



REPUBLIKA E SHQIPËRISE
MINISTRIA E FINANCËVE

Ministry of Finance

Government of Albania

Public Financial Management Strategy 2014-2020
2016 Monitoring Report

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List of Acronyms

AFCOS	Anti-Fraud Coordination Service
AFMIS	Albanian Financial Management Information System
AGFIS	Albanian Government Financial Information System
ASPA	Albanian School of Public Administration
BI	Budget Institutions
BoA	Bank of Albania
CHU	Central Harmonization Unit
DG	Directorate of Government
DIEPP	Department for Indemnification of Ex-Political Persecuted Persons
DMFAS	UNCTAD- Debt Management and Financial Analysis System
DOPA	Department of Public Administration
DTS	Donor Technical Secretariat
DU	Delivery Unit
EI	European Integration
EQA	External Quality Assurance
EPSAS	European Public Accounting Standards
ERP	Economic Reform Program
EU	European Union
FI	Financial Inspection
FMC	Financial Management Control
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GoA	Government of Albania
GFS	Government Finance Statistics
HRMIS	Human Resources Management Information System
HSC	High State Control
IA	Internal Audit
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPS	Integrated Planning System
IPSAS	International Public Sector Accounting Standards
IPSIS	Integrated Planning System Management Information Systems
ISSAI	International Standards for State Audit Institutions
IU	Institutional Unit
MEI	Ministry of European Integration
MOE	Ministry of Economic Development, Tourism, Trade and Entrepreneurship
MOF	Ministry of Finance
MTBP	Medium-Term Budget Program
NDSI	National Strategy for Development and Integration
NPEI	National Plan for European integration
OPM	Office of Prime Minister
OBL	Organic Budget Law
PAR	Public Administration Reform

PBG	Policy Based Guarantee
PEFA	Public Expenditure and Financial Accountability
PFIC	Public Financial Internal Control
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIM	Public Investment Management
PPA	Public Procurement Agency
SAI	Supreme Audit Institution
SECO	State Secretariat for Economic Affairs
SIGMA	Support for Improvement in Governance and Management
SOE	State Owned Enterprise
SPC	Strategic Planning Committee
TSA	Treasury Single Account

1. Executive summary and main highlights in developments over the past year

1.1. Main developments in the implementation of the PFM reforms

1.1.1. Key progress in addressing PFM weaknesses

The Ministry of Finance of Albania adopted a comprehensive Public Finance Management (PFM) reform strategy for 2014-20¹ and a relevant action plan. The overall objective of the PFM reform strategy is to achieve a better balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies.

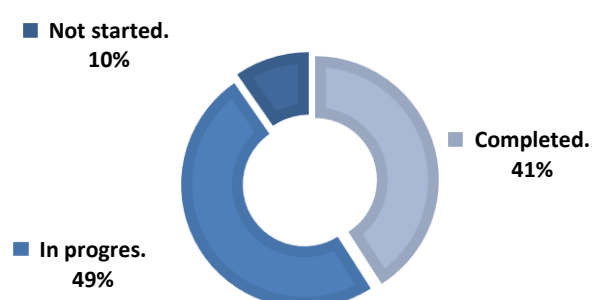
This is the second Public Finance Management annual monitoring report on Albania and it covers the period from 1 January 2016 to 31 December 2016. The aim is to have the reports reviewing roughly one year of reform efforts and to provide summary information to the PFM Steering Committee on the progress achievements and challenges towards meeting the objectives of the strategy. In addition, the report shall be ready in time to inform upcoming European Commission budget support payments in the relevant year.

The present report provides an assessment of the PFM eligibility criteria for the EU to provide budget support to Albania. The PFM eligibility criterion requires that there is a credible and relevant programme to improve public financial management and there is a satisfactory progress in the implementation of the programme to improve public financial management.

PFM progress is overall *satisfactory* according to our self-assessment. Based on the Indicators Passport developed during 2016, 11 out of 14 Overall PFM indicators are met, one indicator was not met, while for the remaining two the data are not available as of the reporting date which is 31 March 2017. Regarding the outcome indicators developed for each pillar, 21 out of 36 are met, 6 out of 36 are not met and 9 out of 36 are measured for the first time or cannot be measured until the reporting date (31 March 2017). Also, by the end of 2016, as shown below, 41% of the activities are completed, 49% of the activities are in progress and 10 % have not started yet.

Table 1: PFM Strategy

Status of the activities for the period 2015-2016



No of activities	
In Progress	41
Not started	8
Completed	34
83	

The Government of Albania has made a good progress in the implementation of its Public Financial Management Reform Strategy, the development per each pillar are listed below:

¹ <http://www.financa.gov.al/al/raportime/strategjia-per-menaxhimin-e-financave-publike-2014-2020>

1.1.1.1. Meeting objectives - Pillar 1

While not a substitute for a full-fledged fiscal council, the recently introduced provisions of the OBL *first* removed one of the main policy bias observed in the past: **overoptimistic forecasts and second put the public debt on a deterministic declining path.** By the end of 2016 the forecasted nominal GDP was lower than the respective forecasted nominal GDP in the World Economic Outlook and the Debt to GDP ratio for 2016 was reduced comparing to 2015. During the preparation of 2017 Annual budget some key measures such as increasing and streamlining the revenue base, accommodating the costs of structural reforms, and other measures were considered to further lower the debt to GDP ratio. Finally, the amendments to the OBL requires the Ministry of Finance to report among others to the Council of Ministers and to the Parliament within 6 months after the closure of each year on the consolidated budget execution and on public debt to ensure that fiscal consolidation is on track and the debt is reduced following the path envisaged in the same Law.

INSTAT has been working towards improving the quality and quantity of data necessary for GFS and ESA 2010 requirements, however, the institution was not able to transmit any tables to EUROSTAT by the year end 2016.

A new Fiscal Risk Unit to be in charge for risk management and for the preparation of the Statement of Fiscal Risk was established and fully staffed by October 2016, therefore the presentation of Statement of Fiscal Risk to the Parliament is delayed for 2017.

1.1.1.2. Meeting objectives - Pillar 2

In May 2016, the Government of Albania adopted the National Strategy for Development and Integration 2015-2020, NSDI II. Progress was made during 2016 to improve the alignment between the sector strategies and the MTBP as the ratio of total funds estimated in the sector strategies to total funding identified for corresponding sectors in the MTBF increased. The Prime Minister office drafted a new methodology aiming to standardise the process of monitoring and reporting the NSDI, sectors and cross cutting strategies.

The amendments to the Organic Budget Law as adopted by the Parliament in June, 2, 2016 are considered a very important milestone, to address many objectives aiming: (i) to provide some aspects of the fiscal rules in order to reduce the debt/GDP ratio creating in this manner conditions for long-term sustainability of public finances; (ii) restrict spending during election years; (iii) control over multi-year commitments; (iv) better harmonisation of public investments with budget preparation; and (v) ensure that proceeds from privatization can only be used for retiring public debt and/or capital.

MoF is working to strengthen its oversight and monitoring of the public investment spending, including SoEs and PPPs. Also a Public Investment Management Department was re-established within the MoF and with support from the EU/IMF, has started to prepare and approve criteria for prioritizing large public investment projects and to establish a unique pipeline of appraised projects. Moreover, as required in the OBL, MoF has started to give its *no-objection* for all the PPPs in pipeline that have a financial impact in the annual budget and has presented to the Parliament alongside the 2017 Annual Budget a summary of all the PPP.

The Arrears Clearance strategy, the OBL amendments and MoF instructions are instruments aiming to ensure that the multi-year commitments are within the three-year ceilings approved with the Annual Budget Law in the Parliament. In 2016, the deviation ratios between planned expenditures (revenues) adopted in the first year of MTBP 2016-2018 against total planned expenditures (revenues) of 2016 were within the targeted boundaries, respectively 0.4% (-0.05%). AGFIS was enhanced to have automated controls over these commitments and the multi-year commitment registry is now operational

(all old contracts are prioritised and broken down by years). In 2016, the difference between the amount committed on multi-year projects for the period 2016-2018 and the 2016 approved budget for these projects was reduced by more than 20% and according to the data extracted from AGFIS, only 0.21 billion Lek new arrears were created during projects implementations until 31 October 2016.

After the Territorial and Administrative Reform, a series of legal and institutional changes occurred: i) local elections took place in June 2015 and 61 Mayors took office in the newly constituted municipalities; ii) a new national crosscutting strategy on decentralization and local governance was adapted to provide more clarity on the Government's vision on decentralization and (iii) a new Law on Local Self-Governance was developed. The latter decentralized a number of important and costly functions to the new local government units which will have important implications on financial management as well. In this framework, the MoF started to work on a new Law "On Local Finances" and many consultations with various actors took place. Although the Law could not be approved as planned within 2016, with its approval and the preparation of the relevant by-laws afterwards, proper foundations for the establishment of a fiscal and budgetary discipline in all units will be created. The law is expected to be approved within the first half of 2017.

1.1.1.3. Meeting objectives - Pillar 3

The methodology used for forecasting the revenues by the Statistic and Macroeconomic Department at the MoF has improved. By the end of 2016, the deviation between revenues estimated in the Macroeconomic and Fiscal Framework and the collected revenues from both Tax and Custom Administration went down to -2% from -10.2% that was in 2013.

Key reforms in tax administration have advanced, including the implementation of new rules into the IT system and comprehensive organizational restructuring, with a focus on compliance-based risk management. Efforts are being made to broaden the tax base and improve tax compliance, while the property taxation reform has lagged. The design of the valuation methodology and the drafting of legislation for a valuation-based property tax were delayed. Staffing and capacity issues persist, and the tax administration is burdened with multiple reform initiatives.

During 2016, the General Directorate of Customs has unified a number of important rules and practices into a coherent set of guidelines and has organised workshops and consultative meetings with private business operators in order to eliminate the procedural ambiguities. No progress was made during 2016 to enable the use of a single guarantee for all the regimes covering many transactions and to ensure the prompt release of goods when the economic operator provides advance information.

AGFIS was rolled out to 8 additional budgetary entities reaching to 15 entities having full access to the system. Also, the MoF has progressed with the selection of the Company that will be in charge for expanding AGFIS into Albanian Financial Management Information System.

2016 Medium Term Debt Management Strategy, capacity building activities and Debt Department restructuring contributed to improve its performance. During 2016, the MoF responded very well to the need for servicing the current debt with the lowest cost subject to maintaining a prudent degree of risks exposure by (a) reducing the weight of the debt stocks that re-fixes the interest within one year over the total debt stock outstanding, (b) increasing days to maturity for domestic debts; and (c) keeping the primary fiscal balance positive.

The Public Procurement Agency work for amending the Public Procurement Law to foster the institutional independence of the Public Procurement Commission (PPC) lagged behind. Moreover, the performance of the Commission regarding the processing time of the complaints exceeded by far the institution target. According to the PPC, after its restructuring was approved by the Prime Minister in March 2016, the inspector's vacancies could not be filled in due time.

1.1.1.4. Meeting objectives - Pillar 4

During the implementation of the Strategy, progress was made to enhance the transparency and reporting of the government financial reports. The MoF has been working in several directions: (1) reported and published the Government Finance Statistics (GFS) prepared in accordance to 2014 IMF manual (2) increased the number of Budget Institution (BI) having access to AGFIS that facilitates the preparation of standard financial reports (the number of BIs having access to AFFIS went to 15 in 2016); and (3) improved the procedures and formats for in-year budget implementation reports for both central and local governments.

However, little progress is being made towards moving from modified cash basis of accounting to full accrual basis which if coupled with sufficient commitment control will eliminate any possibility for creation of new arrears. During 2016, a World Bank team started performing a GAP assessment between the current public sector accounting legislation and practices in place and IPSAS in order to have clear objectives before the project “Development of Public Sector Accounting” starts. The proposed project objective’s is to: develop a road map for public sector accrual accounting implementation according to International Public Accounting Standards.

1.1.1.5. Meeting objectives - Pillar 5

According to the General Directorate of Public Internal Financial Control (GDPIFC) at the Ministry of Finance the PFM reform implementation has greatly contributed to (a) increase the awareness at all the management levels on the role of Financial Management and Control in the public sector; (b) increase the usage of the FMC instruments; (c) enhance the professional capacities of internal auditors and financial inspectors; and (d) improve the methodology for monitoring the performance of public entities as a support for a more effective and realistic assessment of the performance of these units.

While the legal and operational framework for PIFC has become stronger, the GDPIFC due to limited number of staff, was not able: (a) to complete comprehensive reviews or provide in-depth guidance to public entities on FMC or IA units in budgetary institutions; and (b) to perform according to the plan the on-site monitoring on FMC implementation and external quality assurance of the Internal Audit Unit. Another difficulty encountered relates to the role of the IA which is not fully recognised by the management of public entities as often they are asked to carry out activities which are more akin to financial inspection.

1.1.1.6. Meeting objectives – Pillar 6

The HSC Law regulated some new ISSAI - based requirements such as financial audit, performance audit, continuous professional development programme for auditors and transparency and accountability. As a consequence, compliance audits weight decreased from 90% in 2014 to 78% in 2016 in favour of other types of audit such as performance audit (from 5% to 8%) and financial audit (from 1% to 5%) as compared to 2015. Capacity building and continuous professional development of audit staff was one of the strategic objectives of HSC during 2016 as well. 489 days of training on IT audit techniques were performed and every auditor received in average 27 days of trainings to help them to deepen their knowledge on the financial and performance audit and other specific audit areas. Audit reports are summarised quarterly and published on a regular basis on the HSC website. Also, HSC has increased the transparency of its activities during 2016 in the Albanian media by being more present with information and messages compared to previous years.

The rate of implementing HSC recommendations by the end of 2016 decreased to 50%, and this was also noted by the Parliament during the evaluation of the 2015 activities of the HSC. On its resolution dated 20.10.2016, the Parliament issued some recommendations aiming to strengthen the role

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of the HSC by setting up an effective mechanism for Parliament and the Government to follow up its findings, in particular (a) increase the cooperation with both the Government and the HSC in order to increase the general awareness about the necessity of following the HSC recommendations; (b) meet twice a year with the HSC to discuss about legislation improvements/changes if the recommendations suggest so; and (c) create a parliamentary sub-committee within the Economic and Financial Commission to systematically monitor the activity of HSC and the follow up of its recommendations.

1.1.2. Fiscal progress in 2016

Regarding fiscal progress in 2016 there are numerous quantitative measures that demonstrate both the relative success of the reforms to date, but also the significant challenges that the Government faces. The following tables provide a summary assessment of the government's key fiscal performance for the most recently completed fiscal year.

Out-turn of Budgetary Central Government Operations

	2014		2015		2016	
	Lek Million	% of GDP	Lek Million	% of GDP	Lek Million	% of GDP
Total revenues	366,721	26.2	379,206	26.4	404,972	27.0
Total expenditures	438,849	31.3	437,408	30.5	431,209	28.7
Current Account Deficit	(72,128)	(5.1)	(58,202)	(4.1)	(26,237)	1.7

Source : Ministry of Finance

The economic activity in Albania has continued to grow in the first three quarters of 2016. The latest short-term indicators signal ongoing moderate growth in GDP in the near term. The latest available macro-economic data for 2016 are as follows:

- GDP grew by 3.27% in the first nine months of 2016 comparing to the first nine months of 2015
- The unemployment rate decreased by 2.4% during the third quarter of 2016 comparing to the third quarter of 2015
- The current account deficit was improved by 1.7 % of GDP for the year 2016, compared to the year 2015, which was -4.1% of GDP.
- Foreign direct investment rose with 13% in the third quarter of 2016 compared to the third quarter of 2015, and for the first three quarters of 2016 FDI decreased by -3% compared to the same period of the previous year.
- For the period January 2016- January 2017 the average inflation rate was 1.4%, hovering below the Bank of Albania target.
- Exports of goods for period January- December in 2016 grew by 0.1 %, comparing to the same period of the previous year. Import of goods for period January- December in 2016 grew by 6.3 %, comparing to the same period of the previous year.

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The Ministry of Finance has the following projections for the main economic indicators for 2016 – 2020

	2016	2017	2018	2019	2020
	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Real GDP Growth	3.4	3.8	4.1	4.2	4.3
Nominal GDP Growth	4.7	6.3	7.0	7.3	6.6
Inflation (average)	1.3	2.3	2.7	3	3
Exports of goods and services %	6.9	7.1	7.4	7.6	7.8
Imports of goods and services %	-30.8	-31.2	-30.8	-29.5	-28.9
Current Account Deficit % of GDP	-2.4	-2.0	-1.8	-1.0	-0.6

Source: Ministry of Finance

2. Progress in improving public financial management

2.1. Introduction

This is the second Public Finance Management annual monitoring report on Albania and it covers the period from 1 January 2016 to 31 December 2016. The aim is to have the reports reviewing roughly one year of reform efforts and to provide summary information to the PFM Steering Committee on the progress achievements and challenges towards meeting the objectives of the strategy.

The present report also provides an assessment of the public financial management (PFM) eligibility criteria for the EU to provide budget support to Albania. The PFM eligibility criterion requires that there is a credible and relevant programme to improve public financial management and there is a satisfactory progress in the implementation of the programme to improve public financial management. It is apparent that progress in PFM areas is satisfactorily with several reforms progressing and continuing to be implemented.

2.2. The PFM strategy

To achieve a modern and efficient management of public finances Albania has adopted several instruments: legislation, culture changes and process reengineering, capacity building and IT-development. A summary of adoption of these instruments in **2015 and 2016** is given below:

<i>Legislative changes</i>	<i>Changes in processes and management culture</i>
<ul style="list-style-type: none"> 5 new Laws/or amendments to the existing laws were made during 2015 ("On Financial Management and Control", "On Internal Audit in the Public Sector", "Public Financial Inspection", "On Public Procurement" and "On the Organization and Functioning of the State Supreme Audit"). Important amendments to the OBL were made during 2016 with the Law no.57 dated 02.06.2016 "On Management of Budgetary System in the Republic of Albania"; Good progress is made during 2016 in finalizing the Law on Local finances 43 new decisions, guidelines, manuals, instructions were issued. 	<ul style="list-style-type: none"> A Twinning "On Implementation of a modern system for FMC and Public Financial Inspection in Albania" in place since 2014 was finalised in November 2016. 7 pilot entities are being assisted to implement FMC requirements; 191 Executing officers are trained on new FMC framework and 137 staff are trained on the "Managerial accountability" concept. Finalized the review of the existing institutional arrangements and internal organization restructuring at the State Supreme Audit, at the General Directorate of Customs, General Directorate of Tax and at the various departments at the Ministry of Finance, such as at the Public Debt Department and Budget Department.

<i>Development of a full-fledged IFMIS</i>	<i>Capacity development activities:</i>
<ul style="list-style-type: none"> • AGFIS is being rolled out to additional 10 BI reaching to 15 the number of BI; • Finalized the design of a new module at AGFIS to ensure multi-year commitment control for multi-year investment projects; • Improved IT systems and procedures at central and local levels at General Directorate of Customs. • Replaced the existing information system with a new and advanced system at General Directorate of Tax. Improved Risk Module at General Directorate of Tax; • New version of Debt Management and Financial Analysis System replaced the old version of it (DMFAS 6 replaced DMFAS 5.3) in use by General Public Debt Department 	<ul style="list-style-type: none"> • 7,122 staff were trained during the period 2015-2016. • Study tours and on the job training provided under the Twinning Agreement at the Ministry of Finance and HSC.

2.3. Roles and responsibilities for implementing and monitoring the strategy

While the general responsibility for the reforms implementation oversight rests with the Ministry of Finance, the PFM strategy involves the entire government sector, High Supreme Control and Parliament. Thus the overall responsibility for the successful implementation of the strategy is shared among all these public sector stakeholders.

2.3.1 Monitoring levels of the PFM Strategy

The PFM Strategy has a four-level PFM management and monitoring institutional set-up starting from political level and ending with the role of the lead institution – the MOF.

The **first level** consists of the lead institution, the MOF to co-ordinate the PFM across participating institutions and within MOF. The MOF is exercising this function through the recently established Directorate for Managing the Reforms in the Public Finance (DMRPF). The function of the first level is the operational management of the PFM strategy on a daily basis and was fully staffed by November 2016. The focus of work of the new directorate is to (a) provide logistical support to pillar managers to deliver on their assigned tasks, (b) create a forum for technical discussion and resolution of implementation and sequencing issues, (c) facilitate budgetary and financial support, (d) arrange training programs, and (d) prepare regular progress reports for managers, politicians and development partners.

The **second level** is the PFM Reform Technical Committee which consists on:

- The Secretary General of MoF
- Pillar and component leaders:

The Secretary General of Ministry of Finance chairs the Committee.

The **third level** consists of the Steering Committee which is established to ensure the effective implementation of the reform strategy and to facilitate coordination of efforts. The Steering Committee was established by the Prime Minister Order no. 202 dated 25.8.2014. The Steering Committee is chaired by the Minister of Finance, and its members are as follows:

- The deputy Minister of Finance;
- The deputy Minister of Social Welfare and Youth;

- The deputy Minister of the Ministry of European Integration;
- The Minister of State on Local Issues;
- The Head of the Public Administration Department;
- Two representatives from the Department of Programming, Development and Foreign Aid at the Prime Minister Office;
- The Head of the Procurement Agency;
- The Head of Public Procurement Commission

The **fourth level** is the Strategic Planning Committee (SPC). The SPC was established in 2006 as part of the Integrated Planning System (IPS) and is the main high level decision-making committee for strategic planning process in Albania. The SPC will be informed on the overall process of implementation of PFM reform through reports that will be submitted by the Steering Committee.

Two Steering Committees were held during 2016. *The first one* was held on March 23, 2016 with the main scope to adopt the Progress report on the PFM Strategy 2014-2020, its revised Action Plan 2015-2020, the draft Action Plan for 2016, and the reports on progress: regarding the implementation of a credible stability-oriented macroeconomic policy; on acting upon the audit findings of the external audit of the arrears clearance process; the implementation of the transparency roadmap. The Steering committee also indicated the need to prepare the Indicators Passport with the assistance of SIGMA which will serve as the basis to monitor the progress of the implementation of the Strategy. *The second Steering Committee* was held on 27 October 2016 where summary of achievements during first half of 2016 and the main challenges faced by the PFM system were discussed. The Steering Committee approved also some amendments to the 2016 Action plan and the Passport Indicators.

2.3.2 Approval of Indicators Passport

As envisaged in the second Steering Committee, SIGMA assisted the MoF to prepare the Indicators Passport (IP) to help in the monitoring of the implementation of the Strategy. The purpose of the IP is to provide the detailed methodological description of measurement for all Output-level indicators that are included into the Public Finance Management Strategy 2014-2012. The document includes two group's levels of indicators: (i) overall PFM Performance indicators, and (ii) the outcome indicators - that are developed for measuring progress against the set objectives of the Strategy. For each indicator the following elements are included:

- The source of information (data) that serves as the basis of measurement of the indicator;
- The institution responsible for gathering data for the measurement of the indicator (and providing the information for reporting/monitoring purposes);
- The frequency of the data publication (and/or data gathering);
- A methodological description of the measurement method, allowing for external checking and better understanding of how certain indicator values were developed;
- The baseline and target values.

During the preparation of the IP was found that some indicators cannot be measured unless some preliminary activities take place such as adoption of guidelines and instructions, additional prior data collection, etc, therefore the IP is supplemented with a separate document that lists the necessary steps as well as the deadline of their delivery as provided by the responsible institutions. In addition, as the methodology for some output indicators was further developed, re-measuring in 2016 was necessary, therefore in the current report, it was impossible to monitor the progress. The overall PFM indicators is in ANNEX 4, while the outcome indicators developed for measuring progress against the set objectives of the Strategy are shown under each pillar and are also summarized in ANNEX 5.

2.4. Other activities performed by MoF to strengthen the PFM implementation

2.4.1. First assessment of PFM systems in Albania at the sub-national level based on PEFA methodology

During 2016, five individual, municipal PEFA assessments were conducted simultaneously by teams of assessors contracted by SECO and USAID. The objective of the assessment was to gain a better understanding of the strengths and weaknesses of municipal PFM systems as a basis for discussing PFM reform priorities and possible areas of support to the newly restructured municipalities. In this context, the five municipal PEFA assessments will serve to:

- Provide government officials at both, central and local level with an assessment of PFM performance at subnational level and improve the understanding for the need of a well-functioning PFM system at local level;
- Provide information and inputs to the legal and regulatory reforms with regard to the subnational PFM area;
- Provide an analytical starting point for deeper support of PFM reforms at subnational level in Albania, possibly also informing future TA projects at subnational area;
- Provide opportunities for donor alignment and further use of synergies.

A dissemination event was organised jointly by the Ministry of Finance, SECO and USAID on 29 March 2017 to present the findings of the PEFA assessments and to have a constructive discussion among Municipalities, the MoF and development partners on reform priorities. Main findings of the assessment are summarised below:

- Aggregate Fiscal Discipline

Overall fiscal discipline is not a primary concern, even if a few issues need to be addressed. While own revenue collection contributes about 20% to overall municipal revenue (including therefore conditional grants from line ministries and the Regional Development Fund), it constitutes an important element in the social contract between citizens and the elected Mayors and Councils, and is a vehicle for creating fiscal space for improved service delivery. All municipalities studied are struggling to include realistic estimates in the approved budgets and to collect the amounts due. Underperformance on revenue collection forces municipalities to cut expenditure and reallocate budgetary resources. As expenditure commitment controls have not been effective, budget institutions have generated expenditure arrears on contracts which have already been entered but for which funds were no longer available after the budget reallocations. While the level of existing expenditure arrears is generally high, effective systems of monitoring developments in expenditure arrears are missing and pose a risk to fiscal discipline. None of the municipalities have developed medium term fiscal strategies that consider the contracting and repayment of loans for infrastructure development, expansion of own revenue mobilization for improved services and liquidation of existing expenditure arrears.

- Strategic Allocation of Resources

Although some municipalities already have a strategic development plan within which it seeks to plan the investments necessary for its economic and social development the absence of any assured funding from the state budget largely prevents the municipalities from implementing any medium-term prioritising their allocation of resources. A more predictable basis for the distribution of state budget funds is needed, which would enable the municipalities to manage improvements in their infrastructure more efficiently. At the same time increased attention would need to be paid to the planning of investments, so as to ensure that priority was given to projects which yield the greatest economic and social benefit from available funding. The nationally imposed limit on the potential revenues from annual property taxes, even if all

such revenues could actually be collected, restricts the range and level of services the municipalities can provide from own sources.

- Efficiency in Use of Resources for Service Delivery

The recent municipal reorganisation presents a challenge to all the new municipalities to adapt their organisations so as to provide services efficiently throughout their enlarged territories. This is only likely to be achieved over a period of time, and will be constrained by the availability of staff with the necessary qualifications and experience. The municipalities' internal audit functions are in their infancy and where internal audit is established its coverage has been limited. Recent changes in the responsibilities allocated to municipalities for the delivery of particular services represent a further challenge to the municipal organisation. The continuing shortage of resources resulting from the limited potential of local revenue sources, and limits on unconditional grants, constitute forces municipalities to making the best of a difficult situation. Combined with the lack of reliable medium-term estimates of state budget transfers, this short term approach is not compatible with efficient planning of service delivery over the medium to longer term. At the same time, criticisms by HSC of the fragmentation of contracts and the inadequacies of technical specifications on which to evaluate tenders suggest that municipalities may not be achieving best value of the resources available. Moreover, little attention has so far been paid to establishing and reporting on the standards of services to be delivered.

- Integrity of Financial Data

Major concerns regarding the quality of financial data were raised prior to 2015 and are likely to have multiplied with the transformation into the much larger new municipalities. Risks to data integrity stem from poor record keeping, lack of audit trails and use of multiple stand-alone IT systems to generate financial records, even if the use of the Treasury's centralized system for recording receipts and payments provide some assurance of the completeness and accuracy of the basic financial records.

2.4.2. Assessment of PFM systems in Albania at the national level based on PEFA methodology

The World Bank, following a request from the Ministry of Finance has initiated in December 2016 the process for conducting the third Public Expenditure and Financial Accountability (PEFA) at national level. The assessment will provide a snapshot of PFM performance and the foundations for reform planning, dialogue on the PFM Strategy and priorities and progress monitoring. The assessment is foreseen to be completed and presented to the Government of Albania in September 2017.

2.4.3. Public Investment Management Assessment

A Public Investment Management Assessment to assess the quality of public investment management practices was performed by IMF, under the EC project - Strengthening PFM in SEE during 2016. Main findings relates to the following:

1. Albania's public investment and resulting accumulated capital stock has been above average of Emerging and Developing Europe, though it has been very volatile and contributed to the country's indebtedness.
2. Despite heavy public investment, Albania still lags behind in infrastructure coverage and efficiency.
3. Most of Albania's public investment institutions are of medium and some of good strength "on paper", but much weaker "in practice".
4. Planning institutions for investment have significant gaps in design and have not delivered satisfactory fiscal results.
5. Systems for allocating funds for capital investment are assessed good or medium, with some implementation gaps.
6. The government's investment implementation institutions are rated medium on average but contain weaknesses in compliance and practical implementation.

The findings of the report were discussed with the relevant parties and actions with the timeline for their implementation are now part of the PFM Strategy Action Plan.

2.4.4. Country Fiduciary and Project Implementation Review

A Country Fiduciary and Project Implementation review is being conducted by the WB team and is expected to conclude in June–July 2017. The main objective of Country Fiduciary Assessment was, firstly, to assess the fiduciary risk inherent in each public finance management sub-system of a country, with a view to using it in implementing Bank-financed projects, and, secondly, to identify capacity building needs. As part of the fiduciary systems assessment, the World Bank team, reviewed many aspects of the procurement system such as legislative and regulatory framework, procurement operation and market practices, institutional framework and management capacity, electronic government procurement, follow up and monitoring and transparency of the public procurement system. Preliminary findings and recommendations we presented to the relevant parties in September 2016 and a report is expected to be issued within the first half of 2017.

2.4.5. The Principles of Public Administration SIGMA - Monitoring Report

Following the comprehensive *Baseline Measurement Reports*¹ prepared by SIGMA in May 2015 for Albania against *The Principles of Public Administration*², SIGMA has continued to monitor the progress of public administration reform (PAR) focusing on two Principles for the public financial management area. The main focus was on whether the Budget is formulated in compliance with transparent legal provisions and within an overall multi-annual framework, ensuring that the general government budget balance and the debt to gross domestic product ratio are on a sustainable path. The report covered the period from May 2015 to April 2016, highlighting the main developments, providing updated values for

the indicators relevant to the Principles analyzed and providing both short- and medium-term recommendations for reforms.

2.4.6. Tax Administration Diagnostic Assessment Tool

In the context of the IMF's technical assistance program to strengthen tax administration in Southeast Europe, an assessment of the system of tax administration of Albania was undertaken during the period of June 14–29, 2016 using the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT provides an assessment baseline of tax administration performance that can be used to determine reform priorities and, with subsequent repeat assessments, highlight reform achievements. This assessment mission was delivered with financial support from Switzerland's State Secretariat for Economic Affairs (SECO) and from the European Union (EU) by a team from the International Monetary Fund and the European Commission (EC). The weaknesses identified must be rectified through a mix of policy, law and administrative reforms. However, a fundamental shift in management approaches represents the greatest challenge going forward. Following the assessment, the GDT developed a new Tax Strategy for 2017-2021 which will lay the foundation for commencing work for improving the Tax administration performance.

2.4.7. Fiscal Risk Management, and Oversight of State-Owned Enterprises and Local Governments

At the request of the Minister of Finance, a mission from the IMF's Fiscal Affairs Department visited Albania in September 2016 to support the MoF in establishing the fiscal risk unit and advise the government on strengthening oversight of state-owned enterprises and local governments. The results of the assessment and the related recommendations were widely discussed and are part of the operations of various departments. The recommendation will establish (a) a systematic and comprehensive process to enable the identification, assessment, reporting, disclosure and mitigation of fiscal risks; (b) a clear ownership, governance policy framework, and monitoring mechanisms over State Owned Enterprises (SoE); and (c) a comprehensive and verified record for all arrears related to Local Government including the publication of a quarterly survey of arrears.

2.4.8. Amendments to the PFM Strategy Action plan 2015-2020 following these reports

Following all these assessments / reports issued, findings and recommendations were discussed with the relevant parties and new activities were proposed to be added to the PFM Strategy Action plan in order to address the findings. These improvements were necessary also to contribute to a better alignment of the institutions activities with the Action Plan of the Strategy. In particular, the new activities are grouped as follows:

- *Actions related to Strategic policy development and review (PILLAR 2).* New activities are (a) to strengthen the capacity and accountability of the Albanian administration to guarantee a sustainable role of the Government of Albania in the preparation for EU membership; and (b) to prepare a National Development Plan.
- *Actions related to PFM in Local Government (PILLAR 2).* The recently created department in charge for Local Government Finances aiming to strengthen the process of MTBP preparation at the LG level has introduced new activities: (a) establish a medium-term financial planning database for local governments; and (b) establish reporting and monitoring of arrears at the LG level.
- *Actions related to PIM (PILLAR 2).* A Public Investment Management Assessment (PIMA) to assess the quality of public investment management practices was performed by IMF during 2016. The findings of the report were discussed with the relevant parties and actions with the timeline for their implementation are now part of the PFM Strategy Action Plan: (a) strengthen the oversight of SOE

which are loss making, carry large fiscal risks, and require direct or indirect budget support; (b) have a clear Project classification to avoid unnecessary multiplication of projects; (c) strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals; (d) prioritization and selection of large investment projects is done in a systematic manner;

- *Actions related to Tax Administration (PILLAR 3).* Following TADAD performed by IMF and the need to further strengthen the tax administration, in December 2016, the GDT adopted the Strategy of the Tax Administration 2017-2021 and drafted the Action Plan anti-informality campaign. The STA aims to improve the services provided to taxpayers relying on voluntary compliance model. New activities introduced are: (a) assist the taxpayers to enhance voluntary compliance; (b) take actions to reduce informality; and (c) improve debt management.
- *Actions related to Custom Administration (PILLAR 3).* Following the GDC objectives to further strengthen its administrative capacity in line with the EU Customs practices, new activities are added: (a) implementation of the New Computerised Transit System, fully in line with EU – NCTS, and (b) implementation of the Integrated Tariff Management System fully in line with the EU – ITMS.
- *Actions related to High State Control (PILLAR 6).* The HSC has added some new activities in the PFM action plan: (a) introduce quality assurance activities over the audit; (b) develop professional expertise of the auditors of the State Supreme Audit during the audit of the procurement activities; and (c) audit manual amendments to include activities to detect corruption and fraud.

The Action plan of the PFM strategy for the period from 2017 to 2020 is presented in ANNE\$X 1 where all the new activities mentioned above are separately disclosed.

2.5. Visibility of the PFM strategy

The PFM Reform Strategy also serves as a policy dialogue framework for all donors and civil society actors active in the sector. On the 8 of April 2016 a meeting with the representatives from donors and CSO was held, which was followed by a more in depth discussion with CSO only (the second meeting was held at MoF premises on 30 May 2016). On November 14, 2016, Ministry of Finance, in the framework of the closing of the EU funded twinning project organised an event at the Faculty of Economics where Mr Arben Ahmetaj, Minister of Finance of Albania, Ms Romana Vlahutin, Ambassador of the European Union, Mr Johann Sattler, Ambassador of Austria, Mr Bernard Fitoussi, Ambassador of France and Mr Raymond Hill, European Commission, DG Budget and the twinning partners the Ministry of Finance of Austria and the Ministry for Economy and Finance of France attended the discussion on “*Responsible use of public funds*”. In the event many representatives from the CSO and University of Tirana were present as well.

2.6. Progress on PFM Reforms for 2016

2.6.1. Pillar 1- Sustainable and prudent fiscal framework

Update

The recently approved amendments to the Organic Budget Law, introduced fiscal rules which improved the Debt to GDP ratio for 2016 (71% in 2016 vs 72.7% in 2015). Also, the 2017 Annual Budget targeted a general government primary surplus of 0.7 % of GDP, bringing the public debt-to-GDP ratio below 70% of GDP. Some key measures that were considered during the Annual Budget preparation to further lower the Debt to GDP ratio in 2017 were: (a) increasing and streamlining the revenue base; (b) accommodating the costs of structural reforms, (c) saving the proceeds from any one-off revenues not factored in the 2017 and (d) having permanent savings on some recurrent expenditure.

The MoF forecasts of nominal GDP for 2016 was lower than the respective forecasted nominal GDP in the World Economic Outlook, which is in line with the provisions of the new amended Organic Budget Law. According to the latest International Monetary Fund (IMF) assessment of January 2016², the government's budgets have on average overestimated revenue by about 2 % of GDP, which has encouraged unrealistic spending plans that the government has had to cut back during the year. In order to avoid the risk of systematic optimistic biases in the forecasts of GDP and budget revenues, art.4/1 of the OBL as amended, established some legally binding rules, that the forecasted nominal GDP used in each budgetary planning phase should not be higher than the respective forecasted nominal GDP in the World Economic Outlook, published by the IMF.

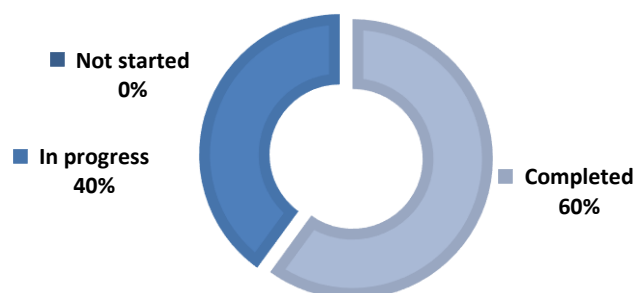
INSTAT has been working towards improving the quality and quantity of data necessary for GFS and ESA 2010 requirements, during 2016 INSTAT has worked on implementing experimental tables according to ESA2010 TP. However the first transmission of GFS statistics to EUROSTAT was not done until the year end 2016. To further improve the cooperation between MoF, INSTAT and BoA a memorandum of Understanding was finalized in 2016.

Finally, a new Fiscal Risk Unit to be in charge for accurately identifying the risks and their likely impact was established and fully staffed by October 2016, therefore the preparation of Statement of Fiscal Risk could not be prepared for 2017 Annual Budget.

² Albania Fiscal Transparency Evaluation, January 2016

Pillar 1: Sustainable and prudent fiscal framework

Status of the activities for the period 2015-2016*



No of activities	
In Progress	2
Not started	0
Completed	3

*The activities above are for the period 2015-2016 including those completed in 2015

2.6.1.1. Fiscal rules, forecasting and fiscal responsibility framework

Objective

Fiscal responsibility framework for fiscal management established in the legal framework

Outcome indicator

The Debt to GDP ratio planned for each budgetary year is lower than the ratio for the previous year, until the ratio of debt reaches and remains below 45% of GDP"

Indicator value

The target value for 2016 **was met**

Baseline (2013)	2016	2020
70%	71%	declining trend

Action 1: Design the fiscal rules to be reflected in the legal framework for fiscal management (*status-completed*)

Fiscal responsibility framework was established with the amendments of the Organic Budget Law approved in Parliament on 2 June 2016. The Ministry of Finance in close consultation with its international partners, including EU, IMF and WB, has included in the Organic Budget Law a set of fiscal rules which ensure a steady reduction of public debt to GDP toward the level of 45%, effectively and unambiguously. The amendments of the Law creates a credible fiscal rule aiming to keep the public debt level at an appropriate level in the context of the Albanian economy and it intensifies policy efforts to fiscal consolidation during economic upturns in order to build more buffers for slowdown periods. Another important provision in the law is the inclusion of contingency fund of at least 0.7% of total budget expenditures in the annual budget to mitigate risks steaming from potential volatility of exchange rate or interest rates. If these risks are not materialized, these contingencies will result in deficit and debt reduction on top of what initially targeted in compliance with the main fiscal rule. Finally, the amendments to the Organic Budget Law requires the Ministry of Finance to report among others to the Council of Ministers and to the Parliament within 6 months after the closure of each year on the consolidated budget execution and on public debt to ensure that fiscal consolidation is on track and the debt is reduced following the path envisaged in the same Law.

Objective

Sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives, underpin the budget

Outcome indicator

Forecasted nominal GDP used in each budgetary planning phase should not be higher than the respective forecasted nominal GDP in the World Economic Outlook, published by the IMF

Indicator value

The target value for 2016 **was met** as the forecasted nominal GDP for the year 2016 was lower than the respective forecasted nominal GDP in the World Economic Outlook

Baseline (2013)	2016	2020
14.3 mln Lek	-18.22 million Lek	≤ 0

Action 2: Design fiscal principles to be included in the legal framework for fiscal responsibility (status-completed)

The amendments to the Organic Budget Law, approved by the Parliament on 2 June 2016³ have included a set of principles and rules related to debt sustainability which ensure a steady reduction of public debt to GDP toward the level of 45%, effectively and unambiguously. The amendments are aiming to (1) establish legally binding procedural rules that will seek to eliminate the risk of systematic optimistic biases in the forecasts of GDP and budget revenues, forecasts that, in the past, have led to unsustainable expenditure budgets; (2) restrict spending during election years; (3) control over multi-year commitments; (4) create a better harmonisation of public investments with budget preparation; and (5) ensure that proceeds from privatization can only be used for retiring public debt and/or capital.

2.6.1.2. National Government Accounts

Objective

Independent statistical agency produces reliable and timely National Accounts

Outcome indicator

Compilation of Government National Accounts according to ESA 2010

Indicator value

The indicator **is not met** as no tables were transmitted to EUROSTAT during 2016.

Baseline (2016)	2016	2020
0%	0%	75%

Action 1: Strengthen INSTAT's capacity in the area of Government accounts (status-in progress)

The technical assistance to strengthen capacities in the compilation and dissemination of government finance statistics (GFS) data continued to be provided by the State Secretariat for Economic Affairs during 2016 as well. With the project completion, INSTAT will be in the position to closely comply with both the Government Finance Statistics Manual 2014 (GFSM 2014) and the European System of National and Regional Accounts (ESA 2010). To this end, an Working Group representing MOF, INSTAT and BOA has worked in finalising the list of Institutional Units (IU) classifications and a draft list for Public Sector units (Public Sector list for 2015 list is published in the

³ <http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/ligjet>

MoF website⁴). During September 2016, a Memorandum of Understanding aiming to defining responsibilities between INSTAT, Bank of Albania and the Ministry of Finance for data compilation, dissemination, transmission, sharing and exchange was signed by the parties. By improving the quality and quantity of data necessary for GFS, INSTAT should compile and transmit the GFS data according to the requirements of ESA 2010 transmission programme. However, due to delays INSTAT was not able to transmit until the year end 2016, any tables to EUROSTAT.

Currently, the SECO-funded project has moved to the second phase, whereby the objectives are significantly wider than the first phase of the project: “The project TA is geared to the compilation and dissemination of GFS in accordance with the guidelines of the Government Finance Statistics Manual 2001/2014 (GFSM 2001/2014) and the European System of Accounts 2010 (ESA 2010). The project aims to implement comprehensive reporting to the GFS Yearbook, the IMF-World Bank Quarterly Public Sector Debt (QPSD) Database, the *ESA 2010 Transmission Programme of Data*, and to fulfil *Excessive Deficit Procedure* (EDP) reporting requirements.” As part of the second phase, together with the IMF resident advisor, INSTAT has drafted a first work program to help guide the development of GFS during the duration of the project until 2019Q4. In addition, work has started to prepare the “Quarterly Public Sector Debt” reports that are sent to the World Bank / IMF QPSD database. On-going efforts are in place to improve compilation practices to comprehensively adhere to Public Sector Debt Statistics Database as well.

2.6.1.3. Fiscal risk management

Objective

Adequate capabilities to detect, monitor and propose measures to mitigate fiscal risks faced by the government

Outcome indicator

Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied

Indicator value

The indicator was **not met** as the Fiscal Risk Unit was completed by the end of October 2016.

Baseline (2016)

2016

2020

0%

0%

100% of categories are covered in the SFR

Action 1: Strengthen fiscal risk management and reporting within the MoF (*status-in progress*)

A Fiscal Risk Unit was created with the new organisation chart as of end of March under the Budget Directorate to analyse and monitor budgetary risks. The process of hiring two specialists and one head of the sector was finalised in October 2016, assistance under the IMF/EU project is expected to help with the development of the Unit during 2017. The main scope of the unit will be:

1. to periodically monitor and report the fiscal risks related to macroeconomic forecasting; central and local government debt and arrears; central government PPP, SoE and public investments; central government revenue collection; financial sector and central government restitution, regularly assessed by the respective departments within the MoF;

⁴ <http://www.financa.gov.al/raportime/thesari/gfs-ne-vite/institutional-organization>

2. to prepare the Statement of Fiscal Risks (SFR) including all the risks mentioned above. The SFR will be reported to the government and disclosed to the Parliament on annual basis from 2017;
3. to assess the SOE fiscal risks, while coordinating other departments within the MoF in the identification and assessment of the remaining fiscal risks falling within their area of coverage. The risks reporting frequency and formats will be included in the Fiscal Risks Methodological Guideline, which will be approved by the Minister of Finance.

In addition, following the “Strategy for the prevention and payment of arrears and its action plan”, the sector was fully engaged during the last quarter of 2016 in gathering, processing and reporting the new arrears of budgetary institutions. Moreover, the sector in close cooperation with the Directorate of Public Investments in MoF and all relevant LM's and pursuant to specific recommendations given by IMF in its recent mission, has been working on drafting a procedure for payment execution of arrears and activities to prevent the creation of new ones. Quarterly reports on arrears are published on the official website of MoF (January - October 2016⁵, while for the period November - 31 December 2016 the report will be published soon.

2.6.2. Pillar 2- Well integrated and efficient planning and budgeting of public expenditure

Update

The Government of Albania adopted in May 2016 the National Strategy for Development and Integration 2015-2020, NSDI II. Progress was made during 2016 to improve the alignment between the sector strategies and the MTBP as the ratio of total funds estimated in the sector strategies to total funding identified for corresponding sectors in the MTBF increased (**from 42% in 2014 to 53% in 2015***⁶). However, from the review of a number of strategies, although some were found to be fully aligned with the programmes planned in the MTBP, there were also cases where the alignment was minimal and the information about additional funding was not included in the financial estimations of both the strategies and the MTBP. During 2016, the Prime Minister's Office drafted a new methodology aiming to standardise the process of monitoring and reporting the NSDI, sectors and cross cutting strategies.

The Organic Budget Law introduced important changes to strengthen MoF oversight and monitoring of the public investment spending, including SoEs and PPPs. Following these legislative changes, a Public Investment Management Department was re-established within the MoF and work has started to prepare and approve criteria for prioritizing large public investment projects to establish a unique pipeline of appraised projects based on the approved criteria. Moreover, MoF, has given its approval for the current and future PPPs that have financial impact in the annual budget and presented with the annual budget relation to the Parliament a summary of all the PPP.

The Parliament has approved the MTBP 2017-2019 ceilings at program level making the ceilings for the three years binding. This change, that was introduced with the amendments to the OBL, helps not only to consolidate the medium term budgeting process, but also disciplines the forecast of contractual obligations, which extend their financial effects beyond a budget year. In 2016, the deviation ratios between planned expenditures (revenues) adopted in the first year of MTBP 2016-2018 against total planned expenditures (revenues) of 2016 were within the targeted boundaries, respectively 0.4% (-0.05%).

Following the implementation of the Arrears Clearance strategy, changes to the OBL and MoF instructions were introduced to ensure that the multi-year commitments are within the three-year ceilings approved with the annual budget Law in the Parliament. Also, AGFIS was enhanced to have

⁵ <http://www.financa.gov.al/al/raportime/shlyerja-e-detyrimeve-te-prapambetura>

⁶ The data for 2016 are not available yet

Public Finance Management Reform 2014-2020

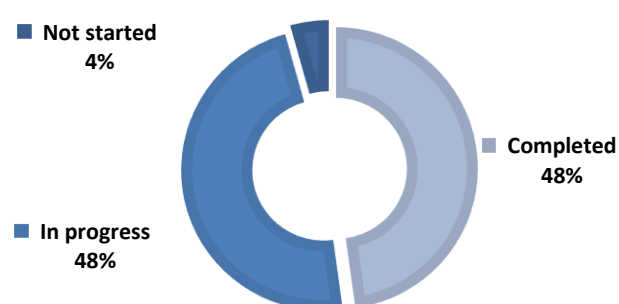
2016 Monitoring Report

automated controls over these commitments and the multi-year commitment registry is now operational (all old contracts are prioritised and broken down in years). By the year end, the amount committed on multi-year projects for 2016 as compared to the approved budget for those projects was reduced by 20% and according to the data extracted from AGFIS, only 0.21 billion Lek new arrears were created during projects implementations until 31 October 2016.

In order to have an effective and efficient financial management at the local governments as well, many efforts were done by the MoF to finalise the Law “On Local Finances”. Although the Law could not be approved as planned within 2016, with its approval and the preparation of the relevant by-laws afterwards, proper foundations for the establishment of a fiscal and budgetary discipline in all units will be created. The Law is expected to be approved within the first half of 2017.

Pillar 2: Well integrated and efficient planning and budgeting

Status of the activities for the period 2015-2016*



No of activities	
In Progress	11
Not started	1
Completed	11
23	

**The activities above are for the period 2015-2016 including those completed in 2015*

2.6.2.1. Strategic policy development and review

Objective

Prudent and stringent procedural framework for the preparation of the MTBP. MTBP framework that encapsulates the NSDI, government and sector strategic priorities for the medium term delivers desired results within sustainable financial resources for the three future years

Outcome indicator

Ratio between total funds estimated in the sectorial strategies and total funding identified for corresponding sectors within MTBP is growing

Indicator value

The indicator value **is met** for 2016 as the ratio between total funds estimated in the sectorial strategies vs total funds identified for corresponding sectors within MTBP is growing comparing to the baseline.

Baseline (2014)

42%

2016

53% for 2015*

2020

Growing trend

**The data for 2016 are not available yet*

Action 1: Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure (*status-in progress*)

The Government of Albania adopted in May 2016 the National Strategy for Development and Integration 2015-2020, NSDI II (DCM 348, dt.11.5.2016), which along with sector strategies, crosscutting strategies, master plans and action plans form the framework of a comprehensive strategic development for the country. The NSDI II defines the overall and specific objectives for the medium and long term, as well as specific targets for the development of sectors and areas, taking into account the real financial opportunities. The document also serves as a guide for monitoring the implementation of the Government's reforms, by setting benchmarks of achieving goals. By the end of 2016, 25 strategies part of NSDI II were adopted, while the remaining 5 are in their drafting stage and expected to be finalised in 2017.

Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process (*status-in progress*)

Several sessions organised by the MoF in cooperation with Department for Development and Foreign Aid (DDFA) and the Ministry of European Integration were held during May - June and September 2016 where line ministries and other budgetary institutions participated. The main scope was to ensure prudent and stringent procedural framework for the preparation of the MTBP and to consider during the preparation process the financial requirements of the Government Programme, the priorities as defined in sector and cross-cutting strategies, National Plan for European Integration 2015-2020, and National Strategy for Development and Integration 2015-2020. In this process, the DDFA evaluated also 25 MTBPs covering about 20% of the Budgetary Institutions that should implement fully/partially NSDI and sector strategies. In addition, progress was made to improve the ratio of total funds estimated in the sector strategies to total funds identified for corresponding sectors in the MTBF (from 42% in 2014 to 53% in 2015⁷). Though some of the analysed sectorial strategies were rather well-aligned with the programmes planned in the MTBP, for other strategies the coverage was minimal and comprehensive information about additional funding was not included in the financial estimations of the strategies neither to the MTBP.

During 2016, the Prime Minister's Office was assisted by OECD/SIGMA in drafting a new methodology aiming to standardise the process of monitoring and reporting the NSDI, sectors and cross cutting strategies. The methodology will lay the ground for increased transparency and accountability of public institutions, with respect to NSDI and sector strategies' implementation. In addition, during 2016, 6 strategy monitoring reports out of 24 were designed and prepared namely: (1) Business and Investment Development Strategy 2014- 2020, (2) Albania Public Finance Management Strategy 2014-2020, (3) National Cross-cutting Strategy for Public Administration Reform 2015-2020; (4) Cross-cutting Strategy for Anticorruption for the period 2015-202; (5) Cross-cutting Strategy for Decentralisation and Local Government 2014-2020; (6) National Cross-cutting Strategy for Jobs and Skills 2014-2020).

Action 3: Create the capacity to carry out in - depth sector reviews as needed (*status-in progress*)

The DDFA in order to strengthen the analytical capacities in numerical as well as competence terms, particularly in MoF but also in some key sector ministries has intensified its efforts in order to reduce the number of vacancies in the Finance, Strategic and Planning departments across the system. Also, several trainings were organized during 2016 by the Albanian School of Public Administration (ASPA) as listed below:

- "Management of integrated planning system" – three training courses, 69 civil servants participated;

⁷ The data for 2016 are not available yet

- "Logical planning framework" three training courses, 128 civil servants participated
- Different trainings were held by 3 employees from the DDFA at the Prime Minister office.

2.6.2.2. Capital investment planning, appraisal and inclusion in budget

Objective

A robust process is in place to technically and financially appraise all large public investment project proposals prior to their consideration by the Budget Committee of Cabinet for their inclusion in the budget. All public investment spending is routinely monitored and reported as part of the planning and budgeting process

Outcome indicator 1

Share of public investment projects are proposed based on the strategic priorities of the government

Indicator value

I_{SPP} is measured as a ratio of the investment projects included in the MTBP that reflect the strategic priorities (**I_{SPP}**) of the government presented in the NSDI and sector/cross sector strategies against total investment projects included in the MTBP. For the purpose of calculation of this indicator 9 key MTBP programmes, ⁸ will be assessed

V_{SPP} is the ratio between the total amounts of the projects proposed based on strategic priorities, against total capital investment budget.

These indicators were measured for the first time in 2016, therefore the performance will be measured starting from 2017.

Baseline	2016	2020
I _{SPP} 55%	I _{SPP} 55%	Growing trend
V _{SPP} 68%	V _{SPP} 68%	Growing trend

Outcome indicator 2

Actual disbursements for major investment projects compared to planned disbursements along with explanation of variations

Indicator value

The indicator for 2016 **is met**. The ratio measures the performance of the public investment projects and it is measured as the ratio between the total annual disbursement for investment projects above the 700 million ALL, versus the total amount of budget allocated in a given year for implementation of respective projects.

Baseline (2015)	2016	2020
95%	96%	97%

Action 1: Include a section in the OBL and submit to Parliament specific regulations regarding the preparation, appraisal and approval of government capital investment projects (*status-completed*)

Amendments to the OBL aiming to introduce principles to apply and the procedures to follow in preparing, appraising and approving major government capital investment projects were approved by the Parliament on 2 June 2016. A Public Investment Management Assessment (PIMA) to assess the quality of public investment management practices was performed by IMF, during 2016. The findings of the report were discussed with the relevant parties and actions with the timeline for their implementation are now part of the PFM Strategy Action Plan (please see ANNEX 1 activities under Pillar 2, 2.2 to 2.6).

⁸ The 9 MTBPs include: (i) Ministry Transport and Infrastructures: (1) Road Transport; (2) Water and Sanitation; (ii) Ministry of Health: (3) Primary Health Care Services; (4) Hospital Care Services ; (iii) Ministry of Education and Sports; (5) Basic Education (including preschool); (6) General Pre-University Education ; 4.Ministry of Agriculture: (7) Irrigation and Drainage Management; (8) Rural Development (including Agriculture Production, Agro-industry and Market etc) 5. Ministry of Environment; (9) Environmental Protection Programme

Action 2: Strengthen the fiscal oversight of PPPs and improve transparency in the documents submitted to the Parliament's approval during the budget process (*status-completed*)

The Organic Budget Law was amended in order to strengthen MoF oversight and integrate PPPs into the broader public investment monitoring framework. As such, art 4/2 of the Law, introduced three important changes: (1) MoF shall evaluate ex-ante and gives no-objection to all the concessionaire and PPP projects and any modifications, in case of their eventual implications individually and collectively in the budgeted expenditures, budget deficit, public debt sustainability and eventual contingent liabilities; (2) limits the overall amount of annual net payments of general government units to concessionaire or PPP contracts to 5% of actual tax revenues registered in the previous budget year; and (3) in the annual budget approved in Parliament, the ceiling of contracts as a percentage to GDP, for all existing concessionaire/PPP projects and for the ones newly contracted during the current year is also approved.

Following these legislative changes, for the first time the MoF has given no-objection for the current and future PPP that individually and collectively has a financial impact in the annual budget. Moreover, in the annual budget relation presented to the Parliament, a summary of all the PPPs including information on: (i) expected project lifetime; and (ii) spending appropriated in the budget year, was presented.

Action 3: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support (*status-in progress*)

The Organic Budget Law was amended in order to strengthen MoF oversight of SOEs as well by introducing new monitoring rules for “non general government units”, which benefit from budget funds and/or state guarantees. According to the art 4/2 of the amended Law, annual financial plans and quarterly financial statements of each non general government unit, shall be submitted to the Ministry of Finance. The FRU will assess the most significant SOEs from a fiscal risk perspective and include summary analysis in the fiscal risk statement.

Action 4: Have a clear Project classification to avoid unnecessary multiplication of projects (*status-in progress*)

Art 49 of the Organic Budget Law, as amended, introduced a definition of an investment project in order to rationalise project classification and avoid unnecessary multiplications of projects. The work to review and improve the classification of projects, distinguishing between capital purchases, small and large projects, and ensuring that all project costs are included under a unique project code is planned to start in 2017. The new classification will reduce the overall number of projects, and foster better alignment of public investment objectives with those of the MTBP, sector strategies and national strategy.

Action 5: Strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals (*status-in progress*)

The re-establishment of the PIM Department in the MoF provides the opportunity to strengthen its oversight and fiscal gatekeeper role regarding project appraisals. However, the positions of the Director of the Public Investment Management Department (PIMD) and two specialists are not filled - in yet, making difficult the fulfilment of the increased demands upon this department.

Action 6: Prioritization and selection of large investment projects is done in a systematic manner (*status-in progress*)

For the first time, Art. 21 of the OBL, as amended, have imposed some restrictions on budget allocations during the first year of the implementation of multi-year commitments. All the Budgetary

2016 Monitoring Report

Institutions shall not be allowed to allocate less than 20% of total amount of the projects in the annual budget. The PIM has initiated its work for preparation and approval of the criteria for prioritizing large public investment projects, drawing on the NSDI-II document, the IPS framework, and the recent Western Balkans SPP initiative and to establish a unique pipeline of appraised projects, including PPPs, based on the approved criteria.

Actions 7: Develop routines for and IT- support for the tracking and monitoring large investment projects (status-in progress)

After its establishment in 2016, the PIM department started also to prepare monitoring reports for large investments based on the data generated from AGFIS and the reports coming from the line ministries. As soon as an internal agreement is reached about the format and content of these reports, they will be published at the Ministry of Finance website. In addition, the monitoring section under the PIM department is planning to make full use of the “*Electronic register for public investment monitoring*” software after organizing large scale training to all the line ministries and other budgetary institutions.

2.6.2.3. Medium Term Budget Programme

Objective

Prudent and stringent procedural framework for the preparation of the MTBP. MTBP framework that encapsulates the NSDI, government and sector strategic priorities for the medium term delivers desired results within sustainable financial resources for the three future years.

Outcome indicator 2

Total planned expenditures (and revenues) for the MTBP adopted in year n /Total planned expenditures (and revenues) in year n in annual budget is 0%

Indicator value

This indicator is **met** because:

- (1) the deviation ratio between total planned expenditures adopted for the first year of the MTBP₁₆₋₁₈ against total planned expenditures adopted in 2016 Annual Budget is reduced to 0.4%.
- (2) the deviation ratio between total planned revenues adopted for the first year of the MTBP₁₆₋₁₈ against total planned revenues adopted in 2016 Annual Budget Law is reduced to -0,05%.

Baseline (2015)	2016	2020
-14%	0.4%	0%
-1%	-0.05%	0%

Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process (status-completed)

The amendments to the Organic Budget Law aiming to empower the Parliament to vote on and approve the MTBP ceilings at program level and to make the ceilings for the three years of the MTBP binding were approved by the Parliament on 2 June 2016. For the first time ever, the 2015 annual budget Law included also an estimation of budgetary ceilings on program basis for the period 2016-2017. This new procedure, continued as well in the 2016 and 2017 budget proposal and further, not only consolidates the medium term budgeting process, but also disciplines the forecast of contractual obligations, which extend their financial effects beyond a budget year. Doing so, each spending unit is forced to plan multi-year contracts at the level allowed by the budget ceiling defined for the next three years, in the annual budget Law. Progress is also made to require all the budgetary institutions that during the MTBP requests clearly show which funds are effectively already committed and which are new expenditure proposals under the ceiling.

2.6.2.4. Multi-year commitment controls

Objective 4

Medium term commitments are comprehensively controlled within limits set by Government and Parliament through the Budget and related laws, regulations and instructions.

Outcome indicator 1

The amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero

Indicator value

The indicator for 2016 is **met**, because the difference between the committed budget for multi-year projects and the total amount disbursed for these projects during 2016 was reduced

Baseline (2015)	2016	2020
967 million LEK	767 million LEK	Declining trend

Outcome indicator 2

For all the on-line BI, all major projects are pre-committed in the system based on estimated disbursement schedules approved in the Budget process, before procurement action commences

Indicator value*

The indicator is **not met** as the AGFIS and APP systems are not integrated yet to make sure that funds are pre-committed in the Treasury System (based on a pre-defined disbursement schedule) before the procurement process starts

Baseline (2016)	2016	2020
NA	NA	100%

Outcome indicator 3

No payment arrears are recorded on multi-year capital investment project activities' after 3 years of introducing commitment controls.

Indicator value

The indicator will start to be measured in 2019 for the first time, which is three years after the introduction of commitment controls into the AGFIS.

Baseline (2013)	2016	2020
NA	NA	0 Lek

*The indicator baseline and future targets values could not be defined without integrating APP with AGFIS.

Action 1: Introduce multi-year commitment control for multi-year investment projects (*status-completed*)

To guarantee full respect and control over multi-year commitments, in April 2016, AGFIS was enhanced to have some automated controls and to allow their disaggregation by individual years of allocation. The final goal is to eliminate every possibility for the creation and accumulation of new arrears not covered by the respective budgetary funds. In addition, art. 10 of the Law no 130 dated 15.12.2016. "On the Annual Budget 2017" approves the ceilings at the program level for current and capital expenditures and instructions are issued for those BI connected to AGFIS to enter all the existing multi - year contracts into the system.

Action 2: Tighten up the approval process for multi-year capital projects and include a statement of outstanding commitments in the annual budget documentation submitted to Parliament (*status-completed*)

Following the Arrears Clearance strategy and before amending the Organic Budget Law, the Ministry of Finance issued an instruction to all the BI (instruction no 7 dated 11.02.2015, "On the Standard procedures for defining ceilings for multi-year commitments") with the aim to standardise the procedures for management of multi-year commitment ceilings. Templates were

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also prepared by the MoF and distributed to all the BI to enable them to report on the multi-year commitments based on three years ceilings. However, in the framework of the changes introduced in the OBL, art. 40, new instructions were drafted by the Directorate of Analysis and Budget Programming at the MoF to ensure that the multi-year commitments of the BI are within the three-year ceilings approved with the annual budget Law and to make also mandatory the presentation to Parliament of the list of the outstanding commitments alongside other documentations of the annual budget. A progress report for 2016 “On the recommendations for the arrears clearance audit process” is prepared separately and sent to EU delegation.

2.6.2.5. PFM in local government

Objective

Prudent, effective, and efficient financial management of the local governments

Outcome indicator 1

Each report of external audit on the functioning of local self-government units should be available to the public

Indicator value

The indicator will start to be measured as soon as the new Law “On Local Finances” will be adopted by the Parliament

Baseline	2016	2020
NA	NA	100%

Outcome indicator 2

Increasing the share of investment expenditures in local budgets, compared with expenditures (more than 0%)

Indicator value

This indicator is measured for the first time by the end of 2016 and represents the average weight of the difference between the ratios of the share of outturn capital investment budget versus administrative expenditure, resulting for each of 61 municipalities.

Baseline (2016)	2016	2020
$R_{Total\ M} = -3.83\%$	$R_{Total\ M} = -3.83\%$	$R_{Total\ M} > 0\%$

Outcome indicator 3

Improve collection and administration of taxes from the municipalities after the new administrative territorial reform

Indicator value

The indicator for 2016 **is met**. This indicator measures the performance of revenues at the local level through: (1) the ratio of annual revenue outturn of local government vs total revenues of the government; and (2) the growth trend from previous year.

Baseline (2015)	2016	2020
$R_{LGR} = 3.04\%$	$R_{LGR} = 3.7\%$	Growing trend
$R_{LGRG} = -6\%$	$R_{LGRG} = 27.7\%$	Growing trend

Action 1: Draft, consult, and submit for approval the new law on the "On Local Finances" (status-completed)

After the Territorial and Administrative Reform, a series of consequent legal and institutional changes occurred: i) local elections took place in June 2015 and 61 Mayors took office in the newly constituted municipalities; ii) a new National Crosscutting Strategy on Decentralization and Local Governance has been formulated to provide more clarity on the Government's vision on decentralization and (iii) a new Law on Local Self-Governance was developed. The latter decentralized a number of important and costly functions to the new local government units which will have important implications on financial management as well. In this framework, a new Law "On Local Finances" is been prepared by a working group established by the Minister of Finance (order no 53 dated 26.4.2016). The main objectives of the Law are as follows:

- *Strengthening financial autonomy*, through the introduction of the principles of local fiscal autonomy; growth of the unconditional grant and its relation with a macroeconomic variables such as 1% of GDP, which is expected to significantly increase revenues, stability and predictability of funds available to local governments units; and sharing for the first time 2% of revenues from personal income tax (PIT) with the local government;
- *Strengthening fiscal discipline* by establishing principles, rules, procedures, consultation, approval, publishing, implementation, review of annual budgets and medium term budgets for local self-government units; by setting rules and procedures for managing situations of financial difficulties and insolvency;
- *Strengthening intergovernmental dialogue* by setting processes and instruments for consultation and dialogue between central and local government, in order to transfer competences and functions, funding sources and intergovernmental fiscal relations in general;
- *Increase transparency* through the involvement of the legal requirements for transparency and the need to involve citizens in the decision-making process of design, implementation and monitoring of documents of strategic planning, budgeting, and management of local public funds;
- *Unification* through the harmonization of processes and procedures for local budget and central budget and the drafting of the definitions of this law with other laws such as the Law on Budget System Management in the Republic of Albania, Law on Financial Management and Control.

The draft Law was designed with the assistance of the international partners, mainly USAID and SECO and was largely discussed with all relevant stakeholders in order to ensure that it has political support. The approval of the Law was postponed for the first half of 2017 as a necessity to better reflect and discuss comments received during the hearing sessions.

Action 2: Strengthen implementation of the new law and PFM practices (status- delayed)

Following the approval of the Law "On Local Finances" a set of by - laws is expected to be issued by the Ministry of Finance; therefore there are no activities under this action.

Action 3: Harmonize and further consolidate legislation which impacts both local government and PFM (status- delayed)

Following the approval of the Law "On Local Finances" an assessment of the current legislation impacting both local government and the PFM will be performed by the Ministry of Finance; therefore there are no activities under this action.

2.6.2.6. Budget Documentation

Action 1: Improve the information content and quality of local government budgets (*status - delayed*)

With the approval of the Law “On Local Finances”, the content and quality of local government budget will be improved; therefore there are no activities under this action.

2.6.3. Pillar 3- Efficient execution of the Budget

Update

The methodology used for forecasting the revenues by the Statistic and Macroeconomic Department at the MoF has improved. By the end of 2016, the deviation between revenues estimated in the Macroeconomic and Fiscal Framework and the collected revenues from both Tax and Custom Administration went down to -2% from -10.2% that was in 2013.

Key reforms in tax administration have advanced, including the implementation of new rules into the IT system and comprehensive organizational restructuring, with a focus on compliance-based risk management. Efforts are being made to broaden the tax base and improve tax compliance, while the property taxation reform has lagged. The design of the valuation methodology and the drafting of legislation for a valuation-based property tax were delayed. Staffing and capacity issues persist, and the tax administration is burdened with multiple reform initiatives. An annual report for 2015⁹ was prepared and published for the first time in the General Directorate of Taxation website during 2016, the same continued for 2016 as well. The main purpose of the Reports was not only to show the results and achievements, but also present the future challenges the administration will be facing.

By the end of 2016, the deviation between revenues estimated in the Macroeconomic and Fiscal Framework published at the beginning of the year and the collected revenues from both Tax and Custom administration went down to -2% from -10.2% that was in 2013.

In 2016, General Directorate of Customs (GDC) has unified a number of important rules and practices into a coherent set of guidelines and has organised workshops and consultative meetings with private business operators in order to eliminate the procedural ambiguities and to create a clear interaction framework between the private sector and its administration. No progress is made during 2016 to enable the use of a single guarantee for all the regimes covering many transactions and to ensure the prompt release of goods when the economic operator provides advance information.

As planned, AGFIS was rolled out to 8 additional budgetary entities reaching to 15 entities having full access to the system. Also, the MoF has successfully finalised the first stage of the procurement procedure for selection of the Company that will be in charge for expanding AGFIS into Albanian Financial Management Information System (AFMIS). Since AFMIS will integrate all the government systems into one and will have additional functionalities related to budgeting, planning and reporting a dedicated unit at the MoF will be established. Another important comprehensive automated system to support the Government of Albania in effectively managing external assistance is being implemented by the PMO office and it is expected to be deployed by the end of 2017.

2016 Medium Term Debt Management Strategy, capacity building activities and Debt Department restructuring contributed to improve the weight of the debt stocks that re-fixes the interest within one year over the total debt stock outstanding, to increase according to the plan the days to maturity for domestic debt and to have a primary fiscal balance positive in 2016.

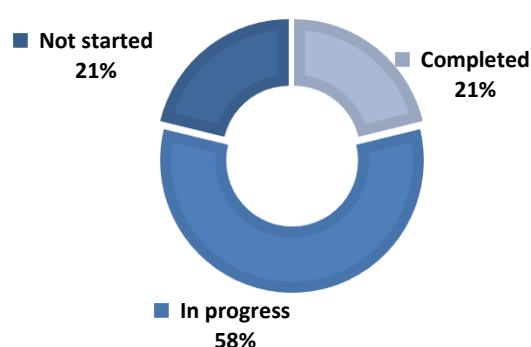
⁹ <https://www.tatime.gov.al/c/8/42/49/strategjia-dhe-raporte>

The Public Procurement Agency work for amending the Public Procurement Law aiming to foster the independence of the Public Procurement Commission by reorganising the entire structure, organisation and functioning lagged behind. In addition, after it's restructuring, the PPC could not fill in all the inspectors' positions during 2016, hence the complaints processing time exceeded by far the institution target and the benchmark indicator. It is therefore too early to see the expected benefits of the restructuring exercise. An annual report for 2015¹⁰ was prepared and published on the PPA website during 2016. As explained in the report the main challenges faced by the PPA in 2015, consisted in: (i) preparation and approvals of by-laws to reflect the amendments that were made to the PPA Law; (ii) efforts to encourage contracting authorities to use the framework agreement instead of the use of negotiated procedures without prior publication of contract notice; (iii) monitor the public procurement procedures and the use of e-procurement system; and (iv) organisation of capacity building activities for all the procurement officers engaged in the public sector.

There are no activities started under Asset Management during 2016

Pillar 3: Efficient execution of the Budget

Status of the activities for the period 2015-2016*



No of activities	
In Progress	19
Not started	7
Completed	7
33	

*The activities above are for the period 2015-2016 including those completed in 2015

2.6.3.1. Tax administration

Objective 1

Tax administration reforms increases tax bases, supports efficient tax collection, and reduces fraud

Outcome indicator 1

Enlarge the tax base by 30 % for employees and 20% for businesses in 2020

Indicator value

The target value for 2016 **was met** as the tax base for both employees and business increased

Baseline (2014)	2016	2020
507,891 employees	19%	30%
100,765 businesses	14%	20%

Objective 2

Effective, efficient, fair and transparent management of tax revenues

¹⁰ <https://www.app.gov.al/ep/AnalizatVjetore.aspx>

Outcome indicator 2

Increased tax efficiency as result of reducing administrative cost to less than 1%

Indicator value

The target value for 2016 **was met** as tax efficiency ratio improved compared to 2013.

Baseline (2013)	2016	2020
1,46%	1.44%	1%

*Outcome indicator 3**

Percentage deviation of actual collection is within defined % of/approved budget estimate for revenues

Indicator value

The target value for 2016 **was met** as the % deviation of actual collection vs planned revenues was reduced

Baseline (2013)	2016	2020
-10.2%	-2%	+/-3%

**The indicator measures the deviation of revenues arising from both Tax and Custom Administration*

Action 1: Reengineer and computerize core tax administration processes (*status- delayed*)

The Tax Administration Information System that is been used from 2015 by the Authority still needs some refining in order to make full use of it. Risk analysis module is at an early stage of development and intelligence gathering is mostly limited to internal data sources according to IMF. Currently, a wide range of internal data is accessed including data from income tax and VAT declarations, employer reports, cash registers and audit findings and the General Directorate of Tax (GDT) is working towards expanding the exchange of data with external sources in order to properly identify compliance risks in respect of the main tax obligations. To this end, the GDT has established communication protocols with the Ministry of Welfare, while the channels with Social Insurance Institute (SSI) and General Directorate of Customs (GDC) are not yet functional due to some problems encountered.

Action 2: Overhaul the tax administration's organizational structures and staffing at headquarters and at field level (*status- delayed*)

A function-based restructuring of GDT took place last year and a new organization chart was approved by the Prime Minister Order on 02.08.2016. The restructuring of the GDT was seen as a necessity especially after the implementation of the new IT system was finalized. Some of the most important changes were: (1) restructuring the large taxpayer office to provide specialization according to business sectors; (2) streamlining the regional and local office structure; (3) improving the taxpayer service function; and (4) conducting a comprehensive review of the audit function. With the new structure, new internal regulations and manual are drafted by the GDT and expected to be approved by the MoF during 2017.

Action 3: Implement compliance risk management of tax collection (*status- delayed*)

The GDT has continued to work towards further optimization of the risk module based also on the EU/OECD model for Compliance Risk Management (CRM). Based on this model, a more structured database for taxpayers is created and a wide range of risk parameters to "score" all taxpayers' risk potential is used by the Risk Management Department (RDM). During 2016, 10 additional rules were introduced in the risk module where the top highest-risk sectors appeared to be (1) medical and (2) trade services. As reported by the GDT, due to the utilization of the new IT system's risk module, major part of

the audits are selected centrally by the RMD, while the remainder of audit activities comprises a combination of activities suggested by regional offices based on their assessment of risk and audit activities that these offices are obliged to undertake (e.g., VAT refund and taxpayer deregistration audits). Furthermore capacity building activities with the assistance of IMF were held during the periods 18-29 January and 14-25 March 2016 where the main topic was “Operational implementation of industry based compliance campaigns”. In particular, during the first mission the Risk Department was assisted to prepare a pilot sector compliance project targeting a high-risk sector, and to provide recommendations on the implementation of a sector compliance project. The objective of the second mission was to deliver technical assistance on the design of a pilot compliance improvement project focusing on a high-risk sector, and to provide recommendations on the implementation of the project using modern compliance risk management (CRM) methods. In each mission, participated more than 30 members from Risk, Audit, Debt and Taxpayer Service departments.

Action 4: Strengthen audit capacity (*status - in progress/on track*)

Extensive work to re-design the overall audit approach starting from revising the policies, procedures and audit manuals as part of a move to risk-based was done by the GDT during 2016.

Training on the new audit techniques, on tax legislation and investigation, code of ethics and on risk approaches were organised at the Training Centre of Tax and Customs Administration (TCTCA) where 714 staff were trained. Also, specific trainings were held by USAID and IMF to GDT and Regional Directories staff as listed below:

- 5-9 December 2016 “Training on Improving Tax Audits for Large Taxpayers” by USAID;
- 15-19 February 2016 “Increasing the Efficiency of Tax Collection in Albania” by USAID;
- 23-27 May 2016 “Consultations to improve taxpayers service”, by USAID;
- 12-26 April 2016 “Tax Administration Debt Management” by IMF and in each training participated more than 30 staff members.

Action 5: Revise the system of the fiscal cash registers and encourage their use (*status- delayed*)

The DGT has intensified its work to encourage the use of fiscal devices, especially by taxpayers at risk in this area through: (a) intensification of fiscal visits; (b) organization of awareness raising campaigns; and (c) monitoring the Nexus system, for irregular taxpayers.

Action 6: Establish a fiscal cadastre of properties (*status- in progress*)

The plans of the MoF are to develop a fiscal cadastre that will enable the introduction of a valuation-based property tax. As a first step, the Prime Minister has appointed a high-level working group involving all relevant stakeholders to prepare an action plan and the methodology for the property tax valuation¹¹. Following the establishment of the Working Group, a Memorandum of Understanding (MoU) between MoF and OShEE (Electricity Power Distribution Operator) was drafted for sharing the Operator’s national property database. In addition, the MoF drafted four MoUs with the municipalities of Tirana, Durrës, Korça, and Fier in order to make possible the integration of the property tax bills with the electricity/water bills and to collect the tax based on the area/location the property is situated. Finally, another MoU was drafted with the MoF of Kosovo for sharing their experience with the fiscal cadastre system that Kosovo is using since 2012. A new property tax law will be submitted to Parliament in September 2017, and the valuation methodology will be adopted by the Council of Ministers shortly after the law’s is adopted.

¹¹ Prime Minister Order no.173, dated 9.12.2016

2.6.3.2. Customs management

Objective

Effective, efficient, fair and transparent management of revenues

*Outcome indicator **

Percentage deviation of actual collection is within defined % of/approved budget estimate for revenues.

Indicator value

The target value for 2016 **was met** as the difference between of the actual collection of revenues versus planned revenue was reduced comparing to 2015.

Baseline (2015)	2016	2020
-10.2%	-2%	+/-2%

**The indicator measures the deviation of revenues arising from both Tax and Custom Administration*

Action 1: Eliminate procedural ambiguities to create a clear interaction framework between the private sector and the Customs Administration (status- completed)

The work for elimination of procedural ambiguities to create a clear interaction framework between the private sector and the Customs Administration has continued in 2016 too. In this regard, GDC has unified a number of important rules and practices into a coherent set of guidelines, as below:

- Instruction No. 5 dated 31.03.2016 "On the implementation of the provisions related to violations in the field of customs and excise", which intends to include all instructions for customs violations, aiming the correct implementation and uniform treatment of customs violations.
- Manual approved with the instruction no. 2, dated 03.31.2016 "On risk management and control right based on risk analysis". The purpose of the manual is to enforce risk-based compliance audit and control.
- Instruction No. 8, dated 27.07.2016 "Goods weighing procedures at customs offices". The main aim of the instruction is to facilitate and ease the goods weighing control procedures especially for low risk profile companies.
- Instruction nr.10564, dated 22.04.2016 "On the simplified procedures, customs clearance on the premises of the economic operator";

On 13 December 2016, GDC in cooperation with the Ministry of Economic Development, Tourism, Trade and Entrepreneurship, has organized a workshop on "Regional Pan-Euro-Mediterranean (PEM) Convention on Preferential Rules of Origin". The main aim was to present some changes in the rules of origin within the framework of PEM Convention for interested economic operators and to ensure more accurate implementation of the rules of origin. Furthermore, many consultative meetings regarding the Custom Procedures are held at GDC with private operators to increase understanding, avoid ambiguities and to facilitate customs procedures. Finally, an INTRANET was established, for all the valuation customs officers, where all the Custom policies, procedures, manuals and instructions are published.

Action 2: Make service delivery at the border-crossing checkpoints more efficient (status- in progress)

In order to make more efficient the service delivery at the border-crossing checkpoints, the GDC has initiated the procedure for further improving Asycuda World IT System functionalities and security and has started a joint project with Kosovo Customs. The latter is enabling businesses of both countries to open a transit through the territory of Albania/Kosovo and close transit in

Kosovo/Albania by avoiding unnecessary crossings controls, reducing the duration of customs clearance procedures, and reducing the cost of business included in these transactions.

Action 3: Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance (status- in progress)

GDC has approved the instruction no. 06, dated 22.04.2016 "The simplified procedures, customs clearance on the premises of the economic operator" which introduces some simplified clearance procedures, access to centralised clearance procedure and online custom declaration possibility for the so-called Authorized Economic Operators (AEO). Before the operators are authorised by GDC, the latter will screen their requests and grant the authorisation if some conditions are met. During 2016, the GDC authorised 5 operators and is working to expand the number of operators to 7 in the first half of 2017.

Furthermore, during 21-23 June 2016 a workshop "On implementation of the EU *Acquis* related to AEO in the Western Balkans", was organized by DG TAXUD and DGC where the main topics discussed were: (a) steps required by GDC and business operators regarding the approval of AEO program, (b) a general view of the status of AEO operators in western Balkans, (c) presentation of AEO e-learning module and others. Finally, a working group at the GDC is been established to draft the by-laws needed in order to implement some provisions of the Custom Code that enters into force in June 2017 (par of these by-laws relates to AEO).

Action 4: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency (status- in progress)

Clear complain mechanism for the business operators exist and published in the GDC website¹² and the results are reported in STOP CORRUPTION portal on daily basis. During 2016, 62 cases were reported into the portal and 52 were resolved while the remaining is still under investigation.

Action 5: Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions (status - in delay)

There are no activities for this action during 2016.

Action 6: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis (status - in delay)

There are no activities for this action during 2016.

Action 7: Take measures to stamp out fraud (status - in progress)

During 2016, GDC reviewed its legislation framework in order to enforce the measures to stamp out fraud. Three instructions/guidelines were approved in this regard, namely: (a) instruction no. 2, dated 03.31.2016 "On the controls based on risk analysis"; (b) Risk Management Committee functioning methodology (approved with decision no 21187/1, dated 08.09.2016); (c) instruction no. 3, dated 05.04.2016 "For monitoring, recording and data management cameras system". Structural changes aiming to ensure horizontal integration of custom branches risk representatives with the Custom HQ were made during 2016. Measures are also taken to facilitate the legal trade by approving the criteria for selection of the Green Channel in the system and by separating the Green Channel from the Blue one in order to facilitate the implementation of the risk profiles in the system.

Action 8: Establishment of the National Valuation Database (status - completed)

¹² <http://www.dogana.gov.al/sq/node/210>

The GDC has finalized its National Valuation Database based on the World Custom Organization guideline.

Action 9: Improve transparency of the Albanian Customs activities (status- in progress)

In order to improve the transparency of its activities, GDC send to MoF for approval some organisational changes aiming the establishment of a separate structure in charge for managing the communication with the end-users and ensuring a continuous update of the published regulatory framework. Currently, the Legal Department is in charge to ensure the website is continuously updated with all the regulatory changes/amendments related to the Custom Administration.

2.6.3.3. Improve the coverage and functionality of AGFIS

<i>Objective</i>		
Fully transparent and efficient recording and control of the government' spending and accrued financial obligations		
<i>Outcome indicator 1</i>		
Accumulated arrears for central government measured as a percentage of total accrued expenditure at the end of the fiscal year.		
<i>Indicator value</i>		
This indicator is calculated for first time in 2016.		
Baseline (2016)	2016	2020
0.48%	0.48%	declining
<i>Outcome indicator 2</i>		
Public Administration employees registered in the HRMIS, in percentage		
<i>Indicator value</i>		
The target value for 2016 was met		
Baseline (2013)	2016	2020
0.5%	62%	90%

Action 1: Gradually make AGFIS available to all major budget entities (status - in progress/on track)

During 2016, as planned, AGFIS was rolled out to 8 additional budgetary entities (7 Line Ministries and the Municipality of Tirana) reaching to 15 entities having full access to the system. By the end of 2020, the MoF intends to roll out 100 BI into AGFIS.

Action 2: Configure AGFIS so as to allow tracking operational expenses by project code (status - in delay)

There are no activities performed under this action as changing AGFIS configuration to allow tracking of operational expenses by project code will be part of AFMIS Project.

Action 3. Perform an assessment on the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenses (status – not started/on track)

The assessment on the possibility to introduce an electronic invoice (e-invoice) is planned to start in 2018.

Action 4. Gradually integrate AGFIS and other government IT systems under AFMIS (status - in progress/on track)

MoF has finalised in December 2016 the first stage of the tendering procedure for selection of the company that will be in charge for expanding AGFIS into Albanian Financial Management Information System (AFMIS). AFMIS will be a web-based system, integrating the budget execution functions supported by the existing Albanian Treasury System (AGFIS) with additional functional modules to support budget preparation, including Medium Term Budget Planning, Public Investment Management, and related monitoring and reporting needs. AFMIS platform will also include the web portal, and data warehouse solutions, and be integrated with existing government systems such as Human Resources Management Information System (HRMIS), Integrated Planning Systems Information system (IPSIS); External Assistance Management Information system (EAMIS); Debt Management (DMFAS); and Public Procurement System. Meanwhile, the work for the establishment of interfaces of AGFIS with Tax Information System was finalized, while there are no new developments for interfaces with Custom Management Information System. Finally, a new version of Debt Management and Financial Analysis System (DMFAS) replaced the old version of it (DMFAS 6 replaced DMFAS 5.3) in use by General Public Debt Department (GPDD). The new version compared to the old one allows the management of both domestic and foreign public debt and was functional by the end of 2016.

2.6.3.4. Management of external funds

Objective

Effective and transparent use of the Government's management and control systems for all external funds, including EU funded projects under IPA programs in Decentralized mode.

Outcome indicator

Ratio of disbursements on EU and other donors funds presented in the monthly fiscal reports produced by the Treasury Department.

Indicator value

This indicator could not be measured as of the date of the reporting as the data on total donors funds disbursed during 2016 are expected to be ready by June 2017.

Baseline (2014)	2016	2020
10% donors financing	NA	Growing Trend

Action 1: Prepare and implement, in cooperation with donors, a program to progressively manage external funds through government systems (status - in progress/on track)

The Prime Minister Office has started the process of implementing External Assistance Management Information System (EAMIS), a comprehensive automated system to support the Government of Albania in effectively managing development finance and promoting accountable and transparent use of resources. EAMIS will serve as a reliable and credible source of information on overall donor, public, private and local investments in Albania's development and economic growth. According to the PMO, the system implementation will finish by October 2017.

2.6.3.5. Debt and cash management

<i>Objective</i>		
Debt sustainability analysis, as well as debt management and debt sustainability strategies based on it are prepared annually. Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania's credit rating		
<i>Outcome indicator 1</i>		
Stock of domestic debt re-fixed within one year		
<i>Indicator value</i>		
The target value for 2016 was met as the ratio between debt stocks that re-fixes the interest within one year over the total debt stock outstanding is reduced.		
Baseline (2015)	2016	2020
67.7%	62.6%	60%
<i>Outcome indicator 2</i>		
Increase days to maturity of domestic debt to 790 days.		
<i>Indicator value</i>		
The target value for 2016 is met as the days to maturity for domestic debt increased in 2016.		
Baseline (2015)	2016	2020
705 days	753 days	790 days
<i>Outcome indicator 3</i>		
Primary fiscal balance positive with a level of more than 2%		
<i>Indicator value</i>		
The target value for 2016 is met as the primary fiscal balance was positive in 2016.		
Baseline (2015)	2016	2020
-1.7%	0.7%	2%

Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management (status - in progress/in delay)

A review of current institutional arrangements, internal organization, and staff resources was performed at the General Public Debt Department (GPDD). Some changes to the work profile of the staff especially at the (a) agreements sector and (b) strategy and risk sector were introduced. Also, three additional members of staff were hired during 2016, reducing the number of vacancies from 6 to 3. Despite the continuous efforts to recruit new members for the vacant positions, the GPDD structure is not yet fully staffed, because in some cases the candidates were not eligible and their qualification does not met the minimum requirements set for the specific vacant position.

Action 2: Improve the debt management strategy, based on Debt Sustainability Analysis and Strategy (status - completed)

A permanent working group with members from GPDD and Macroeconomic Department from the MoF and Bank of Albania has updated the Medium Term Debt Management Strategy (MTDS) in 2016. The main purpose of the working group was to ensure that the MTDS is in line with fiscal and monetary policy. Moreover, since 2014, the GPDD has been assisted by the Financial Sector Reform and Strengthening Initiative, FIRST, a multi-donor grant facility, with the main objective to improve public debt management. In this context, in March 2016, a workshop "On advanced medium-term debt

management strategy and annual borrowing plan” was organized where 4 members of GPDD participated. The outcomes are listed below:

- awareness on debt management is increased;
- an exhaustive list of external and domestic risks was prepared;
- a better methodology for the preparation of the Debt Management Strategy was used.

Action 3: Improve liquidity forecasting (*status - in progress/in delay*)

In order to avoid the need to keep substantial idle balances in the Single Treasury Account and to effectively manage the volume of payments a “buffer” limit concept was introduced at the instruction to budget execution no 1 dated 15 January 2016. However, still work needs to be done to improve the cash flow forecasting capacities and cash management.

2.6.3.6. Public Procurement

Objective

A modern, sound and effective system for public procurement and concessions harmonized with the legal and institutional framework of the *Acquis* and EU standards and good practices

Outcome indicator 1

The public procurement review body operates a more independent, transparent, effective and efficient remedy system, confirmed with a score of 3 (out of 5) or more at SIGMA Baseline Measurement reports.

Indicator value

This indicator is not available because 2016 SIGMA Assessment of PAR is not finalised as of the date of the reporting.

Baseline (2015)	2016	2020
2	NA	Growing Trend

Outcome indicator 2

The percentage of cases when the review body exceeds the legal maximum processing time is below 10%

Indicator value

The indicator **is not** met for 2016 as the processing time of the complains increased

Baseline (2013)	2016	2020
39.6%	72%	Declining trend

Action 1: Strengthen the legal and institutional framework for public procurement(*status - in progress/on track*)

The Public Procurement Agency (PPA) has continued to work to further strengthen the legal and institutional framework for public procurement. The PPA main activities in this direction are listed below:

1. The PPA is drafting the amendments to the Public Procurement Law (PPL) aiming to foster the independence of the Public Procurement Commission by reorganising the entire structure, organisation and functioning. The PPA is being assisted in this process by SIGMA and the EU delegation;
2. The PPA is also working on some other amendments to the PPL and the related by-laws aiming mainly to improve the terminology used in order to add more clarity to some provisions of the Law that resulted ambiguous to the contracting authorities and/or economic operators;

3. The PPA in collaboration with Ministry of Defence is working to draft a new law that relates to defence and security procurement in order to align as much as possible with the EU directives namely Directive 2009/81/EC). The new Law aims to bring more clarity on the defence and security procedures especially regarding aspects which are currently non-regulated by any legal act such as, type of procedures, the review and monitoring system;

Regarding the reengineering the Electronic Procurement System, the procurement procedure has been finalised and the contracted company is working on the development the new software. The reengineering process will consist in the improvement of the e-system by adding new functionalities to it and also by establishing the CPV codes and a Business Continuity procedure. These changes will have a positive impact on the data structure and overall capacity of the e-system, transparency and automation of procurement processes. The improved system is expected to be fully operational by the end of the first half of 2017.

A restructuring of the Public Procurement Commission (PPC) started following the Prime Minister order no 35 dated 1.03.2016. Unfortunately, the structure could not be entirely filled in during 2016, hence the PPC could not perform its activities according to the requirement. As a result, the percentage of cases when the review body exceeds the legal maximum processing time went to 72% (below 10% shall be according to the Law). An annual report for 2016 was prepared and published on the PPC website during 2017¹³ where the activities and challenges of 2016 were described and objectives of the Commission for the future were defined.

Action 2: Establish mechanisms to control the availability of funds prior to procurement (*status -in delay*)

There are no actions taken to integrate the PPA system and the AGFIS in order to control the availability of funds prior to procurement.

2.6.3.7. Asset management

Objective

Complete asset registry including values and depreciation rules according to national standards

Outcome indicator

Public assets are recorded into the AGFIS at least for 5 budget institutions

Indicator value

The indicator **is not** met as no assets are recorded into AGFIS during 2016

Baseline (2014)	2016	2020
0	0	5

The Financial Management and Control Harmonisation department at the MoF will prepare the methodology for asset valuation and its action plan in the context of the upcoming WB project “Development of Public Sector Accounting”. The methodology will serve as the basis for preparation of the assets inventory for both general and local government. Therefore, as the above project implementation was postponed for 2017, all the activities related to assets management are delayed.

¹³ <http://www.kpp.gov.al/ppadv/AnnualReports.aspx>

2.6.4. Pillar 4- Transparent government reporting

Update

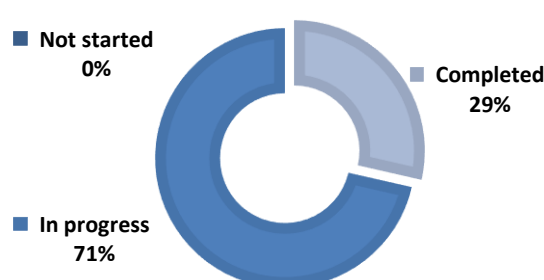
Government Finance Statistics (GFS) according to 2014 IMF manual for FY2015 were prepared and published in the Ministry of Finance website during the second half of 2016. The MoF is been assisted by the IMF's Statistics Department in the framework of SECO - funded GFS project. According to the IMF experts, considerable work has been done since the last mission of May 2015 on improving the stocks and flows for accounts payable. However, further work needs to be done to finalize the accounts payable figures, namely to clarify the stocks and flows for the taxation authorities.

The Ministry of Finance being in charge for the preparation of the Annual Consolidated Financial Statements of the Government is taking some important steps to (1) improve the public sector accounting standards by introducing and implementing International Public Sector Accounting Standards (IPSAS) and (2) increase the number of the Budgetary Institution having access to AGFIS. Regarding *the first one*, during 2016, a World Bank team started performing a GAP assessment between the current public sector accounting legislation in place and IPSAS in order to have clear objectives before the project "Development of Public Sector Accounting" starts. The proposed project objective's is to: develop a road map for public sector accrual accounting implementation. On *the second one*, the number of Budgetary Institution having access to AFFIS increased from 4 in 2014 to 15 in 2016 and the ratio of budget institutions already using the system versus the total budget institutions, increased from 8.5% in 2014 to 11 % in 2016. Increasing the number of Budget Institution having access to AGFIS will facilitate the preparation of standard financial reports according to the new Accounting Standards.

Work has also been done to improve the procedures and formats for in-year budget implementation reports for both central and local governments. Following the amendments of the OBL, the Department of Budget Management lead the process of the preparation of the guideline "On the standard procedures for monitoring the budget of the central government units". The main scope of the guideline was to determine the procedures and reporting timeline that all the general government units need to follow during the budget performance monitoring process. Moreover, the newly created Department for Local Government has been working in improving the planning and reporting format for the Local Government Units and prepared and published for the first time quarterly budget monitoring reports for the Local Government.

Pillar 4: Transparent government reporting

Status of the activities for the period 2015-2016*



No of activities	
In Progress	5
Not started	0
Completed	2
	7

*The activities above are for the period 2015-2016 including those completed in 2015

2.6.4.1. Accounting

Action 1: Prepare financial reports as per the ESA 2010 integrated government finance statistics manual (status - in progress/on track)

Government Finance Statistics (GFS) according to 2014 IMF manual for FY2015 were prepared and published in the Ministry of Finance website during the second half of 2016.¹⁴ Also, statistical tables and other government financial data and information have been provided to INSTAT as an input for the production of financial reports following *European System of Accounts (ESA 2010)* framework.

Under this context, a mission from the IMF's Statistics Department visited Tirana during May 23 - June 3, 2016. The main objective of the TA mission was to (1) assess the progress made in the GFS compilation environment in Albania since the previous mission during May 11–22, 2015, particularly in the classification of institutional units (IU) and the compilation of debt data based on the *GFS Manual 2014 and the ESA 2010* framework; (2) assist the authorities in compiling the register of public sector units for reviewing public sector debt statistics data, and in efforts at improving their coverage; (3) review existing GFS data and identify ways in which it may be enhanced; and (4) provide formal and on-the-job training on selected GFS issues. The mission gave several presentations in order to build capacity for the MoF, INSTAT and Bank of Albania representatives: (i) on the relationship of the GFS and the System of National Accounts (SNA)/ESA and how the GFS can be used to produce SNA aggregates; (ii) on financial accounts and how they were developed in Iceland from 2010 and onward; and (iii) on the purchasing power parity (PPP) methodology. The mission also presented the main features of the new Organic Budget Law in Iceland that was implemented in the beginning of 2016, and how it uses the GFS framework and tables for its main presentation of the budget which emphasizes a general government view as well as a public sector view.

According to IMF experts, considerable work has been done since the last mission of April 2015 on improving the stocks and flows for accounts payable. However, further work needs to be done to finalize the accounts payable figures, namely to clarify the stocks and flows for the taxation authorities. When considering the availability of complete public sector debt data for Albania, more work is required in the area of extra-budgetary accounts and that of accounts for the public corporations sector.

¹⁴ [http://www.financa.gov.al/files/userfiles/Thesari/GFS_ne_Vite/GFS_2015/914GYQ14_2015_\(1\).pdf](http://www.financa.gov.al/files/userfiles/Thesari/GFS_ne_Vite/GFS_2015/914GYQ14_2015_(1).pdf)

Objective

Accounting and reporting is done in compliance with IPSAS. Improvement of Financial Reporting Standards and the Quality of Financial Reporting through increase of professional capacities and the IT infrastructure.

Outcome indicator 1

100 Budget Institution of General Government shall be able to execute their budget and perform financial reporting through AGFIS up to 2020.

Indicator value

The indicator for 2016 **is met** as all the target values for 2016 have had a growing trend. Target values are: (1) Number of BI accessing the Treasury system; (2) Ratio of budget institutions already using the system vs the total budget institutions; (3) Amount of budget monitored by BI using AGFIS.

Baseline (2014)	2016	2020
$I_{ACCESS} = 5$	$I_{ACCESS} = 15$	100 BI
$I_{AGFIS} = 8.5\%$	$I_{AGFIS} = 11\%$	Growing trend
$I_M = 16.5\%$	$I_M = 58\%$	Growing trend

Outcome indicator 2

Presentation of financial statements as per IPSAS framework by 2020

Indicator value

The indicator **is not met** as the World Bank financed project “Development of Public Sector Accounting” has not started in 2016 as initially planned.

Baseline (2014)	2016	2020
$I_{IPSAS\ CA} = 0$	$I_{IPSAS\ CA} = 0$	Growing trend

Action 2: Implement IPSAS (status –in progress / in delay)

During 2016, a World Bank team performed a GAP assessment between the local accounting standards and International Public Sector Accounting Standards (IPSAS) in order to have clear objectives before the project “Development of Public Sector Accounting” starts. The proposed project objective’s is to: *develop a road map for public sector accrual accounting implementation and to support the early stages of this reform, including building essential technical skills*. The project is expected to achieve the following results which are aligned to the Albania PFM Strategy (2014-2020).

- Development of a national guide which will include institutional arrangements and long term action plan for transition from the existing public sector accounting and financial reporting framework, in alignment with the development of treasury system (AGFIS) into AFMIS.
- Presentation of financial statements in accordance with selected IPSAS standards.
- Improved quality of accounting, statistical and financial reporting evidenced by the PEFA assessment;
- Improved technical capacity of the Financial Reporting Unit of the MOF (in charge of Public Accounting rules implementation) and Central Harmonization Unit (in charge of Public Accounting methodology) in improving the quality of public sector financial reporting in accordance with international standards.

- Development of a sustainable public sector accounting qualification compatible with international good practices; and improved understanding and application of relevant accounting standards by practitioners and public sector auditors.
- Greater awareness of the benefits of improved public sector accounting and financial reporting by stakeholders (government officials, politicians, media and civil society organizations).

In addition, art.61 of the OBL as amended, gives to Board of Public Internal Financial Control the authority to approve the standards for the public accounting and reporting, in accordance with the accepted international standards.

Action 3: Capacity building and ensure sustainability (status – not started / in delay)

No activities have started yet, as the capacity building is foreseen to be part of the World Bank project mentioned above.

2.6.4.2. Financial and performance monitoring and reporting

Action 1: Improve procedures and formats for in-year budget implementation reporting (status – completed)

Following the amendments of the OBL with the Law no. 57/2016, the Ministry of Finance started the preparation of the relevant by-laws. The Department of Budget Management lead the process of the preparation of the guideline "On the standard procedures for monitoring the budget of the central government units" which was approved by the Minister of Finance on 17.11.2016.¹⁵ The main scope of the guideline was to determine the procedures and reporting timeline that all the general government units need to follow during the budget performance monitoring process. Also the new guideline defined: (1) the role of the Ministry of Finance during the monitoring of budget execution and financial performance objectives of relevant programs and products; (2) the timing of reports preparation and publication; and (3) form and content of the monitoring report. According to the guideline, systematic collection and analysis of information to track the progress of program implementation against pre-set targets and objectives will serve to give information on where a policy, program or project is at any given time (or over time) relative to respective targets and outcomes. These reports will continue to be produced and published on each Line Ministry website on a quarterly and annual basis. Meanwhile, the Ministry of Finance will analyse those reports and prepare its remarks/recommendations/suggestions, which will be officially submitted to the respective LMs.

Action 2: Improve formats for a comprehensive government yearly budget execution report for local government units (status –in progress /on track)

During 2016, a new department to deal with Local Government issues was established within the Budget Department. The newly created Department, has been working in improving the planning and reporting format for the Local Government Units (LGU) as well. Moreover, quarterly budget monitoring reports for the local government were prepared for the first time by this department and published on the MoF website¹⁶. However, with the approval of new Law "On local Finances" within the first half of 2017, by - laws, regulations and instructions will be prepared aiming to further improve and standardise the reporting by LGUs.

¹⁵ http://www.financa.gov.al/files/userfiles/Buxheti/Udhezime/Udhezimi_nr.22_date_17.11.2016_-_Per_Procedurat_Standarde_te_Monitorimit_te_NJQQ+_Shtojcat.pdf

¹⁶ <https://drive.google.com/file/d/0B6GisBHW-C8gbUp6dzBXWGHMb1U/view>

Action 3: Improve access to data on the government's finances and operations (*status –in progress /on track*)

The Ministry of Finance is been assisted by BOOST initiative, a World Bank - wide collaborative effort, to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability. The appeal of the BOOST approach is that it provides user-friendly platforms where all expenditure and revenue data can be easily accessed and used by researchers, government officials and ordinary citizens to examine trends in allocations of public resources, analyze potential sources of inefficiencies, and become better informed about how governments finance the delivery of public services. Efficiency gains associated with the Albania BOOST deployment are listed below:

- Enhance fiscal transparency and budget analysis;
- Increase budget reliability;
- Efficient controls of expenditures and efficient management of liquidity;
- Increase of management of public finances in the local government units.

During 2016, after the raw data were send to BOOST consultants, merging, cleaning, and labelling according to Albania's budget classification were performed. Further the data were aligned to BOOST template with standard headings and the final database in an Excel Pivot Table were presented to MoF staff. According to the Department of Business Development the database of BOOST matches with revenue and expenditures data of the MOF, therefore it is expected that within the first half of 2017, a "User's Manual" for expenditure and revenue database will be prepared by BOOST and formal training will be conducted by MoF officials on the application usage.

Referring to the latest update of the *Open Budget Survey 2015* conducted by IBP¹⁷ in April 2016, Albania produces and publishes 7 of 8 key budget documents classified as indispensable in the context of transparency. The only document that was not published was the mid-year report which could not be prepared as the amendments to the OBL that makes the publication mandatory entered in force in June 2016. A more detailed report on the 2016 Budget transparency is prepared by the MoF.

In addition to the above efforts, the "Transparency portal" on Local Finances¹⁸ and the Ministry of Finance website were enriched to include information about (a) the legislative framework governing LGU (b) MTBP 2017-2019; (c) 2017 Annual Budget as approved by the LGU councils; (d) fiscal packages; and (e) reports on arrears for all the LGU.

¹⁷ International Budget Partnership

¹⁸ www.financatvendore.al

2.6.5. Pillar 5- Effective internal control

Update

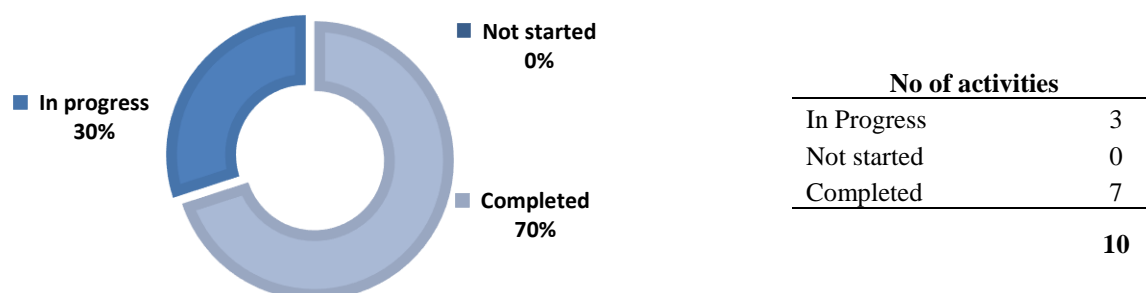
A Twinning project between Ministry of Finance of Austria and Ministry of Economy and Finance of France, on the “Implementation of a modern system for Financial Management and Control and Public Financial Inspection in Albania” which started in September 2014 was closed in November 2016. The Twinning project was financed by EU under IPA 2012 and the specific objective of the project was the implementation of a modern system for the FMC and Public Financial Inspection in the main public institutions in Albania. According to the General Directorate of Public Internal Financial Control (GDPIFC) at the Ministry of Finance the PFM reform implementation has greatly contributed: (a) to increase the awareness at all the management levels on the role of Financial Management and Control in the public sector; (b) to increase the usage of the FMC instruments; (c) to enhance the professional capacities of internal auditors and financial inspectors; and (d) to improve the methodology for monitoring the performance of public entities as a support for a more effective and realistic assessment of the performance of these units. Finally, aiming to create a pool of experts in the public sector, many *train the trainers* activities have been performed during this period, such as (1) “On financial reporting” (16 trainers), (2) “On change management” (12 trainers) and (3) “On the internal auditors” (14 trainers).

While the legal and operational framework for Public Internal Financial Control and Internal audit has become stronger, and the implementation of the FMC instruments is improving, the Department for Harmonisation of the Public Internal Financial Control is still facing many challenges. With only thirteen staff to review 120 annual FMC reports and 135 internal audit reports by public entities the Department is unable to complete comprehensive reviews or provide in-depth guidance to public entities on FMC or IA units in budgetary institutions. Moreover, on-site monitoring on FMC implementation and external quality assurance of the Internal Audit Unit could not be performed as planned due to lack of staff.

The targets towards having a well-functioning and efficient IA function in the public sector are being met during 2016; but still the skills of the internal auditors in the public entities are limited. As specified in the Functional Review conducted by World Bank's Governance Global Practice, this is also linked to the fact that the management of public entities does not fully recognize the concept of internal control. Consequently, they do not have a clear view of the role of IA and there are often asked to carry out activities which are more akin to financial inspection. This focus on compliance with rules, rather than a service function which supports the development of organizations, is typical of many countries in the region and it will take time to change the approach within the public sector. Comprehensive training and sustained capacity development will be required over the medium to long term. Finally, the Public Inspection Department has performed 22 inspections during 2016 to 35 public entities where irregularities in the use of public funds and lack of managerial accountability were found.

Pillar 5: Effective internal control

Status of the activities for the period 2015-2016*



*The activities above are for the period 2015-2016 including those completed in 2015

2.6.5.1. Financial Management and Control at Public Institutions

Objective

Effective managerial accountability in local and central governance units. Successful implementation of modern management practices at all local and central governance institutions.

Outcome indicator

100 % of budget entities will use FMC requirements to improve internal control systems and achieve objectives and results.

Indicator value

The indicator for 2016 **is met** because there is a growing trend of usage of FMC instruments in the public sector. The maximum score that the unit could get is 156 points (39 questions X 4) and the indicator will be measured as the average score of the self-assessment versus total number of questions that is 39.

Baseline (2015)	2016	2020
3/4	3.142/4	Growing trend

Action 1: Monitor the implementation of the legal framework for FMC (*status – completed*)

During 2016, the Directorate of Harmonisation of FMC (DHFMC) has conducted monitoring of the status of the implementation of the FMC framework in two independent institutions: the Presidency and Parliament. The monitoring was mainly focused on whether (a) the FMC regulations were updated to be in compliance with the revised FMC Law; (b) there were written procedures for delegation of the authority; (c) there is a risk register (d) there is a processes book; and (e) there are written procedures for assets management. The assessment team found that FMC instruments are generally developed except for some minor issues for which recommendations for improvements were issued. The DHFMC is planning to increase the number of the “on site” monitoring of the institutions as the only way to ensure the FMC implementation.

Aiming to strengthen the FMC implementation in the Public Sector, the DHFMC issued instructions and manuals and organised capacity building activities during 2016 such as:

- Finalisation of the instructions on the roles and responsibilities of the FMC and Risk Coordinator, (Instruction no. 16 dated 20.7.2016 “On tasks and responsibilities of financial management and control and risk coordinator in public units”);
- Finalisation of the instruction no.21, dated 25.10.2016 “On Executing Officer at all levels”
- Order of the Minister of Finance, no 68, dated 08.06.2016 “On the organisation and functioning of the Board of Public Internal Finance Control”;
- Finalisation of the manual for Financial Management and Control;
- Publication of the annual PIFC report 2015;
- Preparation of Risk registers and Audit trail;
- Organization of awareness seminars on the importance of FMC implementation for both local and central government representatives (121 participants);
- Seminars on the monitoring of internal control systems for the top management of the Ministry of Finance and the General Secretaries of the Line Ministries (25 participants)
- Trainings related to financial planning and reporting tool 60 participants).

Action 2: Implement a modern FMC system in three Line Ministries and four municipalities (status – completed)

During the last two years, with the assistance of the twinning advisors, FMC was implemented to 7 pilot institutions. The main scope was to emphasize the FMC role to lead to a better performance, more transparency, more efficiency and effectiveness in terms of spending of public money. During 2016, two workshops on Internal Control Plan with participants from three line ministries and four municipalities were organised (19-21 September 2016 and 28-29 September 2016) where 22 staff from the pilot institutions and the entire staff from DHFMC were present. Under this framework, the performance monitoring methodology, as the only tool to link the objectives with the outcome indicators, was developed at the Ministry of Education and Sports and presented to the pilot institutions on 1 November 2016 at the Ministry of Finance premises where 29 staff participated.

Action 3: Increase the awareness of public units about the benefits of implementing the concept of “managerial accountability” (status – in progress/on track)

In order to increase the awareness on the benefits of a sound internal control system for the managerial accountability starting from the top management, different workshops and trainings were organised during 2016 as detailed below:

- Training provided in Albanian School of Public Administration (ASPA) for different levels of managers on the concept of "Managerial Accountability “ where 70 staff participated;
- 5 training days, 3-7 October 2016, “On project management” at the Ministry of Finance where 9 staff participated.

In addition, before the publication of the Report on the functioning of Public Internal Financial Control (PIFC) at the Central and Local Government level for 2015¹⁹, meetings were held with all the line ministries to present the findings of the performance monitoring and to increase their awareness on the ranking and explain the methodology used for the evaluation.

¹⁹

http://www.financa.gov.al/files/userfiles/Drejtoria/Drejtoria_e_Pergjithshme_rregullatore_Kontrolluese/raportime/Raporti_PIFC_-_30_05_2016.pdf

2.6.5.2. Internal audit

Objective

Well-functioning and efficient IA function in the public sector.

Outcome indicator

100% of the audit staff employed in all IA units undertook each year 40 hours of CPD training and 100% of new staff is certified within 2 years from the date of their appointment.

Indicator value

The indicator is measured with two ratios: (1) **IA_{CPDT}**: ratio of internal auditors going through CPD training, versus the total number of Internal Auditors that are certified; and (2) **IA_{NC}**: ratio of the new Internal Auditors employed in the public administration who obtain certification. The indicator **is met** for IA_{CPDT} while for IA_{NC} the data will be collected by the end of May.

Baseline (2014)

IA_{CPDT}: 82%
IA_{NC}: 60 %

2016

IA_{CPDT}=100%
IA_{NC}: Not Available

2020

Growing trend
Growing trend

Outcome indicator 2

70% of IA reports are focused on performance issues and assessment of internal control systems (five FMC components)

Indicator value

This indicator could not be measured as of the date of the reporting. IA 2016 Annual Reports are submitted to CHU/IA during February 2017 and the consolidated report is prepared and published by end of May. This indicator will be measured as an index of the ratio between the total recommendations issued with the focus on improving institutional performance or addressing the internal control system versus the total number of recommendations issued by the IA in each institution.

Baseline (2015)

40%

2016

Not Available

2020

Growing trend

Outcome indicator 3

65% of internal audit recommendations have been implemented within two years

Indicator value

This indicator could not be measured as of the date of the reporting. IA 2016 Annual Reports are submitted to CHU/IA during February 2017 and the consolidated report is prepared and published by end of May. This indicator shows the degree of implementation of the recommendations issued by the Internal Audit Units.

Baseline (2014)

R_{impl}: 45%

2016

Not Available

2020

Growing trend

Action 1: Amend legal and methodological IA framework (*status – completed*)

After the new Law no. 114 “On Internal Audit”²⁰ was approved on 22.10.2015, three Council of Ministers Decisions (CDM) and three internal regulations to support the primary legislation were adopted during 2016. The secondary legislation is mainly aiming to further strengthen the processes of (1) hiring, (2) certification and (3) continuous professional development of internal auditors, in defining the power and composition of the Audit Committee and revising the IA manual to be in compliance with the International Standards on Internal Auditing. The details of these decisions are listed below:

- a. CMD no. 83, dated 03.2.2016 "On approval of the criteria for establishing of internal audit units in the public sector", as amended by CMD nr.353, dated 11.05.2016. The decision aims the establishment of a sustainable internal audit system in compliance with International Standards on Internal Auditing and gives a better definition of the criteria's for its creation by ensuring in the same time quality and professionalism of internal auditors.
- b. CMD no 116, dated 17.02.2016 "For the organization, functioning and composition of the qualification commission of internal auditors in the public sector and the determination of the training fees”;
- c. CMD no 160, dated 02.03.2016 "On the functioning, powers and composition of the Audit Committee on Public Units". The decision establishes the role of the Audit Committee in public entities as an independent monitoring and advisory body to senior management. According to the decision only the Line Ministries and the Local Government Units will need to have the Audit Committees and during 2016, 8 out of 77 Audit Committees are created.
- d. Minister of Finance order No. 3, dated 08.01.2016 "On approval of the Regulation for the continuous professional training for internal auditors in the public sector".
- e. Minister of Finance order No. 37 dated 16.03.2016 "On approval of the Regulation on the procedure of certification of internal auditors in the public sector".
- f. Minister of Finance Order No.100, dated 25.10.2016 “Internal Audit Manual”. Revision of the manual is concerned with the adoption of the International Standards on Internal Auditing and introduction of new concepts of risk management or quality assurance procedures, IT or EU funds auditing procedures and so on.

Action 2: Professionalize IA function (*status – completed*)

During 2016, several trainings for the internal auditors (IA) are held such as: training of 25 internal auditors on auditing IPA funds and continuous professional development (40 hours per each auditor). The training were organised within the framework of the Twinning project and internal auditor's experts from EU countries shared with the trainee their experience in the field.

Action 3: Strengthen the capacity of the CHU/IA (*status – in progress/on track*)

The CHU/IA would have addressed its annual objectives have all the vacancies been filled in. Moreover, as mentioned in the Functional Review prepared by Governance Global Practice (World Bank) while the legal and operational framework for internal audit is strong, implementation is still a challenge. As a result of the reduction of the staff of the Central Harmonization Unit (CHU), in 2013, the CHU is not able to fully execute the policy functions required by law. However, the current staff has participated in all the trainings organized by the twinning experts.

²⁰http://www.financa.gov.al/files/userfiles/Drejtoria/Drejtoria_e_Inspektimit_Financiar_Publik/legjislacioni_2015/Ligji_Nr.114_Per_auditimin_e_Brendshem_2015.pdf

2.6.5.3. Public Financial Inspection

Action 1: Review of legal basis and draft new sub legal acts (*status – completed*)

After the Law no 112 dated 15.10.2015 “On Public Financial Inspection” replaced the Law no 10954 dated 01.07.2010, the Ministry of Finance reviewed the entire legal framework covering the public financial inspection. A Public Financial Inspectors manual was finalised and approved by the Minister of Finance with the order no. 26, 17.02.2016²¹. The main scope of the manual is to serve as a guide for financial inspectors while conducting the financial inspections, evaluating the cases and documenting and reporting their decisions.

Action 2: Increase the skills of public inspectors (*status – completed*)

Some capacity building activities for the public financial inspection directorate (3 plus 1) were held during 2016, such as a study tour in Austria, two weeks “on the job training” in Bulgaria and one 5 days seminar “On AFCOS” where staff from the Management Structure in charge of irregularities on IPA funds participated too. Pursuant to the order of the Minister of Finance no. 42 dated 04.04.2016 "On the selection of public financial inspectors", 85 external inspectors were selected to help the PFI department conducting inspections. A detailed training plan was developed where 3 training courses two days each were performed.

Action 3: Establishing the reporting service network of AFCOS (*status – completed*)

Pursuant to the order No. 84, dated 12.09.2015" On forming the reporting AFCOS network service”, the Minister of Finance has signed cooperation agreements with 17 institutions about the functioning of the AFCOS network. This agreement is aiming to extend the Anti-fraud coordination service network and irregularity reporting to cover all public funds.

Action 4: Information and awareness of the authority and the 3 high level of management and of the public as well (*status – in progress/on track*)

For supporting the public relations work of the Public Financial Inspection (PFI) Department the Twinning experts developed a leaflet and an executive summary with the most important information about PFI. Also, 70 Internal Auditors participated in two different trainings organised by the PFI Department in order to increase their awareness on the different roles the Public Financial Inspectors have as compared to the Internal Auditors.

²¹ <http://www.financa.gov.al/al/ministria/drejtoria/drejtoria-e-inspektimit-financiar-publik/manuali-i-inspektimit-financiar-publik>

2.6.6. Pillar 6- Effective external oversight of the public finances-

Update

As reported by HSC, the institution improved the weight composition of the types of audit, namely, financial audit, performance audit, compliance audit and IT audit. In particular, compliance audits weight decreased from 90% in 2014 to 78% in 2016 in favour of other types of audit such as performance audit (from 5% to 8%) and financial audit (from 1% to 5%) as compared to 2015.

Capacity building and professional development of audit staff was one of the strategic objectives of HSC during 2016 as well. 489 days of training on IT audit techniques were performed and every auditor received in average 27 days of trainings to help them to deepen their knowledge on the financial and performance audit and other specific audit areas. This number is relatively high compared with SAIs in other countries and with training recommended by the International Federation of Accountants (average of five days per person, per year).

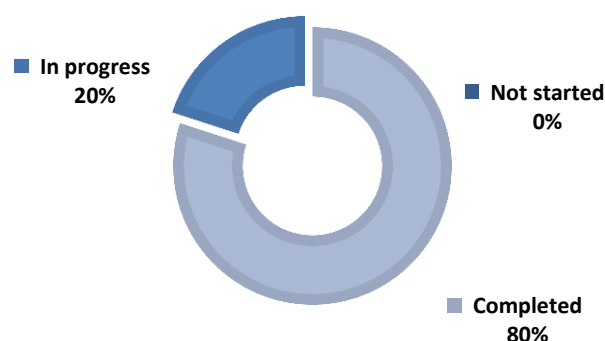
The rate of accepted recommendations by the end of 2016 is 73.4 % but the rate of implemented recommendations by the end of 2016 decreased to 32.5%, which is not in line with the targeted indicator value that shall be increasing from year to year. This indicator decreased due to the decreasing implementation of HSC`s recommendations from government`s institutions. The fight against corruption, in which the HSC and other state institutions must engage, is a continuously war without compromise to any institution or officer, based on expectations of the wider public opinion about our work in this regard. This necessary requirement, to achieve an acceptable standard of good governance, imposes the necessity of having a strong and constant willingness of institutional intolerance of any corruption case where it is displayed regardless of the level or the extent of its degree. During the last three years, Albanian Supreme Audit Institution has steadily shown this willingness and contribution to fight the culture of impunity, particularly against senior officials of the state administration. In this regard considerable numbers of recommendations for disciplinary measures, removal from office as well as making criminal charges are made.

The decrease of the implementation rate of HSC recommendations in 2016 was also noted by the Parliament during the evaluation of the 2015 activities of the HSC. On its resolution dated 20.10.2016, the Parliament issued some recommendations aiming to strengthen the role of the HSC by setting up an effective mechanism for Parliament and the Government to follow up its findings, in particular (a) increase the cooperation with both the Government and the HSC in order to increase the general awareness about the necessity of following the HSC recommendations; (b) meet twice a year with the HSC to discuss about legislation improvements/changes if the recommendations suggest so; and (d) create a parliamentary sub-committee within the Economic and Financial Committee to systematically monitor the activity of HSC and the follow up of its recommendations. After this resolution, an action plan to address these recommendations was developed by HSC and shared with the Parliament on 26 November 2016 (prot no. 1064/1).

Finally, during its audits in 2016, HSC has identified many weaknesses in the management of public finances and recommendations aiming to improve the regulatory environment are issued to the auditee. The main findings relates to deficiencies such as: (a) in the preparation of medium-term planning and annual budgets; (b) in the reporting of fiscal indicators; (c) in the management of the public debt; (d) in the preparation of the consolidated financial statements of the government and public sector financial reporting; (e) in the internal audit role and financial management systems; (f) in the public procurement area.

Pillar 6: Effective external oversight of the public finance

Status of the activities for the period 2015-2016*



	No of activities
In Progress	1
Not started	0
Completed	4
	5

*The activities above are for the period 2015-2016 including those completed in 2015

2.6.6.1. External audit

Objective

Strengthening the external oversight function by bringing it in line with INTOSAI standards.

Outcome indicator

The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits.

Indicator value

The indicator **is met**, as the weight of compliance audit decreased, while financial and performance audit's weight has decreased, by 5% and 8% respectively during 2016.

Baseline (2014)

Compliance audit 90%

2016

Compliance audit 78%
Financial audit 5%
Performance audit 8%

2020

Declining trend of compliance audit ratio

Outcome indicator 2

% of audit recommendations accepted and implemented by auditees is growing

Indicator value

The indicator on % of audit recommendations accepted vs those issued is measured for the first time in 2016, while the indicator on % of audit recommendations implemented versus issued is **not met**

Baseline

R_{ACC} 73.4% (Baseline 2016)
R_{IMPL} 75% (Baseline 2014)

2016

R_{ACC} 73.4%
R_{IMPL} 50%

2020

Growing trend
Growing trend

Outcome indicator 3

The training strategy is in place, auditors are trained according to ISSAI

Indicator value

The indicator for 2016 **is met**. It is measuring the degree HSC auditors are trained on the ISSAI standards and on legislative issues. The indicator is measured as: average training days per auditor in one year versus 25 training days planned to be delivered in one year.

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Baseline (2014)	2016	2020
T _{ISSAI} 100%	T _{ISSAI} 108%	Growing trend

Action 1. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work (status – in progress/on track)

In the spirit of INTOSAI standards, specifically ISSAI 20, transparency and accountability, the HSC in 2016 has improved its relations with the Parliament, especially with Economy and Finance Committee, where the main activities are listed below:

- A Peer Review about HSC institutional independence was conducted by the Austrian Court of Audit where some Albanian Member of Parliaments participated as well (4th of November 2016);
- A meeting between Albanian Chairman of Parliaments and Chairman of State Supreme Audit of both Albania and Poland was organized on 05.05.2016;
- Several sessions with Polish SAI experts, HSC auditors and members of Parliaments were organised during the period 15-18 November 2016;
- An international conference organised by SIGMA where participants from State Supreme Audit of Albania, Kosovo, Macedonia, Montenegro, Turkey, Leetonia, Bosnia Herzegovina and ECA and members of Parliament from these countries were there (8-9 November 2016);
- During 2016 HSC was more actively engaged in parliamentary commission and hearings regarding audit reports and other important issues.

HSC has increased the transparency of its activities during 2016 in the Albanian media by being more present with information and messages compared to previous years (the press has reflected HSC reports in 931 articles, reports, editorials and analytical reviews in 2016, 922 in 2015, and published in the newspapers 135 articles, written by 72 auditors of HSC). HSC continued to issue a quarterly statistical bulletin, which includes economic damage found, lost income, and administrative disciplinary measures recommended, as well as criminal charges submitted to prosecution for audits completed in the respective periods. HSC has continued to strengthen its cooperation with CSO by carrying out joint surveys and analysis of the level of corruption and the degree of transparency in public administration and by signing 9 additional cooperation agreements with them reaching to 24 the number of signed agreements.

Activity 2: Increase training and the use of information technology in tandem with the introduction of new audit approaches (status – completed 2016 plan)

Capacity building and professional development of audit staff was one of the strategic objectives of HSC during 2016 as well. Specific Training Needs Analyses resulted in a great necessity of the auditors for extending their knowledge in IT tools and their usage according to the new audit approaches adopted. During 2016, 489 days of training on IT audit techniques were performed. These trainings had three components: (1) the first component was on Computer – Aided Audit Tools (CAAT) such as Office, IDEA, visualisation techniques, accounting and database management software's; (2) the second component was on Management Information Systems, information security and cybernetic crimes on the auditee; (3) the third one was on IT audit manual and guidelines. In addition, every auditor received in average 27 days of trainings to help them to deepen their knowledge on the financial and performance audit and other specific audit areas.

2.7. Challenges of the PFM Strategy implementation

2.8.1 Mid - term evaluation

By the beginning of 2018, the PFM Strategy will need to undergo a mid-term evaluation process. The evaluation will include the period from 2014 to beginning of 2018 and will highlight the achievements of the first two years of the strategy in relation to the expected outcomes and the level of achievement of the objectives of the strategy. Mid-term evaluation will serve to define a more precise action plan for the period of 2018-2020, for an assessment of financial needs for the implementation of the strategy for the next three-year period by orienting in this way the programming resources in the frame of the Medium Term Budget Program. Nevertheless, the mid-term evaluation is also aimed at assessing the relevance (or any substantial change needs) of the set Objectives of the Strategy and to assess the general “current state”, as of 2017 in order to reflect to any substantial changes in the environment that requires special, targeted strategic attention that is not cover under the Strategy properly. In addition, some reforms are unlikely to achieve their objectives unless other PFM functions have reached certain levels of performance – an often mentioned example is the lacking impact of MTBP budgeting in an environment with low levels of aggregate fiscal discipline. Such linkages need to be addressed through sequencing of reforms at the technical level.

2.8.2 Risk assessment

The PFM Reform Strategy lays out an ambitious reform agenda for all the government, not just the Ministry of Finance. Implementing the reforms requires an inclusive approach in which coordination and cooperation are an essential ingredient. At the beginning of the Strategy implementation, the MOF has identified the key risks for the strategy as a whole, for the pillars and for individual activities and proposed mitigation actions to ameliorate the risks. *At the strategy level*, the main risks include sustainable commitment to the PFM reforms. The will and commitment will, in turn, influenced by wider factors relating to national and international economic and social factors, which are outside the control or the strategy’s implementers. By the year end 2016, the risk remains the same. At the pillars level, the adequacy of human and financial capacity, cooperation and coordination between organizations and institutions are key factors affecting results. Currently, frequent reorganizations of the public sector have eroded the ability of the Budgetary Institutions in general and of the MoF in particular to deliver on its core functions. The MoF is clearly understaffed in a number of key areas, which has undermined its ability to conduct sound technical work and economic analysis. Despite positive recent recruitments, still the MoF needs to be strengthened. During 2016, the MoF hired 89 staff, while 40 were dismissed, leaving by the year end still 66 vacancies. Capacity constraints make it impossible for the MOF to build a solid foundation for carrying out its role in the public sector. At the activity level, access to resources and timely implementation of laws and regulations are key influences on the progress achievable. Beyond the implementation of laws, the knowledge possessed by people implementing the initiatives is crucial for effectively managing change. Therefore, to mitigate this risk, development of manuals and procedures, delivery of targeted training and capacity building should be included in the strategy where significant changes are envisaged.

2.8. On-going donor support on PFM

Public Finance falls under the NSDI Pillar “Growth through Macro Economic and Fiscal Stability” which during the period 2013-2016, has attracted a total donor fund of around €0.75 billion, or around 15% of the total amount of external assistance committed for the same period. The sector is dominated by loans extended by IMF and the World Bank (around 95% of total funding). In particular, IMF provided €330.9 million loan or 55% of the total commitment through the “Extended Fund Facility”

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and the World Bank provided €244.5 million loan (45% of the total commitment), including the Public Finance and Growth DPL 1 and 2. The World-Bank has significantly increased its loan finances for Albania in the last years. Through its Country Partnership Framework for Albania 2015-2019, the World-Bank has committed a package of a loan totalling \$ 1.2 billion. One third of the total value is provided through the form of budget support. IMF has also been supporting the Government of Albania through loans to meet its external financing needs while providing the necessary support to strengthen fiscal and debt sustainability, lower public financing risks, and put the economy on a sustained medium-term growth path. The IMF loan funds are provided through a General Budget Support mechanism. EU has also provided financial assistance through Instruments for Pre-accession Assistance II (IPA II) 2014-2020, where the majority is Sector Budget Support for Public Financial Management (€42 million). Other donors that are contributing in the sector are: Sweden, Switzerland, and USAID which provide their assistance through grants. Austria has also been providing support over the past years through grants for the IPS Multi-Donor Trust Fund and SETS projects. Commitments for the new projects for each year are shown below.

2012	2013	2014	2015	2016	2017 (Planned)
€9,749,811	€2,136,917	€583,683,590	€8,843,326	€49,004,762	€99,912,000

Integrated Planning System Trust Fund II managed by the World Bank and financed by Austria, EU/IPA 2013, Switzerland and Sweden, has foreseen components to strengthen the information management systems for public finance e.g AFMIS as well as to strengthen capacities of the Government for strategic planning and budget preparation. Switzerland and USAID focus also on supporting fiscal decentralisation, local governance and local government public financial management. EU and Switzerland jointly provide support to improve tax compliance and VAT refund systems. Sweden also provides support to tax administration focusing on digital archiving, tax-payers services and fiscal cadastre (property taxing). In the area of PFM Switzerland supports as well the public debt management, government financial statistics and macroeconomic forecasting.

The EU through “Support for Improvement in Governance and Management (SIGMA) in the Western Balkans and Turkey” supports Public financial management (PFM) including public procurement and external audit. SIGMA has notably provided support with: (a) strengthening capacity of Supreme Audit Institutions (SAI); (d) drafting amendments to the PP law; (c) developing indicators for measuring outcome of the PFM Strategy and improving the monitoring of sector strategies. In addition, SIGMA also continues to work on SIGMA analytical papers which provide guidance on good practices, methodologies and tools for public procurement; and co-operation between Supreme Audit Institutions (SAIs) and parliamentary committees.

A Twinning project between Ministry of Finance of Austria and Ministry of Economy and Finance of France, on the “Implementation of a modern system for Financial Management and Control and Public Financial Inspection in Albania” which started in September 2014 was closed in November 2016. The Twinning project was financed by EU under IPA 2012 and the specific objective of the project was the implementation of a modern system for the FMC and Public Financial Inspection in the main public institutions in Albania. The twinning project with Euro 2.5 million funding from the EU has been implemented by Austria and France with the support of 90 experts of from Netherlands, Croatia, Bulgaria, Poland, Slovenia and Belgium. Over the last 27 months period the project supported the Ministry of Finance and seven pilot institutions which are Ministry of Education and Sports, the Ministry of Agriculture, the Ministry of Social Welfare and Youth, Municipalities of Shkodra, Berat, Pogradec and Korça in the implementation of a modern Finance Management and Control System through the implementation of financial management and control tools and manuals, excel based financial planning

and reporting tool, risk registers, book of processes, audit trails and annual control plan. It also assisted the Internal Audit service in the public sector in setting out and applying rules and procedures and training 300 senior auditors and Heads of Internal Audit units. Support was provided to build up the Public Financial Inspection function in order to protect the financial interests of public entities against serious financial mismanagement, fraud, misuse of power or corruption.

A Twinning project between Albania High State Control (HSC) and State Audit Office of Croatia and Poland, on the “Strengthening of external auditing capacities” started in March 2016. The Twinning project is financed by EU under IPA 2013 and the main purpose is: (1) the improvement of legislative framework for audits; (2) the development of audit methodologies; and (3) strengthening of HSC institutional capacity. Since its start, the experts have been working in the following areas:

A. Improvement of legislative framework for audits

- GAP analysis between HSC legal framework and INTOSAI and EU member states;
- Analysis of the application of the law and identification of potential barriers to implementing the changes introduced in the recently approved Law (Law on HSC, December 2015);
- Preparation of a practical guide to assist the auditors for a smooth implementation of the new HSC Law;
- Preparation of an Action Plan for the drafting of by-laws;
- Drafted guidance for the institutionalization of relations and communication with the Albanian Parliament.

B. Development of audit methodologies

- Improving audit methodology by introducing new procedures for detecting corruption and fraud;
- Further development of: risk-based approach for conducting financial and compliance audit and for preparing the annual audit plan for 2017;
- Review and update the performance audit manual, and on-the job training of the auditors;
- Initiation of work for the development of IT manual and IT audit standard modules;
- Development of the methodologies for quality assurance and control.

C. Strengthening of HSC institutional capacity.

- Review of organisation structure of the HSC and drafting of policies and procedures concerning the management of human resources;
- Review of HSC internal and external communication policy and issue recommendations for improvements;
- Review the current quality assurance procedures linked to the institution transparency aiming to boost public confidence in the institution.

There are 13 projects under implementation. Two new EU IPA II projects totalling €3.9 million will start in 2017 (“Technical assistance contract to develop computerised Integrated Tariff Management System” and “Technical assistance to support the strengthening of the capacities for the implementation of the Public Finance Management (PFM) strategy”). Also, one additional project “Financial Sector Development Policy Loan 2”, to be financed by the WB through a loan of €96 million, is planned to start in 2017.

A more detailed list of donor’s contribution in the sector is found in ANNEX 6.

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
Pillar 1: Sustainable and prudent fiscal framework									ENDRIT LAMI
1.1. Fiscal rules, forecasting and fiscal responsibility framework	1)The new fiscal rules adopted by the Law No.57 date 02.06.2016 article 4/1 (The Debt Ratio in 2015 = 72.5%) 2)Deviation between Forecasted nominal GDP used in each budgetary planning phase and forecasted nominal GDP in the World Economic Outlook was 14.3 for 2013	1)The Debt to GDP ratio planned for each budgetary year is lower than the ratio for the previous year, until the ratio of debt reaches and remains below 45% of GDP 2)Forecasted nominal GDP used in each budgetary planning phase should not be higher than the respective forecasted nominal GDP in the World Economic Outlook, published by the IMF						E.LAMI	
1.2. National Government Accounts accounts	Government national accounts are not prepared according to ESA 2010	Compilation of Government National Accounts according to ESA2010						E. ALIKO	
Action 1. Strengthen INSTAT’s capacity in the area of Government accounts									
1.3. Fiscal risk management	Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied is 0% in 2016	Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied						G. PRODANI	
Action 1. Strengthen fiscal risk management and reporting within the MoF								G. PRODANI	
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure									MIMOZA DHEMBI
2.1.Strategic policy development and review		Ratio between total funds estimated in the sector strategies							
Action 1. Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure								O. ARAPI	
Action 2. Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process								O. ARAPI	
Action 3. Create the capacity to carry our in-depth sector reviews as needed								O. ARAPI	
NEW Action 4. To strengthen the capacity and accountability of the Albanian administration to guarantee a sustainable role of the Government of Albania in the preparation for EU membership.								O. ARAPI	
NEW Action 5. Prepare National Development Plan								O. ARAPI	

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
2.2. Capital investment planning, appraisal and inclusion in budget	1)The ratio of the investment projects included in the MTBP that reflect the strategic priorities ISPP = 55% and the ratio between the total amounts of the projects proposed based on strategic priorities, against total capital investment budget VSPP = 68% for 2016 2) 10% is the current deviation between approved and actual cost of projects 3)The Ratio of annual disbursement of budget for public investment projects = 95% in 2015	1)Share of public investment projects that are proposed based on the strategic priorities of the government 2) Deviation between approved and actual capital expenditures figures 3)Actual disbursements for major investment projects compared to planned disbursements along with explanation of variations							V.Rusi
Actions 1. Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project)									V.Rusi
NEW Action 3. Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support.									V.Rusi
NEW Action 4. Have a clear Project classification to avoid unnecessary multiplication of projects.									V.Rusi
NEW Action 5. Strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals.									V.Rusi
NEW Action 6. Prioritization and selection of large investment projects is done in a systematic manner									V.Rusi
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure									MIMOZA DHEMBI
2.3. Medium Term Budget Programme (2015)	1)Ratio between total funds estimated in the sectoral strategies and total funding identified for corresponding sectors within the MTBF is 42% 2)Total planned expenditures for 2015 in the MTBF adopted in 2015 /Total actual expenditures in 2015 is -14% Total planned revenues for 2015 in the MTBF adopted in 2015 /Total actual revenues in 2015 is -1%	1)Ratio between total funds estimated in the sectoral strategies and total funding identified for corresponding sectors within the MTBF is 90% 2) Total planned expenditures (and revenues) for the MTBF adopted in year n /Total planned expenditures (and revenues) in year n in annual budget is 0%							
Action 1. Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process									M.Dhembi
2.4. Multi-year commitment controls	1)Multi-year commitments were 385 million LEK in 2013 2)All major projects are pre-committed in the system based on estimated disbursement schedules approved in the Budget process, before procurement action commences - to be calculated for 2016 3)The amount committed on multi-year projects for 2015 were 967 milion Lek 4)Arrears in 2013 are 72.75 bn Lek	1) The amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero; 2) All major projects are pre-committed in the system based on estimated disbursement schedules approved in the Budget process, before procurement action commences 3) No payment arrears are recorded on multi-year capital investment project activities' after 3 years. (this effect will be visible after 2-3 years of multi-year commitment control implementation into AGFIS). 4)Arrears clearance (payments), in ALL billions							M.Dhembi

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
IM in local government	1) The ratio RLGR = 3.04% and the ratio RLGRG = -6% for 2015 2) Average weight of the difference between the ratios of the share of outturn capital investment budget versus administrative expenditure RTot M = -3.83% 3) Each report of external audit on the functioning of local self-government units should be available to the public, according to the legislation - to be calculated in 2017	1) Improve collection and administration of taxes from the municipalities after the new administrative territorial reform. 2) Increasing the share of investment expenditures in local budgets, compared with administrative expenditures (more than 0%) 3) Each report of external audit on the functioning of local self-government units should be available to the public, according to the legislation							F.BRAHIMI
Action 2. Strengthen implementation of the local government financing law and PFM practices									F.BRAHIMI
Action 3. Establish a medium-term financial planning database for local governments									F.BRAHIMI
Action 4. Updating the local government finances portal									F.BRAHIMI
Action 5. PEFA assessment at 5 selected municipalities									F.BRAHIMI
Action 6. Clearance of hidden arrears and prevention of new arrears									F.BRAHIMI
Budget documentation (2015)	OBI was at 46 score for 2013	Budget Index produced by the International Budget Partnership, relating to information in the budget is increased							
Action 1. Improve the information content and quality of local government budgets									F.BRAHIMI

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
Pillar 3: Efficient execution of the Budget									GELARDINA PRODANI
3.1.Tax administration	1)The number of declared employees as declared in the Social Contribution system = 507,891 employees and The number of registered businesses = 100,765 businesses for 2014 2)Index of tax efficiency as result of reducing administrative cost is 1.46% for 2013 3)Increased revenue collection as a result of improved administrative performance of tax and customs authorities, in percentage in 2013 (-3%); 2017 (1.6%); 2020 (1%)	1)Enlarge the tax base by 45% in 2020 2)Increased tax efficiency as result of reducing administrative cost to less than 1% 3)Increased revenue collection as a result of improved administrative performance of tax and customs authorities, in percentage							N. LERA & V.VJERO
Action 1. Reengineer and computerize core tax administration processes									N. LERA & V.VJERO
Action 2. Overhaul the tax administration's organizational structures and staffing at headquarters and at field level									N. LERA & V.VJERO
Action 3. Implement compliance risk management of tax collection									N. LERA & V.VJERO
Action 4. Strengthen audit capacity									N. LERA & V.VJERO
Action 5. Revise the system of the fiscal cash registers and encourage their use									N. LERA & V.VJERO
Action 6. Establish a fiscal cadaster of properties									N. LERA & V.VJERO
Action 7. Strengthen the professional capacity of the GTD staff through continuous training									N. LERA & V.VJERO
NEW Action 8. Assist the taxpayers to enhance voluntary compliance									N. LERA & V.VJERO
NEW Action 9. Take actions to reduce informality									N. LERA & V.VJERO
NEW Action 10. Improve Debt Management									N. LERA & V.VJERO

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
3.2. Customs management	1)Percentage deviation of Actual collection is within defined % of/approved budget estimate for custom and tax revenue is -10.2% in 2013 (+/-4%- 2017,+/- 3% -2020) 2)The ratio RVAT = 69% in 2014	1)Percentage deviation of actual collection is within defined % of /approved budget estimate for tax and customs revenues							
Action 1. Make service delivery at the border-crossing checkpoints more efficient									N. LERA & B. IKONOMI
Action 2. Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance									N. LERA & B. IKONOMI
Action 3. Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency									N. LERA & B. IKONOMI
Action 4. Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions									N. LERA & B. IKONOMI
Action 5. Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.									N. LERA & B. IKONOMI
Action 6. Take measures to stamp out fraud									N. LERA & B. IKONOMI
Action 7. Improve transparency of the Albanian Customs activities									N. LERA & B. IKONOMI
NEW Action 8. To contribute to implementation in Albanian Customs Administration the New Computerised Transit System, fully in line with EU – NCTS, and full membership in Common Transit Convention, and prepare its ICT on									N. LERA & B. IKONOMI
NEW Action 9. To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS.									N. LERA & B. IKONOMI

Action Plan of the PFM 2017-2020

[illegible]

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
Pillar 4: Transparent government reporting									GELARDINA PRODANI
4.1. Accounting	1) IPSAS CA = Index of IPSAS standards applied on financial statements issued by Central Administration Budget Users is 0 in 2014 2) Iaccess = 5; IAGFIS = 8.5%; IM = 16.5% in 2014	1) Presentation of financial statements as per IPSAS framework by 2020. 2) 100 Budget Institution of General Government shall be able to execute their budget and perform financial reporting through AGFIS up to 2020							
Action 1. Prepare financial reports as per the ESA 2010 integrated government finance statistics manual									M. PECO
Action 2. Implement IPSAS									K. HALILI & M. PECO
Action 3. Capacity building and ensure sustainability									K. HALILI & M. PECO
4.2. Financial and performance monitoring and reporting	Open Budget Index 46 score in 2013	Budget Index produced by the International Budget Partnership, relating to information in the budget is increased							
Action 1. Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information									F. BRAHIMI
Action 2. Improve access to data on the government's finances and operations									F. BRAHIMI
Pillar 5: Effective internal control									KESJANA HALILI
5.1. Financial Management and Control (FMC) at Public Institutions	Value of Indicator is 3 in 2015	100% of budget entities will use FMC requirements to improve internal control systems and achieve objectives and results							
Action 1. Monitor the implementation the legal framework for FMC									K. HALILI
Action 2. Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"									K. HALILI
5.2. Internal audit	1) 45% of internal audit recommendations implemented in 2014; 2) Internal Auditors going through CPD training = 82% and	1) 65% of internal audit recommendations have been implemented within two years; 2) 100% of the audit staff employed in all IA units undertook							
Action 1. Professionalize IA function									K. HALILI & B. LILA
Action 2. Strengthen the capacity of the CHU/IA									K. HALILI
5.3. Public Financial Inspection									
Action 1. Increase the skills of public inspectors.									B. LATE
Action 2. Information and awareness of the authority and the 3 high level of management and of the public as well									B. LATE

ANNEX 1

Action Plan of the PFM 2017-2020

Activities	Baseline	Outcome indicator	Time line						Responsible unit
			2015	2016	2017	2018	2019	2020	
Pillar 6. Effective external oversight of the public finances									LULJETA NANO
6.1.External audit	1)The weight of Compliance audit was 82% in 2014; 2)% of audit recommendations accepted and implemented by auditees (2014:Rimpl = 75.5%),(2016: Racc = 73.4%) 4)The index of training on ISSAI standards is 100% in 2014	1)The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits; 2)% of audit recommendations accepted and implemented by auditees is greater than 75.5%; 3)The training strategy is in place, the auditors are trained according to ISSAI							
Action 1. Align audit approaches to international standards (ISSAIs)									L.Nano
Action 2. Increase training and the use of information technology in tandem with the introduction of new audit approaches									L.Nano
Action 3. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.									L.Nano
NEW Action 4. Introduce quality assurance activities over the audit									L.Nano
NEW Action 5. Audit manual amendments to include activities to detect anti corruption and fraud									L.Nano

ANNEX 2

Status of Implementation of Pillars/Activities during 2016

Activities	Status of Implementation of Activities	Responsible unit
Pillar 1: Sustainable and prudent fiscal framework		Endrit LAMI
1.1. Fiscal rules, forecasting and fiscal responsibility framework		
Action 1: Design the fiscal rules to be reflected in the legal framework for fiscal management	Completed	E.LAMI
Action 2: Design fiscal principles to be included in the legal framework for fiscal responsibility	Completed	M.DHEMBI
1.2. National Government Accounts accounts		
Action 1. Strengthen INSTAT's capacity in the area of Government accounts	In progres	E. ALIKO
1.3. Fiscal risk management		
Action 1: Strengthen fiscal risk management and reporting within the MoF	In progres	G. PRODANI
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure		MIMOZA DHEMBI
2.1.Strategic policy development and review		
Action 1: Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure	In progres	D. ARAPI
Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process	In progres	D. ARAPI
Action 3: Create the capacity to carry out in-depth sector reviews as needed	In progres	D. ARAPI
2.2. Capital investment planning, appraisal and inclusion in budget		
Action 1: Include a section in the OBL and submit to Parliament specific regulations regarding the preparation, appraisal and approval of government capital investment projects	Completed	M.DHEMBI
Action 2: Strengthen the fiscal oversight of PPPs and improve transparency in the documents submitted to the Parliament's approval during the budget process	Completed	M.DHEMBI
Action 3: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support.	In progres	M.DHEMBI
Action 4: Have a clear Project classification to avoid unnecessary multiplication of projects.	In progres	M.DHEMBI
Action 5: Strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals.	In progres	M.DHEMBI
Action 6: Prioritization and selection of large investment projects is done in a systematic manner	In progres	M.DHEMBI
Action 7: Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project)	In progres	A. VELO
2.3. Medium Term Budget Programme (2015)		
Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process	Completed	M.DHEMBI
2.4. Multi-year commitment control		
Action 1: Introduce multi-year commitment control for multi-year investment projects	Completed	A. VELO
Action 2: Tighten up the approval process for multi-year capital projects and include a statement of outstanding commitments in the annual budget documentation submitted to Parliament	Completed	M.DHEMBI
Action 4 New AGFIS configuration to disgregate multi year commitments by individual year allocations	Completed	A. VELO
2.5. PFM in local government		
Action 1: Draft, consult, and submit for approval the new law on the "On Local Finances"	Completed	F. BRAHIMI
Action 2: Strengthen implementation of the new law and PFM practices	Delayed	F. BRAHIMI
Action 3: Harmonize and further consolidate legislation which impacts both local government and PFM	Delayed	F. BRAHIMI
2.6. Budget documentation (2015)		
Action 2: Improve the information content and quality of local government budgets	In progres	F. BRAHIMI

ANNEX 2

Status of Implementation of Pillars/Activities during 2016

Activities	Status of Implementation of Activities	Responsible unit
Pillar 3: Efficient execution of the Budget		Gelardina PRODANI
3.1. Tax administration		
Action 1: Reengineer and computerize core tax administration processes	In progres	N. LERA & V.VJERO
Action 2: Overhaul the tax administration's organizational structures and staffing at headquarters and at field level	In progres	N. LERA & V.VJERO
Action 3: Implement compliance risk management of tax collection	In progres	N. LERA & V.VJERO
Action 4: Strengthen audit capacity	In progres	N. LERA & V.VJERO
Action 5: Revise the system of the fiscal cash registers and encourage their use	In progres	N. LERA & V.VJERO
Action 6: Establish a fiscal cadaster of properties	In progres	N. LERA & V.VJERO
3.2. Customs management		
Action 1: Eliminate procedural ambiguities to create a clear interaction framework between the private sector and the Customs Administration	Completed	N. LERA & B. Ikonomi
Action 2: Make service delivery at the border-crossing checkpoints more efficient	In progres	N. LERA & B. Ikonomi
Action 3: Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance	In progres	N. LERA & B. Ikonomi
Action 4: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency	In progres	N. LERA & B. Ikonomi
Action 5: Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions	In progres	N. LERA & B. Ikonomi
Action 6: Ensure the prompt release of goods when the economic operator provides advance information necessary for condu	Not started	N. LERA & B. Ikonomi
Action 7: Take measures to stamp out fraud	In progres	N. LERA & B. Ikonomi
Action 8: Establishment of the National Valuation Database	Completed	N. LERA & B. Ikonomi
Action 9: Improve transparency of the Albanian Customs activities	In progres	N. LERA & B. Ikonomi
3.3. Improve the coverage and functionality of AGFIS		
Action 1: Gradually make AGFIS available to all major budget entities	In progres	A. VELO
Action 2: Configure AGFIS so as to allow tracking operational expenses by project code	Not started	M. PECO
Action 3. Perform an assessment on the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition c	Not started	A. VELO
Action 4. Gradually integrate AGFIS and other government IT systems under AFMIS	In progres	A. VELO
3.4. Management of external funds		
Action 1: Prepare and implement, in cooperation with donors, a program to progressively manage external funds through gov	In progres	D. ARAPI
3.5. Debt and cash management		
Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash managemen	In progres	I. Malile
Action 2: Improve the debt management strategy, based on Debt Sustainability Analysis and Strategy	Completed	I. Malile
Action 4: Improve liquidity forecasting	In progres	M. PECO
3.6. Public Procurement		
Action 1: Strengthen the legal and institutional framework for public procurement	In progres	E. AHMETI
Action 2: Establish mechanisms to control the availability of funds prior to procurement	Not started	E. AHMETI
3.7. Asset management		
3.7.1. Prepare methodology and action plan	Not started	D. FINO
3.7.2. Initiate and complete the process of full public assets inventory in General Government institutions and local governme	Not started	L. SAHITAJ
3.7.3. Further complete the process of public assets transfer to local governments	Not started	L. SAHITAJ

ANNEX 2

Status of Implementation of Pillars/Activities during 2016

Activities	Status of Implementation of Activities	Responsible unit
Pillar 4: Transparent government reporting		Gelardina PRODANI
4.1. Accounting		
Action 2: Prepare financial reports as per the ESA 2010 integrated government finance statistics manual	In progres	M. PECO
Action 3: Implement IPSAS	In progres	K.HALILI & M. PECO
Action 4: Capacity building and ensure sustainability	In progres	K.HALILI & M. PECO
4.2. Financial and performance monitoring and reporting		
Action 1: Improve procedures and formats for in-year budget implementation reporting	Completed	Xh.AGOLLI
Action 2: Improve formats for a comprehensive government yearly budget execution report including substantive as well as fi	In progres	F. BRAHIMI
Action 3: Improve access to data on the government's finances and operations	In progres	F. BRAHIMI
Pillar 5: Effective internal control		Kesjana HALILI
5.1. Financial Management and Control (FMC) at Public Institutions		
Action 1: Monitor the implementation the legal framework for FMC	Completed	K.HALILI
Action 2: Implement a modern FMC system in three Line Ministries and four municipalities.	Completed	K.HALILI
Action 3: Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"	In progres	K.HALILI
5.2. Internal audit		
Action 1: Amend legal and methodological IA framework	Completed	K.HALILI & B.LILA
Action 2: Professionalize IA function	Completed	K.HALILI & B.LILA
Action 3: Strengthen the capacity of the CHU/IA	In progres	K.HALILI & B.LILA
5.3. Public Financial Inspection		
Action 1: Review of legal basis and draft new sub legal acts	Completed	
Action 2: Increase the skills of public inspectors.	Completed	B.LATE
Action 3: Establishing the reporting service network of AFCOS (OLAF)	Completed	B.LATE
Action 4: Information and awareness of the authority and the 3 high level of management and of the public as well	In progres	B.LATE
Pillar 6: Effective external oversight of the public finances		Luljeta NANO
6.1. External audit		
Action 1. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improv	In progres	L.Nano
Activity 2: Increase training and the use of information technology in tandem with the introduction of new audit approaches	Completed	

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Activities	2017	Responsible unit
Pillar 1: Sustainable and prudent fiscal framework		Endrit LAMI
1.1. Fiscal rules, forecasting and fiscal responsibility framework		ELAMI
1.2. National Government Accounts accounts		
Action 1: Strengthen INSTAT's capacity in the area of Government accounts	On - going	E. ALIKO
1.3. Fiscal risk management		
Action 1: Strengthen fiscal risk management and reporting within the MoF	To be completed by 2017	G. PRODANI
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure		Mimoza DHEMBI
2.1.Strategic policy development and review		
Action 1: Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure	On - going	O.ARAPI
Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process	On - going	O.ARAPI
Action 3: Create the capacity to carry out in-depth sector reviews as needed	On - going	O.ARAPI
Action 4: To strengthen the capacity and accountability of the Albanian administration to guarantee a sustainable role of the Government of Albania in the preparation for EU membership.	On - going	O.ARAPI
Action 5: Prepare National Development Plan	On - going	O.ARAPI
2.2. Capital investment planning, appraisal and inclusion in budget		
Actions 4: Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project)	On - going	A. VELO
Action 5: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support.	On - going	V.Rusi & M. Dhembi
Action 6: Have a clear Project classification to avoid unnecessary multiplication of projects.	On - going	V.Rusi & M. Dhembi
Action 7: Strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals.	On - going	V.Rusi & M. Dhembi
Action 8: Prioritization and selection of large investment projects is done in a systematic manner	On - going	V.Rusi & M. Dhembi
2.3. Medium Term Budget Programme (2015)		
Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process	In delay	M.DHEMBI

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PFM Strategy Action plan 2017

Activities	2017	Responsible unit
2.5. PFM in local government		
Action 3: Strengthen implementation of the new law and PFM practices	On - going	F. BRAHIMI
Action 4: Harmonize and further consolidate legislation which impacts both local government and PFM	In delay	F. BRAHIMI
Action 5: Strengthen implementation of the new law and PFM practices	In delay	F. BRAHIMI
Action 3: Establish a medium-term financial planning database for local governments	To be Completed by 2017	
Action 4: Updating the local government finances portal	On - going	F. BRAHIMI
Action 5: PEFA assessment at 5 selected municipalities	To be Completed by 2017	F. BRAHIMI
Action 6: Clearance of hidden arrears and prevention of new arrears	To be Completed by 2017	F. BRAHIMI
2.6. Budget documentation		
Action 2: Improve the information content and quality of local government budgets	In delay	F. BRAHIMI
Pillar 3: Efficient execution of the Budget		
		Gelardina PRODANI
3.1. Tax administration		
Action 1: Reengineer and computerize core tax administration processes	In delay	N. LERA & V.VJERO
Action 2: Overhaul the tax administration's organizational structures and staffing at headquarters and at field level	In delay	N. LERA & V.VJERO
Action 3: Implement compliance risk management of tax collection	In delay	N. LERA & V.VJERO
Action 4: Strengthen audit capacity	On - going	N. LERA & V.VJERO
Action 5: Revise the system of the fiscal cash registers and encourage their use	In delay	N. LERA & V.VJERO
Action 6: Establish a fiscal cadaster of properties	To be Completed by 2017	N. LERA & V.VJERO
Action 8: Assist the taxpayers to enhance voluntary compliance	On - going	N. LERA & V.VJERO
Action 9: Take actions to reduce informality	On - going	N. LERA & V.VJERO
Action 10: Improve Debt Management	On - going	N. LERA & V.VJERO

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PFM Strategy Action plan 2017

Activities	2017	Responsible unit
3.2. Customs management		N. LERA & V.VJERO
Action 3: Make service delivery at the border-crossing checkpoints more efficient	On - going	N. LERA & B. IKONOMI
Action 4: Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance	On - going	N. LERA & B. IKONOMI
Action 5: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency	On - going	N. LERA & B. IKONOMI
Action 6: Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions	On - going	N. LERA & B. IKONOMI
Action 7: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.	In delay	N. LERA & B. IKONOMI
Action 8: Take measures to stamp out fraud	On - going	N. LERA & B. IKONOMI
Action 10: Improve transparency of the Albanian Customs activities	On - going	N. LERA & B. IKONOMI
Action 11: To contribute to implementation in Albanian Customs Administration the New Computerised Transit System, fully in line with EU – NCTS, and full membership in Common Transit Convention, and prepare its ICT on	On - going	N. LERA & B. IKONOMI
Action 12: To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS.	On - going	N. LERA & B. IKONOMI
3.3.Improve the coverage and functionality of AGFIS		N. LERA & B. IKONOMI
Action 1: Gradually make AGFIS available to all major budget entities	On - going	A. VELO
Action 3: Configure AGFIS so as to allow tracking operational expenses by project code	In delay	M. PECO
Action 5: Gradually integrate AGFIS and other government IT systems under AFMIS	In delay	A. VELO
3.4. Management of external funds		
Action 1: Prepare and implement, in cooperation with donors, a program to progressively manage external funds through government systems	On - going	O. ARAPI
3.5. Debt and cash management		
Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management	In delay	I.Malile
Action 4: Improve liquidity forecasting	In delay	M. PECO

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PFM Strategy Action plan 2017

Activities	2017	Responsible unit
3.6. Public Procurement		
Action 1: Strengthen the legal and institutional framework for public procurement	On - going	E. AHMETI
Action 2: Establish mechanisms to control the availability of funds prior to procurement	In delay	E. AHMETI
Action 3: Develop professional expertise of the auditors of the State Supreme Audit during the audit of the procurement activities	To be Completed by 2017	
3.7. Asset management (kur kishte per te nisur ky aktivitet ne planin fillestar?)		
3.7.1. Prepare methodology and action plan	In delay	D. FINO
3.7.2. Initiate and complete the process of full public assets inventory in General Government institutions and local government	In delay	L. SAHITAJ
3.7.3. Further complete the process of public assets transfer to local governments	In delay	L. SAHITAJ
Pillar 4: Transparent government reporting		Gelardina PRODANI
4.1. Accounting		
Action 2: Prepare financial reports as per the ESA 2010 integrated government finance statistics manual	On - going	M. PECO
Action 3: Implement IPSAS	In delay	K.HALILI & M. PECO
Action 4: Capacity building and ensure sustainability	In delay	K.HALILI & M. PECO
4.2. Financial and performance monitoring and reporting		
Action 2: Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information	On - going	F. BRAHIMI
Action 3: Improve access to data on the government's finances and operations	On - going	F. BRAHIMI
Pillar 5: Effective internal control		Kesjana HALILI
5.1. Financial Management and Control (FMC) at Public Institutions		
Action 1: Monitor the implementation the legal framework for FMC	On - going	K.HALILI
Action 3: Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"	On - going	K.HALILI
5.2. Internal audit		
Action 2: Professionalize IA function	On - going	K.HALILI & B.LILA
Action 3: Strengthen the capacity of the CHU/IA	On - going	K.HALILI & B.LILA
5.3. Public Financial Inspection		
Action 2: Increase the skills of public inspectors.	On - going	B.LATE
Action 4: Information and awareness of the authority and the 3 high level of management and of the public as well	On - going	B.LATE

ANNEX 3

PFM Strategy Action plan 2017

Activities	2017	Responsible unit
Pillar 6: Effective external oversight of the public finances		Luljeta NANO
6.1.External audit		
Action 2. Align audit approaches to international standards (ISSAIs)	To be Completed by 2017	LNANO
Action 4. Increase training and the use of information technology in tandem with the introduction of new audit approaches	On - going	LNANO
Action 5. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.	On - going	LNANO

ANNEX 4

Overall PFM Outcome Indicators

	Outcome indicator	Baseline	Outcome indicator 2016	Status in 2016	Target value 2020	Responsible unit
1	Public debt to GDP ratio, in percentage	70 % (2013)	71%	Met	59.5%	Macro Department
2	Difference between actual debt ratio and the initially (at the beginning of the plan period) target debt ratio set for a particular year	- 5.1 percentage points	0.06 percentage points	Met	(- 0.5) percentage points	Macro Department
3	Difference between actual surplus/deficit and the target surplus/deficit set in the budget for the current year	+1.6%	(-) 21.72%	Met	≤ planned deficit	DG Budget
4	Percentage deviation between first forecast of nominal GDP in the Macro and Fiscal Framework and first nominal GDP estimates by annual national accounts of INSTAT	9%	NA	Data are not available until the date of the report, 31 march 2017	3%	Macro Department
5	Public revenue trend (Revenue as a percentage of GDP)	24%	26.7%	Met	27.50%	Macro Department
6	Budget credibility: Percentage deviation of actual expenditure from projected expenditure	-10%	(-) 4.7%	Met	(-3%-0%)	DG of Budget
7	Budget credibility: Percentage deviation of actual revenue from projected revenue	5%	2%	Met	(+/- 2)%	Directorate of Analyses and Monitoring of Fiscal Policies
8	Percentage deviation of actual collection is within defined % of /approved budget estimate for tax and customs revenues	-10.2%	-2%	Met	(+/-2%)	Fiscal Department
9	Increased revenue collection as a result of improved administrative performance of tax and customs authorities, in percentage	0.57%	9.77%	Met	1.00%	Fiscal Department
10	Deviation between approved and actual capital expenditures figures	-10%	4.5%	Met	(-5%)	DG Budget
11	Public Investment trend – capital expenditure as a percentage of GDP	5%	4.5%	Met	4.50%	DG Budget
12	Budget Index produced by the International Budget Partnership, relating to information in the budget is increased (number of reports published increased from y-to-y)	46 score	NA	Data are not available until the date of the report, 31 march 2017	70th score	DG Budget
13	Public Administration employees registered in the HRMIS, in percentage	0.5%	62%	Met	90%	DoPA
14	Arrears clearance (payments), in ALL billions	72.75	1.6 billion LEK	Not met	0	DG Budget

ANNEX 5

Outcome indicators under each Pillar

Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Target Value 2020	Responsible unit
Pillar 1: Sustainable and prudent fiscal framework						
1.1. Fiscal rules, forecasting and fiscal responsibility framework						
Fiscal responsibility framework for fiscal management established in the legal framework	1.1.1 The Debt to GDP ratio planned for each budgetary year is lower than the ratio for the previous year, until the ratio of debt reaches and remains below 45% of GDP."	70 % (2013)	71.00%	Met	Declining Trend	Macro-MoF
Sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives, underpin the budget	1.1.2 Forecasted nominal GDP used in each budgetary planning phase should not be higher than the respective forecasted nominal GDP in the World Economic Outlook, published by the IMF	(+)14.3 (2013)	(-) 18,22	Met	≤ 0	Macro-MoF
1.2. National Government Accounts accounts						
Independent statistical agency produces reliable and timely National Accounts	1.2.1 Compilation of Government National Accounts according to ESA2010.	0%	0%	Not met	75%	INSTAT
1.3. Fiscal risk management						
Adequate capabilities to detect, monitor and propose measures to mitigate fiscal risks faced by the government	1.3.1 Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied	0% (2016)	0%	Not met	100% of categories are covered in the SFR	GD of Budget-MoF
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure						
2.2. Capital investment planning, appraisal and inclusion in budget						
A robust process is in place to technically and financially appraise all large public investment project proposals prior to their consideration by the Budget Committee of Cabinet for their inclusion in the budget.	2.2.1 Share of public investment projects that proposed based on the strategic priorities of the government	ISPP = 55% VSPP = 68% (2016)	ISPP = 55% VSPP = 68%	Measured for the first time in 2016	Growing trend	GD Budget Planning-MoF
Strengthened processes and institutional capacity for initiating, appraising, prioritizing and approving capital investment projects	2.2.3 Annual publication of actual disbursements for major investment projects compared to planned disbursements, along with explanation of variations	95% (2015)	96%	Met	98%	GD Budget Planning-MoF
2.3. Medium Term Budget Programme						
Prudent and stringent procedural framework for the preparation of the MTBP. MTBP framework that encapsulates the NSDI, government and sector strategic priorities for the medium term delivers desired results within sustainable financial resources for the three future years.	2.3.1 Ratio between total funds estimated in the sectoral strategies and total funding identified for corresponding sectors within the MTBP is growing	42% (2014)	53 % (2015)	Met	Growing trend	GD Budget Planning-MoF
	2.3.2 Total planned expenditures (and revenues) for the MTBP adopted in year n /Total planned expenditures (and revenues) in year n in annual budget is 0%	DEMTBP/AB = - 14% DRMTBP/AB = -1% (2015)	DEMTBP/AB = 0.4% (2016) DRMTBP/AB = -0.05% (2016)	Met	DEMTBP/AB = 0% DRMTBP/AB =0%	
2.4. Multi-year commitment controls						
Medium term commitments are comprehensively controlled within limits set by Government and Parliament through the Budget and related laws, regulations and instructions	2.4.1 The amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero;	967 million LEK (2015)	767 million LEK	Met	Declining trend	Public Investment Department , GD Budget
	2.4.2 All major projects are pre-committed in the system based on estimated disbursement schedules approved in the Budget process, before procurement action commences	NA	NA	NA	100%	General Directorate of Treasury (Treasury Operations' Department + Business Processing Department)
	2.4.3 No payment arrears are recorded on multi-year capital investment project activities' after 3 years. (this effect will be visible after 2-3 years of multi-year commitment control implementation into AGFIS)	NA	NA	NA	0	GD of Budget
2.5. PFM in local government						
Prudent, effective, and efficient financial management of the local governments	2.5.1 Improve collection and administration of taxes from the municipalities after the new administrative territorial reform.	RLGR = 3.04% RLGRG = 4% (2015)	RLGR = 3.7% RLGRG = 27.7%	Met	Growing trend Growing trend	DG Budget
	2.5.2 Increasing the share of investment expenditures in local budgets, compared with administrative expenditures (more than 0%)	RTotal M =-3.83%	RTotal M =-3.83%	Measured for the first time in 2016	RTotal M > 0% .	DG Budget
	2.5.3. Each report of external audit on the functioning of local self-government units should be available to the public, according to the legislation (the new law on local government)	NA	NA	NA	100%	DMRPFM

ANNEX 5

Outcome indicators under each Pillar

Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Target Value 2020	Responsible unit
Pillar 3: Efficient execution of the Budget						
3.1. Tax administration						
Tax administration reforms increases tax bases, supports efficient tax collection, and reduces fraud	3.1.1. Enlarge the tax base by 45% in 2020	507,891 employees; 100,765 businesses (2014)	19% employees 14% businesses	Met	30% employees 20% businesses	General Directorate of Tax, MoF
Effective, efficient, fair and transparent management of tax revenues	3.1.2. Increased tax efficiency as result of reducing administrative cost to less than 1%	1.46%	1.44%	Met	1.00%	General Directorate of Taxes , General Directorate of Customs
3.2. Customs management						
Effective, efficient, fair and transparent management of customs revenues	3.2.1. Percentage deviation of actual collection is within defined % of approved budget estimate for custom revenues	(-10.2%)	(-2%)	Met	(+/-)2%	Fiscal Directorate of Fiscal Analyses and Polices
3.3. Improve the coverage and functionality of AGFIS						
Fully transparent and efficient recording and control of the government' spending and accrued financial obligations	3.3.1. Accumulated arrears for central government measured as a percentage of total accrued expenditure at the end of the fiscal year.	0.48% (2016)	0.48%	Measured for the first time in 2016	Declining	Directorate of Treasury Operations
	3.3.2. Public Administration employees registered in the HRMIS, in percentage	0.50%	62%	Met	90%	DoPA
3.4. Management of external funds						
Effective and transparent use of the Government's management and control systems for all external funds, including EU funded projects under IPA programs in Decentralized mode.	3.4.1. Ratio of disbursements on EU and other donors funds presented in the monthly fiscal reports produced by the Treasury	10% donors financing (2014)	NA	Data are not available until the end of May 2017	Growing Trend	Directorate of Treasury Operations
3.5. Debt and cash management						
Debt sustainability analysis, as well as debt management and debt sustainability strategies based on it are prepared annually	3.5.1. Stock of domestic debt re-fixed within one year	67.7% (2015)	62.6% (2016)	Met	60.0%	Debt Department
Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania's credit rating	3.5.2. Increase days to maturity of domestic debt to 790 days (2018)	705 days (2015)	753 days (2016)	Met	790 days	Debt Department
	3.5.3. Primary fiscal balance positive with a level of more than 2%	-1.70%	(+) 0.7%	Met	2%	GD of Budget
3.6. Public Procurement						
Public procurement system is in line with EU good practice	3.6.1. The public procurement review body operates a more independent, transparent, effective and efficient remedy system, confirmed with a score of 3 (out of 5) or more at SIGMA Baseline Measurement reports	2 score (2015)	NA	Data are not available until SIGMA assessment report is issued (excepted by September 2017)	Growing Trend	PPA & PPC
A modern, sound and effective system for public procurement and concessions harmonized with the legal and institutional framework of the Acquis and EU standards and good practices	3.6.2. The percentage of cases when the review body exceeds the legal maximum processing time is below 10%	39.6% (2014)	72%	Not met	Declining trend	PPC
3.7. Asset management						
Complete asset registry including values and depreciation rules according to national standards	3.7.1. Public assets are recorded into the AGFIS at least for 5 budget institutions	0 (2014)	0	Not met	5	Treasury Department
Pillar 4: Transparent government reporting						
4.1. Accounting						
Accounting and reporting is done in compliance with IPSAS. Improvement of Financial Reporting Standards and the Quality of Financial Reporting through increase of professional capacities and the IT infrastructure	4.1.1. Presentation of financial statements as per IPSAS framework by 2020	IIPSAS CA = 0 (2014)	IIPSAS CA = 0	Not met	Growing trend	General Directorate of the Harmonization of Internal Public Financial Control
Accounting and reporting is done in compliance with IPSAS. Improvement of Financial Reporting Standards and the Quality of Financial Reporting through increase of professional capacities and the IT infrastructure	4.1.2. 100 Budget Institution of General Government shall be able to execute their budget and perform financial reporting through AGFIS up to 2020	1. Iaccess=5 2. IAGFIS= 8.5% 3. IM=16.5% (2014)	1. Iaccess=15 2. IAGFIS= 11% 3. IM=58%	Met	100 BI Growing trend Growing trend	Directorate of Treasury Operations

ANNEX 5

Outcome indicators under each Pillar

Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Target Value 2020	Responsible unit
Pillar 5: Effective internal control						
5.1. Financial Management and Control (FMC) at Public Institutions						
Effective managerial accountability in local and central governance units. Successful implementation of modern management practices at all local and central governance institutions.	5.1.1. 100 % of budget entities will use FMC requirements to improve internal control systems and achieve objectives and results	3/4 score (2015)	3.142/4 score (2016)	Met	Growing trend	MoF
5.2. Internal audit						
Well-functioning and efficient IA function in the public sector	5.2.1. 65% of internal audit recommendations have been implemented within two years;	R.impl = 45% (2014)	NA	Data are not available until the end of May 2017	Growing trend	Directorate of Internal Audit Harmonization
	5.2.2. 100% of the audit staff employed in all IA units undertook each year 40 hours of CPD training and 100% of new staff is certified within 2 years from the date of their appointment.	IACPDT= 82% IANC= 60% (2014)	IACPDT= 100% IANC= 60% (2016)	Met	Growing trend	Directorate of Internal Audit Harmonization
	5.2.3. 70% of IA reports are focused on performance issues and assessment of internal control systems (five FMC components)	40% (2015)	NA	Data are not available until the end of May 2017	Growing trend	Directorate of Internal Audit Harmonization
Pillar 6: Effective external oversight of the public finances						
6.1.External audit						
Strengthening the external oversight function by bringing it in line with INTOSAI standards	6.1.1. The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits	Compliance audit 90%	Compliance audit=76% (2016) Performance audit = 8% (2016) Financial audit = 5% 92016)	Met	Declining trend of compliance audit ratio	SAI
Strengthening the external oversight function by bringing it in line with INTOSAI standards	6.1.2. % of audit recommendations accepted and implemented by auditees is greater than 75.5%	RACC 73.4% (Baseline 2016) RIMPL75% (Baseline 2014)	RACC 73.4% RIMPL50%	Not met	Growing trend Growing trend	SAI
Strengthening the external oversight function by bringing it in line with INTOSAI standards	6.1.3. The training strategy is in place, auditors are trained according to ISSAI	TISSAI 100%	TISSAI 108%	Met	Growing trend	SAI

ANNEX 6

Donors contribution in the PFM sector

Donor	Project Title	Description	Type of Finance	Committed Funds (in euro)	Status
IMF	Extended Fund Facility	Budget Support	loan	€330,900,000	Completed
WB	Public Finance and Growth DPL	This development policy loan (DPL) aimed to strengthen the financial sector regulatory and supervisory regime and mitigate key vulnerabilities of the bank and non-bank sectors.	loan	€162,993,281	Completed
IPA 2012	Twinning to support public internal financial control and Financial Inspection	<ul style="list-style-type: none"> Support the MOF to strengthen the implementation of public internal financial control and Financial Inspection 	grant	€2,500,000	Completed
IPA 2012	Strengthening the Capacity of the Central Financing and Contracting Unit (CFCU) for efficient implementation of EU funds	<ul style="list-style-type: none"> Strengthening the Capacity of the CFCU for Efficient Implementation of the EU Funds Strengthening the Capacity of the Central Financing and Contracting Unit (CFCU) for efficient implementation. 	grant	€1,200,000	Completed
IPA 2012	Twinning "AL 12 IB FI02 Modernisation of the Albanian Customs Administration"	<ul style="list-style-type: none"> Customs legislation and procedures related to interoperability of IT systems with the EU – NCTS (New Computerised Transit System) System Enforcement and Intelligence of Customs Transit 	grant	€1,800,000	Ongoing
IPA 20132	Twinning "Strengthening of external audit capacities"	<ul style="list-style-type: none"> Improvement of legislative framework for audits; Development of audit methodologies and reporting capacities; Strengthening of ALSAI institutional capacity and improving impact of ALSAI audit results. 	grant	€2,000,000	Ongoing

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Donors contribution in the PFM sector

Donor	Project Title	Description	Type of Finance	Committed Funds (in euro)	Status
IPA 2013	Twinning "AL 13 IPA FI 02 16 Preparation of the Albanian Customs Administration for the EU-Integrated Tariff Management System (ITMS)"Upgrading the Albanian Customs Administration (Action Reference: IPA/2013/024-190)	<ul style="list-style-type: none"> Analysis of the Albanian Customs Legislation with regard to the EU customs ITMS related issues; Component III: Twinning Aligning customs legislation and procedures related to tariffs Adjustment of the ACA's information system to allow full interoperability with the EU information systems; Improvement of ACA's Administrative Capacity: Organization, Training and Communication. (Contract ref. IPA/2014/PG/0058-8194) 	grant	€1,800,000	Ongoing
IPA 2013	Technical assistance contract to develop computerised Integrated Tariff Management System (ITMS)	<ul style="list-style-type: none"> Develop the Albanian ITMS, prepared for the interoperability and interconnectivity with EU system; Integrate the newly developed ITMS system into the existing/operational ACA IT environment (i.e. Albanian ITMS operational and in use); <p>Supply the required ICT hardware and software for the implementation of ITMS, as applicable.</p>	grant	€2,000,000	to start in Sep 2017
IPA 2014	Sector Reform Contract for Public Financial Management	Budget Support: Support to public finance management (PFM) reforms in order to ensure fiscal discipline, more prudent financial management towards efficient public service delivery.	grant	€40,000,000	Ongoing
IPA 2014	Technical assistance to support the strengthening of the capacities for the implementation of the Public Finance Management (PFM) strategy	To strengthen the capacity of the Government and especially the Ministry of Finance and other stakeholders to implement the public finance reform strategy, strengthened transparency and accountability processes through enhanced dialogue and availability of information through Parliament, High State Control and strengthen the capacity of the Ministry of Finance for the better coordination and management of the reform process.	grant	€1,900,000	to start in Apr 2017

ANNEX 6

Donors contribution in the PFM sector

Donor	Project Title	Description	Type of Finance	Committed Funds (in euro)	Status
USAID	Albania Financial Sector Development Program	Provide technical assistance in support of Albania's private financial sector, as well as banking supervision. Assist the FSA	grant	€4,006,350	Ongoing
Switzerland	Financial Sector Strengthening Albania	Support strengthening of supervisory and regulatory capacities of the FSA with regard to the investment funds and municipal bonds market	grant	€1,869,609	Ongoing
Switzerland	Southeast Europe Tax Transparency and Simplification Program	Improve tax compliance by increasing the transparency and simplicity of tax administration procedures. The activities are grouped around three work streams: (i) Domestic taxation: simplifying tax administration procedures; (ii) International taxation: improve the legal framework and efficiency of international taxation procedures (transfer pricing and Double Taxation Treaties); (iii) regional cooperation.	grant	€ 998,280 (approx.)*	Ongoing
Switzerland	Support Central Bank of Albania	Support Central Bank of Albania to strengthen forecasting, monetary policy and research capacities	grant	€2,000,000 (approx.)*	Ongoing
Switzerland	WB: Remittances and Payments	Improve the overall market for remittances and ultimately achieve further financial inclusion, broader usage of electronic payments and the reduction of the cost of remittances	grant	€1,000,000 (approx.)*	Ongoing
Switzerland	Financial Programming	Objective of the Project is to enable beneficiaries develop their own financial programming models, take command of technical analysis, negotiate with third parties in more proactive terms	grant	€ 800,000 (approx)*	Ongoing

ANNEX 6

Donors contribution in the PFM sector

Donor	Project Title	Description	Type of Finance	Committed Funds (in euro)	Status
Switzerland	Support for Public Accounting reforms	The project will provide technical assistance and capacity building will be provided with the aim to (i) improve the management of budget resources, (ii) improve decision-making, and (iii) enhance the overall transparency of the use of fiscal resources	grant	€1,869,609	Ongoing
Switzerland	Support to improve capacities for GFS and EDP reporting	The project provides ongoing technical assistance (TA) and training to improve capacity for government finance statistics (GFS), with a focus on ensure compliance with EU requirements under the Excessive Deficit Procedure (EDP)	grant	€341,380	Ongoing
Switzerland	Support to improve public debt management	The project comprises two phases: phase 1 relates to the consolidation of the external/internal database at the MoF, through installation of DMFAS 6 for external and domestic debt management and technical assistance for strengthening of the middle and back office functions (debt filing and service, strategy formulation and debt monitoring); phase 2 is about the interface between treasury and DMFAS	grant	€424,182	Ongoing
Sweden	Tax cooperation on property tax	A 3d phase of cooperation between the Swedish and Albanian tax administrations focusing on digital archiving, tax-payers services and fiscal cadastre (property taxing).	grant	€3,204,300	Ongoing
IPA 2013 Switzerland Sweden	Multi Donor Trust Fund (MTDF) on Capacity Building Support to Implement the Integrated Planning System (IPS II)	Assist the GoA to relate its budget to the development of the country and its integration in the EU. Increase capacities in the GoA to implement and monitor the IPS.	grant	€1,100,000 €979,167 €1,771,060	Ongoing

ANNEX 6

Donors contribution in the PFM sector

Donor	Project Title	Description	Type of Finance	Committed Funds (in euro)	Status
USG/USAID	Planning and Local Governance Program	USAID's Planning and Local Governance Project (PLGP) provides a component to support the Government of Albania efforts to successfully implement decentralization legislation, policies and reforms.	grant		Ongoing