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Ministria e Financave – Ministarstvo za Finansije
Ministry of Finance

IMPLEMENTATION REPORT OF PUBLIC ADMINISTRATION REFORM FOR 2019: PUBLIC FINANCE MANAGEMENT REFORM STRATEGY 2016-2020

Ministry of Finance
2020, Prishtina, 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 Tread way Commission
CSO – Civil Society Organisations
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
IPSAS - International Public Sector Accounting Standards
BFC- Budget and Finance Committee
MTEF - Medium Term Expenditure Framework
EC - European Commission
PIC – Public Investments Committee
PIFC - Public Internal Financial Control
PPRC - Public Procurement Review 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
PFMCG - Public Finance Management Coordination Group
IT - Information Technology
NAO – National Audit Office
SPO/OPM – Strategic Planning Office in Prime Minister Office
OPM - Office of Prime Minister

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Executive summary

The Public Finance Management Reform Strategy (PFMRS 2016-2020) is the main strategic document of reforms in this pillar. Kosovo government aims at ensuring a modern system of Public Finance Management (PFM), which is in harmony with best international practices and enables efficient and effective functioning of all stages of Public Finance Management.¹ PFMRS 2016-2020 is organized around four pillars, which contains 12 key priorities for the Government of the Republic of Kosovo and 20 indicators of success. The last Indicator 20 has no target planned for 2019. In 2018 the Coordination Group on Public Finance Management (CGPFM)² developed a revised Action Plan 2019-2020 for implementation of PFMRS 2016-2020 which contains a total of 49 activities in all priority areas of the Public Finance Management Reform.³ The revised action plan was a result of extensive public consultations and it was discussed in the framework of the PFM Dialogue with the European Commission. The revisions reflect the mid-term review of the PFMRS 2016-2020 which was completed in 2018.⁴ The revised action plan includes 49 activities, which also have financial impact assessment, and 68 reference points for 2019, to ensure a focus on priorities.

Satisfactory progress is reported during 2019, 32 of the 49 planned activities were implemented, or 65%, while the remaining 17 activities, or 35% are under implementation or have stalled. Priority 2- Effective commitment controls, priority 3- Sustainable revenue collection, and priority 7-Public Procurement, have the highest performance rate in 2019, based on the results of implemented activities. With respect to the status of four pillars, during the 2019 highest number of implemented activities fall under the Pillar I: Fiscal discipline with 13 implemented activities; followed by Pillar III: Operational Efficiency with total 10 implemented activities.

During 2019 a total of 19 indicators were planned to be achieved. The results show that 12 of them or 63% have been achieved, while the targets for the remaining 7 (37%) of the indicators have not been fully achieved. During 2019 the average deviation of tax revenues forecast versus actuals is -4.0%, which ensures the positive trend towards targeted value for 2019 and target set for 2020. Additionally, during 2019 the target value for the number of taxpayers who declare their income voluntarily and the reduction of the tax debt level as a percentage of total annual revenues was exceeded.

During 2019 a positive development was evident in the reduction of the number of transfers with 137 transfers made during the fiscal year 2019, reaching the target value for 2019 which was 140 transfers. Progress has been made in achieving the “value for money” principle by reducing to 8.76% the percentage of use of the negotiated procedure without publication. The Central Procurement Agency (CPA) has conducted procurements for supplies and services amounting to 15.84% of the annual contract value of goods and services in public procurement. Further strengthening of internal audit has been achieved by increasing the number of certified internal auditors to 95%. The percentage of audit reports reviewed by the Committee on Financial Supervision is 12%. The report finds that 39% of recommendations issued by

¹ See: PFMRS 2016-2020, available at: <https://mf.rks-gov.net/desk/inc/media/BAF3BA3A-4140-4E68-B1AF-D2EBB7B5B517.pdf>

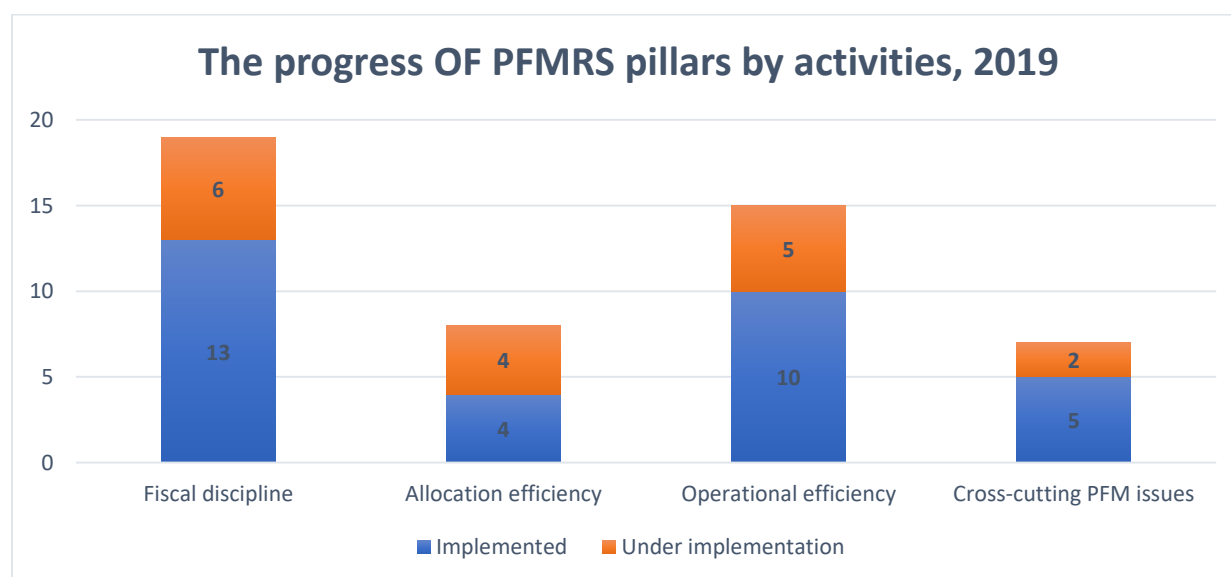
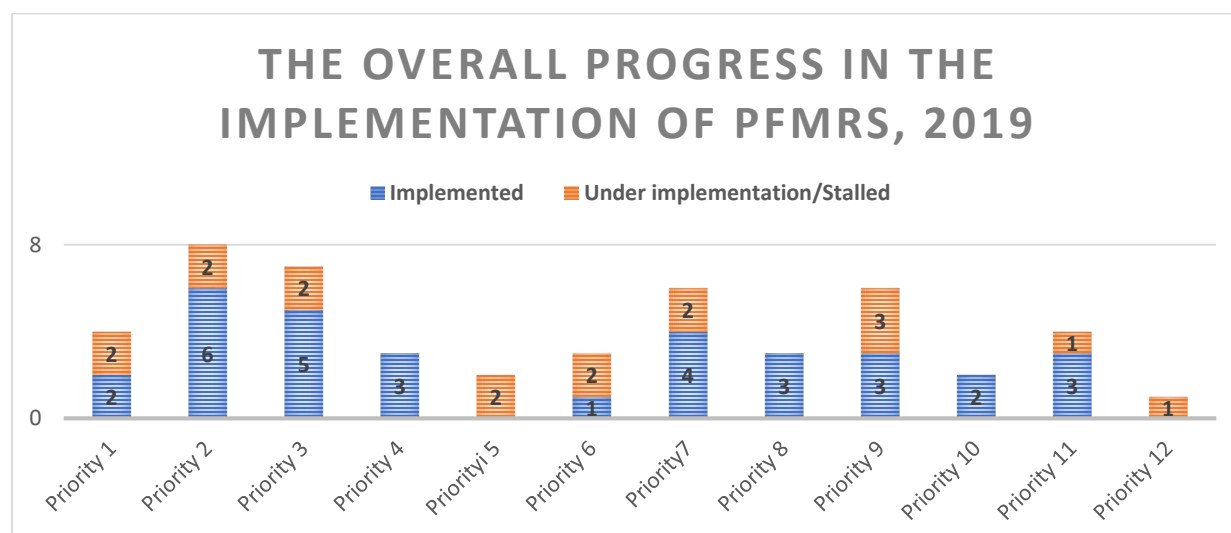
² Government of Kosovo, Ministry of Finance Decision No. 33/2018

³ See: Revised Action Plan covering period 2019-2020, available at: <https://mf.rks-gov.net/desk/inc/media/E9D97D58-F376-41CB-96DE-A957A711ABD2.pdf>

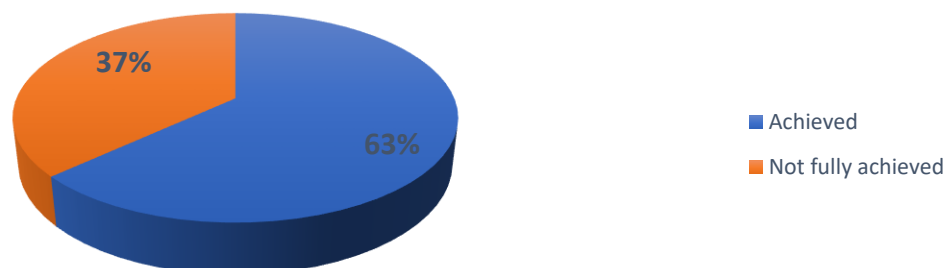
⁴ See: Mid-Term Review of the PFMRS 2016-2020, available at: <https://mf.rks-gov.net/desk/inc/media/BAF3BA3A-4140-4E68-B1AF-D2EBB7B5B517.pdf> ;

the National Audit Office have been addressed by institutions, which is an increase of 7% compared to the base year and an excess of 5% compared to the target value for 2019. Concerning performance of institutions, Ministry of Finance (MF) managed to implement 28 out of the 40 planned activities under its responsibility, followed by the Public Procurement Regulatory Commission, with implementation of two out of four planned activities, and the National Audit Office of Kosovo with implemented two out of five planned activities.

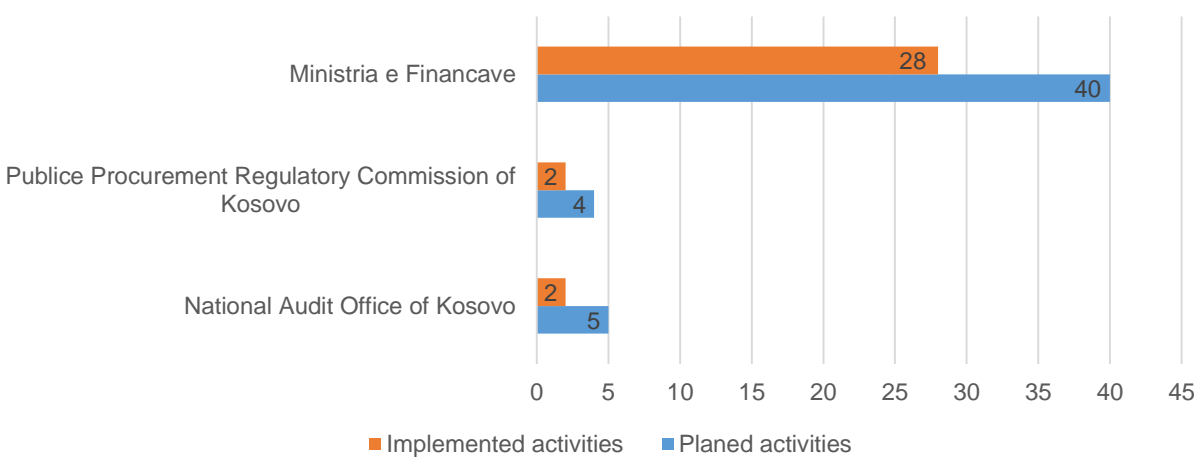
During 2019, as a key challenge was identified lack of integration of PFM with the budget processes. A working group is expected to be formed in 2020 to begin work on drafting an analytical document on performance management. Modernization of the information technology system is also identified as the challenge. The Operationalization of the information technology system, as well as the interconnection between them, is complex and consequently challenging. In 2020 it is expected implementation of the first phase that includes business intelligence, taxpayer service and control function.



Progress in implementation of PFMRS indicator targets for 2019



Performance of responsible Institutions in PFMRS



Aggregate overview

The annual report on implementation of PFMRS 2016-2020 in 2019 is based on the revised action plan and the passport of indicators, reporting at the level of activities and indicators. The process of preparation of this annual report followed the regular procedures and practices that the Ministry of Finance (MF) implements on annual basis. The process started with data collection from responsible institutions in accordance with the action plan in the first quarter of 2020. The context created with the pandemic of Covid-19 resulted with new difficulties for data collection, so online platforms were utilized to access and discuss data. By the start of the second quarter data collection was completed, and the process of document analysis, including review of the reports and other relevant materials started. This also involved online consultations with the members of the Secretariat, respectively the Department for

European Integration and Policy Coordination in the (DEIPC/MF) and the main responsible structures for each of the 12 priorities, represented on Public Finance Management Coordination Group (PFMCG).

As a result of the process of data analysis, the preliminary table draft of the report, in accordance with the OECD/SIGMA guidelines was prepared. This provided a general overview of the status of each activity and indicator. The next step involved filtering and verifying information in order to prepare the Annual Table Report for 2019, which provided the overall picture of the state of play and the grounds for the development of the narrative of the report. In preparation and finalization of the report, MF received technical assistance from Lux Development in the framework of the Human Capacity Development Fund (HCDEF) project. The first draft of the narrative report was shared with OECD/SIGMA for review, who also provided expertise to address the identified shortcomings and finalize the report. However, the report, because of the impact of the Covid-19 pandemic was not discussed with civil society as a result of logistical and technical difficulties to accommodate such a process for the MF. 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. This marks the first time the report has not been consulted with CSOs.

As it concerns the wider context of implementation of the planned reform actions in 2019, it is important to note that there was an important positive momentum that was created with the European Commission confirming the Sector Reform Contract for PFM in the framework of Budget Support instrument (SBS). However, as a result of the developments outside the control of the MF, mainly early elections and the delay in forming the new government in 2019, there have been significant obstacles in coordinating and mobilizing the institutions and delays in implementing the planned actions. Despite the difficulties, the results for 2019 concerning implementation of planned actions under PFMRS are impressive, with 65% of them implemented, as well as 63% of Indicator targets achieved. The PFMRS annual report concludes satisfactory implementation of PFMRS in 2019.

The PFM Coordination Group (PFMCG), in the beginning of 2019 supported by SIGMA, prepared Annual Report 2018 on implementation of PFMRS. Initially the report was presented and discussed in Ministerial Council on Public Administration Reform (MCPAR) on 13 May 2020, while it was also presented and discussed in the PFM Dialog Meeting held on 21 May 2019. The minutes of PFM Dialog meeting were presented in The PAR Special Group meeting held on 22 May 2020. PFMCG has also prepared the Six Month Report 2019 on implementation of PFMRS, and Annual Report 2018 on implementation of Variable Indicators. Six months report served to responsible institutions to identify not only progress and challenges in implementation of PFM reforms, but also mitigating measure to address challenges. PFMCG held more than 9 meetings, including some workshops supported by Project Preparation Facility (PPF), EU project in MEI. The Six months report was presented in the PFM Dialog Meeting held on 23 September 2019, with the presence of Development partners and civil society organisations (CSO).

During 2019 we have surpassed the planned target of the number of taxpayers voluntarily declaring income, from 67,702 to 73,164. Also, in 2019 the planned target (30%) for the reduction of the level of tax debt as percentage of total annual revenues, was surpassed by seven percent (37%). Also, the percentage of maintaining the level of planned capital expenditures compared to the structure of total expenditure, was slight surpassed from 33% to 33.20%. During 2019 we have certified 95% of internal auditors, which is a 15% increase from the planned target of 80%. Also, institutions surpassed the percentage of addressed recommendations issued by the Auditor-General Office from 34% to 39%. During 2019 we have integrated seven IT systems as per the planned target.

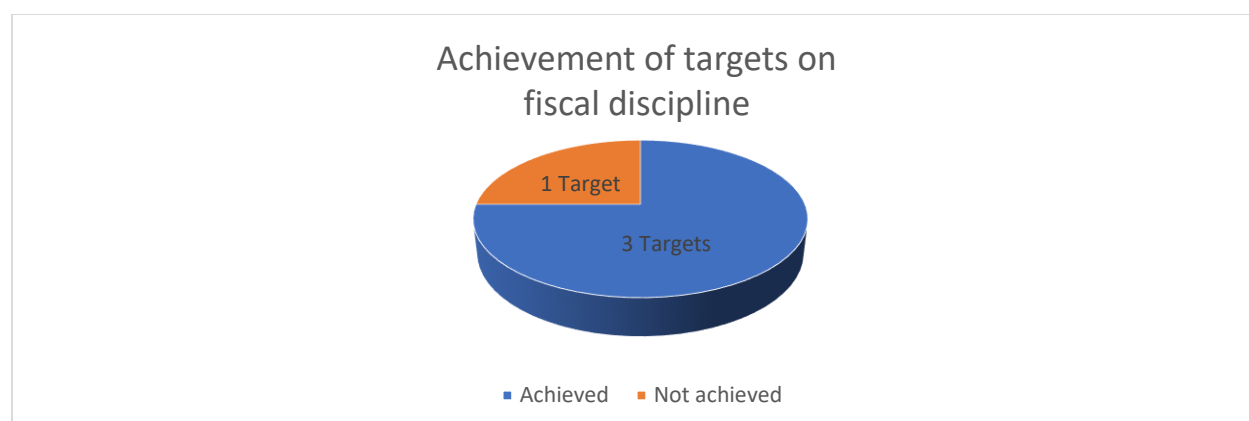
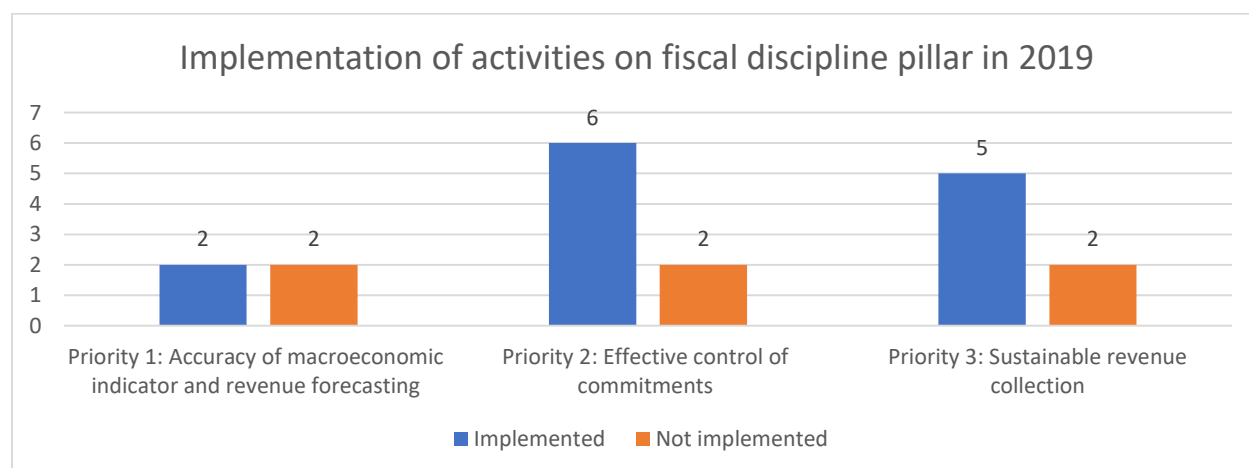
Table 1: Outcome level indicator report card for PFMRS in 2019

INDICATOR	BASELINE	TARGET 2019	ACHIEVED
PILLAR 1: FISCAL DISCIPLINE			
1.1. Average deviation of tax revenue forecast versus actuals	(-1.10%)	-6% to +12%	-4.00%
1.2. Outstanding payment arrears by the end of the fiscal year as % of total expenditures.	4.3%	3%	3.7%
1.3.1 Number of taxpayers voluntarily declaring income.	62,886	67,702	73,164
1.3.2 Reduction of the level of tax debt as percentage of total annual revenues	35%	30%	37%
PILLAR 2: ALLOCATION EFFICIENCY			
2.1. Average deviation between MTEF ceilings and annual budget ceiling for BOs.	7.15 %	6.5 %	8.97%
2.2. Percentage of deviation of the overall budget execution compared to the approved budget at the central level.	-14.90%	-7.5% and +7.5%	13.3%
2.3 Number of transfers during a fiscal year.	178	140	137
2.4 Number of reallocations by central BOs	55	45	63
2.5 Maintaining the level of planned capital expenditures compared to the structure of total expenditure.	33.00%	33.00 %	33.20%
PILLAR 3: OPERATIONAL EFFICIENCY			
3.1. Share of negotiated procedure without publication.	12,98 %	9%	8.76%
3.2. Annual percentage of the value of goods and services contracted by the CPA, compared to the value of annual contracted value of goods and services in PP.	12%	≥ 14%	15.84%
3.3. Percentage (%) of certified internal auditors.	50%	80%	95%
3.4. Percentage of implementation of recommendations by the management.	51%	55 %	51.32%
3.5 Percentage of addressed recommendations by the Parliamentary Committee on Public Finance Oversight.	10%	15 %	12.00%
3.6. Percentage of addressed recommendations issued by the Auditor-General Office.	32%	34%	39%
3.7. Percentage of non-addressed recommendations issued by the Auditor-General Office.	37%	34%	32%
PILLAR 4: PFM RELATED MATTERS			
4.1. Number of integrated systems.	0	7	7
4.2. Budgeting and reporting based on the account table complying with GFS 2014.	Does not exist	Budget planning according to GFS 2014	GFS 2014 standard on use.
4.3. Number of PFM training programs.	N/A	Feasibility Study	Not completed
4.4. Number of officials trained in the field of PFM.	NA	NA	NA

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. This did not progress fully as planned. 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 13 were fully implemented while the remaining six (6) activities have not been implemented or are under implementation. This pillar contains in total four (4) indicators, and in 2019, 80% have been achieved.

Advancement of the accuracy of the forecasting of macroeconomic indicators, including economic forecasts, capacity building and advancement of the Macro-Economic model is very important for the Government of the Republic of Kosovo. In this context it aims to increase the transparency through the publication of the methodology of economic forecasts. Achieving this priority improves the quality of information needed for political decision-makers and will create a sound basis for effective cooperation with international financial partners and in particular with the EU, by addressing the European Commission's recommendations from the Economic and Financial Dialogue Meeting between the EU and the Western Balkans, 2018.



In the first priority, the forecasting accuracy of macroeconomic and revenue indicators is maintained and improved. Average deviation of regular revenue forecasting compared to actual revenues for 2019 is - 4.0%, which ensures a positive trend towards the target value for 2019 and the target for 2020. Priority one, aims to reinforcing the medium term macro-fiscal framework and ensure accurate revenues forecasts. Progress was made in increasing capacity building of the macroeconomic unit by holding training moduli on macroeconomic modelling, revenue projection, fiscal impact and related topics. It is expected to continue with the trainings that would affect the increase of the professional capacities of this unit. During the reporting year, two sub-models were established; the GDP forecast model, according to economic activities and the model of Accountable General Equilibrium. During 2020, the advancement of the Macro-Economic model will continue, as well as the establishment of other sub-models for the forecasting of macroeconomic and fiscal indicators. But during the reporting year there are no developments on the publication of the methodology for drafting economic forecast and no analytical document has yet been drafted with options regarding the establishment of an independent body for fiscal supervision, for further consultations with stakeholders.

Regarding the second priority, effective control of commitments, the indicator of outstanding payment arrears by the end of fiscal year as percentage of total expenditures for 2019 is reported to be 3.7%, far from targeted value for this year (3%) and the objective of 2% for 2020. Priority two, focuses to ensure the achievement of the objective of reducing arrears by increasing compliance with applicable pledge controls. Even though the performance indicator is not achieved, work has progressed well for some activities. During 2019, Electronic Archive has been integrated into the KFMIS and progress was marked also on capacity building of public officials by holding conferences and trainings in regard to new sub legal acts, instructions and regulations. During this reporting year, CHU/FMC has monitored 6 Public Sector Entities (PSE) for quality assurance and implementation of financial management and control. At the end of each monitoring, six reports were compiled for each of the PSE/s.

The Processes Description Register has been put into practice for 5 pilot municipalities, which includes all activities taking place within a PSE/BO. Next year the support will be extended to 10 other municipalities. The consolidated annual report on the PIFC system was drafted and approved by the Government of the Republic of Kosovo. New positive developments are marked also on drafting legal framework on the regulation of three-year commitments, by proposing two initiatives: (a) In the Law on Budget for 2020 a separate article (Article 12.9) on the regulation of multi-year commitments; (b) The Treasury within the KFMIS established and tested the system for the implementation of three-year commitments.

More efforts needed to be done on few specific areas as: approving legislation and implementation of financial regulations. Even though the draft regulation for Monitoring and Reporting Delay in Payments by the BO/s was drafted, it should be approved in order to begin on quarterly basis for monitoring, payment delays, and compliance with the BO/s accounting plan. Also no new developments on changing the accounting principle from a cash basis to an accrual basis, although MF in its annual financial report has presented some elements on an accrual basis in the form of disclosure of records such as receivables, payables, assets, etc.

It is reported a very good progress in the third priority, where both TAK indicators, the number of taxpayers who declare their income voluntarily and the reduction of the tax debt level as a percentage of total annual revenues have exceeded the targets stipulated for 2019. Priority three, points out the importance to increase the level of tax and customs revenue collections through increased capacity of tax

and customs administrations and improved taxpayer compliance and reduced tax evasion and informal economy. In order to achieving sustainable revenue collection, the Tax Administration of Kosovo (TAK) has progressed by operationalizing the unit for the treatment of non-declarants and late declarants and increasing timely filing compliance.

Progress is marked also on automated risk assessment to enable immediate approval and payment of the VAT which presents a low risk. Currently the average time of reimbursement realization is 19.8 days. To ensure revenue collection, Kosovo Customs (KC) has reported several achievements in frame of fight activities against smuggling, informal economy and protection of society. Also during the reporting period 745 customs officials were trained in various professional, managerial and technical training areas. Training and workshop were held with officials of the municipal property tax offices, in order to present the innovations and reforms stipulated by the new Law No. 06/L-005 on Immovable Property Tax. In the absence of responsible bids, the project "Automation of registration and control of transit through the integration of the RFID system (customs monitoring system)" is expected to be re-tendered next year. The contract for Modernization of information technology system in Kosovo Customs was finalised, next year is expected to begin the implementation.

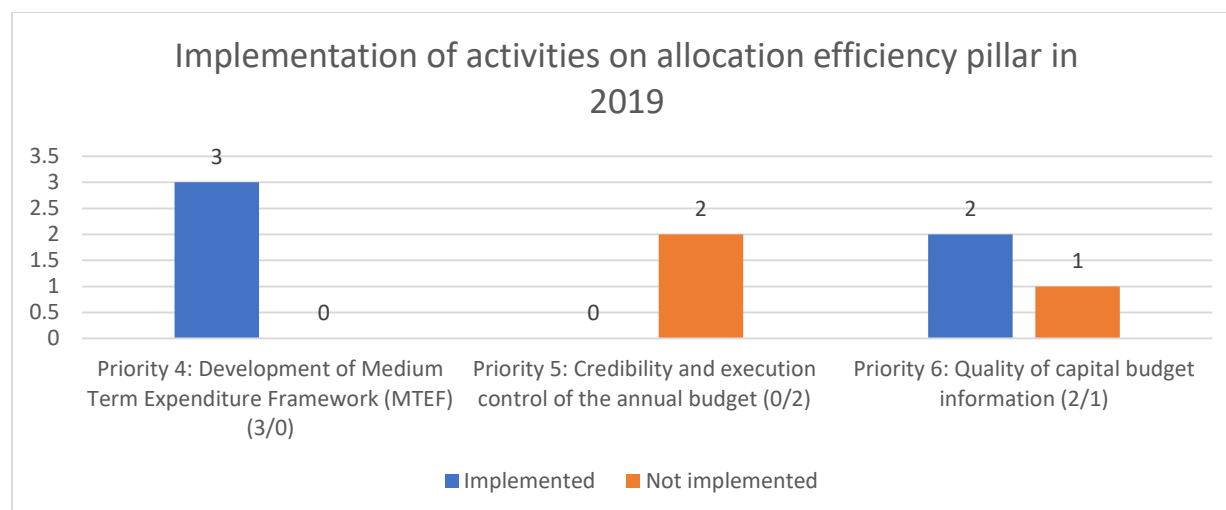
Pillar II: Allocation Efficiency

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. Work progress is marked in the realization of the activities especially in the development of Medium-Term Expenditure Framework (MTEF). Measured against the targets set in PFMRS, this pillar presents a mixed picture concerning the progress. 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 2019 a total of eight (8) activities were planned on allocation efficiency and a total of five (5) have been implemented, while the remaining three (3) have not been implemented or are under implementation. Allocation efficiency contains five (5) indicators in total, and in 2019, 60% of them were achieved.

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 estimated that there is a sustainable trend in strengthening annual budget planning and the consistency of the annual budget correlation with public strategic policies and the macro-fiscal framework, however there are still some reforms that requires additional efforts. For 2019, the percentage (%) of deviation overall budget execution compared to the approved budgeted at the central level is 13.3%. This indicator is below the target for 2019, as this deviation mainly comes as a result of non-execution of capital projects by the investment clause mechanism.

The percentage of average deviation between Mid-Term Expenditure Framework (MTEF) ceiling and Annual Budget ceiling for BO for 2019 is 8.97%, which is under target stipulated for 2019. This difference between the planned budget with MTEF 2019-2021 with the approved budget for 2019, comes as a result of these changes, which have been planned with MTEF and haven't been in the budget or have been with lower amounts, e.g. the amount of 31 million Euros approved by the Ministry of Health for the purchase of medicaments, has been allocated to the Kosovo Hospital Service; Investment clause with MTEF 2019-

2021, to the Ministry of Environment and Spatial Planning has been reduced in the amount of 20 million Euros, without changing the projects but by reducing the amounts for each project etc. This will be improved by intensifying close cooperation with all Budget Organizations and the Cabinet of the Minister of Finance.



Actions have continued in the fourth priority to develop a medium-term expenditure framework (MTEF) by further enhancing the role of MTEF as a document that links National Strategy and budget planning. However, due to political changes, the changes in strategic orientations are reflected in budget figures and MTEF, therefore, during 2019 it is reported that the average deviation between MTEF ceilings and annual budget ceiling for BOs is 8.97%. This indicator is far from the target value of 6.5% for 2019, making it more difficult to achieve it even by 2020.

Priority four aims to better link the National Strategy and budget planning for the next three years. There is a progress reported in the overall performance for this priority. Firstly, by strengthening capacities for drafting budget impact assessment (BIA) of new government initiatives, where about 100 BO/s officials were advised and trained about budgetary impact assessment. During 2019, according to the instructions issued by the MF, to prepare the MTEF, it is ensured that the BO in its requirements for budget funds give priority to measures and activities which are planned in the NDS and in accordance with the priorities

identified in the Priorities Statement. New positive developments are indicated in Impact assessment of proposed policies with impact on budget revenues and expenditures. In the opinions of BOs of the budget impact assessment, is included the confirmation from the Budget Department where it expresses on the accuracy of the costs presented in the BIA template.

In the fifth priority, the indicator related to the percentage of deviation of the overall budget execution compared to the approved budget at the central level marks progress compared to the base value but has not reached the planned target for 2019. In regard to the second indicator of this priority, it is concluded that there has been a decrease of the number of transfers, where during the fiscal year 2019 were made 137 transfers, reaching the target value for this year in 140 transfers. Priority five aims to ensure efficient and effective use of the approved budget resources by strengthening efficient budget execution through the implementation of Administrative Instruction (AI) on transfers - re-allocations. Although this AI has been approved by the Minister of Finance, and training of BO officials on the implementation of this AI was held, its implementation delayed into January 2020. No progress was marked in relation to drafting of analytic document on performance management. Next year, it is expected to be established the working group.

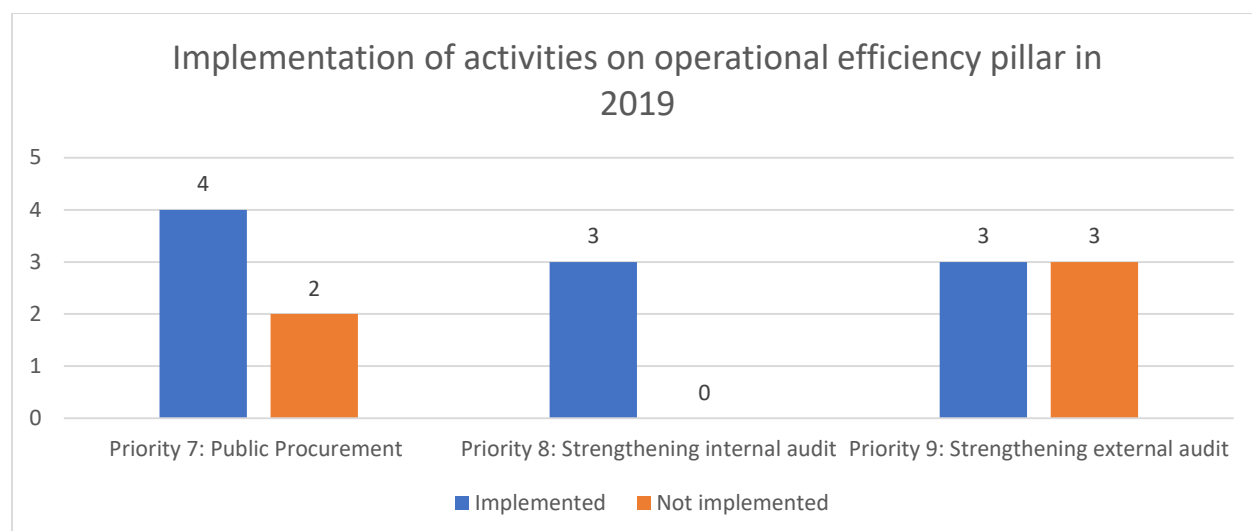
In the sixth priority, the indicator related to the number of re-allocations by central BOs, failed to be achieved. During 2019, the number of re-allocations was 63 compared to 55 as it was in base years, as well as with targeted value of 45 reallocations. In regard to the second indicator related to the maintaining the level of planned capital expenditures compared to the structure of total expenditure, it is reported to be 33.20%, exceeding by 0.20% the target value for this year. Priority six focuses on efficient and effective management of public investment planning and monitoring through Public Investment Program (PIP) system. Regarding public investments, two new Administrative Instructions (AI) the first on the selection criteria and prioritization of capital projects and the second on the definition of capital projects, were approved by the Minister of Finance. These AIs aimed at establishing new criteria for prioritising and appraising capital investment projects. Their implementation will be a challenge for the year 2020. During 2019, several trainings are held on the implementation of the AIs and on PIP system.

Pillar III. Operational efficiency

Pillar III: **Operational Efficiency** aims to reinforce public procurement, internal control and external audit. This pillar includes three priorities related to improvement of public procurement area, advancing of audit and internal control as well as advancing of external audit. During 2019 a total of 15 activities were planned for operational efficiency, with ten (10) being fully implemented while the remaining five (5) have not been implemented or are under implementation. This pillar contains seven (7) indicators in total, and in 2019, 71% have been achieved. In this pillar of the PFMRS, actions have been taken to increase the technical, systemic and human capacities for the realization of the main principle in public procurement “Value for Money”. All these have resulted in maintaining the growing trend of guarantees for ensuring efficient and transparent use of public funds.

Regarding the first indicator, share of negotiated procedure without publication has been reduced to 8.76%. The target value for 2019 has been reached. This indicator positively influences on achieving the target for 2020. The second indicator shows a satisfactory progress during 2019. The Central Procurement Agency (CPA) has made procurements for supplies and services amounting to € 54,900,347.42 or 15.84%

of the annual contract value of goods and services in PP. No satisfactory progress is reported to the percentage of implementation of recommendations by senior management. Thus, for the recommendations of 2017, which should be implemented in 2018, it is reported that there are 51.32% implemented recommendations, 30.86% recommendations in process and 17.82% unimplemented recommendations. As for the recommendations issued for 2018 and which have been implemented during 2019, they will be presented in the monitoring report for 2020.



In the priority seven - Public Procurement, a progress was achieved in application of the principle “Value for Money” by reducing the use of negotiated procedure without publication to 8.76%. This indicator influences positively on achieving the target for 2020. In regard to the second indicator, a satisfactory progress is achieved during 2019. Central Procurement Agency (CPA) conducted procurements on supplies and services in the amount of 15,84% against annual contracted value of goods and services in PP. Priority seven, pursues to increase the technical, systemic and human capacities for the realization of the main principle in public procurement “Value for Money”.

The performance indicators were achieved and there are made substantial progress in this priority. CPA has developed procedures according to Law on Public Procurement and has assisted institutions in

contract management through interpretations, clarifications and joint meetings. Progress is marked also in hiring new staff and increased capacity building. Improvements are introduced also in e-procurement system for conducting procurement activities, by increasing efficiency, competition and transparency during the development of CA procurement activities, at the national level. During this reporting period, through the e-procurement platform, it is possible to perform a Comprehensive monitoring of the cycle of public procurement activities in order to reduce the number of cancelled activities. There are some delays with the amendments in Public Procurement system. Even though in the beginning of the reporting year, a working group was established for the treatment of legislation in the field of public procurement, these amendments are still in the process of finalization

In priority eight, further strengthening of internal audit is achieved by increasing the number of certified internal auditors to 95%. Whereas for the indicator related to the percentage of recommendations implemented by senior management no satisfactory progress is reported. Thus, for the 2017 recommendations, which should be implemented in 2018, it is reported that there are only 51.32% of implemented recommendations, 30.86% recommendations in process and about 17.82% unimplemented recommendations. Priority eight, aims to strengthen financial discipline, control and transparency through improved Internal Audit and Financial Management Control at central and local levels. Good progress has been made and even though not all outcome performance targets have been achieved.

Progress has been made to review the methodology for monitoring of the Subjects of the Public Sector (SPS) and Internal Audit Units (IAU). Central Harmonization Unit (CHU) has monitored 10 Internal Audit Units in various SPSs in order to ensure the quality of Internal Audit. During the reporting year, several trainings are held on different topics and 32 candidates were certified in the national program for training and certification of internal auditors of the public sector. All these trainings will help on strengthening internal public finance control systems; to assess the connections of these systems in achieving objectives, as well as to assess the risks associated with systems in achieving government goals and help raise governance standards.

The ninth priority is about strengthening of external audit. Regarding the first indicator, the percentage of addressed recommendations by the Parliamentary Committee on Public Finance Oversight is 12%. This indicator has improved compared to the base year but didn't reach the target set for 2019. In regard to the second indicator, the percentage of addressed recommendations issued by the National Audit Office, has been achieved to be applied to the extent of 39%, which is an increase by 7% compared to the base year and an exceed of 5% compared to the reference point for 2019. In regard to third indicator, the percentage of non-addressed recommendations issued by the National Audit Office, for 2019 has marked a decrease to 32%, marking progress for this indicator compared to the base year and with the planed target of 34% for this year.

Priority nine, aims strengthening of the external oversight function in line with ISSAI (International Standards of Supreme Audit Institutions) standards by enhancing the capacity of National Audit Office (NAO) auditors, so their value and benefits to society is maximised. There was an increase in the percentage of audit recommendations accepted and implemented by the auditees. During 2019, the law which aims to preserve the mandate and the functional and financial independence of the institution in accordance with International Auditing Standards (IAS), was drafted. In coordination with Parliament and the Government, the initiative to amend the law on the Auditor General and the National Audit Office will be updated again in 2020. During 2019, the NAO has continued cooperation with the Assembly, in

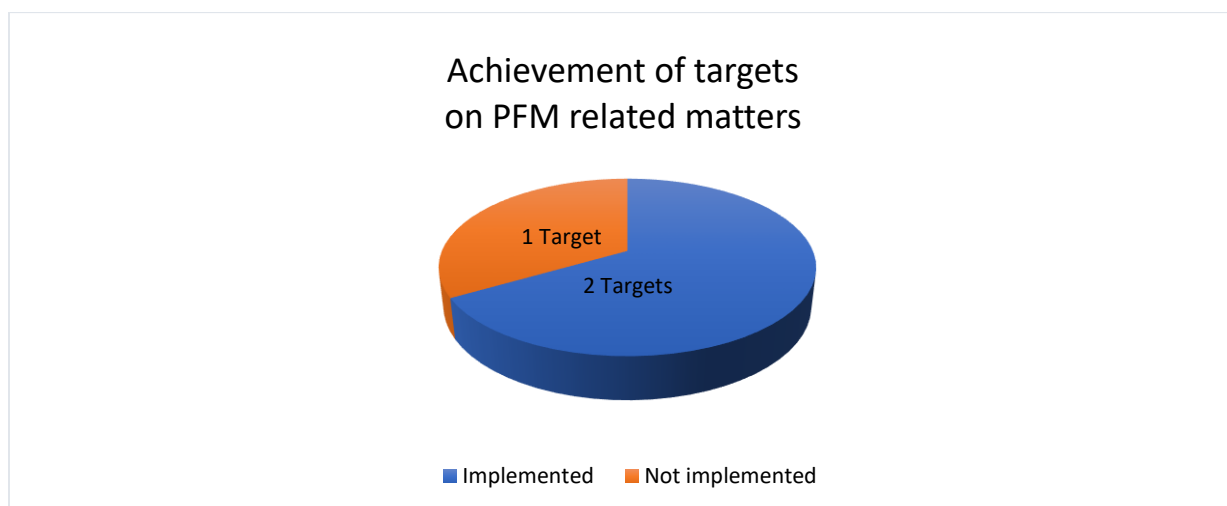
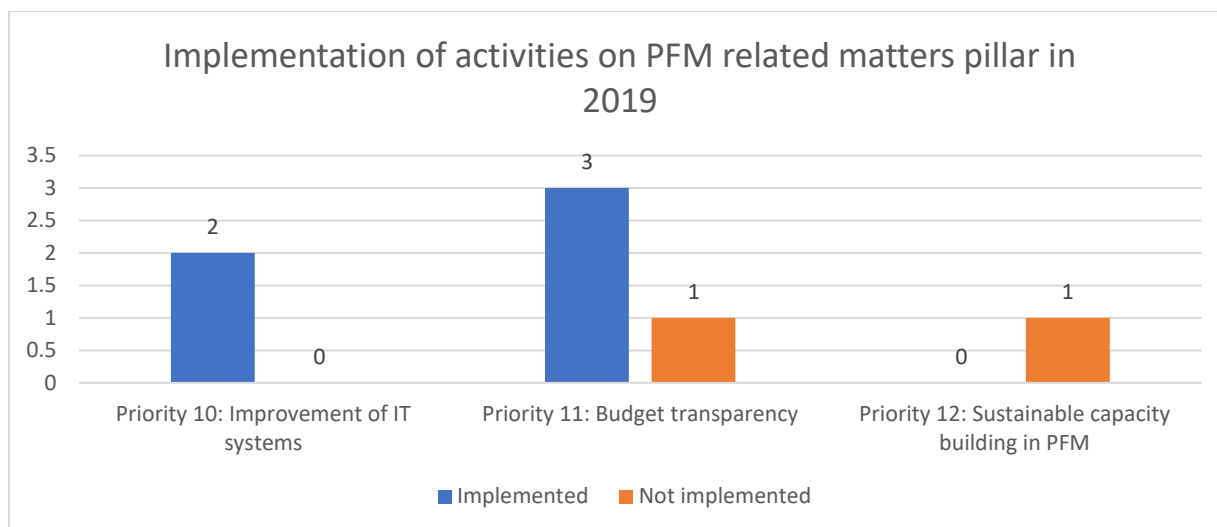
particular with the Committee on Budget and Transfers (CBT) and the Committee on Public Finance Supervision (CPFS). For the next year, this cooperation is expected to be further strengthened.

While procurement procedures have been completed and contracts for the development of audit software have been signed, the working group appointed by the Auditor General in cooperation with the contractor is working on the construction of the system and organizing the trainings. Manual on regularity audits (financial and compliance audits) and Guideline on quality management updated in accordance with ISSAI are in update process and are expected to be completed by 2020. More efforts are needed to finalise the update of Manual on performance audits and the set of paperwork. 13 out of 15 performance audit reports were implemented and published by the National Audit Office (NAO), one performance audit report was approved in delay by the Auditor General in early January 2020, and another one have not been fully implemented after the disbanding of the Assembly in July 2019 and the announcement of new elections. With the decision of the Auditor General, this audit was removed from the audit plan until the Assembly decides on further steps.

Pillar IV. PFM related matters

Matters related to PFM are addressed through three Priorities in PFMRS. Reforms focus on Improving IT systems, Budget Transparency and Sustainable Capacity Building in the PFM. It also includes participation of the civil society and citizen engagement. Pillar four, includes three priorities that are linked with improvement of IT systems, advancement of reporting in line with IMF GFSM 2014 standard and systematic and sustainable increase of capacities of civil servants in PFM. During 2019 a total of seven (7) activities were planned and five (5) were implemented while the remaining two (2) activities have not been implemented or are under implementation. This pillar contains four (4) indicators in total, but in 2019 targets were planned only for three (3) indicators. The indicator “Number of officials trained in the PFM field” has no target planned for 2019, as this year it is planned to develop feasibility study, determination of programs from the PFM field, and then in 2020 the number of officials trained.

The Treasury has prepared the report according to the GFSM 2014 classification and has published the data for 2011 to 2018, based on the General Book of Accounts and Audited by the NAO, as well as the publication in the GFS of quarterly and annual reports. Budget planning according to GFSM 2014 is expected to be finalized next year. The revision of the accounting plan is expected within 2020 and consequently, the new accounting structure harmonized with IPSAS and GFS will be approved. Ministry of Finance has drafted the Document of Friendly Budget (Narrative) for 2019 in all three languages (Albanian, Serbian and English). This document was published on the website of the ministry in April 2019. In 2019 there has been a shortcoming in implementing the planned review of the regulation on the accounting plan according to the new requirements of IPSAS and to update the chart of accounts in accordance with the requirements of IPSAS and GFSM 2014.



On priority ten, related to the improvement of IT systems, it is reported that seven (7) IT systems are entirely integrated between the Ministry and Agencies within MF. Priority ten, aims to improve information technology systems in order to improve the management of public finances. Good progress has been made in achieving the integration of 7 IT systems according to the Action Plan. These respective IT systems⁵ already communicate and exchange data automatically through an advanced security and audit system. The development of DWH (Data Warehouse) and the reporting system (BI-Business Intelligence) was carried out during 2019, defining the requirements for the necessary data that should be part of the data warehouse. During the reporting year, hardware capacities of the Disaster Recovery System was established. This system is configured and successfully tested.

In priority eleven, Treasury prepared the report according to classification GFSM 2014 and published data from 2011 to 2018, based on Accounts General Register and audited by NAO⁶, as well as publishing at the GFS of quarter and annual reports. The Priority aims to ensure the compliance of information on the Kosovo Budget with the IMF, namely the GFSM 2014 standard. Good progress has been made for the

⁵ KFMIS system, ASICUDA Customs System; Tax System, Protax System; Salary System, BDMS and PIP

⁶ See for example: <https://mf.rks-gov.net/Page.aspx?id=1,36>

overall priority except the review of Government chart of accounts. This activity is planned in the MF legislative plan for 2020, to review the Regulation on the accounting plan according to the new requirements of IPSAS and to update the chart of accounts in accordance with the requirements of IPSAS and GFSM 2014.

During the reporting year, there are three activities fully accomplished that are related with budget transparency as a precondition for increasing value to accountable management. After the finalisation of related tables between the accounts in the accounting plan in KFMIS and GFSM 2014, it will be possible the automated preparation of budget reports in accordance with GFSM 2014. Even this year, MF has drafted and published the Document of Friendly Budget (Narrative) for 2019 in all three languages. The Transparency Portal is fully operational, by continuing publishing monthly, quarterly and annual reports.

In the priority twelve, which addresses capacity building in PFM area in a systematic, sustainable and integrated manner, has been reported without progress in the implementation. Despite the provision of financial means, human capacities were missing in drafting the tender documentation for the feasibility study. Completion of the Study is a prerequisite for the implementation of activities of this priority. Priority twelve, aims to increase the capacity building in the PFM field. Many efforts are made, but still the Feasibility Study is not implemented. Even though the funds have been provided, there is a delay in tender procedures. The assessment of training needs in the field of PFM is foreseen to be realized as part of the feasibility study.

Table 2: Report Card on Implementation of the Reform Actions for 2019

ACTIVITY	STATUS	INSTITUTION
PILLAR 1: FISCAL PRIORITY DISCIPLINE		
<i>Priority 1: Accuracy of macroeconomic indicator and revenue forecasting</i>		
1.1 Ensuring sufficient capacities of macroeconomic unit	Implemented	DMPIFC
1.2 Publication of methodology for drafting economic forecasting.	Not implemented	DMPIFC
1.3. Enhancing Macroeconomic model with purpose of improving forecast of key macroeconomic indicators including tax revenues.	Implemented	DMPIFC
1.4. Addressing the recommendation of the European Commission in the meeting on economic and financial dialog between the EU and Western Balkans 2018, (Review of options EFC)	Not implemented	MF
<i>Priority 2: Effective control of commitments</i>		
2.1 Amending and supplementing legislation and implementation of financial Regulations	Not implemented	Kosovo Treasury (KT)
2.2 Introducing modified cash-basis accounting in reporting	Not implemented	KT, Budget Department (BD), CHU
2.3 Extension of KFMIS functions.	Implemented	KT/BO
2.4. Implementation of the Law on Public Internal Financial Control (PIFC).	Implemented	CHU
2.5 Monitoring internal control in BO	Implemented	CHU
2.6 Implementing process description and unique standard of risk management.	Implemented	CHU
2.7 Drafting and sending for approval to the Government of the consolidated annual report on the PIFC system.	Implemented	CHU
2.8 Drafting legal framework on the regulation of three-year commitments.	Implemented	KT, BD

Priority 3: Sustainable revenue collection		
3.1 Increased timely filing compliance.	Implemented	TAK
3.2 Automated risk assessment to enable immediate approval and payment for the VAT which presents a low risk	Implemented	TAK
3.3 Modernization of information technology system.	Not Implemented	TAK
3.4 Intensifying activities in fighting against smuggling	Implemented	Kosovo Customs (KC)
3.5 Fighting smuggling of goods and facilitation of trade.	Not implemented	KC
3.6 Increasing capacities of KC for sustainable revenue collections.	Implemented	KC
3.7 Capacity Building in the Property Tax Department (PTD) in implementing the new Law No. 06/L-005 on Immovable Property Tax.	Implemented	PTD
PILLAR 2: ALLOCATING EFFICIENCY		
Priority 4: Development of Medium-Term Expenditure Framework (MTEF)		
4.1 Strengthening capacities for drafting budget impact assessment of new government initiatives	Implemented	BD
4.2 Enhancing planning documents (NDS - Sectorial Strategy - MTEF)	Implemented	BD, OPM/SPO
4.3 Impact assessment of proposed policies with impact on budget revenues and expenditures.	Implemented	DMPIFC, BD
Priority 5: Credibility and execution control of the annual budget		
5.1 Implementation of Administrative Instruction (AI) on transfers - re-allocations.	Not implemented	BD
5.2 Drafting analytical document on performance management.	Not implemented	BD
Priority 6: Quality of capital budget information		
6.1 Adoption of Administrative Instruction (AI) on the selection criteria and prioritization of capital projects.	Not implemented	BD
6.2 Organization of training on PIP system (training of new officers and upgrading the knowledge of existing officers)	Implemented	BD
6.3 Adoption of Administrative Instruction (AI) on the definition of capital projects.	Not 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 necessary staff and professional capacity development.	Implemented	CPA
7.3 Advancing and strengthening of e-procurement system for conducting procurement activities.	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 amendments in Public Procurement system	Not implemented	PPRC
7.6 Basic and advanced training for public procurement officers.	Not implemented	PPRC
Priority 8: Strengthening internal audit		
8.1. Harmonization of methodology for monitoring IAU with new requirements of the PIFC Law.	Implemented	CHU
8.2 Monitoring of Internal Audit units.	Implemented	CHU
8.3 Drafting of training plan for internal auditors and organization of training according to the plan.	Implemented	CHU, IKAP
Priority 9: Strengthening external audit		
9.1 Maintaining institutional independence of NAO.	Implemented	NAO
9.2 Enhancing audit methodology through automation.	Not implemented	NAO
9.3 Updating of Guidelines for Regularity Audit.	Not implemented	NAO
9.4 Further development of NAO performance audit practice	Not implemented	NAO

9.5 Inclusion of Assembly in reviewing audit reports.	Implemented	NAO
9.6 Supervision/Monitoring of implementation of NAO recommendation.	Implemented	KT
<u>PILLAR 4: RELATED PFM MATTERS</u>		
<i>Priority 10: Improvement of IT systems</i>		
10.1 Integration of IT systems in MoF and its subordinate agencies.	Implemented	DIT
10.2 Establishing the Disaster Recovery System.	Implemented	KT
<i>Priority 11: Budget transparency</i>		
11.1 Modification of KFMIS to enable automated preparation of budget reports in accordance with GFSM 2014.	Implemented	KT
11.2 Reviewing Government chart of accounts.	Not implemented	KT, BD
11.3 Developing a friendly budget document (Narrative).	Implemented	BD
11.4 Regular financial reporting on the execution of Budget of Republic of Kosovo	Implemented	KT
<i>Priority 12: Sustainable capacity building in PFM</i>		
12.1 The development of a feasibility study on the PFM Training Centre, including training needs assessment.	Not implemented	DIEKP/Dep. for General Services

Risk Management

The strategy covers twelve priorities and a variety of activities for each priority. Each activity faces its own risks. To address these, an overall risk assessment as well as the proposal of concrete measures to reduce it will be addressed for the first time in the monitoring report on the Public Finance Management Strategy. At the overall strategy level, the three main identified risks are related to: Political commitment, Financial constraints, and Lack of technical expertise. Given the developments of the first quarter of 2020, one of the risks with high impact materialized in this period has been included and will extend its effect for 2020 on the implementation of the MoF strategy. Below is an analysis of these risks and proposals for mitigation measures for each of them:

RISK	RISK REDUCTION MEASURE
Global Pandemic COVID-19	<p>This risk is materialized</p> <p>The International financial institutions predict that the Western Balkan economy will slow down by 2020, in line with Western and global European developments. Consumption is expected to boost growth and there will be strong competition for attracting foreign investment. A large portion of the funds in the State Budget will be allocated to cope with the situation. Consequently, in these conditions, a slowdown in the implementation of public finance reforms is expected. Difficulties will also arise due to inability of holding meetings and consultations between institutions.</p> <p><i>In order to address the situation</i>, several measures have been taken: (1) The International Monetary Fund (IMF), through the Instrument for Rapid Financing Instruments has approved funding 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, for which Kosovo is expected 100 million Euros. While about 30% of the staff are working from the office, the remainder provides full commitment working from home. Additional measures are expected to be taken.</p>

RISK	RISK REDUCTION MEASURE
Political Commitment	<p><i>This risk is partially materialized</i></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>To manage this risk, this strategy has been formally adopted by the Government and reflects the political commitment to its implementation. In addition, the implementation of the PFM reform strategy is strongly involved in the structure for Public Administration Reform. This will ensure that the delay in implementation will be signalled to the political leadership and enable political intervention in a timely manner.</p>
Financial Restrictions	<p>This risk is partially materialized.</p> <p>Upon revision of the strategy it's costing was enabled as well, which is estimated at 54.9 million euros, but there is still a risk that this amount will be higher based on the inability to accurately calculate activities such as in the field of IT or activities, which are expected to be undertaken as cost / benefit analyses etc. Some of the reforms will be supported by the Budget of the Republic of Kosovo, some by international donors such as: Sector Support and Assistance through EU IPA projects, SIGMA, World Bank, IMF, etc. During 2019, it is concluded that some activities have not been met precisely due to lack of financial resources.</p> <p>In order to minimize the impact of this risk, in December 2019, the transfer of fixed tranche transit of Sector Budget Support (SBS) to PFM was realized. During 2020, steps will be taken towards attracting variable tranches, in line with achieving the foreseen targets of variable indicators.</p> <p>Meetings were also held for the development of political dialogue, which will serve as a bridge of communication for the presentation of requests from the institutions of the Republic of Kosovo and international partners. Assistance from international partners has been provided in conducting trainings, participation in conferences, providing expertise in various fields, etc.</p>

RISK	RISK REDUCTION MEASURE
The lack of technical expertise	<p>This risk has not materialized</p> <p>Some of the MoF reforms will require international expertise to guide activities in Kosovo. The technical assistance, accompanying SBS, is expected to be implemented from 2020. Such international expertise is often provided by Kosovo international development partners. There are several assistance offered in various fields such as: Technical Assistance provided by IPA projects and sector budget support (SBS), World Bank-funded PULSAR Project, USAID - funded TIM project, GIZ, SIGMA, LuxDEV projects, etc.</p> <p>One of the main measures to mitigate this risk will be the initiation of the Technical Assistance project that follows the SBS in the PFM, also in case of need could be organized meetings with partners who are interested in supporting the strategy of the PFM. In these meetings we would discuss our needs in the field of technical expertise with our development partners.</p>

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

Challenges in the implementation of PFMRS during 2019

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

1. Capacity building, for the acquisition and implementation of new methodologies or work processes as in activity 7.6 Training of public procurement officials at basic and advanced level.
2. Delays, complexity of the process and lack of financial resources due to lack of interconnection with budget processes that has been identified as challenging, specifically as in activity 5.2 Drafting the analytical document for performance management.
3. Drafting of legal infrastructure and implementation in practice. For this reason, commitment and decision-making are required in order to supplement/change the legal infrastructure, specifically as in activity 2.8- Drafting the legal infrastructure for the regulation of three-year commitments.
4. The operationalization of the information technology system, as well as the interconnection between them, is complex and consequently challenging, specifically as in activity 3.3 Modernization of the information technology system.
5. The tender process itself is also challenging in terms of the necessary time until the finalization of the selection of the winning company, specifically as in activity 12.1 Development of feasibility study on the Training Centre for PFM, including the assessment of training needs.

In the analysis of the performance of each activity, the next steps are presented and the measures that will be taken, taking into account these challenges they face.

Visibility and communication

The Technical Assistance Project for Public Financial Management Reform is expected to start soon with European Union funding. The aim of this project is 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, a comprehensive assessment of the current capacity situation of the participating institutions on this issue is intended. Then an Action Plan will be drafted, which will determine the most effective techniques to be used in communication with each of the actors involved. Referring to the implementers, below are some of the events held in the framework of information and promotion of initiatives undertaken in the field of public finance.

- In order to increase voluntary compliance and improve risk management, TAK in June 2019 has launched the project “Improving tax compliance in the construction sector.” In this regard, the seminar organized on 30 September 2019 presented the implementation plan of this project. The announcement for this seminar was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 17 of September 2019, the announcement was published on the topic “Declare the tax correctly” reminding to all persons who deal with business activities, based on tax legislation that are obliged to declare taxes and Pension Contributions in a realistic and in due time. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 26 June 2019, the announcement was published on the topic “Pay the tax correctly” reminding the non-business natural persons, business natural persons and legal entities, that are obliged to declare and pay taxes and Pension Contributions in realistic and in due time, as defined by tax legislation. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 15 August 2019, the announcement was published on “Register economic activities and declare your employees” reminding all persons who deal with business activities, based on tax legislation are required to register, are provided with Number Unique Business Registration / Fiscal Number, declare and pay taxes (based on their status) and keep Source Tax and Pension Contributions for their employees. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 15 August 2019, the announcement was published on the topic “Do not make transactions with fictitious businesses and inactive businesses!” reminding all businesses, which deal with business activities, that based on tax legislation TAK does not recognize transactions carried out with fictitious businesses and inactive businesses. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 30 December 2019, the announcement was published on the topic “Registration of Goods in Stocks” reminding all taxpayers that they must register goods in stocks at the end of the calendar year. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform.
- On 25 November 2019, the announcement was published on the topic “TAK continues to confiscate the property of taxpayers who are in debt” where they talked about confiscation activities in the field. This announcement was published on the TAK website, on the TAK Facebook page and on the EDI electronic declaration platform