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Republika Kosova - Republic of Kosovo

Qeveria - Vlada - Government

*Ministria e Financave, Punës dhe Transfereve - Ministarstvo Finansija, Rada i Transfera -
Ministry of Finance, Labour and Transfers*

**Public Finance Management Strategy of the
Republic of Kosovo 2022-2026**

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Abbreviations

1. AG - Auditor General
2. BDMS - Budget Development and Management System
3. BO - Budget Organisation
4. CHD - Central Harmonization Department
5. CHD/FMC - Central Harmonization Department/ Financial Management and Control
6. CPA - Central Procurement Agency
7. CPD - Continued Professional Development
8. CRM - Compliance Risk Management
9. COSO - Committee of Sponsoring Organizations of the Treadway Commission
10. COFOG - Classification of Functions of Government
11. COPF - Committee for Oversight of Public Finances
12. CSO - Civil Society Organization
13. DEIPC - Department of Europe Integration and Policy Coordination
14. EBRD - European Bank for Reconstruction and Development
15. EC - European Commission
16. EEE - Emerging Eastern Europe
17. EIB - European Investment Bank
18. ERP - Economic Reform Program
19. EU - European Union
20. FAD IMF HQ - Fiscal Affairs Department IMF Head Quarter
21. GDP - Gross Domestic Product
22. GFS - Government Finance Statistics
23. GFSM - Government Finance Statistics Manual
24. GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit
25. GoK - Government of Kosovo
26. HCDF - Human Capacity Development Facility
27. HR - Human Resources
28. IAU - Internal Audit Unit
29. ICT - Information and Management Technology
30. IDA - International Development Association - World Bank Group
31. IFI - International Financial Institutions
32. IFPP - INTOSAI Framework of Professional Pronouncements
33. IMF - International Monetary Fund
34. INTOSAI - International Organization of Supreme Audit Institutions
35. IPSAS - International Public Sector Accounting Standards
36. ISSAI - International Standards of Supreme Audit Institutions
37. IT - Information Technology
38. ITSM - IT Service Management
39. KAS - Kosovo Agency of Statistics
40. KC - Kosovo Customs
41. KFMIS - Kosovo Financial Management Information System
42. KfW - Kreditanstalt für Wiederaufbau ("Credit Institute for Reconstruction")
43. KIPA - Kosovo Institute for Public Administration
44. KNAO - Kosovo National Audit Office
45. LPFMA - Law on Public Financial Management and Accountability
46. MFLT - Ministry of Finance, Labour and Transfers
47. MIA - Ministry of Internal Affairs
48. MEAT – Most Economically Affordable Tender
49. MLGA – Ministry of Local Governance Administration.
50. MTEF - Medium Term Expenditure Framework

51. NDS - National Development Strategy
52. OECD - The Organisation for Economic Co-operation and Development
53. OPM - Office of Prime Minister
54. PAK - Privatisation Agency of Kosovo
55. PAR - Public Administration Reform
56. PEFA - Public Expenditure and Financial Accountability
57. PFM - Public Finance Management
58. PFMCG - PFM Coordination Group
59. PFMS - PFM Strategy
60. PIFC - Public Internal Financial Control
61. PIP - Public Investment Program
62. POE - Publicly Owned Enterprises
63. PPL - Public Procurement Law
64. PPRC - Public Procurement Regulatory Commission
65. PPP - Public Private Partnership
66. PRB - Procurement Review Body
67. SAA - Stabilisation and Association Agreement
68. SIGMA - Support for Improvement in Governance and Management
69. SPO - Strategic Planning Office
70. TA - Technical Assistance
71. TAK - Tax Administration of Kosovo
72. UNMIK - United Nations Interim Administration Mission in Kosovo
73. USAID - United States Agency for International Development
74. VAT - Value Added tax
75. WB - World Bank

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1 Executive Summary

Public Finance Management Strategy (PFMS) is the main policy document of the Kosovo Government to tackle the Public Administration Reform (PAR) and specifically the Public Finance Management (PFM) system of Kosovo.

PFMS principal aim is to further develop sound financial management and improved service delivery through improved fiscal discipline and strategic allocation of resources. Subsequently, the PFMS aims to support and contribute to the overall development of Kosovo through National Development Strategy (NDS) 2016-2021, the forthcoming NDS 2030 and related development agendas.

EU Enlargement Strategy highlights the PAR and PFM is paramount to strengthening governance at all levels. Therefore, the aim of PFMS is also to contribute in the implementation of SAA and advancement of Kosovo in the EU integration process.

Although, and as noted in international evaluations, there is evident progress in all areas the PFM and Kosovo is highly ranked in both PEFA and SIGMA, there are still some elements of PFM that could be further developed. In this regard, this PFMS is our main policy response to further develop and enhance the PFM system of Kosovo. Achieved positive results in implementing the 2016–2020 PFM Reform Strategy in reforming most components of the PFM system, created a solid foundation for continuing to carry out further the tasks as they evolve and identify new priorities aimed at improving the PFM system and responding to new challenges as set in the PFM Strategy 2022-2026.

Persistence by Government of the Republic of Kosovo in implementing PFM Strategy 2022-2026 and leadership by MFLT building on existing capacity will result in: a modern, sustainable and effective PFM system, capable of maintaining the financial stability of the state and creating conditions for sustainable growth of an inclusive economy through increasing the effectiveness of mobilisation and spending of public funds. Its implementation should result in a more efficient PFM system, which, together with the reformed public administration system, will promote Kosovo's sustainable socio-economic development, economic competitiveness, and its dynamic integration into international markets, including the common market of EU member states, and importantly, the wellbeing of the Kosovo's people. PFM Coordination Group (PFMCG) will produce and publish on MFLT web site the pamphlet on expected aggregate effects of the PFM strategy.

Based on the PFM system assessment and sectors analysis, PFMS has identified 4 Strategic Objectives that fully cover all PFM cycles. More specifically, the Strategic Objectives of the PFMS are:

- Strategic Objective 1: Ensuring Sustainable Fiscal Discipline
- Strategic Objective 2: Further Enhancing Allocation Efficiency
- Strategic Objective 3: Further Improvement of Operational Efficiency
- Strategic Objective 4: Human capital and ICT Infrastructure Strengthened to Support Digital and Transparent PFM System in Kosovo

To support achievement of the selected Strategic Objectives, PFMS has identified thirteen Specific Objectives and detailed activities for their achievement. Achievement of Strategic and

Specific objectives, is linked and measured by detailed performance indicators that are all grouped and presented in the “Passport Indicators” Annex.

PFMS was coordinated and drafted by the PFMCG that represents all relevant functions and organizational units in the Ministry of Finance, Labour and Transfers (MFLT) and other independent agencies and institutions that relate to PFM system in Kosovo.

The working approach of PFMCG, taken in the process of preparation of PFMS, is a combination of workshops, Sub-Working Group meetings, and consultations with national and international stakeholders.

PFMS preparation, analysis and strategic policy orientations, is based and utilizes all relevant national and international resources, data, reports and evaluations.

2 PFM Strategy – Policy Reference and Methodology

This section will describe the aim of the strategy and its reference to the NDS, state of play of relations between PFM strategy and Kosovo’s EU Integration Agenda, and methodology used for PFM Strategy - Content and Structure.

2.1 Aim of the strategy and reference to the NDS

The overall objective of PFM Strategy (PFMS 2022-2026) is to contribute to sound fiscal management and improved service delivery through improved fiscal discipline and strategic allocation of resources. The PFMS is the main strategic reform document in the second Pillar of PAR. The Government of the Republic of Kosovo, despite the negative impact of the Covid Pandemic19, has remained committed to providing a modern PFM system that is in line with best international practices and enables the efficient, effective, and transparent functioning of all phases of Public Financial Management.

In the last couple of years, Government institutions have continued their efforts to further develop and consolidate the strategic planning framework. A new Public Administration Reform Strategy 2022-2026 and a forthcoming NDS 2030 are currently being prepared in parallel to the drafting of this strategy. In this regard, the scope of PAR strategy has been divided according to institutional responsibilities. PFM is one of the two pillars of PAR with each of the pillars resulting in a specific planning document, a specific management and coordination mechanisms led by the key responsible institution. This has facilitated a better linkage of sector-specific objectives of public administration and PFM to the mid-term objectives of the government and long-term goals of the NDS. Beyond the improved planning and better linkages, this consolidated Framework will have a positive impact in terms of aligning the timeframe for achieving the set objectives.

2.2 PFM strategy and Kosovo's EU Integration Agenda

The PAR continues to be a priority policy area. After the entry into force of the Stabilisation and Association Agreement, the PFMRS has become an essential part of the Government of the Republic of Kosovo and European Integration process. The European Commission places the PAR at the core of its strategic enlargement policy. In its 2014 and 2018 Enlargement Strategies, the European Commission (EC) highlighted PAR as one of three “fundamentals first” areas of the EU enlargement process: “Addressing reforms in the area of rule of law, fundamental rights and good governance remains the most pressing issue for the Western Balkans. It is also the key benchmark against which the prospects of these countries will be judged by the EU”¹. As noted in Enlargement Strategy, PAR is paramount to strengthening governance at all levels. Good governance and transparent PFM is an important part of this reform.

Assessments such as PEFA (Public Expenditure and Financial Accountability) undertaken in 2021 showed that Republic of Kosovo has a good system of PFM compared to international and regional standards. In this context, an effective PFM system will enhance the efficiency of allocation of public resources, contribute to economic governance and strengthen the good governance and transparency. The latest SIGMA 2021 Monitoring Reports on public administrations in the Western Balkans, assess that Kosovo has achieved progress since 2017 in two areas – service delivery and PFM. The overall trajectory for Kosovo in the PFM area is upwards. Kosovo's PFM average of 3.3 is one of the highest compared to its neighbours in the region and has increased from 2.9 in 2017².

2.3 Methodology and PFM Strategy - Content and Structure

The first step in drafting new PFMS 2022-2026, was the Minister of Finance, Labour and Transfers decision, date 26.10.2021, establishing the PFM Coordination Group, responsible for drafting, coordinating, implementing and monitoring the PFM Strategy 2022-2026 and its Action Plan. The PFMCG, led by the Department for European Integration and Policy Coordination, is composed of representatives of relevant administrative units of the MFLT including the Department of Budget, Treasury, Department on Economic and Public Policies and International Financial Cooperation, Central Harmonization Department, Tax Administration of Kosovo (TAK), Kosovo Customs, IT Department and DEIPC, as well as relevant institutions such as OPM, MIA, KAS, PPRC, and NAO. The PFM Strategy follows:

- The Administrative Instruction (GoK) No. 07/2018 on Planning and Drafting of Strategic Documents and Action Plans;
- Manual for Planning and Drafting Strategic Documents, January 2019;
- Regulation (GoK) No. 05/2016 on Minimum Stand. for Public Consultation Process.

¹ European Commission (2018), A credible enlargement perspective for and enhanced EU engagement with the Western Balkans, p. 4, https://ec.europa.eu/info/sites/default/files/communication-credible-enlargement-perspective-western-balkans_en.pdf

² SIGMA Monitoring Report 2021, The principles of Public Administration – Kosovo, Page 131, <https://sigmaweb.org/publications/Monitoring-Report-2021-Kosovo.pdf>

PFMCG applied following qualitative and quantitative methods:

- Desk reviews of National and International reports, evaluations and assessments (NAO, PEFA, SIGMA, IMF, WB, USAID, EU, etc.);
- Interviews and consultations of key stakeholders;
- Best practices in the region and above;
- Analysis of administrative and statistical data in the area of PFM.

On November 2021, PFMCG drafted the Dynamic Work Plan of the PFMS 2022-2026, a living document containing activities from the beginning until the approval of PFM Strategy by the Government of the Republic of Kosovo. The distribution of 104 working days of expert support in four Sub-groups³ was based on calculation of workload of each Sub-group.

After reached agreement for twenty working days of expert support by the “HCDF for the SAA” project, implemented by the OPM and financed by the Luxemburg Government, the PFMCG during February-March 2022 drafted Problem Analysis Report of PFM System in Kosovo. During April-May 2022, supported by EU TA project “Support to Implementation of the PFM reforms in Kosovo”, implemented by GIZ International Systems, the identification of Objectives (Strategic and Specific), Indicators and Activities was done, and final Strategy and Action plan were prepared for consultations. During drafting period, there were in total three workshops organised out of Pristina, with support of HCDF Project Luxemburg, OSCE Mission in Kosovo and MFLT.

In September 2022, the PFMS, went through regular public consultation process as well as consultation with development partners. Following consultation process, PFMCG addressed all received comments from development partners, CSOs and citizens. Specific Annex, attached to the PFM Strategy, presents a summary Table of comments received from all stakeholders and detailed explanation that answers each comment received.

3 PFM current state of development –Key issues to be addressed

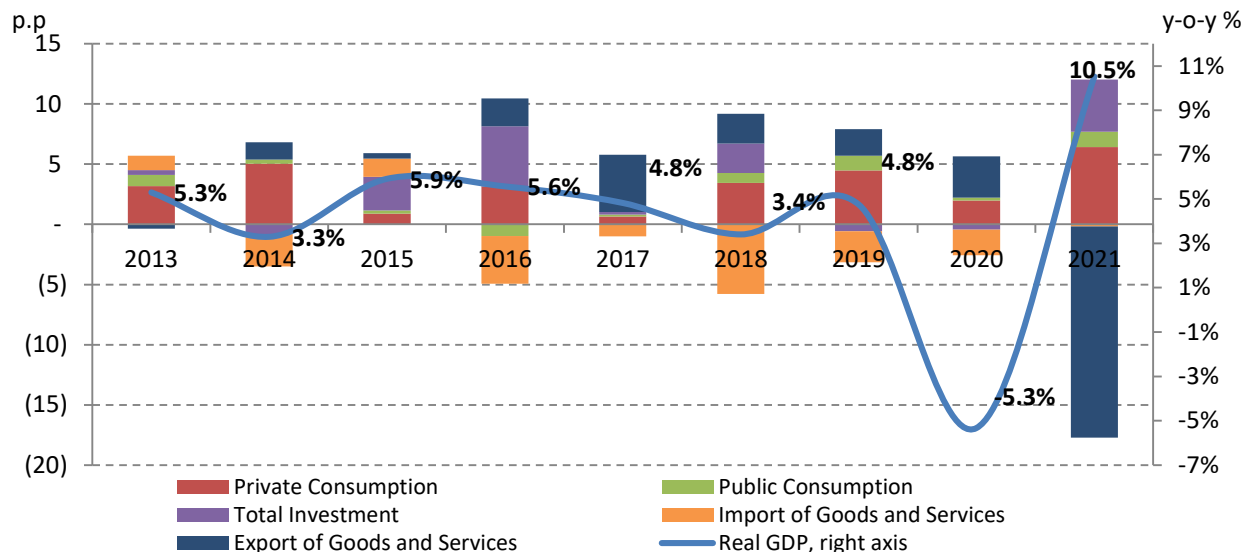
3.1 Economic and fiscal developments

Kosovo’s real GDP has increased on average by 4.9% over 2015-2019. Year 2020 was characterized with a negative growth due to social distancing measures taken to combat the surge in COVID-19 infections, among others. In 2021, Kosovo experienced a strong rebound, where real economic growth was 10.5%⁴. This full recovery was supported by private consumption, record growth in exports (especially exports of goods), and a rebound in diaspora visits, strong credit growth, and a significant fiscal stimulus through economic revival measures issued by the government. As the economy recovered, the fiscal balance

³ Proposal for the allocation of supporting Expertise based on the Dynamic Work Plan (DWP) and Technical Assistance (TA) provided by the EUOK to the drafting team (PFMCG) of the PFMS 2022-2026; I. External audit (NAO); II.- Public Procurement (PPRC, CPA); III.- Fiscal discipline and allocative efficiency; and IV.- Operational efficiency and horizontal issues.

⁴ Kosovo Agency of Statistics, National Accounts 2021, quarterly data

also showed improvement. Nonetheless, the economy was characterized with high inflationary pressures by the end of 2021, driven primarily by increases in import prices.



Budget revenues (collected by TAK and Customs) have continued to record a significant growth, as a result of economic activity growth in 2021 and the measures undertaken in the framework of increasing voluntary compliance. Likewise, total expenditures continued growing in 2021, mainly due to the continuation of fiscal packages aimed at economic recovery. As a result, due to an improved revenue performance and robust economic growth, the deficit (as per fiscal rule definition), was only 0.6% in 2021. Adequate fiscal deficit and bank balance levels were also underpinned by increased scrutiny of expenditure items, and a reduction of unnecessary spending where appropriate.

Following this robust growth in 2021, Kosovo’s economy is expected to grow more moderately in 2022, mainly because of supply chain shocks in global markets caused by the war in Ukraine. Increased risks stem from the external environment and are estimated to have a significant impact in price developments. Inflationary pressures that began in second half of 2021 are expected to continue in 2022, driven primarily by rising food and energy prices.

3.2 PFM – Assessment and Analysis

3.2.1 Strategic Planning and Budget Preparation

The Macro-economic planning in Kosovo is primarily done by the Macroeconomics Unit in the MFLT. The unit is responsible for preparing macro-fiscal projections for the main budget related documents and the Economic Reform Program (ERP). The medium-term projections are published in three documents: 1) the Medium-Term Expenditure Framework, 2) The Annual Budget law, and the 3) ERP. The macroeconomic forecasts are updated twice a year, once in the MTEF (April) and once in the Budget Law (October).

The Macroeconomic projections prepared by the Economic, Public Policies Division, part of the Department of Economic, Public Policies and International Financial Cooperation within MFLT, are the basis on which fiscal projections are prepared. The fiscal projections include main fiscal indicators, including revenues, aggregate expenditure, and the budget balance, for the budget year and the next two fiscal years. These forecasts, together with the underlying assumptions, are included in the macro-fiscal framework as part of the annual budget submitted to the legislature. Revenue projections are integrated in the budget process and form the basis for expenditure across government priorities.

Revenue forecasts are primarily informed by the macroeconomic model; however, further consultations take place in order to incorporate potential planned policy changes that affect revenues. The expenditure projections are done in an iterative process by using revenue expectations, projected expenditure items, fiscal rules, and information on capital projects, among others.

Nonetheless, 2020 and 2021 were characterized by a significant deviation between actual values and projections. The deviation was negative in 2020 and was due to the economy being shocked by the COVID-19 pandemic. While in 2021 the deviation came because of faster economic recovery than expected.

The macroeconomic developments, in turn, greatly affect the revenue performance. Hence, revenue projections for 2021 in the 2021 annual budget document, foresaw total revenues in the value of 1.8 billion euros, whereby around 75% of them were projected to come from indirect taxes. The actual revenues collected in 2021, however, exceeded the projections by around 16.6%, reaching the value of 2.2 billion euros.

Nonetheless, it is worth noting that in normal years, without unexpected shocks, the revenue projections are close to actual values, reflecting sound macro-fiscal projections. In the latest PEFA assessment, the deviation for two fiscal years was between 97% and 106%, whereby Kosovo received a score of A.

The final expenditure aggregates serve as a basis for the Budget Department to set the ceilings for budget organizations.

Alignment of Strategic Planning and Medium-term expenditure budgeting

The Kosovo government publishes its statement of priorities each year in the Medium-Term Expenditure Framework (MTEF) from which the annual budget document is prepared. Each year, the priorities stated in the MTEF, and the Budget Law are based on the NDS and the Economic Reform Program.

Furthermore, all strategic documents prepared by line ministries are required to be submitted to the Budget Department, MFLT for budget impact evaluation. These strategic documents are expected to be in line with Government of Kosovo priorities and have realistic costing. Once the budget impact opinion is issued by MFLT, Strategic Documents are assessed by the Strategic Planning Office (SPO), in terms of whether they comply with the priorities set in the MTEF and other relevant strategic documents.

Fiscal risk

In terms of public revenues and expenditure, Kosovo's fiscal strategy is designed to maintain macro-fiscal stability. This fiscal discipline is regulated by several legally⁵ binding fiscal rules:

- Budget deficit limit to 2% of GDP⁶ (excluding liquidation proceeds and investment clause spending, municipal own source and dedicated PAK revenues);
- Public debt limit of 40% or respectively 30% of GDP for the exclusion of capital investments from the deficit rule, according to the "investment clause".

Nonetheless, both internal and external fiscal risks are present. The internal fiscal risks stem mainly from the performance of Public Owned Enterprises, contingent liabilities. While the external risks are those that primarily affect trade and remittances. During 2022, fiscal risks are mainly coming from the external environment and inflationary pressures.

While Kosovo does prepare a short section on fiscal risks, this section primarily identifies these risks but does not offer a methodological quantification of these risks and implications they pose for fiscal performance.

Budget preparation process/calendar

A clear fixed budget calendar exists, and it is set out in Article 20 of LPFMA. A defined budget calendar is established at the start of the budget process, which is communicated to Budget Organizations through the first budget circular.

A comprehensive and clear budget circular is issued to budget organizations, covering total budget expenditure for the full fiscal year. The budget reflects budget organization ceilings. The approval of ceilings is done with the MTEF prior to the submission of the circulars. The budget circular defines all concepts necessary and outlines what costs need to be categorized under each economic category.

Budget transparency - classification and coverage

Kosovo's budget and its classifications are consistent with the Government Finance Statistics Manual (GFSM) and the Classification of Functions of Government (COFOG) level one. The classification system allows the monitoring of all transactions in each budget cycle i.e. budget preparation, implementation and reporting cycle, based on several categories including: administrative unit, economic category, function/sub-function, and program. Budget preparation, implementation and reporting are based on every level of administrative, economic, and functional classification using GFS and COFOG standards. Budget classification is supported by a unified chart of accounts, used for budget planning, execution, and reporting purposes.

⁵ Law on Public Financial Management and Accountability (LPFMA)

⁶ In 2020, due to the situation caused by COVID-19, the government issued the Decision No. 03/02, dated 05.06.2020, with the request for temporary exceeding of the budget deficit ceiling to -6.5% of GDP and to reduce the usable bank balance ceiling to 3% of GDP. This, however, was a temporary decision and once the pandemic situation is resolved, the government must gradually return to compliance with the fiscal rule.

The Budget classification system in Kosovo is governed by the Law on Public Financial Management and Accountability (LPFMA). Article 21 of the basic law states that the presentation of financial information in the budget document must be compliant with the GFS cash basis classification system. Further, based on article 43, if the budget classification system is modified to accommodate specific needs of the Government, a bridge table must be prepared to allow reconciling the differences between the budget classifications system and the internationally recognized one.

The status of budget transparency in Kosovo is quite advanced and this is supported by the findings of international development partners. The MFLT shows consistent achievement with well-established Transparency portal providing quarterly reports on central and local government levels using economic classification, with data on budget absorption, revenue, expenditure and capital projects' financial execution.

Monthly reports of government revenue, expenditure and borrowing are published as well on the MFLT website, but these reports are at an aggregate level, do not provide details of individual BOs and are not compiled from standard format reports completed by each BO

Capital budgeting / Public Investment Program (PIP)

The prioritization of capital projects is regulated with the Administrative Instruction No. 06/2019 on selection criteria and prioritization of capital projects. The selection criteria include a) strategic importance; b) economic viability, c) maturity. Capital project selection of the proposed investment projects is done by the Budget Department of MFLT through a centralized review of all major investment project appraisals. The selection procedure is part of the PIP and the role of the Budget Department is to make sure that the criteria for project selection are met by the budget organizations. The capital expenditure budgeting process is done through a system known as Public Investment Programme (PIP).

The PIP allows the government to select capital investment projects that are of priority and benefit to the public. Its procedures enable the government to identify, select, monitor and manage capital projects. The PIP system is linked with budget execution to ensure that funds are available for specific projects.

Capital projects are planned, implemented, monitored and reported in the PIP system. Project proposals submitted in the PIP by budget organizations are reviewed by the Budget Department in the MFLT. The budget department reviews the proposal and gives an opinion regarding the project proposal.

The PIP system is better understood by referring to the Administrative Instruction and the PIP Manual so that economic analysis of each project is prepared through a standard approach.

The PIP system has also a monitoring function where three main stages of progress are monitored: a) implementation progress with percentage of physical completion; b) explanations for any delays or pre-completion of a milestone; c) gaps of work completed versus planned. This reporting is done on a quarterly basis and allows for the monitoring of project progress.

Revenue administration and revenue collection

The Tax Administration of Kosovo (TAK) and Kosovo Customs are the main revenue collecting entities of Kosovo. They are executive agencies under the Ministry of Finance, Labour, and Transfers. TAK collects revenues from i) domestic VAT, ii) Personal Income Tax, iii) Corporate Income Tax, iv) Withholding Tax; v) Pension Contributions. While, Kosovo Customs collects border revenues including i) custom duties, ii) excise iii) border VAT.

Both institutions operate based on their mandates and strategic plans in attaining set goals and implementing activities of performance enhancement.

Strengthening the compliance management of taxpayers is an important strategic goal for TAK to increase revenue collection. Consistent with international practice, there needs to be effective compliance management including taxpayers that account for the large share of tax and customs revenues. Strengthening compliance risk management of taxpayers is key to ensuring effective revenue collection. In this regard, TAK is continuously updating risk rules using a range of both financial and tax specific criteria.

In order to deliver effective administration of tax laws, TAK uses the advantages of latest technology, by implementing new tax core administration ICT. TAK is pursuing opportunities to further enhance electronic services to reflect the increasing shift towards the use of digital (online) services.

3.2.2 Treasury Management and Expenditure Control

Cash management

The Treasury consolidates and monitors the cash projections for each budget organization ensuring the availability of funds for budget execution.

There are annual forecasts of cash inflows and outflows that form the basis on which cash flow plans are made. These are prepared at the beginning of the fiscal year, and they are updated monthly based on actual inflows and outflows. Any revision of the cash flow is requested by the budget organization and verified by the Treasury. The ongoing reform for cash flow is to establish a monthly limit, thus there will be updated expenditure and the system will generate daily reports on cash flow. Currently, the cash flow allocation is monthly.

Budgetary organizations' commitments and cash flows are forecast and monitored by the MFLT. There are effective activities of cash flow planning, monitoring, and management by the Treasury that facilitates the predictability of the availability of funds for budgetary units.

Debt management

Kosovo has a system that monitors and reports regularly on the main features of the debt portfolio ensuring data integrity and effective management, such as accurate debt service budgeting, making timely debt service payments, and ensuring well-planned debt rollovers.

The regular monitoring and reporting allow the government to monitor its debt management strategy and address any deviations. The responsible unit for debt management is found in the

Treasury and it reconciles and updates debt records on a monthly basis while detailed information on domestic debt, foreign debt, and guarantees is published quarterly.

The Law on Public Debt is the primary legislation which authorizes borrowing, issuance of new debt, and issuance of loan guarantees. The approval of loans and guarantees is done against adequate and transparent criteria as established in the law on Public Debt. In addition, there is a Regulation on Procedures for Issuance and Management of State Debts, State Guarantees and Municipal Debts that regulates all public debt related matters.

Furthermore, Kosovo has a medium- term debt management strategy that is updated annually, covering current and projected public debt. This strategy is published every year and contains information of the current debt portfolio, macroeconomic risks, risk of currency exchange, interest rate risks, refinancing risks, operational risk, and contingent liabilities risk.

It is worth noting that Kosovo's Debt management system was rated with a score of A in the latest PEFA assessment, whereby all dimensions were rated highly. The dimensions included: Recording and Reporting of Debt and Guarantees; Approval of Debt and Guarantees; and Debt Management Strategy. This reflects sound debt management practices which are also evident in the government debt developments. Kosovo continues to have one of the lowest debt to GDP ratio in the region, respecting the fiscal rule which limits debt to GDP at 40%. In year 2022, based on the latest projections of MFLT part of the MTEF document, the debt level is expected to reach 24.9%.

Based on the data presented on the MTEF 2023-2025 document, the latest figures show that as of March 2022 domestic debt has a share of 66.53% in the total debt portfolio and consists of debt instruments with a maturity of 12 months to 10 years. On the other hand, international debt has a share of 33.47% in the total debt portfolio and consists mainly of concessional loans from IMF, EU, and other IFIs such as IDA, EBRD, EIB, KfW and CEB.

3.2.3 Accounting and Reporting

The basis of accounting and reporting in the Government of the Republic of Kosovo according to LPFMA is the cash base, respectively the adaptation of IPSAS according to cash. Money management is organized in the form of a single Treasury Account. Single Treasury account is a system of bank accounts used to collect revenues and execute expenditures, which are managed and controlled by the Treasury in the MFLT.

Expenditures are categorized according to the economic and functional classification of the Budget Law, based on Government Financial Statistics published by the IMF (GFS) which are cash based version (GFSM 2014). For this purpose, the term General Government refers to central and local institutions, as budget organizations of both levels.

The Treasury of Kosovo has been established within the MFLT and is responsible for the management of the Consolidated Fund of the Republic of Kosovo as well as for fulfilling all the responsibilities given to it under the Law on Public Financial Management and Responsibilities.

The Treasury operates with secondary legislation, by harmonizing national legal requirements and international accounting standards for the public sector, and is the regulator of accounting processes for budget organizations.

Although accounting and reporting function is well developed, IMF and PEFA reports-assessments recommend some improvements in some areas.

According to PEFA 2021, there is no operational unit in charge of verifying financial data integrity. IMF notes that budget classification is not consistent with GFSM 2014⁷. More specifically IMF highlights that while data is generally adequate, strengthening monitoring and disclosure of arrears will be important.

3.2.4 Procurement

Public procurement procedures are regulated by the Public Procurement Law - PPL (Law No. 04/L-042, amended and supplemented by the Law No. 05/L-068) and its subordinate legislation. Shortcomings and challenges have been identified within implementation of the PPL, mainly related to non-efficient planning and conducting of procedures. Also, the legal framework includes some provisions of the 2014 EU Directives on public procurement, but a number of instruments and tools are lacking⁸.

The PPRC as coordinating body is conducting monitoring over procurement procedures, but mostly in ex-ante form and not based on risk assessment and identification of red-flags.

There is functioning CPA conducting centralized procedures for specific categories, but not in a desirable level of efficiency due to non-adequate staff number and lack of needed management system for operating centralized procedures.

Effective implementation of public procurement procedures remains a challenge, particularly in relation to procurement planning and cost estimation, resulting in high share of cancelled procedures.

The most noteworthy progress has been achieved related to e-procurement as the e-Prokurimi platform⁹ is in place, providing for full penetration of e-procurement, including e-submission, e-evaluation and e-contract management and performance evaluation.

Training system for contracting authorities is in place but facing challenges due to lack of financing. However, structured training for economic operators is lacking and there is a need for tailor-made training on specific topics (price/quality criteria, technical specifications) and sectors, supported with development of implementing tools.

Contracts are still predominantly awarded based on the lowest-price criterion, not taking into consideration the quality award criteria.

Practical guidelines and tools focusing on specific stages of procurement procedures and use of the e-procurement platform are available. There is a lack of guidelines covering specificities of public procurement for key sectors, technical specifications, quality award criteria, etc., including

⁷ (i) data is on cash basis, not accrual; (ii) lending for policy purposes (similar to subsidies) is included after calculating the primary balance; (iii) capital transfers should be included in current expenditure instead of capital expenditure; (iv) memorandum of understanding (MOU) should be properly classified depending on their final purpose; (v) annual budget documents should specify both current and capital spending related to individual projects

⁸ SIGMA Monitoring report on PAR Kosovo 2021

⁹ <https://e-prokurimi.rks-gov.net>

examples of best practice. Training for the contracting authorities is provided, but there is no regular training for economic operators.

The PPRC's capacity for monitoring requires strengthening, and the CPA's capacity should be increased in line with the increase in procurement activities.

Concessions and PPPs

The Law on PPPs (Law No. 04/L-045) provides framework for transparent and competitive award of PPP and concession contracts, but it requires modernization, further alignment with the 2014 EU Directives and improved linkage with the PPL and budget legislation. In that respect, there is ongoing process of drafting of the new PPP Law.

At implementing level, awarding of PPP contracts is also facing challenges to non-functional review system. Regarding publication of notices, e-Prokurimi system currently does not enable publication of concession notices, so further upgrades are needed.

Review

Regulatory framework for review is in place and appeals are lodged through the e-procurement platform. However, implementation faced serious challenges in 2021-2022 due the lengthy period of non-appointment of any PRB board members. Accordingly, the review system has not been functioning, resulting in backlog of appeals and legal uncertainty and serious delays in contract awarding. Non-existence of review system in practice also resulted in rise of use of negotiated procedures without prior publication.

3.2.5 Internal control

The public internal financial control function is defined in Law No. 06/L –021 on Public Internal Financial Control and Law on Public Finance Management and Accountability (Law No. 03/L-048), the Treasury Financial Rules and Procedures and the Book of Processes for Management of Public Expenditures (Book of Processes) issued in September 2017. The document has been prepared with the assistance of EU and it covers all budget organizations through providing guidance for financial management focusing on risk and identification of effective control activities. The system of internal control is managed by the Public Internal Financial Control (PIFC) policy monitored by the Central Harmonization Department / Financial Management and Control (CHD/FMC). The CHD/FMC is to provide oversight and direction in implementing the PIFC policy.

The CHD prepares an annual report consolidating the functioning of PIFC system in the budget organizations covering the performance of FY 2020. It provides analysis using the components of the COSO model.

The evidence show that the functioning of the information and communication component is highest followed by the control environment, control activities, monitoring and finally risk management. The risk management component is assessed as the weakest point in the FMC system.

The PIFC policy provides for delegation of functions to the budget organization. They process the payments directly ensuring high level of autonomy and accountability. All controls are done through Kosovo Finance Management Information System (KFMIS), to which all budget organizations are electronically linked. The KFMIS is controlled by the Treasury Department at MFLT.

Following the adoption of the Book of Processes in 2017, the internal control system has been strengthened and there is improvement in applying controls and enhancing accountability.

Internal controls on non-salary expenditure, duties and responsibilities are well segregated (PI-25 score A), the commitments are limited to budgetary appropriations and cash availability and there is a high level of compliance with payments rules and procedures. This leads to an overall Internal control environment that ensures that transactions are made as intended, and resources are used only where appropriate authority has been granted. This process ensures that fiscal discipline is maintained at the micro- as well as the macro-level. It also ensures that resources are allocated as intended and properly authorized and that service delivery has access to and uses the resources provided under legal and regulatory authority and are used only for those purposes.

According to the EU country report, some progress was made on addressing remaining gaps in the implementation of primary and secondary legislation on public internal financial control. The strategic framework for public internal financial control (PIFC) is generally in place but needs to be updated.¹⁰

The Regulation on financial management and control spelled out the rules for delegating responsibilities. However, in practice its implementation is incomplete and managerial accountability is focusing mainly on compliance rather than performance. There is no progress on rationalizing agencies, with the aim of reducing the high number of (semi-) independent agencies and introducing better supervision and reporting lines.

3.2.6 Audit and Oversight

External audit

External audit in Kosovo is performed by the Auditor General and the National Audit Office. The Auditor General reports to the Assembly of the Republic of Kosovo and is entitled to audit all financial, administrative, and other programs and projects managed by public institutions. The Kosovo National Audit Office (KNAO) was established in 2003, by the United Nations Interim Administration Mission in Kosovo (UNMIK).

In accordance with the Constitution, the Auditor General is the highest institution of economic and financial control in the Republic of Kosovo. The Auditor General exercises its functions and

¹⁰ EU Country report: “Kosovo needs to integrate all elements of the PIFC strategy in the new PFM strategy 2022-2026, focusing in particular on definition and implementation of managerial accountability.”

responsibilities under the law and is functionally, financially, and operationally independent. The Auditor-General reports to the Assembly of the Republic of Kosovo and fulfil its mandate in accordance with national legislation and the INTOSAI Framework of Professional Pronouncements (IFPPs).

According to international assessments, the system of external audit in Kosovo is functioning satisfactory. SIGMA monitoring report¹¹ noted, that external audit assessment indicators are broadly consistent with the regional average. Overall, 2021 indicator “Independence of the supreme audit institution” value is 4 (out of 5) and overall, 2021 indicator “Effectiveness of the external audit system” value is 3 (out of 5).

Recent Kosovo PEFA performance assessment report¹² allocated overall score B+ for the performance of external audit system in Kosovo.

Both assessments represent relatively good performance of KNAO. However, there are remaining challenges which should be addressed in this Strategy. Existing challenges below are grouped under two indicators according to SIGMA methodology:

A. Independence of the supreme audit institution:

- The legal obligation that the regularity audit should be performed on a regular annual basis for each BO, regardless the size of the budget and the complexity of the tasks, puts KNAO into difficulty to cover other types of risk-based audits;
- At least 80% of KNAO resources are engaged in conducting regularity – financial and compliance approach (mandatory) audits¹³;
- Number of performance audits and audits of Public Owned Enterprises remain low¹⁴;
- Legal arrangement on approving and managing the KNAO budget is not fully in compliance with the requirements of the IFPPs;
- Dualistic legal arrangements of employment relationship of the personnel present an obstacle to effective functional independence of KNAO. Under the Auditor General and National Audit Office Law, audit staff is treated as public servants, while employees in administrative services have the status of civil servants.

The Law on the Auditor-General and the National Audit Office 05/L-05,5 should be modified to address the above-mentioned challenges.

B. Effectiveness of the external audit system

- Low level of implementation of audit recommendations – 45% in 2019¹⁵. In some cases, there is a lack of capacity, but also due to low attention by the management of BOs to implement audit recommendations¹⁶;

¹¹ SIGMA Monitoring report on PAR Kosovo 2021

¹² Kosovo Public Expenditure and Financial Accountability (PEFA) Performance assessment report (February 2022)

¹³ Strategic Plan of the National Audit Office 2018-2021

¹⁴ Problem Analysis Report of Public Financial System in Kosovo, March 2022

¹⁵ SIGMA PAR Monitoring Report of 2021

¹⁶ Strategic Plan of The National Audit Office 2018-2021

- Mechanisms for follow-up of implementation of recommendations still not effective enough. EU noted¹⁷, that better follow-up and review of performance audits should be ensured by the government and the parliamentary committees of the Assembly.
- There is continuous need to further improve manuals and audit methodology according to international standards, in order to secure high level quality of the audit products;
- KNAO has a quality control and quality assurance system in place, but it needs to be further developed in order to improve audit decisions by identifying good practices.¹⁸

Public Financial Oversight

In the Republic of Kosovo, the parliamentary oversight in scrutiny of audit reports sits with the Committee for Oversight of Public Finances. Its scope of work and competencies are set by the Rules of Procedure of the Assembly (2010). The rules define, that the Committee for Oversight of Public Finances (COPF) is, among others, responsible for (i) supervision of the legality of public money expenditures based on audited annual and periodic reports and statements, as well as audit report of KNAO, (ii) supervision of KNAO's audit reports on budget organizations and public enterprises, (iii) supervision of performance reports drafted by KNAO, (iv) supervision of public expenditures, through reports of budget organizations, upon special request of the committee, (v) tasks directly related to reviewing the operations KNAO, and (vi) organizing public hearings - the Committee may hold public hearings of experts, representatives of interest groups and other persons for the purpose of obtaining information on the subject under debate (Article 66 of the Rules of Procedure of the Assembly).

The analysis identified the following gaps that weakens Parliamentary oversight in scrutiny of budget reports:

- There is no follow-up of audit recommendations in the COPF¹⁹. The Committee prepares recommendations usually following KNAO audit recommendations, which are discussed at the level of the Committee and the minutes are published on the website of the Assembly. However, the Committee has no systemic processes for tracking the progress of the implementation of recommendations²⁰.
- Performance audit reports are not being considered by functional parliamentary committees (except COPF) as it is the case with regularity audit reports.²¹

Internal audit

Internal audit is operational in 83% of the total planned budget expenditures and 100% of the total planned revenue collections for FY 2020. International internal audit standards are applied. The internal audit checks the effectiveness of the internal control system and the practice of quality assurance exists for all 42 units.

Annual audit plans exist for all internal audit units. Most of the plans are completed, as evidenced by data provided and internal audit reports. There is documentary evidence of

¹⁷ Problem Analysis Report of Public Financial System in Kosovo, March 2022

¹⁸ Strategic Plan of The National Audit Office 2018-2021

¹⁹ Problem Analysis Report of Public Financial System in Kosovo, March 2022

²⁰ PEFA report

²¹ Strategic Plan of the National Audit Office 2018-2021

management response to internal audit recommendations for all audits performed with two weeks timing of the response.

In addition to the above, EU Country Report highlights that “the administrative capacities of internal audit units at central and local level are still limited and the internal audit practice concentrates mainly on observing rules and procedures. Challenges remain with the effective establishment of internal audit committees in all budget organizations, including at municipal level. Most internal audit units submit strategic and annual audit plans as required, but quality assurance should be further implemented.

A certification scheme for internal auditors is in place but needs to be improved as regards management and technical content.

Kosovo should make further efforts to have professionally trained internal auditors, who have undergone rigorous technical examination”.

4 PFM policy priorities – Strategic and Specific Objectives

4.1 Strategic Objective 1: Ensuring sustainable fiscal discipline

The starting point in ensuring fiscal discipline is to determine the revenue and spending aggregates. This requires that the government make realistic forecasts of the resource envelope by estimating domestic revenue, external grants, and concessional loans. In the case of Kosovo, the ceiling for aggregate expenditure is determined by applying a fiscal rule-endorsed deficit and financing strategy.

The strategic Objective 1: Ensuring sustainable fiscal discipline consists of three specific objectives, in line with the issues identified under Sector Analysis.

4.1.1 Specific Objective 1.1- Strengthening macro fiscal projections by aligning them with fiscal risk assessments

Government’s ability to respond to fiscal risks partly depends on the quality of its information about the magnitude and likelihood of potential shocks to the public finances. A comprehensive disclosure and analysis of fiscal risks can help government to ensure that fiscal policy settings, can respond to a range of potential future economic and fiscal shocks, which specific risks are actively monitored and managed, and that abrupt and disruptive changes in policy are avoided when risks materialize. Better understanding of fiscal risks, greater transparency, and effective risk management practices can reduce the magnitude of the negative effect on the fiscal balances and the economy, and can help underpin credibility in the government’s management of public finances and boost market confidence.

Description of the problem

Fiscal risks are factors that can cause a government's fiscal performance to deviate from what was forecasted in the medium term or pose a threat to sustainability over the long term. The identification of the fiscal risks in Kosovo, has not been carried out in a systematic way. In the recent years, the MFLT has published a fiscal risk as part of the annual Budget and the ERP. Fiscal risks arising from the performance of POEs, the economic fallout from Russia's invasion of Ukraine, increase budget spending due to energy crisis and high inflationary pressures are some of the major fiscal risks identified by MFLT. However, these reports were not an integral part of the macro fiscal framework, and as a result these risks could not be quantified and monitored properly from MFLT. As a result, a considerable number of reallocation took place during the past fiscal years.

Fiscal risks have been addressed as an issue by IMF and the EC. Based on the good practices recommended by the IMF the following are identified as key issues in Kosovo's fiscal risk management framework:

- Lack of detailed fiscal reporting.
- Need for improved monitoring of state-owned enterprises and public enterprises. Despite the existence of the POEs monitoring unit, these enterprises still pose a substantial risk to the budget, due to lack of consolidated reports with financial and fiscal risks implications. Moreover, the MFLT currently has no oversight authority on POE's and their financial transactions including debt, and as a result, in recent years, these enterprises have incurred high losses and made frequent calls on state subsidies.
- Lack of proper fiscal quantification. The MFLT does not quantify potential adverse impacts of various fiscal risks in a systematic manner. However, some work in this area is currently conducted by the Macroeconomics Unit, and future efforts to quantify fiscal risks comprehensively should build on this.

Root causes

While current reports cover some fiscal risks and some aspects of how to manage them, important gaps remain in the country's fiscal risk management framework. Several aspects of current Kosovo's practice related to fiscal risks management could be improved, including fiscal reporting, the quantification of fiscal risks, the management of fiscal risks associated with POE's, risks related to COVID-19 and so on. It is important to note, that during the past years, a percentage of deviations in the Budget execution was related to budget reallocations from capital expenditures to social transfers to cover fiscal risks raised during the year, thus undermining budget credibility.

Such situation was mainly because of a lack of the following institutional arrangement that, in line with the IMF²² recommendations, would constitute the best practice in managing fiscal risks:

- A risk management policy, which specifies the preconditions under which government take on specific fiscal risks.

²² International Monetary Fund, "Analyzing and Managing Fiscal Risks: Best Practices," June 2016, <https://www.imf.org/external/np/pp/eng/2016/050416.pdf> .

- Clearly defined accountabilities, so that individual departments and line ministries identify, estimate, analyse, and monitor specific fiscal risks under their remit.
- A central oversight body, to allow monitoring of aggregate fiscal risk and analysis of possible relationships between different sources of risk and their potential interactions. Such a body could also be tasked with assessing risk mitigation practices and conducting exercises on how to respond to the realization of risks.
- Central control over major risks, so that one authority (e.g., the minister of finance) has control over approving contracts that expose the government to fiscal risks.

Planned Activity Interventions

Activities	Indicator
<p>Activity 1. Institutional and administrative arrangements for fiscal risk assessments.</p> <p>Activity 2. Systematic Integration of fiscal risks into medium term budgeting.</p>	<p>Indicator 1. Deviation of budget revenues outturn versus the annual budgeted revenues.</p>

4.1.2 Specific Objective 1.2 – Strengthening revenue collection and measuring the tax gap

Increasing tax collection is aimed through fighting informal economy and reducing tax gap. The tax gap refers to a compliance gap, which stands for the difference between the revenues that should be collected if all taxpayers were compliant and actual collected revenues.

It's a critical responsibility to collect government revenue consistent with government budget forecasts to support the Government's economic program. Following a contraction in 2020 due to the COVID-19 pandemic, real GDP has increased in 2021 as economic activity has rebounded. Mobilizing revenue collections requires continued action to strengthen revenue administrations.

During 2021, Tax Administration with the support of the World Bank has carried out a Tax Gap Analysis. The data analysed refer to the period between 2013 and 2020. Despite noted improvements compared to the latest tax gap assessment conducted in 2015, the tax compliance still remains as an issue.

Description of the problem

Informality accompanied with tax gap remain one of the key challenges of Kosovo's economy. Kosovo's tax-to-GDP ratio has increased from 23.1 percent in 2008 to 24.9 percent in 2021. However, this is lower compared to other European Union and Emerging Eastern Europe (EEE), where tax-to-GDP ratio is more than 40 percent. Kosovo's low tax-to-GDP ratio is due to several factors such as: 1) still level of high informality, 2) relatively low tax rates, 3) numerous exemptions, and special tax regimes.

The latest FAD IMF HQ mission report 2022, found that TAK, despite has made solid progress during the past year in debt management (where the new centralized structure is delivering good results), Value Added Tax (VAT) refund processes, VAT on-time return filing, and compliance risk management (CRM) projects targeting informal employment and the construction sector, there are more space to improve reform implementation. In addition to these arrangements to identify, assess, and manage institutional risks and internal controls need to be developed.

The reform progress was slowed by the pandemic and the diversion of resources to assist in delivering Covid-related supports. TAK continues to face serious challenges and more effort is needed to enhance governance arrangements for strategic and operational plans implementation, address issues arising from autonomy constraints in recent public service law reforms.

Additional work is also needed to widen access and use of third-party data, improve taxpayer compliance, including returns filing and reporting across taxpayer segments and tax types, and further strengthen the core functions.

There is currently no strategic focus on HR matters in TAK. There is no HR strategy or workforce plan. The purpose of a workforce plan is to get the right people, with the right skills, in the right jobs, in the right location, at the right time and at the right cost. A workforce plan would help evaluate the human resources necessary to achieve TAK's strategic plan.

Even though Kosovo Customs and the Tax Administration of Kosovo, cooperate in different fields, the latest Country report 2021, emphasize that the coordination and cooperation within these institutions should be further strengthened in joined field inspections and coordinated actions in the fight against customs fraud and tax evasion.

Root causes

At the root of the tax gap is the general prevalence of tax evasion among taxpayers. A more effective organization of the activities between TAK and Customs, based on risk management, would reduce the informality and level of noncompliance. The FAD IMF HQ mission report 2022, found that the stock of arrears increased slightly (by around 5 percent) during 2021, arrears as a proportion of revenues collected by TAK reduced from 63 percent in 2020 to 54 percent at end-2021. High proportions of arrears are attributable to interest and penalties and audit assessments, and arrears are highly concentrated. Almost half of the total debt comprises interest and penalties and the debt from unpaid audit assessments (including interest and penalties) compared to total of €221.4 million.

Planned Activity Interventions

Activities	Indicator
<p>Activity 1: Improve Tax Compliance Activities through compliance projects.</p> <p>Activity 2: Advancing operational capacities in revenue collection.</p> <p>Activity 3: Enhancing inter-institutional cooperation between TAK and Custom of Kosovo on fighting informal economy.</p> <p>Activity 4: Improve risk assessment through expanding the process for identifying, assessing, prioritizing, and mitigating compliance risks to cover significant risks for all tax types.</p> <p>Activity 5: Measuring Tax Gap.</p>	<p>Indicator 1. Increase of timely filing of Tax Declaration.</p> <p>Indicator 2. Increase the ratio between tax revenues and GDP.</p> <p>Indicator 3. Increase of customs revenue and compliance compared to previous year.</p>

4.1.3 Specific Objective 1.3- Sound tax expenditures

Strengthening the tax base through reduction of tax exemptions (i.e., revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.)

Description of the problem

Kosovo's revenue base is weakened by numerous exemptions and special tax regimes. Exemptions create loopholes that can lead to tax arbitrage and undermine revenues.

The policy objectives of tax expenditures could also be achieved through direct expenditure programs. But tax expenditures are typically exposed to less scrutiny by governments and their agencies than direct expenditure programs—unless specific provisions are in place for their identification, quantification, and estimation of their economic consequences.

In the context of constrained public finances (in part resulting from population aging), it is important to better understand the budgetary and economic impact of tax expenditures. The core objective of tax expenditure assessment is, therefore, to improve transparency and accountability in public finance, by identifying all budgetary reliefs given through tax reductions, and expose them to the same scrutiny as expenditure programs.

Root causes

Throughout the years, the Government of Kosovo, supported various economic sectors, activities, or groups of taxpayers through preferential tax treatment, e.g., through exemptions, deductions, tax credits, reduced tax rates, and other forms of tax expenditures. Tax expenditures refer to potential revenue which the state forgoes to support different population groups or different economic sectors, which, in one way or another, constitute a form of expenditure.

However, currently the revenue forgone through these benefits is not assessed by the authorities. Neither the budget nor the MTEF documentation contains any quantification of tax expenditure. The MFLT, in Kosovo should regularly assess and report the list of revenue forgone through tax expenditures, in order to understand their efficacy and revenue impact.

Planned Activity Interventions

Activities	Indicator
<p>Activity 1: Institutional and Administrative arrangements for sound tax expenditures.</p> <p>Activity 2. Drafting concept document in the area of tax expenditures.</p>	<p>Indicator 1: Comprehensive Tax Expenditures assessment integrated into budget document.</p>

4.2 Strategic Objective 2: Further Enhancing Allocation Efficiency

Although fiscal discipline is critical for macroeconomic management, it is important to remember that aggregate spending limits do not guarantee quality expenditure. Quality is achieved by concentrating resources on priority programmes (allocative efficiency) and by ensuring that the implementing agency utilizes resources productively (operational efficiency).

Allocative efficiency is improved when a government reallocates expenditure from low priority to high priority programs and from less effective to more effective programmes.

The Strategic Objective 2 Further Enhancing Allocation Efficiency consists of two specific objectives, in line with the issues identified under Problem Analysis.

4.2.1 Specific Objective 2.1: Strengthening the link between strategic planning and budgeting

Specific objective aim is further advancement of the role of the MTEF as a liaison document between national policy planning, sectorial strategies and annual budget execution. Currently there are differences between annual executed budgets with the ceilings approved in the MTEF.

Description of the problem

In line with the provisions set in the LPFMA, the MFLT every year drafts the MTEF. The MTEF is a process to re-orient annual budget to a medium-term planning. As such, this document tends to link the three-year budget forecast to the Statement of Medium-Term Priorities of the Government. In addition, the role of the MTEF is to ensure the consistency of the budget planning with other relevant strategic documents such as the Kosovo Economic Reforms Program and the

National Program for the Implementation of the Stabilization and Association Agreement between Kosovo and the European Union (EU).

Despite significant achievements in terms of budget planning, the MTEF process still faces few issues that undermines its role as an important three-year planning document. The MTEF is intended to improve the credibility of the budget process. This involves setting realistic aggregate resource ceilings for the three-year planning period. The development of improved modelling and forecasting capacity is therefore an integral part of the MTEF process. One of the key shortcomings identified in the MTEF planning is related to its role in the multiannual planning. Various international assessments²³, concluded that consistency of budget execution with the MTEF still remains weak. More specifically, the deviation between the budget plans presented in the MTEF for the second year still remain high compared to the budget execution for that fiscal year. In addition, the budget documents do not provide an explanation of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.

It is necessary to have further advancement of the role of the MTEF, as a budget planning document for the three-year period, and also the budget execution to be as close as possible to the budget plans presented with the MTEF.

Root causes

Having no specific legal provision for the MTEF to be approved by the Assembly, budget projections are often subject to changes by the Government (frequent changes of governments), by some ministries or specific budget organizations. Furthermore, another shortcoming identified in the MTEF document is that the first year of planning in the MTEF provides indicative figures for the annual budget, and that the other two years are just repetitive planning, minimizing the planning role of this document.

Within the LPFMA, the articles regulating MTEF process including preparation and review of budget proposals for budget allocation, do not properly address this issue. As such the forecasts for the next two years of the budget are not binding. As a result, the risk reduction measures are not foreseen and so far, the issues raised from improper planning have been solved on ad hoc at the cost of reducing and or/ increasing other projects whenever new fiscal space was able to be identified. Many of the planned activities and related expenditures have been modified, changed, suspended, etc.

Another issue is that neither the strategic plans nor the MTEF and the annual budget contain risk assessments for more obvious issues, such as delays in the implementation of complex projects, gaps in the strategy, timely planning of the full cost, etc.

²³ PEFA Assessment (2021) and SIGMA OECD 2021 Monitoring

Planned Activity Interventions

Activities	Indicator
<p>Activity 1: Strategic Planning Steering Group (SPSG) meetings to be held in line with the adopted calendar.</p> <p>Activity 2: Submission to the MFLT of a budget proposal endorsed by Budget Organisation working group (or a committee with an appropriate designation, during the budget proposal stage) consisting of political staff (cabinet of the Minister), Secretary General, Chief Finance Officer and directors of agencies and departments.</p> <p>Activity 3: The Ministry of Finance, Labour and Transfers / Budget Department will provide information on the differences between the last year's MTEF and the current MTEF, with explanations on the change / deviations of the higher amounts in tabular form.</p> <p>Activity 4: Alignment of MTEF sectors and strategic planning sectors with COFOG 2 level classification.</p> <p>Activity 5: Establishment of a methodology and the procedure for drafting the Statement of Medium-Term Priorities.</p>	<p>Indicator 1. Credibility of medium-term expenditure plans (%) – The percentage difference between the planned expenditures in the MTEF approved two years before the latest full calendar year and the outturn of the latest full calendar year.</p>

4.2.2 Specific Objective 2.2 – Strengthening multi annual contractual commitment recording

Advancing the role of systems for multi-year capital investment planning, will create additional assurance that budget organizations plan timely and adequately multi-year contractual obligations, avoiding increasing liabilities.

Description of the problem

Kosovo has multiple non-integrated systems that support the implementation of its PFM processes. However, shortcomings in reporting arrears and recording multiannual contractual commitments have been continuously identified and reported, by several international assessments including IMF. Currently there is a lack of registration of multi-year commitments, this is extremely important in the case of multi-year capital projects through which obligations are undertaken on behalf of public institutions.

While recording the multi annual commitments in the KFMIS is required in the Annual Budget Law, this information would also be critical in the budget planning systems. Since the Budget Department is responsible for budget planning, and would need to know progress in project implementation, as well as committed contracts to assess fiscal space, the multi annual contract data must also be available by project in the PIP.

Root causes

Currently in the system for Public Investment Program - PIP is not developed the module for registration of multi-year commitments, and also there is no interconnection between systems such as: KFMIS, PIP and E-procurement. With the interconnection of these systems, we would have a clear picture of how much will be the amounts for multi-year liabilities and how much money we will have available for new capital investments. So, this would affect the reduction of contractual obligations for capital investments. Also, the political influence on the suspicion of capital investments would decrease (where political influence is one of the factors that negatively affects the planning of capital projects, especially after the approval of the budget by the Government, in the parliamentary committees of the Assembly of the Republic of Kosovo, projects are introduced with smaller monetary values than they actually cost).

Another problem was the lack of establishment of the Public Investment Committee (PIC) to review large public projects, in order to reduce the risk of not implementing large strategic projects. Actually, there are established with government decision No. 04/12 structures for strategic planning, respectively Strategic Planning Commission (SPC) and Strategic Planning Steering Group (SPSG). Among responsibilities of the SPC are:

- review of strategic priorities and the proposal for securing their financing through the MTEF and the annual budget,
- review and approval of priorities for public investments, priority list of infrastructure projects, and project applications,
- approval of the methodology for the selection and prioritization of infrastructure projects, ensuring harmonization with UA 06/2019 for the selection criteria and prioritization of capital projects.

Borrowing projects-investment clause have a great impact on the low realization of the approved budget for capital investments, for which projects a proper feasibility study is not being done and there are big delays in the execution of funds for these projects.

Planned Activity Interventions

Activities	Indicator
<p>Activity 1: Addressing multi annual contractual commitments issues in the reviewed Law on Public Financial Management and Accountability.</p> <p>Activity 2: Advancing PIP and KIMFS systems for recording multiyear planning and commitments.</p> <p>Activity 3: Inter linkage of KFMIS system with the E-procurement platform-system.</p> <p>Activity 4: Publish contractual commitments by project in Annual Financial Reports using multi annual commitment data.</p>	<p>Indicator 1. Relevant PFM systems integrated to ensure multi annual commitment recording (KFMIS, PIP, E-procurement).</p>

4.3 Strategic Objective 3: Further Improvement of Operational Efficiency

Operation Efficiency is a critical component for the overall sound PFM system. The assessment and sector analysis informed that some further strategic areas in Public Procurement, Internal Control, External Audit and Oversight and Internal Audit functions need to be strategically addressed.

The Strategic Objective 3: Further Improvement of operational efficiency consist of 5 Specific Objectives in Public Procurement, Internal Control, External Audit and Oversight and Internal Audit.

4.3.1 Specific Objective 3.1 – Improved efficiency and effectiveness of public procurement processes

Specific Objective 3.1 is about improvement of efficiency and effectiveness of all phases of public procurement processes (including concessions and PPPs), from planning to contract execution, to ensure transparent and economical use of public funds.

Description of the problem

Legal framework on public procurement, including PPPs and concessions, is in place, but requires some upgrade. Implementation in practice shows some challenges, resulting in number of non-efficient procedures, no adequate level of achieving value for many and in some common irregularities. Shortcomings have been identified particularly in relation to procurement planning and cost estimation, as emphasized in the KNAO reports, reflected in high share of cancelled procedures. Contracts are still predominantly awarded based on the lowest-price criterion, with insignificant use of the quality award criteria. Also, the legal framework requires further approximation with the best international practices and relevant EU 2014 Directives, while the EU Defence and Security Directive has not been transposed. Therefore, drafting of the new PPL is ongoing, with planned adoption of the law in 2023 and entering into force in January 2024. Focus is on further approximation with the 2014 EU directives (classical and utilities procurement) and the Remedies Directives, clear definition of institutional roles, as well as resolving identified practical shortcomings.

Significant upgrades of the e-Prokurimi platform will be needed in follow up period in line with planed new legal framework and in order to additionally improve procurement processes. There are only basic administrative capacities in place required for development and administration of the e-Prokurimi platform, so engagement of additional staff is a basic precondition for continuation of a smooth system functioning. In addition, there is a need for development of the additional training tools on e-procurement, especially on-line based. There is PPRC monitoring system in place, but not systematically contributing to decreasing risk of irregularities. Existing training system doesn't fulfil all stakeholders' demands, especially on tailored-made training.

Activities of the CPA face challenges regarding management of activities with high number of users and lack of staff. In addition, there is lack of systematic benefits' analysis of centralized procurement procedures and awarded contract.

Regarding review of appeals, since March 2021 until June 2022 there was no actual review system in place due to non-appointment of the new PRB members. Since the end of the mandate of the previous board members, the contracting and economic authorities have not received any decision on all complaints submitted to the PRB, resulting in backlog of non-resolved appeals and blockage of significant funds and non-implementation of number of projects. The composition of the PRB, as determined by law no. 04/L-042, started functioning from June 23, 2022 after the selection of the Chairperson and members by the Assembly of the Republic of Kosovo. With this, the legal obligation has been fulfilled with the selection of the Chairperson of the PRB and four (4) members of the PRB board.

Root causes

As the last amendments to the current PPL were adopted in 2016, public procurement legal framework in place does not reflect all new developments, especially on e-procurement. Also, a number of 2014 EU Directives instruments and tools is lacking. Activities on adoption of the new PPL have commenced in 2020, but the drafting process has been delayed for a long period of time. The same applies to the PPP Law regulating concession and PPP contracts.

Issue of efficiency and effectiveness of procurement process, resulting in high number of cancelled procedures and predominant use of the lowest price criteria, is mainly caused by lack of expertise and experience at the level of contracting authorities. Implementation of additional training and development of tailor-made implementing tools is mainly restricted due to lack of financing.

Both COVID-19 outbreak and long period of non-functioning of the review system reflected in high share of contracts awarded in the negotiated procedure without prior publication.

Focusing mostly on ex-ante control within the PPRC monitoring function, is not resulting in significant added value on decreasing risks of irregularities and shifts responsibility from contracting authorities to the PPRC.

Non-adequate number of the CPA staff, non-existence of a comprehensive management system, as well as lack of expertise on technical aspects of covered procedures, reflects in non-achieving full potential of centralized procedures in some categories.

Non-functioning of review system in practice since March 2021 is result of non-appointment of the new PRB Board members, caused by lack of legal provisions dealing with situation of expired mandates of members (temporary prolongation of mandates, option on acting position or similar). In addition to shortcomings of the legal framework, there is no high-level support that should result in immediate appointment of the new Board members.

Planned Activity Interventions

Activity	Indicator
Activity 1: Amending legal framework on public procurement.	Indicator 1: Percentage of using the MEAT award criterion in the total value of signed contracts. Indicator 2: Percentage of cancelled procedures in total number of published procedures.
Activity 2: Amending legal framework on PPPs and concessions.	
Activity 3: Advancing and harmonizing of e-Prokurimi system in line with the new PPL.	
Activity 4: Introducing of a risk-based monitoring.	
Activity 5: Adapting the training system in line with the new legal framework.	
Activity 6: Developing and implementing training and awareness rising activities.	
Activity 7: Preparing general and tailor-made implementing tools (manuals, instructions).	
Activity 8: Improving cooperation and coordination among key institutions relevant for public procurement system.	
Activity 9: Improving management of centralized procurement procedures.	

4.3.2 Specific Objective 3.2 - Strengthened internal control

Specific Objective is to further strengthen internal control.

Description of the problem

As noted in Section 3, although there is a comprehensive legal framework for Financial Management and Control, there is a lack of proper implementation of the legal framework by management staff. Risk management is not being implemented in some Public Sector Entities. Also, a Procedure for processing and reporting irregularities has not been drafted yet.

In terms of efficient and effective use of assets, the government maintains a record of all categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. This financial asset monitoring is critical to identifying and managing financial risks that can have a fiscal impact.

Nonetheless, in terms of non-financial assets or fixed assets, the information available and published in annual financial statements is incomplete, as assets such as sub-soil assets are not registered or managed. These include, mineral resources, energy resources, other naturally occurring assets, and intangible non-produced assets.

Route causes

In summary, assessment and analysis indicate that improper implementation of the PIFC Law is present and there are difficulties in delegating decision-making authority.

In addition, the concept of managerial accountability to promote the effectiveness and efficiency of the public fund is not fully understood and there is resistance to change.

Planned Activity Interventions

Activity	Indicator
Activity 1: Review of relevant financial rules (PEFA).	Indicator 1. Functioning of Internal Control
Activity 2: Application of risk management in all BOs.	
Activity 3: Prepare and approve the procedure for reporting and processing irregularities.	
Activity 4: Monitoring and evaluation of Self-assessment questionnaire on FMC.	
Activity 5: Continuous training on the application of the FMC manual.	
Activity 6: Disclosure of the arrears.	

4.3.3 Specific Objective 3.3 - Ensure proper level of an independent external audit function in line with INTOSAI Framework by 2026

Specific Objective is to further develop independent external audit function in line with INTOSAI framework.

Description of the problem

According to both PEFA and SIGMA evaluations conclude high level of independence of KNAO. According to SIGMA PAR Monitoring Report 2021, the Law for the Auditor General and National Audit Office regulates the independence of the AG and KNAO in line with the INTOSAI Framework. The KNAO is free to implement its budget and use the financial resources as it considers appropriate. The KNAO has unrestricted and timely access to records, documentation, and information.

However, the recent international assessments and KNAO strategic documents have identified the remaining weaknesses in the development of independence of supreme audit institution in Kosovo:

- Legal obligation to perform regularity audits on a regular annual basis for each BO limits opportunities to carry out other types of external audit;
- Scope of performance audits and audits of Public Owned Enterprises remain low;

Root causes

The obligations and limitations that the Law on the Auditor-General and National Audit Office imposes in regard to:

- Obligation to perform regularity audits annually for each BO;

Planned Activity Interventions

Activity	Indicator
Activity 1: Further strengthening of the KNAO mandate to perform external audits based in effective and professional standard ISSAI.	Indicator 1. Independence of the supreme audit institution – overall indicator value of SIGMA assessment.
Activity 2: Digitalize KNAO corporate services.	

4.3.4 Specific objective 3.4 – Ensure high-quality audits in line with IFPP and best international practice to contribute improved management of public finances

Specific Objective is further developing high-quality audits in line with IFPP and best international practice to contribute improved management of public finances.

Description of the problem

As it was noted by SIGMA Monitoring Report of 2021, the KNAO meets its audit mandate by completing regularity audits of all budget institutions along with a number of performance audits. The audit manuals and internal quality control and quality assurance arrangements are broadly in compliance with IFPPs, although there are areas for improvement. The audit quality assurance procedures are in the process of development. The NAO's audit reports are used by the COPF to scrutinize the Executive and follow-up on implementation of recommendations. However, there are still weaknesses remained in terms of audit impact and scrutiny of audit reports by the legislature:

- Unsatisfactory level of the implementation of KNAO's audit recommendations – the implementation rate in 2019 was 45 %;
- Quality of audit methodology needs constant improvement;
- Risk level assessment needs further development;
- The COPF has no systemic follow-up processes on its recommendations;

Root causes

- Absence of an effective mechanism for following up the recommendations given by the KNAO;
- Low attention by the managers of budget organization to implement KNAO recommendations;
- The COPF has no capacities to follow-up its recommendations.

Planned Activity Interventions

Activity	Indicator
Activity 1: Strengthen institutional responsibility to implement KNAO recommendations.	Indicator 1. Effectiveness of the external audit system – overall indicator value of SIGMA assessment.
Activity 2: Dissemination of good practice.	
Activity 3: Enhance cooperation of KNAO with MLGA and donor community in Kosovo in terms of indicator of provisions on municipal performance grants.	
Activity 4: Enforcement of KNAO already developed follow-up mechanisms.	
Activity 5: Improve audit methodology.	
Activity 6: Engage of Assembly Functional Committees into the scrutiny of audit reports.	
Activity 7: Strengthen parliamentary oversight of public finances.	
Activity 8: Further improvement of QA and QC systems.	

4.3.5 Specific Objective 3.5 Expanding and professionalizing Internal Audit

Specific Objective is the expanding and professionalizing internal audit.

Problem description

From the analysis made it is noticed that there are still Public Sector Entities which are not covered by internal audit and do not implement other forms of internal audit function. Also, the internal audit units are not supplemented with the necessary internal audit resources as required by the bylaws. Thus, according to the PEFA report, only 83% of central level budget organizations are covered by internal audit. Even in terms of the capacities of 69 internal audit units, only 24 of them or 34.78% are filled with the necessary internal audit resources.

Root causes

As noted in section 3, lack of management accountability in addressing audit recommendations and lack of IAU in some public sector entities has affected the improper implementation of the legal framework. Also the lack of internal audit units with sufficient resources for internal audit are justified by the limitations in the Budget Law on the number of employees and the lack of budget.

Planned Activity Interventions

Activities	Indicator
Activity 1: Internal audit coverage of budget organizations.	Indicator 1. Functioning of internal audit.
Activity 2: Institutionalizing continuing professional development programme (CPD).	
Activity 3: Review of the monitoring methodology of IAU activities.	Indicator 2. Operational framework for internal audit.
Activity 4: Quality assurance of IAU.	
Activity 5: Introduction of performance audit.	
Activity 6: Cooperation with external audit (NAO).	
Activity 7: Drafting AI for national training program for certification of Internal auditors in public sector.	

4.4 Strategic Objective 4: Human capital and ICT Infrastructure Strengthened to Support Digital and Transparent PFM System in Kosovo

During the sector analysis, some horizontal areas that need to be strategically addressed were identified.

The Strategic Objective 4 consist in 3 Specific Objectives aiming to further develop ICT for PFM, Budget Transparency and Human Capital for PFM.

4.4.1 Specific Objective 4.1 - An effective information management system is in place, which supports continuous digital development of an effective and transparent public finance management system

Specific Objective aims an effective information management system, which supports continuous digital development of an effective and transparent PFM system.

Description of the problem

IT systems that support PFM of Kosovo are somewhat fragmented as they are not fully linked to one another and this presents a challenge to standardized, consistent and automatic and credible data exchange, analysis, and reporting.

Root causes

At the early stages of development of Kosovo as an independent country, there was neither strategic framework for IT system development, nor financial means to finance such. Hence, over time many projects have supported the development of various programs, based on a range of platforms without unified IT Strategy in place.

In general, KFMIS produce timely, relevant, and reliable financial data to promote fiscal discipline, assist with resource allocation, and improve operational efficiency and fiscal

transparency. However, MFLT uses many systems (e.g., BDMS, PIP, etc.) that are not sufficiently interconnected and integrated with the other PFM software. Such situation requires multiple manual insertions of data, constituting additional workload and risk of errors.

For example, personnel, payroll, and budget data are not linked automatically to the personnel staff list of all budget organisation. Hence, a list of staff with personnel data needs to be verified against the approved salary budget allocations.

Furthermore, there is no automatic link between PIP, KFMIS and e-procurement. The system allows payments to be linked to evidence of physical progress and monitors deviations from plans. The monitoring system in place is aimed to maintain records on both physical and financial progress and produce periodic project-monitoring reports. However, the information on physical execution of projects is apparently not entered into the PIP system and hence is not available to the government and the public. There is a need for the Ministry and the related bodies to look at further measures to ensure better interconnectedness and security of their IT-systems.

Procurement contract implementation, however, stays prone to irregularities and is vulnerable to corruption. Extension of the e-procurement modules and increased linkages between this system and the Kosovo financial management information system would support in commitment control and proper budget implementation.

Planned Activity Interventions

Activities	Indicator
Activity 1: Detailed business process documentation and gap analysis.	Indicator 1: Further strengthened / developed PFM IT Services and Infrastructure.
Activity 2: Implementation of a unified IT system of the PFM based on the completed IT Audit report and the Road map for IT development.	
Activity 3: Advancing a Property Tax Management System.	
Activity 4: Advancing BDMS+PIP Systems.	
Activity 5: Advancing the systems for pension, social, war categories, etc.	
Activity 6: Digitalization of MFLT.	
Activity 7: Business Continuity and Disaster Recovery Plan.	
Activity 8: Advancing infrastructure security and access control.	
Activity 9: Implementing ITSM Best Practices.	
Activity 10: Develop professional competence for IT staff.	

4.4.2 Specific Objective 4.2 - Strengthened transparency and comprehensiveness of budget reporting and scrutiny

Specific Objective is to further strengthen transparency and comprehensiveness of budget reporting and scrutiny.

Budget transparency is a fundamental component of the effective management of public finances, important for determination of fiscal risks, reasonable financial decision making, improved accountability and strengthened fiscal policies.

Description of the problem

The status of budget transparency in Kosovo is quite advanced and this is supported by the findings of international development partners. The MFLT shows consistent achievement with well-established Transparency portal providing quarterly reports on central and local government levels using economic classification, with data on budget absorption, revenue, expenditure and capital projects' financial execution.

Monthly reports of government revenue, expenditure and borrowing are published as well on the MFLT website, but these reports are at an aggregate level, do not provide details of individual BOs and are not compiled from standard format reports completed by each BO.

The Treasury's quarterly reports are prepared on the basis of standard format reports submitted by BOs. They include explanations of the variations from the original expenditure and revenue figures published at the start of the year, future spending commitments, local government financial data, capital spending and the stock of arrears (commitments). The quarterly reports are published before the end of the following quarter.

However, information on physical implementation of the investment projects needs to be added. This will be done by interfacing the KFMIS with PIP, but firstly relevant and reliable data needs to be entered there by the relevant project managers. As well, there are limitations in the monitoring and reporting on the financial performance of state-owned enterprises that need to be tackled.

Root causes

Lack of appropriate monitoring, reporting and evaluation of public investment projects and need for generating and inducing better plans, budgets, and reports of public investment. This is seen as just additional workload for the project managers, and they lack incentives to actively manage their respective project.

Findings from recent assessments by international development partners notice quite good conditions for budget transparency are in place in Kosovo, including frequent and comprehensive reporting throughout the year and timely publication of annual financial reports for central and local government. Still the Annual Financial Statement is presented to the Assembly prior to the publication of the Auditor General's opinion. Financial reports do not explain changes for capital investment projects and do not contain non-financial performance information.

In the field of budget transparency, citizens' budgets are published and information on budget execution is also available on the Government Transparency Portal.

Full compliance with GFS 2014 has not yet been achieved and a summary table is used in preparing GFS 2014 compliant statistics.

Planned Activity Interventions

Activity	Indicator
Activity 1: Provision of quarterly reports on non-financial performance information and capital investment projects physical and financial execution.	Indicator 1. Transparency and comprehensiveness of budget reporting and scrutiny.
Activity 2: Provision of monthly reports on central and local government levels using economic classification, with data on budget absorption, revenues, expenditure, and capital projects.	

4.4.3 Specific Objective 4.3 - Effective, efficient and proficient civil service to support PFM and wide government services

Specific Objective is to further develop an effective, efficient and proficient civil service to support PFM and wide government services.

The goal of capacity building for PFM is to sustain a process of individual and organizational change and to enable organizations and individuals to achieve their development objectives. To eventually sustain a process of change, a critical mass of people is needed that pursues the same objectives and is equipped with the necessary knowledge and skills. This task obviously goes beyond one-off events and puts the focus on institutionalizing capacity building programs.

Description of the problem

Increase of capacities and human resources remain on of the most important issues in implementing key PFM reforms by the government. In various fields such as Audit and Financial Management and Control, Public Procurement, Taxation etc., continuous increase of knowledge is required and well defined by legislation. So far, extensive PFM related training have been developed and carried out mostly by the respective directorates/agencies with the support of the international development partners.

The Kosovo Institute for Public Administration (KIPA) has not managed to offer enough and tailor-made programs in the domain of public finance management. Many of the programs that have been identified as necessary to increase the knowledge in the area of PFM are not currently offered by KIPA.

Root causes

Lack of eligible lectures with both theoretical and hands-on experience available outside the government economic services. There is no organized capacity building in PFM in a systematic and sustainable manner.

Planned Activity Interventions

Activity	Indicator
Activity 1: Carry out a feasibility study on establishing appropriate institutional human capacity building infrastructure for PFM.	Indicator 1. Institutional architecture in place to deliver qualitative and adequate PFM training programs.
Activity 2: Development and delivering of PFM professional development Programs/Courses.	
Activity 3: Establish and deliver PFM professional development courses on a single on-line platform.	Indicator 2. Number of officials trained in the PFM area.

5 Institutional Architecture for Strategy Implementation

5.1 Public Administration Reform

PFM is one of the pillars of the PAR and the institutional structures for the implementation of the PFM reform strategy will be part of the PAR management structures.

The Council of Ministers for Public Administration Reform (CMPAR) is the main political/ministerial mechanism for managing and monitoring general PAR in Kosovo. CMPAR, chaired by the Minister of Internal Affairs, is the main structure responsible at the political/ministerial level for the strategic direction of the reform process, monitoring its implementation and serves as a forum for discussing and analysing progress and / or challenges, as well as proposing the changes needed for future reforms.

Regarding the Public Administration Reform Strategy (PARS) 2022-2026, the Ministry of Internal Affairs, the Coordination Group for PAR (CGPAR) respectively the Department for Public Administration Reform (DPAR), are primarily responsible at the political and technical level for strategic direction, supervision and coordination of the process according to the objectives, as well as for the management, monitoring and reporting of the reform process according to PARS.

After the recommendation of the Special Group of the PAR (May 2021) and the decision of the Government to consolidate the reforms of the three areas in a single PAR Strategy, the development of the strategy was done by the Inter-institutional Working Group (PARS WG). The new PARS is structured in four main priority areas:

- Policy Development and Coordination;
- Public Service and Human Resources Management;
- Provision of Services;
- Accountability and Transparency.

Whereas in the PFMS of the Republic of Kosovo 2022-2026, the MFLT, the Secretary General respectively the PFMCG are responsible for political/technical coordination, for Drafting, Reviewing, Implementation, Monitoring and Reporting of the achievements of objectives of strategy in the field of PFM.

Policy subjects	Lead Institutions	Strategic Policies
Policy planning and coordination	Ministry of Internal Affairs	PARS 2022-2026
Public service and human resource management		
Accountability and transparency		
Service provision		
Public Finance Management	Ministry of Finance, Labour and Transfers	PFMS 2022-2026

The PFMS was developed within the framework of a new concept for the entire strategic management framework approved by the Prime Minister of the Republic of Kosovo. According to this concept, the forthcoming NDS 2030 serves as the basic strategy from which derive the sectorial strategies which in fact implement the NDS 2030 through the cascade of top-down objectives. In line with the strategic planning, according to which the number of strategies should be reduced, PFMS 2022-2026 continues to be the strategic framework of the PFM pillar of PAR, covering also PIFC and Public procurement. As mentioned above, the strategic framework of PAR will be addressed through these two strategies:

- PARS 2022-2026, and
- PFMS 2022-2026

These two strategies cover the principles of public administration developed by the OECD/SIGMA which also serve as criteria against which PAR in Kosovo and all Western Balkan countries are evaluated. PFMS preparation was supported by the EU TA project in PFM implemented by GIZ International Systems and “HCDF for the SAA” project, implemented by the OPM and financed by the Luxemburg Government.

5.2 Monitoring and reporting of PFM strategy

The PFMS 2022-2026 has four Strategic Objectives, thirteen Specific Objectives, Indicators and Activities, which are detailed in the Action Plan covering period 2022-2024. Specific definition and method of measurement will be elaborated further in “Passport Indicator”. Passport Indicator will also include a risk assessment and management for reaching indicator for every objective.

As main indicators are linked with Annual Financial Report, the annual report on implementation of PFMS will be finalised in April of following year (n+1), evaluating implementation of the strategy based on achievement of indicators. Semi-annual reports will reflect implementation of Activities, by reporting trend of implementation and eventual delays, which requires corrective measures.

A specific objectives may contain more than one indicator, some of which are based on the indicators used by PEFA and SIGMA to assess the progress of reforms. All indicators have been developed by responsible structures in PFM, based on international and national reports and evaluations. The annual and semi-annual reports of PFMS implementation, after approval in CGPAR meetings, will be presented in PFM Dialog Meetings and communicated to the public on a regular basis.

In order to monitor implementation of the PFM Strategy, in addition to the technical Coordinator (MFLT Secretary General), the MFLT re-established a PFM Coordination Group. The PFMCG, consisting of all relevant actors, will continue to monitor and regularly report implementation of PFMS.

5.3 Medium-term review of PFM Strategy

The PFMS 2022-2026 and Action Plan 2022-2024 will be reviewed in 2024, covering period 2025-2026. The medium-term review will be based on the medium-term assessment of objectives, indicators and activities implementation, as well as national and international evaluations in the area of PFM.

The medium-term and final assessment of the Strategy will be focused on following aspects:

- Implementation of the Strategy and the Action Plan (effectiveness);
- Adaptation of interventions in order to achieve desired results and objectives (relevance);
- Adaptation and efficiency of PFM coordination structures (efficiency).

The process of assessments and reviews about the PAR Strategic Framework will be interrelated with external PAR reviews and assessments such as PEFA, SIGMA and assessments of other organizations.

Based on the experiences of negative impact of external factors in the strategy, such as Covid19 Pandemic and war in Ukraine, there might be a need for flexibility as per review of the strategy and action plan. This will enable unforeseen review resulting on continuation of credibility, relevance and achievement of strategic objectives. Internal and public consultations shall be part of the eventual unforeseen review.

6 Financial impact of PFM Strategy Action Plan 2022-2024

Below are presented the data related to the cost of implementing the PFMS for the period covered by the Action Plan 2022-2024. The mid-term revision of the PFMS for the period 2025-2026 will also include the cost of activities for the period in question.

6.1 General assessment of the cost of activities

The assessment of financial impact of strategy implementation is based on assessment of costs of implementation of Action Plan of the Strategy for the period 2022-2024. This approach was followed with the purpose of ensuring close links between planning of needs and resource's projection within the Medium-Term Expenditure Framework 2022-2024, and with the purpose of ensuring a realistic covering of the strategy with funds, by organically linking strategic planning with financial and budget planning, in the framework of the public finance reforms.

The assessment of costs of activities was carried out through detailed assessment of the process of potential costs for all necessary sub-activities or milestones that should be realized for implementation of each activity. This assessment was carried out by each institution that has the main responsibility for realization of foreseen activities. The total estimated funds for implementation of Strategy actions during the period 2022-2024 are foreseen to be about 16,405,700 euros.

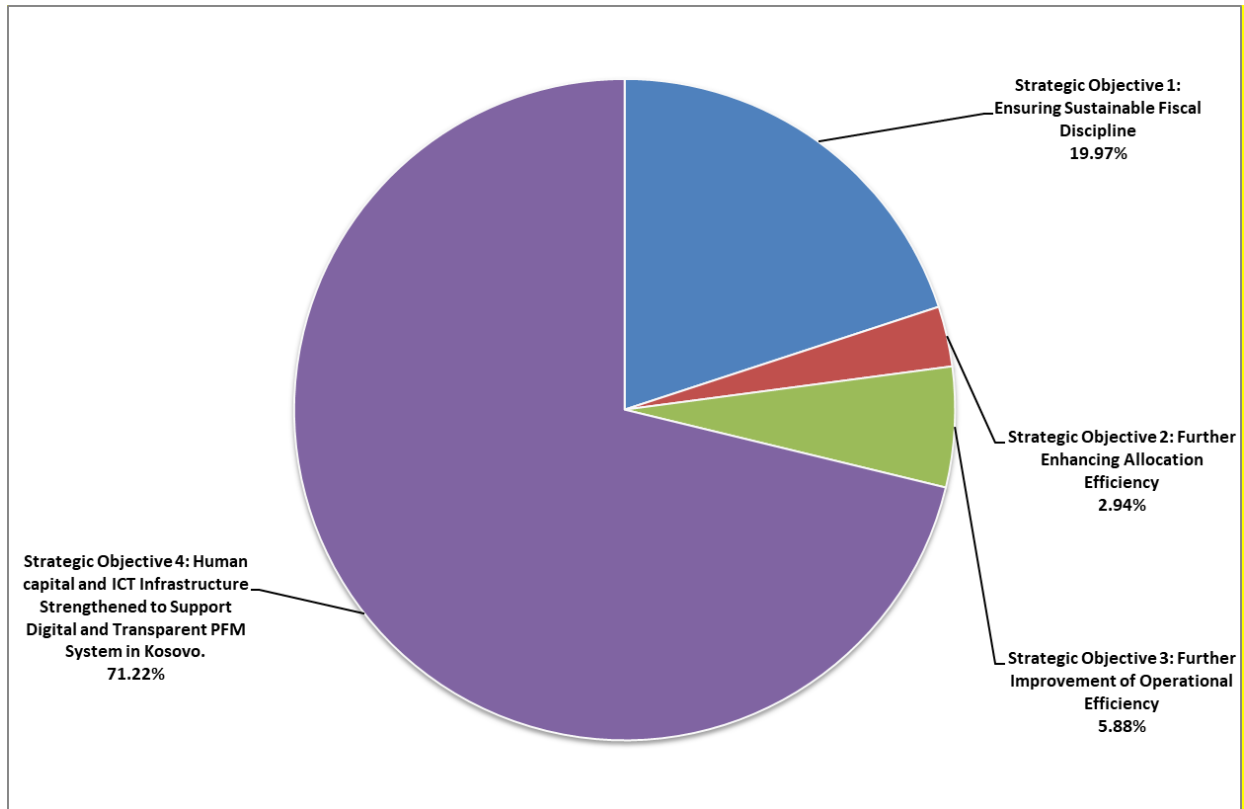
PFMS Strategic Objectives	Approximate cost 2022-2024
Strategic Objective 1: Ensuring Sustainable Fiscal Discipline	3,275,529
Strategic Objective 2: Further Enhancing Allocation Efficiency	482,624
Strategic Objective 3: Further Improvement of Operational Efficiency	964,173
Strategic Objective 4: Human capital and ICT Infrastructure Strengthened to Support Digital and Transparent PFM System in Kosovo.	11,683,374
Total	16,405,700

It should be noted that even though the estimated cost of the strategy is around 16,405,700 euros, its implementation over the years may have a financial impact that is slightly higher than anticipated, taking into account external influences such as recent inflationary developments, the cause of aggression Russian in Ukraine. Some of the activities foreseen at the time of drafting the strategy, it is difficult to calculate the exact cost of their implementation, as it is necessary to carry out evaluations or preliminary studies in order to further implement them. Such activities are mainly related to some investments in information technology systems, training programs.

Human Capital and ICT Infrastructure will be one of the most complex reforms to be undertaken in the coming years. These policies are also reflected in the costs necessary for the implementation of specific objectives and certain activities within the Strategy.

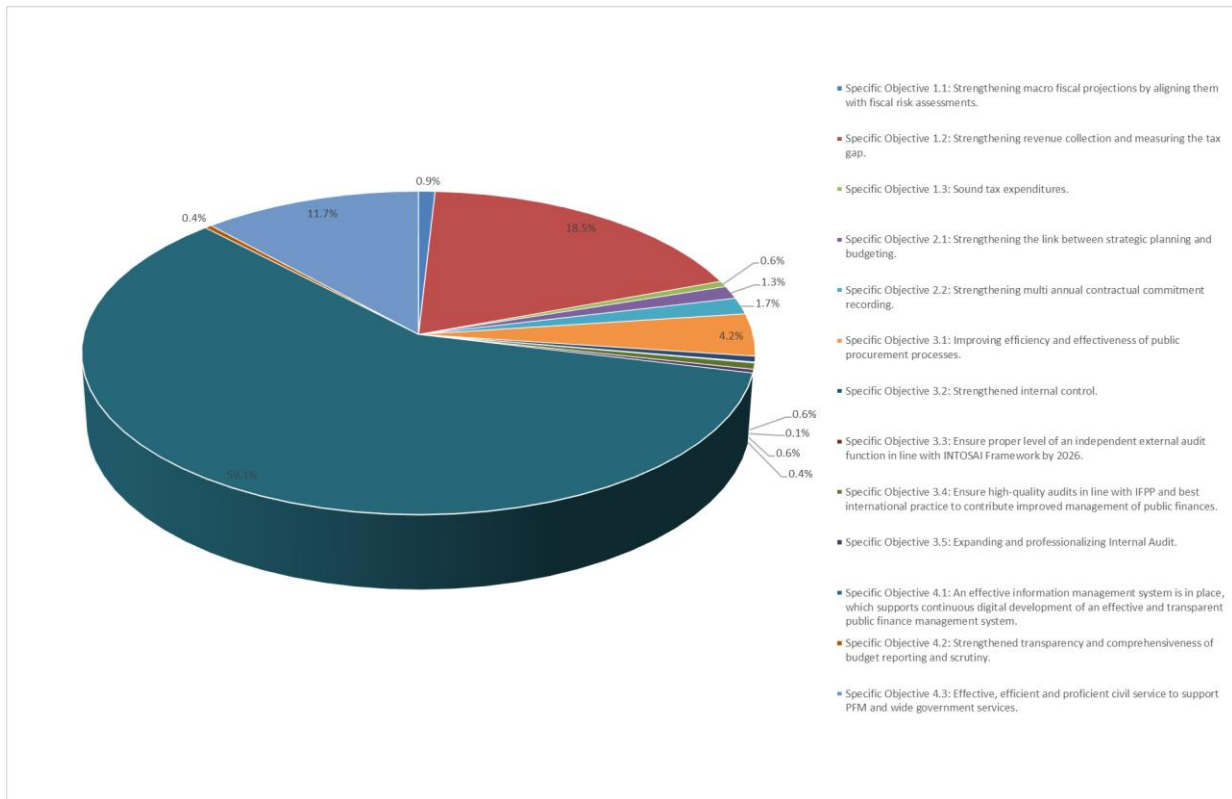
As presented above, most of the funding will need to be carried out in Strategic Objective 4, which is estimated to be about 71.2% of all strategy funding needs for the three-year period.

Chart 1: The specific weight of the cost of PFMS according to Strategic Objectives, in %



From the chart it can be seen that after Strategic Objective 4, is placed Strategic Objective 1: Ensuring Sustainable Fiscal Discipline with 19.97%, followed by Strategic Objective 3: Further Improvement of Operational Efficiency with 5.88% and Strategic Objective 2: Further Development Allocative Efficiency by 2.94%.

Graph 2: The specific weight of the cost of SMFP according to the Specific Objectives, in %



The strategy foresees that the reforms for the management of public finances will be realized through 13 Specific Objectives. Among the specific objectives with the greatest specific weight in the financing of the strategy are:

Specific Objective 4.1: There is an effective information management system, which supports the continuous digital development of an effective and transparent public finance management system, the cost of which represents a total of 59.1% of all strategy funding, or estimated at around 9.7 million euros. The largest amount of funds are foreseen for the Advancement of the Property Tax Management System (2 million Euros), the Advancement of systems for Pension, Social, War categories, etc. (1.5 mil. Euro) and Advancement of infrastructure security and access control (1.02 mil. Euro).

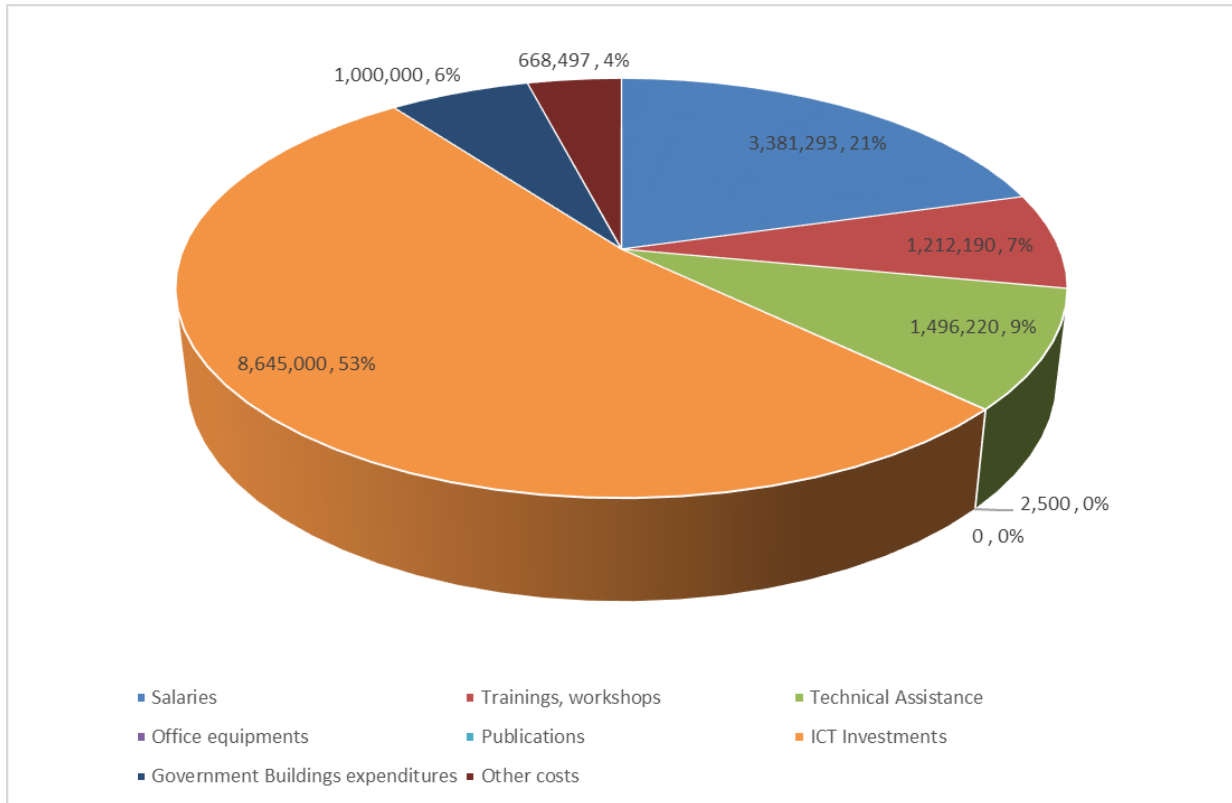
Specific Objective 1.2: Strengthening the collection of income and measuring the tax gap, as the second in terms of financial weight, the cost of the realization of which represents a total of 18.5% of the entire financing of the strategy, or estimated at the value of about 3 million euros.

The following table presents the anticipated funding needs of the strategy for each Specific Objective divided according to the nature of expenses.

Expenditures of Specific Objectives according to the nature of the expenses (economic classification-in EUR)

Specific Objective	Expenditure Categories of PFMS									
	Salaries	Trainings, workshops	Technical Assistance	Office equipment	Publications	ICT Investments	Government Buildings expenditures	Other costs	Total of Specific Objectives	% of Specific Objectives versus total
Specific Objective 1.1: Strengthening macro fiscal projections by aligning them with fiscal risk assessments.	82,500	24,500	31,900	2,500	0	0	0	2,772	144,172	0.9%
Specific Objective 1.2: Strengthening revenue collection and measuring the tax gap.	2,760,947	9,600	21,760	0	0	0	0	242,000	3,034,307	18.5%
Specific Objective 1.3: Sound tax expenditures.	4,600		92,450	0	0	0	0	0	97,050	0.6%
Specific Objective 2.1: Strengthening the link between strategic planning and budgeting.	56,000	0	155,360	0	0	0	0	0	211,360	1.3%
Specific Objective 2.2: Strengthening multi annual contractual commitment recording.	6,264	0	150,000	0	0	0	0	115,000	271,264	1.7%
Specific Objective 3.1: Improving efficiency and effectiveness of public procurement processes.	13,000	40,000	230,000	0	0	330,000	0	82,000	695,000	4.2%
Specific Objective 3.2: Strengthened internal control.	17,200	5,607	66,800	0	0	0	0	5,700	95,307	0.6%
Specific Objective 3.3: Ensure proper level of an independent external audit function in line with INTOSAI Framework by 2026.	0	12,603	0	0	0	0	0	0	12,603	0.1%
Specific Objective 3.4: Ensure high-quality audits in line with IFPP and best international practice to contribute improved management of public finances.	70,000	0	21,500	0	0	0	0	11,825	103,325	0.6%
Specific Objective 3.5: Expanding and professionalizing Internal Audit.	38,000	19,938	0	0	0	0	0	0	57,938	0.4%
Specific Objective 4.1: An effective information management system is in place, which supports continuous digital development of an effective and transparent public finance management system.	206,150	375,000	726,450	0	0	8,315,000	0	75,000	9,697,600	59.1%
Specific Objective 4.2: Strengthened transparency and comprehensiveness of budget reporting and scrutiny.	40,584	19,642	0	0	0	0	0	0	60,226	0.4%
Specific Objective 4.3: Effective, efficient and proficient civil service to support PFM and wide government services.	86,048	705,300	0	0	0	0	1,000,000	134,200	1,925,548	11.7%
Total according to expenditure categories	3,381,293	1,212,190	1,496,220	2,500	0	8,645,000	1,000,000	668,497	16,405,700	100%
% of category versus total	20.6%	7.4%	9.1%	0.0%	0.0%	52.7%	6.1%	4.1%	100.0%	

Chart 3: Specific weight of PFMS expenses according to economic classification (%)

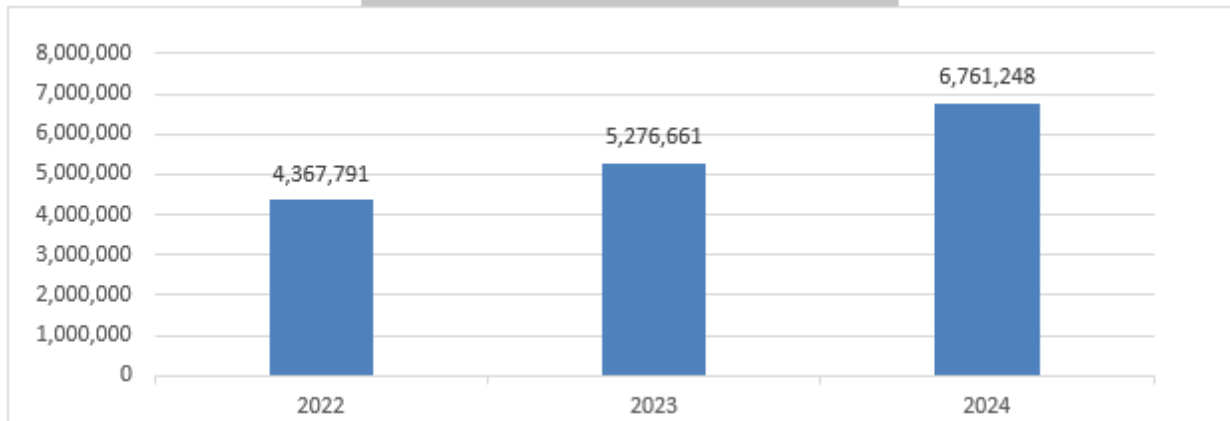


As can be seen in the table and graph above, the biggest weight will be occupied by Investments in ICT, which occupy about 8.6 million euros, respectively 53% of the total expenses. Salaries follow with around 3.4 million euros, or 21% of the general expenses.

6.2 Funding sources of the Strategy

It should be mentioned that, although the total estimated cost for the implementation of the activities is calculated for a medium-term period of 2022-2024, the need for financing will exceed this period and will extend to the years 2025-2026. The identification of expenses for the remaining period will be done in the case of the mid-term evaluation, if we do not have a drastic impact of external factors, in which case the cost of the PFMS will have to be re-evaluated. Also, the largest amount is foreseen for Investments in ICT (Specific Objective 3.1 and 4.1), which due to their complex nature and the need to implement tendering procedures, may exceed the three-year period. For this reason, this implies a possible financial impact that goes beyond the 2022-2024 MTEF period, and should be taken into account during the MTEF planning phase.

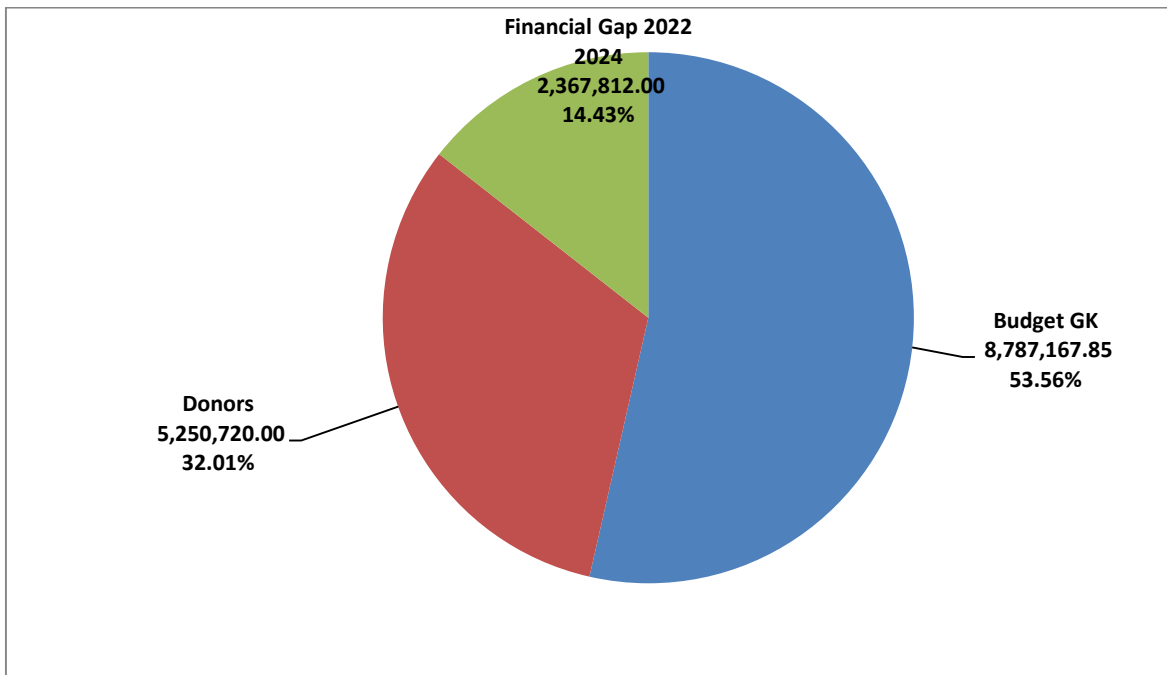
Chart 3: Financial needs by year



The relevant structures will plan the needs for budget financing through the relevant programs and budget lines, as part of the planning process of the Medium-Term Expenditure Framework, and the annual budget, taking into account the distribution of needs by year.

The most optimal and accurate calculation of funding needs, taking into account the necessary tendering or recruitment procedures in cases of anticipated needs for additional personnel, will help all the structures included in the strategy to be able to they also plan their budgets according to the years. This activity is expected to take place on an annual basis, as well as during the mid-term and final evaluation of the PFMS.

Chart 4: Funding Sources of the MFP Strategy



As shown in Graph 4 above, the Government of Kosovo will currently finance 53.56% of the cost

of the Strategy. Currently, about 8.7 million EUR, funds for the implementation of activities, are provided in the Budget of Kosovo. While the second financier is the donors who are contributing about 5.3 million euros, or about 32%, while the European Union, at the moment, does not have Sectorial Budgetary Support (IPA - SBS) as was the case in the past strategy PFMRS 2016- 2020. The eventual support of the strategy from the EU with SBS in the MFP, would help the implementation of the strategy by covering the financial gap and with technical assistance, this gap that for the years 2022-2024 has been identified in the amount of about 2.36 million euros, or about 15% of the general expenses.

The Government of Kosovo will also look at the possibility, together with the donor community, to use other possible sources for financing the activities resulting from the financial gap.

It should be emphasized that the cost of implementing the strategy is based on the detailed assessment of the needs for the realization of the plan up to the product level. But the real cost, influenced by external factors, can easily exceed the funding levels calculated at this stage. It should be mentioned that even the mid-term review may identify additional gaps for the period 2025-2026. The current EU Technical Assistance project "Support to the implementation of the PFM reforms in Kosovo" ends in January 2023. The extension of its implementation is important, as the major part of the project has remained unimplemented, would cover a part of the financial gap.

7 Risk reduction

The strategy covers Thirteen Specific Objectives divided into Four Strategic Objectives. The strategy, specifically the Action Plan 2022-2024 foresees a variety of sixty-six (66) activities for thirteen (13) specific objectives. Every activity faces its own challenges. To address these challenges, a risk assessment will be carried out for all Activities, Specific and Strategic Objectives.

At the general level of the strategy, the risks of external factors have already been identified, such as the war in Ukraine, or the eventual impact of the pandemic. After the approval of the PFMS 2022-2026 and AP 2022-2024, the PFM Coordinating Group will complete the Risk Analysis, including mitigating measures, as well as the Passport of Indicators.

8 Annex 1 – PFM Strategy Action Plan 2022-2024

Complete Annex 1- PFMS Action Plan 2022-2024 is attached as separate document.