan for training internal auditors has been drafted. The training and certification program was successfully completed by 19 participants. In cooperation with USAID, a workshop was organized for 26 participants on the topic "Performance Audit" and a workshop for the development of a plan for the implementation of audit recommendations for 49 participants. With regards to the achievement of benchmark, for the period K4 one workshop and two

trainings are planned to be held. However, the realization of these activities depends on the situation created by COVID19.

The ninth priority is to strengthen external audit. In this reporting period the implementation of activities is reported to be successful. Out of the six (6) planned activities six (6) activities have been implemented or are being implemented according to the plan (activities 9.1-9.6).

9.1 Preserving the institutional independence of the NAO.

The report states that there are no changes.

9.2 Advancing the audit methodology, through automation.

The Audit Information System (AIS) has been fully developed, tested and put into operation in October 2020. This system is owned by the NAO and has been developed based on the relevant audit methodologies implemented by the NAO. In particular, AIS will allow auditors to automatically access the necessary information in a short period of time and to use a number of methods and perform audit calculations in effective and efficient manner. Audit teams have attended the necessary training and have started entering data and using the system for the 2020/2021 audit season. A professional support team and technical support desks have been set up and will provide full support to auditors in case of need. The vast majority of work activities took place in pandemic conditions and it has been quite challenging for the team that for a project of this size to be successfully implemented by working in remote conditions.

9.3 Updating of the Regularity Audit Guide.

The Regularity Audit Manual was updated during 2020 and is now called the Financial and Compliance Audit Manual. This update was made in full compliance with ISSAI based on proposals for necessary changes and with the professional support of the Twinning project. Likewise, this year the package of Working Package Letters was reviewed and updated, based on the requirements and according to the new audit methodology.

9.4 Further developing of NAO performance audit practice.

The manual for performance audits is in the process of being updated, while during 2020 the Working Package Letters for performance audits was updated.

The benchmark of 17 performance reports could not be reached due to the impact that the pandemic had. This value for performance audits is ambitious and does not correspond to the annual work plan for 2020/2021, where only 8 performance audits are planned considering that we may have a difficult situation due to the pandemic at least until the spring of 2021.

9.5 Involvement of the Assembly in reviewing Audit reports.

The National Audit Office has continued the cooperation with the Assembly, respectively the parliamentary committees in order to increase the accountability in the public sector. For this purpose, meetings were held and the Speaker of the Assembly, the Chairman of the Committee for Oversight of Public Finances and the Chairman of the Budget and Transfers, was communicated, as well as with MPs and other officials of the Assembly, as needed.

Although in exceptional working conditions, the NAO has managed to complete all individual audits and has timely submitted to the Assembly the Annual Audit Report for 2019. The Auditor General has presented this report in plenary session. Regarding the review of individual audit reports in parliamentary committees, although in pandemic conditions a positive trend is observed. The Public Financial Oversight Committee has so far reviewed a total of fifteen (15) audit reports for budget organizations, the Annual Audit Report on the state budget, as well as the Annual Performance Report of the NAO.

9.6 Supervision / Follow up the implementation of NAO recommendations.

During September 2020, the Government approved the Plan on the implementation of the recommendations of the NAO for 2019. The decision foresees the Six-month reporting.

Pillar IV: Related PFM Issues

The fourth pillar, PFM related issues are addressed through three Priorities in PFMRS which includes three priorities related to the improvement of IT systems, the advancement of reporting in accordance with the IMF standard GFSM 2014 and the systematic and sustainable growth of capacities of civil servants in PFM. During 2020, a total of seven (7) activities are planned, where five (5) activities have been implemented or are being implemented according to the plan, while two (2) activities are unimplemented or have serious delays.

In the tenth priority, regarding the improvement of IT systems, during the reporting period the implementation of activities is reported as follows. Out of two (2) planned activities, one (1) activity (activity 10.1) has been implemented or is being implemented according to the plan, while one (1) activity has serious delays (activity 10.2).

10.1 Integration of IT systems in the MoF and its subordinate agencies.

The contract for systems integration and development of the reporting system BI / DWH (BI-Business Intelligence / Data Ware House) ended in October 2020, while for the extension of the contract for maintenance and promotion, no procedures have been developed. The decision to enter into a new framework contract for the maintenance and upgrading of BI / DWH is pending.

10.2 Establishment of financial data centre (Disaster Recovery System).

DMITS has not undertaken any activity, as a result of the fact that the establishment of the National Recovery Centre was taken to be done by the Agency of Information Society (AIS). We are in coordination with ASHI for this activity. Once the financial data centre is ready, the Treasury is ready to cooperate in setting up the Treasury data.

In the eleventh priority, Transparency for the budget, during the reporting period, the implementation of activities is reported as follows. Out of four (4) planned activities, all four (4) activities have been implemented or are being implemented according to the plan (activities 11.1, 11.2, 11.3 and 11.4).

11.1 Modification of KFMIS to enable automated preparation of budget reports in accordance with GFSM 2014.

In accordance with the requirements of the LPFMA, an interface table has been prepared where the data generated by KFMIS can be converted very quickly in the format according to GFSM 2014. The created tool has enabled the reporting to GFSFMN and EUROSTAT to be done according to GFSM 2014. The interfacing chart, Chart of Accounts, GFSM 2014, ESA 2010 has been published on the website of the MoF.⁵

⁵ <https://mf.rks.gov.net/Page.aspx?id=1,36>

11.2 Review of the Government accounting plan.

The Treasury has revised the chart of accounts and published it on the MoF website and the same chart of accounts is used during budgeting, execution and reporting.⁶

11.3 Drafting the Friendly Budget Document (Narrative).

The Friendly Budget Document (Narrative) for 2020, due to delayed budget approvals and as a result of the COVID19 pandemic, was published in November 2020 on the MoF website. This activity will continue in the coming years as well.

11.4 Regular financial reporting on the execution of the Budget of the Republic of Kosovo.

In order to increase transparency, the Treasury has requested from the information office the continuous publication of detailed data on a monthly basis for budget execution published by the Treasury - Monthly time series, and quarterly reports on the transparency portal and other information that increase transparency. Regarding budget execution reports, the Treasury reports on a monthly basis (time series), quarterly (including the transparency portal) and annual financial reporting. In addition to these reports, the Treasury publishes annual reports in the IMF System by classification, namely Government Financial Statistics (GFS) based on the Manual for GFS (GFSM 2014).

In the twelfth priority, which addresses capacity building in the PFM area in a systematic, sustainable and integrated manner, no progress in implementation has been reported. The report finds that the only activity (1) planned to be implemented in 2020, has serious delays (activity 12.1).

12.1 Development of feasibility study on the PFM Training Centre, including training needs assessment.

Completion of the Study is a prerequisite for the implementation of the activities of this priority. Priority twelve aims to increase capacity building in the field of PFM. Many attempts have been made, but the Feasibility Study has not yet been implemented. Although the budget has been provided, there are delays in the tender procedures. The assessment of training needs in the field of PFM is foreseen to be carried out as part of the feasibility study.

⁶ <https://mf.rks-gov.net/page.aspx?id=1,128>

Table 2: Reporting card of the implementation of PFMRS Activities in 2020 ACCORDING to the Responsible Structures

ACTIVITY	STATUS	RESPONSIBLE STRUCTURE
Pillar 1: Fiscal Discipline		
Priority 1: Accuracy of forecasting macroeconomic indicators and revenues		
1.1 Ensuring sufficient capacity of the macroeconomic unit.	Implemented	DMPIFC
1.2 Publication of the methodology for drafting economic forecasts.	Not Implemented	DMPIFC
1.3 Advancing the Macroeconomic model in order to improve the forecast of key macroeconomic indicators, including tax revenues.	Implemented	DMPIFC
1.4 Addressing the recommendation of the European Commission from the meeting of economic and financial dialogue between the EU and the Western Balkans, 2018, (Review of options EFC).	Not Implemented	MoF
Priority 2: Effective commitment controls		
2.1 Completion of legislative changes and implementation of Financial Regulations.	Implemented	Kosovo Treasury (KT)
2.2 Introduction of modified cash accounting in reporting.	Implemented	KT, Budget Department (BD), CHU
2.3 Expansion of KFMIS functions.	Implemented	KT/BO
2.4 Implementation of the Law on Internal Control of Public Finances (PIFC).	Implemented	CHU
2.5 Monitoring of internal control in BOs.	Implemented	CHU
2.6 Implementation of process description and unique risk management standard.	Implemented	CHU
2.7 Drafting and submitting to the Government for approval the Consolidated Annual Report for the PIFC system.	Implemented	CHU
2.8 Drafting of the legal infrastructure to regulate three-year commitments.	Not implemented	KT, BD
Priority 3: Sustainable revenue collection		
3.1 Increasing the compliance of timely declaration.	Implemented	KTA
3.2 Automatic risk assessment to enable immediate approval and payment of low risk VAT.	Implemented	KTA
3.3 Modernization of the information technology system.	Not implemented	ATK
3.4 Intensification of anti-smuggling activities	Implemented	Kosovo Customs (KC)
3.5 Combating smuggling of goods and facilitating trade.	Not implemented	KC
3.6 Capacity building in KC for sustainable revenue collection.	Implemented	KC
3.7 Capacity building in the Property Tax Department (PTD) in the implementation of the new Law no. 06 / L-005 on Immovable Property Tax.	Not implemented	PTD
Pillar 2: Allocating Effectiveness		
Priority 4: Development of a medium-term expenditure framework (MTEF)		
4.1 Capacity building for drafting budgetary impact assessment for new government initiatives.	Implemented	BD
4.2 Advancement of planning documents (NDS-Sector Strategy - MTEF)	Implemented	BD, OPM/SPO
4.3 Assessing the impact of proposed policies with fiscal impact on budget revenues and expenditures.	Implemented	DMPIFC, BD

Priority 5: Credibility and control of the annual budget execution		
5.1 Implementation of the Administrative Instruction (AI) on transfers - reallocations.	Implemented	BD
5.2 Drafting of analytical document for performance management.	Not implemented	BD
Priority 6: Quality of capital budget information		
6.1 Approval of the administrative instruction (AI) on the selection criteria and prioritization of capital projects.	Implemented	BD
6.2 Organizing of training for the PIP system (training of new officials as well as updating the knowledge of existing officials).	Implemented	BD
6.3 Approval of the Administrative Instruction (AI) for the definition of capital projects.	Implemented	BD, KT
Pillar 3: Operational efficiency		
Priority 7: Public Procurement		
7.1 Development of centralized procedures.	Implemented	CPA
7.2 Strengthening the CPA with the necessary staff and building professional capacity.	Implemented	CPA
7.3 Advancing and strengthening the e-procurement system in carrying out procurement activities.	Not implemented	PPRC
7.4 Comprehensive monitoring of the cycle of public procurement activities in order to reduce the number of cancelled activities.	Implemented	PPRC
7.5 Legal changes in the Public Procurement system.	Not implemented	PPRC
7.6 Training of public procurement officers at basic and advanced level.	Implemented	PPRC
Priority 8: Strengthening of internal audit		
8.1 Harmonization of the methodology for IAU monitoring with the new requirements of the PIFC Law.	Implemented	CHU
8.2 Monitoring of Internal Audit Units	Implemented	CHU
8.3 Drafting a training plan for internal auditors and organizing trainings according to the plan.	Implemented	CHU, IKAP
Priority 9: Strengthening of external audit		
9.1 Preserving the institutional independence of the NAO.	Implemented	NAO
9.2 Advancing the audit methodology, through automation.	Implemented	NAO
9.3 Updating the Guide on Regularity Audit.	Implemented	NAO
9.4 Further development of NAO performance audit practice.	Implemented	NAO
9.5 Involvement of the Assembly in reviewing Audit reports.	Implemented	NAO
9.6 Supervision / Follow up of the implementation of NAO recommendations.	Implemented	KT
Pillar 4: Related PFM Issues		
Priority 10: Improvement of IT systems		
10.1 Integration of IT systems in the MoF and its subordinate agencies.	Implemented	ITD
10.2 Establishment of financial data centre (Disaster Recovery System).	Not implemented	KT
Priority 11: Transparency for the budget		
11.1 Modification of KFMIS to enable automated preparation of budget reports in accordance with GFSM 2014.	Implemented	KT
11.2 Reviewing of the Government accounting plan.	Implemented	KT, BD
11.3 Drafting the Friendly Budget Document (Narrative).	Implemented	BD
11.4 Regular financial reporting on the execution of the Budget of the Republic of Kosovo.	Implemented	KT
Priority 12: Sustainable capacity building in PFM		
12.1 Development of a feasibility study on the PFM Training Center, including training needs assessment.	Not implemented	DEIPC/Department for General Services

Risk Management

The strategy covers twelve priorities and a variety of activities for each priority. Each activity faces its own risks. In order to address them, a risk assessment will be taken at the general level as well as the proposal of concrete measures for its reduction will be addressed in the January-September 2020 monitoring report on the implementation of the Public Financial Management Reform Strategy. At the overall strategy level, the four main identified risks relate to: Covid19 pandemic, Political Commitment, Financial Constraints, and Lack of Technical Expertise. Given the developments since the first quarter of 2020, one of the high impact risks has already been included, already materialized in this period. This risk will extend its effect in 2020 and in the following years in the field of PFM. Below you can find the analysis of these risks as well as proposals for mitigation measures for each of them:

RISK	MEASURE FOR RISK REDUCTION
The global pandemic of COVID-19	<p>This risk is materialized</p> <p>International financial institutions predict that the economy of the Western Balkans will slow down by 2020, in line with Western and global developments. Consumption is expected to boost growth and there will be strong competition to attract foreign investment. A good part of the funds in the State Budget will be allocated to cope with the situation. Consequently, in these conditions, difficulties / slowdown in the implementation of reforms in the field of public finances are expected to happen. On the other hand, there should be an assessment of impact of the pandemic in most accurate manner, in order to take adjustment measures. Likewise, there will be an amplification of difficulties due to inability of developing of the normal work of the institutions.</p> <p><i>To address the situation</i>, several measures have been taken⁷: (1) The International Monetary Fund (IMF), through the Rapid Financing Instruments, has approved financing for Kosovo in the amount of 51.6 million euros, on the assessment of the economic and fiscal impact of measures related to the COVID virus 19. (2) The International Development Association (part of the World Bank) has signed the next grant agreement in the amount of 9.4 million euros. (3) KfW signs two grant agreements worth 13.5 million euros, (4) The European Commission has approved the Macro-Financial Assistance package for non-EU partner countries, including Kosovo, from which Kosovo is expected to benefit 100 million euros. While a high percentage of staff are working from the office, the rest is in full engagement with work from home. Different measures, depending on the developments, are expected to be taken.</p>
Political commitment	<p>This risk is partially materialized.</p> <p>A significant part of the reform initiatives require approval in the Government of the Republic of Kosovo or in the Parliament of the Republic of Kosovo. Recent political developments prove that this is one of the consistent risks.</p> <p><i>To manage this risk</i>, this strategy has been formally approved by the Government and reflects the political commitment for its implementation. In addition, the implementation of the PFM Reform Strategy is strongly included in the structure for Public Administration Reform. This will ensure that delays in implementation are signalled to political leadership and enable political intervention in a timely manner.</p>

⁷ <https://mf.rks-gov.net/Page.aspx?id=1,165>

RISK	MEASURE FOR RISK REDUCTION
Financial constraints	<p>This risk is partially materialized.</p> <p>The review of the strategy enabled its costing, which was estimated at 54.9 million euros. Part of the reforms will be supported by the Budget of the Republic of Kosovo, a part by international donors such as: Sectorial Budgetary Support and assistance through EU IPA projects, SIGMA, World Bank, IMF, etc. The situation with pandemic, on the one hand, hinders the reforms in the financial aspect, while on the other hand, it creates the necessary situation for certain reforms.</p> <p><i>To minimize the impact of this risk</i>, in December 2019 the transfer of the fixed tranche was realized, while in 2020 the transfer of the variable tranches 2018 and 2019 of the Sectorial Budget Support (SBS) for PFM. The continues support of the EU should be emphasized. During 2020, at the request of the MoF, the European Commission agreed to revise the variable indicators for 2020, and approved the additional fixed tranche for the PFM. Assistance from international partners, through training, participation in conferences, providing expertise in various fields, etc., is also assistance in implementing reforms. The review of the SRMFP Action Plan for 2021 will address some of these challenges.</p>
Lack of technical expertise	<p>This risk has not materialized</p> <p>Some of the PFM reforms will require international expertise to address the challenges in Kosovo. Technical assistance, accompanying SBS, was expected to be implemented by 2020. Such international expertise was often provided by Kosovo's international development partners such as: Technical Assistance provided by IPA projects and Sectorial Budget Support (SBS), USAID Projects, World Bank, SIGMA, GIZ, LuxDev etc..</p> <p><i>One of the key measures to mitigate this risk</i> will be the start of support from the Technical Assistance project that accompanies SBS to PFM. Also consultations with development partners who are interested in supporting the PFM strategy will address the needs for assistance and expertise in the field of SRMFP. The meeting for PFM dialogue is a good place for this.</p>

Considering the latest developments, in order to minimize them it is necessary to monitor and follow these risks. Under these conditions, these risks combined with other risks will amplify the impact in the event of materialization. Increased political dialogue as well as the goodwill between the parties will help push forward public finance reforms.

Challenges in the implementation of PFMRS during 2020

The report states that majority of the activities are being implemented in accordance with the plan, while a small number are facing challenges or with suspension of their implementation. Specifically, some of the challenges encountered during the implementation of the reform are:

1. Some challenges have been identified with the multidimensional negative impact of the Covid19 pandemic. These impacts are manifested with obstacles to normal institutional work, with institutional burdens in order to overcome the effects of the pandemic, difficulties in drafting the legal infrastructure, lack of financial means, etc.

The following are some activities or benchmarks that could not be achieved due to the impact of the pandemic:

- Complete monitoring of the movement and transit of shipments, through the RFID system (customs monitoring system).
 - Increase in property tax revenues, in the current year compared to 2019.
 - Advancing and strengthening the e-procurement system in carrying out procurement activities.
2. Some of the foreseen activities have not been realized due to various factors such as the complexity of the activity, lack of institutional commitment, political support, changes in the Assembly, Government, etc., such as:
- Publication of the methodology for drafting economic forecasts.
 - Addressing the recommendation of the European Commission from the meeting of economic and financial dialogue between the EU and the Western Balkans, 2018, (Review of KEF options).
 - Development of legal infrastructure for the regulation of three-year commitments.
 - Modernization of the information technology system.
 - Development of analytical document for performance management.
 - Legal changes in the Public Procurement system.
 - Establishment of financial data centre (Disaster Recovery System).
 - Development of a feasibility study on the PFM Training Centre, including training needs assessment.

The next steps and measures to be taken for each activity are presented in the performance analysis, taking into account these challenges they face.

Feasibility and Communications

The project of Technical Assistance for Public Financial Management Reform is expected to start soon with the financing of the European Union. This project also aims to design a communication strategy in order to raise awareness and inform the public about the processes, challenges and results of public finance reform in the Republic of Kosovo. Initially, for this matter a comprehensive assessment is planned to be done for the current situation of the capacities of the participating institutions. Consequently, an Action Plan will be drafted, which will define the most effective techniques to be used in communication with each of the actors involved. Referring to the implementers, below are shown some of the events that took place in the framework of informing and promoting the initiatives taken in the field of public finance.

All documents related to PFMRS, such as Strategy, Annual Reports on implementation of PFMRS, Six Monthly Reports, and Annual Reports on implementation of Variable Indicators are published regularly on the MoF website in all three languages. The Friendly Budget Document (Narrative) is also regularly published, as well as the regular financial reporting for the execution of the Budget of the Republic of Kosovo. The PFM Dialogue Meeting, attended by CSOs, is a good opportunity to increase transparency and develop communication with stakeholders.