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MINISTRY OF FINANCE AND ECONOMY

PUBLIC FINANCE MANAGEMENT REFORM

2014-2020

2017 Monitoring report

March 2018

PFM Strategy 2017 Monitoring Report

List of Acronyms

AEO	Authorised Economic Operator
ADISA	Agency for the Delivery of Integrated Services Albania
AFCOS	Anti-Fraud Coordination Service
AFMIS	Albanian Financial Management Information System
AGFIS	Albanian Government Financial Information System
ASPA	Albanian School of Public Administration
BIs	Budget Institutions
BoA	Bank of Albania
C&DMC	Cash and Debt Management Committee
CEF	Centre of Excellence in Finance
CHIF	Compulsory Health Insurance Fund
CHU	Central Harmonization Unit
DLDP	Decentralization and Local Development Programme
DMFAS	Debt Management and Financial Analysis System
DWH	Data Warehouse
EAMIS	External Assistance Management Information System
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDP	Excessive Deficit Procedure
ESA	European System of Accounts
ERPIM	Electronic Register for Public Investment Monitoring
EU	European Union
EUD	European Union Delegation
EUROSAI	European Organization of Supreme Audit Institutions
FAD	Fiscal Affairs Department
FDI	Foreign Direct Investment
FIRST	Financial Sector Reform and Strengthening Initiative
FMC	Financial Management Control
FPT	Financial Planning Tool
FRS	Fiscal Risk Statement
FRU	Fiscal Risk Unit
GDC	General Directorate of Customs
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GoA	Government of Albania
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GFSY	Government Finance Statistics Yearbook
HRMIS	Human Resources Management Information System

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HSC	High State Control
IA	Internal Audit
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
INSTAT	Institute of Statistics
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPS	Integrated Planning System
IPSAS	International Public Sector Accounting Standards
IPSIS	Integrated Planning System Management Information Systems
ISSAI	International Standards for State Audit Institutions
JVI	Joint Vienna Institution
LGUs	Local Government Units
LM	Line Ministries
MOFE	Ministry of Finance and Economy
MEDTE	Ministry of Economic Development Trade and Enterprise
MTBP	Medium-Term Budget Program
NAIS	National Agency for Information Society
NDSI	National Strategy for Development and Integration
NIC	National Investment Council
NPEI	National Plan for European integration
NPI	New Policy Initiatives
NRC	National Registration Centre
NSDP	National Summary Data Page
NSPP	National Strategic Project Pipeline
OBL	Organic Budget Law
PAR	Public Administration Reform
PEFA	Public Expenditure and Financial Accountability
PFIC	Public Internal Financial Control
PFM	Public Financial Management
PFM SRC	Public Financial Management Sector Reform Contract
PIFC	Public Internal Financial Control
PIM	Public Investment Management
PMO	Prime Minister Office
PPA	Public Procurement Agency
PPP	Public Private Partnership
PSIU	Public Sector Institutional Units
QPSD	Quarterly Public Sector Debt
RDF	Regional Development Fund
ReSPA	Regional School of Public Administration
RNAN	Regional NICs Advisory Network
SAI	Supreme Audit Institution
SBS	Sector Budget Support
SBPG	Standard Budget Preparation Guidelines

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SDMX	Statistical Data and Metadata Exchange
SECO	State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
SOE	State Owned Enterprise
SPC	Strategic Planning Committee
TA	Technical Assistance
TCATC	Tax and Customs Administration Training Centre
USAID	United States Agency for International Development
WB	World Bank

EXECUTIVE SUMMARY

This is the **third Public Finance Management Annual Monitoring Report** for Albania and covers the period 1 January 2017 to 31 December 2017. It provides detailed information on the implementation progress of the PFM Strategy.

The introductory **Section 1** provides an **overview of fiscal progress** and the economy has continued to grow in the first three quarters of 2017. An **overview of key performance indicators' results** is presented. 14 general PFM indicators were in place with eight met, five not met, and one without data available. Regarding overall specific performance indicators, 19 out of 36 indicators were met, seven not met and seven partially met. Data was unavailable for a quarter of the indicators. A range of **PFM strategy instruments** in relation to legislative changes; capacity development activities; Integrated Financial Management System (IFMIS); and changes in process and management culture were put in place during 2017. The section includes a list of **key reform priorities for 2018** including: the anti-formality campaign; Public Investment Management procedures; Fiscal Risk monitoring; and the prevention of arrears, amongst others. A mid-term evaluation of the strategy resulting in a review of priorities and action will be undertaken during 2018.

Section 2 of the monitoring report lays out **donor support to the PFM sector** which is dominated by loans, around 95 per cent of total funding, provided by the International Monetary Fund (IMF) and World Bank (WB). Other donors in the sector include: the European Union (EU), Sweden, Switzerland, and USAID which provide their assistance through grants, budget support and TA. There were 20 donor supported projects under implementation during 2017 with Eur. 88.17 million committed to new projects in 2017 (Annex 4). The EU funded PFM Technical Assistance (TA) commenced in April 2017, aiming to strengthening the capacity of the stakeholders to implement the PFM strategy and information on its objectives and scope are described. Under the Integrated Planning System Trust Fund II managed by the World Bank (WB) and currently financed by EU/IPA 2013, Sweden, and Switzerland are financing components to strengthen the finance systems, through External Assistance Management Information System (EAMIS) and Albanian Financial Management Information System (AFMIS).

Section 2 also presents the key findings of key PFM related assessments undertaken by development partners during 2017. **SIGMA's** Support for Improvement in Governance and Management. Public Administration Reform (PAR) report findings are included with detailed recommendations contained in the Annex 5. The need for improvements in transparency and comprehensiveness of budget reporting and scrutiny is identified in particular. However, a comparison between countries in the region is presented and it is noted that Albania is scored higher than other countries for the MTBP and budget process indicators. The findings of the Public Expenditure and Financial Accountability (**PEFA**), undertaken jointly by MOFE and the WB are summarised and areas for improvement are highlighted. Compared to the assessment carried out in 2011, substantial improvements are noted in some key indicators including: revenue forecasting; managing and reporting commitments and expenditure arrears ; comprehensiveness of the budget package and important fiscal information now available to the public; the first Citizen's Budget was prepared and published, as well as the Six Monthly Report on Macroeconomic, Fiscal and Budget Performance of the Government; and improvements in public access to procurement information. Concerns were raised in relation to: the extent of unreported operations; transparency of inter-governmental fiscal transfers; orderliness and participation in the annual budget; and legislative scrutiny of external audit reports. The outcomes EU's Compliance Review mission reports are also reflected, with the first mission's recommendation for the release of EUR 8,125,000 for disbursement of the 2nd tranche of Budget Support; with six out of eight indicators having been met. Key findings of the **Albania Country Procurement and Contract Implementation (CPCI) Review** are presented, undertaken by the WB; Islamic Development Bank, in cooperation with the Government of Albania (GoA), the EU Delegation, the Embassy of Switzerland in Albania, SIGMA-OECD and European Bank for Reconstruction and Development (EBRD). The aim was to gain a better understanding of the environment and the factors affecting the implementation of civil works projects. The mission found that significant achievements on public procurement reform had been made but more is still needed. The findings

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of the 7th **Albanian Extractive Industry Transparency Initiative Report** for 2016 are also summarised and the key areas of focus of the report are explained. The EITI Standard requires countries and companies to disclose information on the key steps in the governance of oil, gas and mining revenues including: contracts & license, production, revenue collection, revenue allocation and social & economic spending. Production value generated during 2016 by these sectors is estimated at USD 613 million the sectors' collective known contribution was about 6 per cent of National Budget revenues for 2016.

Finally, Section 2 provides information about **the visibility of the PFM Strategy** which serves as a policy dialogue framework for all donors and civil society actors active in the sector. Meetings of the both the PFM Steering Committee (SC) and the Technical Committee were held during 2017 where the progress of the implementation of the PFM Strategy was reported. In terms of transparency, Albania improved its score in the Open Budget Survey it provides few opportunities for the public to engage in the budget process. Some initiatives have been launched including a "Transparency Portal" on Local Finance was also established on MOFE website.

Section 3 comprises the main body of the report and presents progress of each of the six Pillars' objectives, outcome indicators and actions in some detail. Each sub-section commences with a summary of the Pillar's progress. **Pillar 1: Sustainable and prudent fiscal framework** comprises four objectives with supporting outcome indicators, with **good progress** having been made since three out four having been met. *Debt to GDP ratio planned for 2017 is lower than 2016* and the *annual deficit was significantly lower than the planned capital expenditure at an average of 3.4 percent of GDP in 2017*. Nominal GDP was 0.21 million Lek – less than the IMF forecast. After **fiscal rules** were introduced in OBL, more efforts have been made to enforce these rules and principles. The 2017 annual consolidated budget implementation report published each year by the MOFE in June, now includes the Macroeconomic Policies and Fiscal Issues Directory. The compilation of **Government National Accounts** remains non-complaint according to *European System of Accounts* (ESA) 2010, although the indicator has improved compared to 2016. The target of 50 per cent of categories covered by the Statement of **Fiscal Risk** (SFR) was met. At the activity level, seven actions comprise this Pillar, with three having been completed and four in progress. For the first time, *INSTAT prepared GFS data according to the requirements of ESA 2010 transmission program*. The Public Sector list was officially published on the INSTAT Website during the second half of 2017. A monthly National Summary Data Page (NSDP), supported by IMF mission, was published for the first time on the INSTAT website providing essential macroeconomic data. The SECO-funded IMF TA project continued into its second phase and several SECO missions took place supporting the production of GFS and EDP statistics. The WB assisted FRU in identifying sources of fiscal risks to the GoA from its contingent liabilities and helped assess the associated direct and indirect fiscal costs and risks stemming from its PPP projects. *The first draft of the SFR, a legal requirement, was under preparation during 2017 but not published.*

Pillar 2: Well integrated and efficient planning and budgeting of public expenditure comprises five objectives, which show **mixed progress**, with one objective having been met; two partially met and two not met. *The ratio between total funds estimated in the sectorial strategies and total funding identified for corresponding sectors within MTBP* has increased to 56 per cent, compared to the 2016 of 53 per cent. 57 per cent of **investment projects** included in the MTBP and 75 per cent of projects proposed were based on strategic priorities in 2017. The indicator addressing *Actual disbursements for major investment projects compared to planned disbursements along with explanation of variations*, which was only just not met, having achieved 96 per cent instead of the 97 per cent target. There continued to be deviation between total **planned expenditures** adopted for the first year of the MTBP against total planned expenditures adopted in 2017 Annual Budget. The indicator addressing *the amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero*, was not met since there was a gap of 682 million LEK; and secondly *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* was not available since the AGFIS and APP systems are not integrated as yet, to ensure that funds are pre-committed in the Treasury System before the procurement process starts. In relation to **Local Government**,

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the Law “On the finances of the local self-government” was approved on 27 April 2017, establishing foundations for a fiscal and budgetary discipline in all local units. There was some improvement of *collection and administration of taxes from the municipalities* but there was a declining trend in the growth ratio but there was an increase in the *share of investment expenditures in local budgets, compared with expenditures*.

At the activity level, 17 actions comprise this Pillar, with three having been completed and 14 in progress. The National Sectorial Health Strategy 2016 – 2020, and the National Strategy for Science, Technology and Innovation 2017-2020 have been approved. Until December 2017, *26 strategies, as part of NSDI II have been adopted* by the Albanian Government. The PMO in close collaboration with OECD/SIGMA has prepared a *new methodology is currently being piloted in five Ministries aiming to standardise the process of monitoring and reporting* of the strategic frame (the NSDI, sectors and cross cutting strategies). During 2017, seven strategy monitoring reports out of 25 were prepared including the PFM Strategy 2016 Monitoring Report. The General Secretariat of SPC/NIC collaborated with the LMs and the Budget Management Group in close cooperation with the MOFE resulting in the revised *National Strategic Project Pipeline (NSPP), 2015, and for 2016-2017 - comprising 143 projects within five sectors, having been approved* on 17 May 2017 by the Strategic Planning Committee. The NSPP comprises 2 main categories: *Category I – Connectivity Balkan Projects*, and *Category II – Projects of National/ Regional Relevance*; the Category I projects comprise 21 projects with a total investment cost of Euro 2.2 billion but the *financing gap is 79 per cent*. In line with the amended OBL, the first Methodological Guideline for fiscal risks monitoring was drafted by FRU at the beginning of 2017 that defined the role of MOFE for fiscal oversight of State Owned Enterprises (SOEs). At the end of 2017, all 11 LMs became users of the “Electronic register for public investment monitoring” (ERPIM). MOFE updated financial and fiscal data of LGUs and their comparative analysis; and for the first time in 2017, the LGUs legal framework, “LGUs MTBP 2018 – 2020”, 2017 Annual Local Budget, and Local Budget Analysis were published on the portal. MOFE in collaboration with LGUs, has prepared an action plan for the payment of the Arrears and LGUs have complied with the requirement to report arrears quarterly at local level; however new arrears remain an ongoing issue.

Pillar 3: Efficient execution of the Budget Pillar 3 comprises ten objectives and is making **very good progress** despite being packaged within an unwieldy pillar framework. According to the outcome indicators, seven objectives were met, two partially met, and one could not be measured. There are two objectives covering **taxation** with all three outcome indicators having been met. The *tax base increased* to 25 per cent employees and 17 per cent of businesses in 2017 and the *Tax efficiency ratio* increased more than expected. In terms of *reimbursement of VAT*, the cases reviewed versus total requests for reimbursement increased more than target. Tax and **customs** revenue collection also increased its efficiency. *Accumulated arrears for central government measured as a percentage of total accrued expenditure at the end of the fiscal year* remained static. 58 per cent of *Public Administration employees* are now registered in the HRMIS. Public **Procurement** achieved a score of 3 in the SIGMA assessment; and a declining trend was achieved in the *percentage of cases where the review body exceeds the legal maximum processing time*. The **public assets** of six Budget Institutions (Bis) are now recorded in AGFIS. Debt management comprises two objectives: “*Debt sustainability analysis, as well as debt management and debt sustainability strategies based on it are prepared annually*” with its outcome indicator **having been met**; “*Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania’s credit rating*” composed by two outcome indicators **was partially met**.

At the activity level, 31 actions comprise this Pillar, with eight having been completed and 23 in progress. The **Tax Administration Information System** used since 2015 by the Tax Authority was finalised during 2017. A *tax appeal department was re-established* within MOFE in April 2017 and a Tax Administration Internal Regulation and Manuals for the General and Regional Directorates were approved. The Risk Management Directorate has initiated two Projects for the Trade and Health Sectors. A *sector strategic plan and action plan for monitoring of tourism activities and risk management compliance* was established and implemented. Revisions to *audit manuals* and related procedures have been completed to time and quality.

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Several *Memorandum of Understanding* (MoU) by MOFE and key stakeholders: Electricity Power Distribution Operator (*OShEE*); *municipalities* of Tirana, Durrës, Korçë, and Fier; and *Kosovo*. A new property tax law was promulgated in December. A range of *support and information for taxpayers* have been launched including: website, help desks, Call Centre, business visits, and brochures. The Tax Administration began to *implement the Anti-Informality Action Plan*. The health sector was selected as a high-risk for the under-declaration. A two-year *Action Plan on Debt Management* was drafted.

New Laws on *Tax Liabilities* the Removal Procedure from circulation of the Transport Vehicles were promulgated. To cover the amnesty of fines and interest, a total of 2.8 billion ALL was paid to cover the principal liabilities which was reimbursed by a loan amounting to 3.57 billion ALL. In 2017, more than 21 billion ALL *debt arrears* was collected; there was a 35 per cent reduction in the creation of new debt arrears, compared to 2016; and debt stock decreased from 147 billion to 95 billion. *Customs* implementation and Simplification Guidelines have been adopted and implemented. A “Business Strategy for Custom Administration” - framework with private sector, has been prepared. Albanian Customs and Italian Industrialists Association in Albania (Confindustria Albania) have signed a Cooperation Protocol to facilitate the procedures for Italian companies present in Albania. GDC has benefited from a framework of cooperation in relation to the EXBS Program for Export Control and Border Security with training and equipment received. GDC has created a range of complaint mechanisms for business operators to appeal decisions by the customs authorities, with 299 complaints received. The new Customs Code was adopted but requires Asycuda World System for enabling full implementation. A new website was launched; and the Albanian Customs Portal, e- customs, offers new real-time services to help businesses and individuals. The “Modernization of the Albanian Customs Administration” twinning project ended in December 2017. Main outputs related to Customs legislation and procedures for interoperability of IT systems with the EU – NCTS; and Enforcement and Intelligence of Customs Transit. In March 2017 the Twinning Project “Aligning Albanian Customs tariff legislation and procedures with the EU *acquis* and supporting interoperability of IT systems with the Integrated Tariff Management System, ITMS” started for a two-year extension period.

In 2017, 15 BI had rolled out into **AGFIS**, covering 75 per cent plus of budget expenditures. The **Debt Management** Financial Analysis System (DMFAS) has been fully functional for both external and domestic debt during 2017. A Cash and Debt Management Committee (C&DMC) was established to improve the coordination between budget execution, debt management and monetary policy implementation. Amendments to the Law on **Public Procurement** regarding the guarantee of Independence of the Public Procurement Commission were approved; and the re-engineering of the electronic procurement system has been finalised. An audit manual for HSC on procurement has been developed.

Pillar 4: Transparent government reporting has only one objective, to ensure accounting and reporting compliance with International Public Sector Accounting Standards (IPSAS) *through increase of professional capacities and the IT infrastructure*. The outcome indicators have been partially met since the *presentation of financial statements as per IPSAS framework by 2020* has not yet started. Considering the broad scope of increasing transparency agenda, this objective is particularly narrowly focused. At the activity level, five actions comprise this Pillar, with four in progress and one not yet started. Progress is slow but the PFM TA is now supporting MOFE to increase the comprehensiveness and transparency of budget planning and reporting, including the involvement of CSOs. These actions draw on the progress being undertaken within other pillars, such as Pillar 1 in relation to GFS reports. The MOFE is being assisted by BOOST initiative, a WB collaborative effort, to facilitate **public access to budget data** and promote effective use for improved decision-making processes, transparency and accountability. A “Transparency Portal” on Local Finances was established in collaboration with Co-Plan on the MOFE website. In addition, the MOFE website includes: Quarterly Income Reports; Quarterly Reports of Expenditures, income per capita, spending per capita; Annual Budget; Mid -Term Budget Program; Fiscal Package; the legislative framework of LGU; and approved budgets and the MTBP for municipalities. During September – October, the government led nationwide open budget consultations exercises at the regional level.

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Pillar 5: Effective internal control comprises two objectives with one having been met and the other partially met due to information being unavailable about training completed. There is a growing trend of usage of FMC instruments in the public sector. At the activity level, eight actions comprise this Pillar, with two having been completed and six in progress. Instructions and manuals were issued and the 2016 PIFC Annual Report was approved. This year, for the first time, a detailed performance analysis of all LGUs was conducted and municipalities were categorised based on the existence or not of Internal Audit (IA) Units. On completion, official letters were issued with the status of the internal control system and recommendations for improvements. The plan to implement modern FMC system within six selected pilot institutions was not delivered due to the appointment of the technical government. Training and monitoring sessions, workshops and meetings were held with high level managers and heads of central and local institutions. Three orders of the Minister of Finance were approved in relation to internal audit of the public sector: DoH/IA in collaboration with SIGMA, undertook external quality assurance of auditing in selected central Ministries and Municipalities; and five quality external evaluations were conducted. **Public Inspection** was unable to deliver on information and awareness of the authority internally and externally because of the Election and government restructuring which effected a change in high-level staff.

Pillar 6: Effective external oversight of the public finances has one objective to Strengthening the external oversight function by bringing it in line with INTOSAI standards. Its three outcome indicators showed mixed performance and were partially met. Compliance audits decreased to 75 per cent while financial and performance audits increased to 9 and 10 per cent respectively. The indicator on percentage of audit recommendations accepted versus those issued was not met, whilst the indicator on percentage of audit recommendations implemented versus issued was met. An SAI training strategy is in place and auditors are trained according to ISSAI. At the activity level, five actions comprise this Pillar, with two having been completed and three in progress. 156 Audits were undertaken: 117 Compliance Audits; 14 Financial Audits; 15 Performance Audits; five IT Audits; and five Thematic Audits. The New “*Regulation of Audit Procedures*” was approved ensuring the alignment of audit approach and methodology with INTOSAI Standards, ISSAI-s. An average of 28.5 days training was received by 145 auditors as part of the 2017 training plan. All IT audit staff were trained and methodology and IT audit guidelines were further developed. An IT Help Desk was created and training sessions delivered. IPA and ALSAI experts developed a pilot IT tool on preparing the 2017 Audit Plan. An Audit of the IT system of the Directorate of the Local Taxes of the municipality of Tirana was undertaken and reported. As part of IPA 2013 Project, a seminar “*On the relations between SAI and Parliament*” was organised. Acts were promulgated in relation to the implementation of: *Mechanisms for Systematic Monitoring of the Follow-up Recommendations*; and *HSC’s obligations towards the Albanian Parliament*; and the Annual Report on the State Budget Execution, 2016 was approved. ALSAI also delivered 24 audit reports of high public sensitivity to the Parliament. The IPA project’s “*Communication Strategy 2017-2019*” was approved a working group for its implementation established. 98 per cent of audit decisions of the Chairman have been published on the ALSAI website and a range of comprehensive visibility efforts were made. A review of the anti-corruption/fraud system in Albania and ALSAI related achievements was undertaken and an internal report of challenges/constraints produced along with training. A Fraud and Corruption Audit Manual was developed in collaboration with SAI’s EU funded experts of Poland.

Annex 1 presents the Status of implementation of Pillar actions during 2017. A traffic light system is used where Red = Not Met; Amber = Partially Met; and Green = Met. Annex 2 provides an overview of the Passport of general PFM Indicators using the same traffic light system. Annex 3 provides an overview of Specific Outcome Indicators for each Pillar, broadly relating to each Objective. This is the detail that is reported on under each pillar within Section 3 of the report.

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1. INTRODUCTION AND CONTEXT

1.1. Introduction

This is the third Public Finance Management (PFM) Annual Monitoring Report for Albania and covers the period 1 January 2017 to 31 December 2017. It encompasses one year of reform efforts and provides detailed information to the PFM Steering and Technical Committees on progress achieved and challenges in meeting the Strategy's objectives and actions.

During 2017 the Government of Albania (GoA) continued to strengthen its capacities to meet the objectives set out in the PFM Strategy. Several reforms have been pursued, with the main focus being to improve performance against the public finance management framework. Performance is measured in relation to two groups of performance indicators: 'general' and 'specific'. These indicators are defined in the "Passport of Indicators", approved in October 2016 and reported on against the baseline for the first time in the Annual Monitoring Report, 2016. Performance has been assessed against specific targets for 2017 and hence this year's measurement presents a more complex overview.

1.2. Fiscal progress in 2017

There are numerous quantitative measures that demonstrate the continuous efforts for the reforms to date and the significant challenges that the Government faces. The following tables provide a summary assessment of the government's key fiscal performance over the past four-years.

Table no.1: Out-turn of Budgetary Central Government Operations

	2014		2015		2016		2017	
	<i>Lek million</i>	<i>% of GDP</i>	<i>Lek million</i>	<i>% of GDP</i>	<i>Lek million</i>	<i>% of GDP</i>	<i>Lek million</i>	<i>% of GDP</i>
Total revenues	366.721	26.3	379.206	26.6	407.021	27.6	430,396	27.7
Total expenditures	438.849	31.5	437.408	30.6	433.697	29.4	461,408	29.7
Overall balance	(72.128)	5.2	(58.202)	4.1	(26.676)	1.8	(31,012)	2

The economic activity in Albania has continued to grow in the first three quarters of 2017. The latest short-term indicators signal ongoing moderate growth in Gross Domestic Product (GDP) in the short-term. The latest macro-economic data available for 2017 is as follows:

GDP grew by 3.87% in the first nine months of 2017 (3.37% in 2016 on annual terms)

- Unemployment rate (15-64 years old) for Q3 2017 decreased by 1.2% compared with Q3 2016 (according to Institute of Statistics (INSTAT)).
- Current account for 2017 is -7.6% of GDP, remaining unchanged since 2016.
- Foreign Direct Investment (FDI) rose with 0.4% in the third quarter of 2017 compared to the third quarter of 2016, and for the first three quarters of 2017 FDI rose with 4.2% compared to the same period of the previous year.
- Average inflation rate for 2017 was 2.0%.

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- Exports of goods for Jan- Dec 2017 grew by 12.1% compared with Jan-Dec 2016. Imports of goods for Jan- Dec 2017 grew by 8.1% compared with Jan-Dec 2016.

The Ministry of Finance and Economy (MOFE) has the following projections for the main economic indicators for 2017 – 2021

Table no. 2: Projections for the main economic indicators for 2017 – 2021

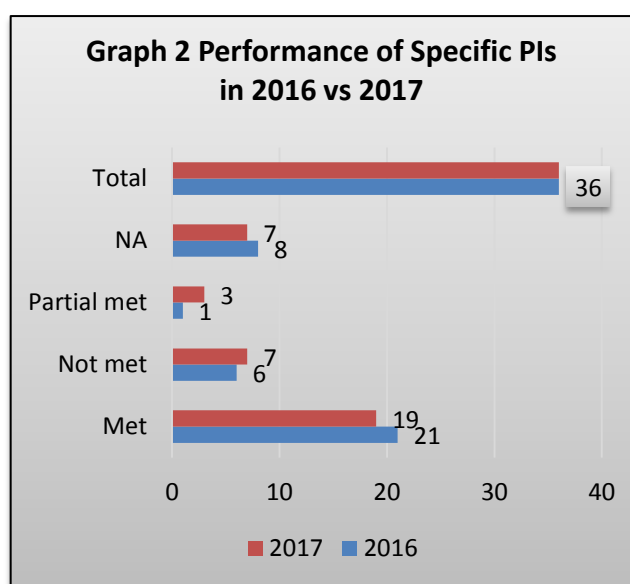
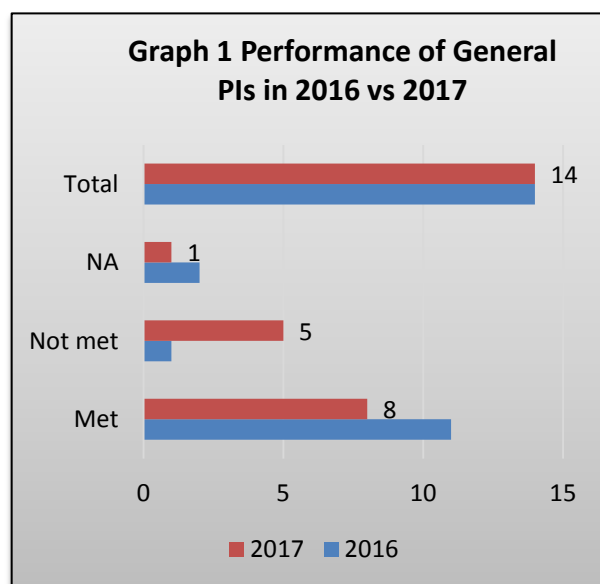
	2017	2018	2019	2020	2021
	Est	Proj	Proj	Proj	Proj
<i>Real GDP Growth</i>	3.9	4.2	4.3	4.4	4.5
<i>Nominal GDP Growth</i>	5.6	6.1	6.4	6.7	6.8
<i>Inflation (average)</i>	2.0	2.7	3.0	3.0	3.0
<i>Exports (% of GDP)</i>	7.6	7.8	8.0	8.3	8.4
<i>Imports (% of GDP)</i>	-31.4	-30.8	-30.8	-30.7	-30.6
<i>Current account</i>	-7.6	-6.7	-6.5	-6.5	-6.1

Source: Ministry of Finance and Economy

1.3. Overview of Key Performance Indicators' performance

14 general PFM indicators were in place during 2017: with 8 met, 5 not met, and 1 without data available. There was a downturn in performance of general indicators in 2017 compared with 2016.

Regarding overall specific Performance Indicators, 36 indicators were in place during 2017: with 19 out of 36 indicators having met the target values of 2017, 7 not met, 3 indicators partially met and 7 without data available. Graphs 1 and 2 below present the performance of indicators during 2017 compared to 2016.

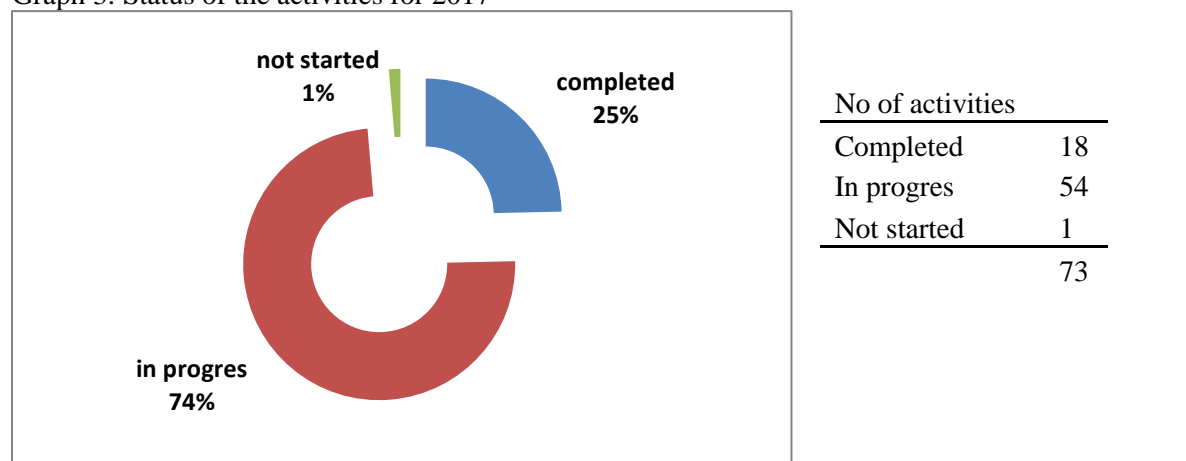


This report provides an assessment of the Public Financial Management (PFM) eligibility criteria for the EU to provide budget support to Albania. The PFM eligibility criteria requires that there is a credible and relevant programme to improve public financial management and there is a satisfactory progress 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.

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PFM progress is overall *satisfactory* according to our self-assessment. During 2017, as shown below (Graph no. 3), 25% of the activities have been completed, 74% are in progress and 1% has not started yet.

Graph 3: Status of the activities for 2017



1.4. PFM Strategy instruments put in place

To achieve modern and efficient management of public finances Albania has adopted several instruments of reform: legislation, culture changes and process reengineering, capacity building and IT-development. A summary of adoption of these instruments during 2017 is given below (Table 1):

Table 1 PFM Strategy instruments

<p>Legislative changes</p> <ul style="list-style-type: none"> 4 new Laws/or amendments to the existing laws were made during 2017 On amendments and additions to Law no. 9632, dated 30.10.2006, "On the Local Tax System", as amended, "On Payment and Deletion/ Suppression of Tax Liabilities, Payable Liabilities in Customs, as well as the Removal Procedure from circulation of the Transport Vehicles, after Deletion / Suppression of Tax Liabilities", "On the finances of the local self-government", "On some changes and amendments to the law no. 9643/2006 "On public procurement"); 28 new decisions, guidelines, manuals, instructions were issued. <p>Capacity development activities:</p> <ul style="list-style-type: none"> 2369 staff are trained during 2017; Study tours and on the job training provided under the Twinning Agreement at the MOFE and HSC; EU Technical Assistance to primarily to support MOFE in strengthening the capacities for the implementation of the Public Financial Management Strategy commenced in April 2017 until 2020. 	<p>Development of a full-fledged Integrated Financial Management System (IFMIS)</p> <ul style="list-style-type: none"> It was finalised General Data Dissemination System (e-GDDS); AFMIS, Integrated Planning System Information System (IPIS) and EAMIS are under implementation process; Improved IT systems and procedures at central and local levels at General Directorate of Customs (GDC); Replaced the existing information system with a new and advanced system at General Directorate of Tax finalised in 2017 (Tax Administration Information System); Improved Risk Module at General Directorate of Taxation (GDT) During 2017, Debt Management and Financial Analysis System (DMFAS) it has been fully functional for both external and domestic debt; Finalization of re-engineering of the electronic procurement system by adding new functionalities and increasing its capacity; A new Software REV Zone adopted at ALSAI. <p>Changes in processes and management culture</p> <ul style="list-style-type: none"> A twinning project "Modernization of the Albanian Customs Administration" which aimed to implement the New Computerized Transit System in ACA, ended in December 2017; 131 Executing officers are trained on new FMC framework and 63 staff are trained on the "Managerial accountability" concept;
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As secondary input in PFM reform are considered other financial reports, which are outputs from key PFM stakeholders. These reports are annually produced to present achievement of each institution and can be easily accessed in respective institution website:

- Annual General Directorate of Taxation (GDT) Report 2016¹
- Annual Public Procurement Agency Report 2017²
- Annual Public Procurement Commission 2017³
- Annual Public Internal Financial Control (PIFC) 2016⁴.
- ALSAI Performance Report 2016⁵.
- Summary Bulletin No. 4 for the Period January -December 2017⁶.
- ALSAI Annual Report 2016⁷.

The implementation of PFM Reform requires an inclusive approach in which coordination and cooperation are crucial elements for progress. The achievement of PFM reform objectives is conditioned by the challenges faced during 2017 such as:

- The restructuring of the institutions due to new government after the election of June 2017, made it difficult for the MOFE to build a solid foundation for carrying out its role in the public sector. The new government decision to remove all IT units from each institution to re-establish under National Agency for Information Society (NAIS) caused many implications for daily operation and above all, the budgetary funds dedicated for IT systems implementation and improvements need to be re-channelled from respective institution to NAIS. However, with the Order of Prime Minister no.161, dated 5.10.2017, "On the approval of the organizational structure of Ministry of Finance and Economy", MOFE filled previous vacancies.
- Integration of AFMIS with other systems (APP, HRMS, Debt Payment System, MTBP, Customs).

1.5. Key reform priorities for 2018

The priorities for 2018 in the PFM framework, which will have more focus and dedicated capacities relate to:

1. Updating Action Plan to follow the Anti-Informality campaign (by Tax and Custom Authorities), which will continue to be a main government priority.
2. Public Investment Management Procedures, which should be finalised, approved and begin to be implemented in 2018.
3. Fiscal Risk Statement, which is planned to be published for the first time in July 2018.
4. Approval of Methodological Guideline for Fiscal Risks Monitoring, aimed in particular at fiscal oversight of State Owned Enterprises (SOE).
5. Prevention of creating new arrears. Following the E&Y action plan with recommendations to avoid new arrears creation.

¹ <https://www.tatime.gov.al/shkarko.php?id=939>

² <http://www.app.gov.al/legjislacioni/prokurimi-publik/raporte-dhe-monitorime/>

³ <http://www.kpp.gov.al/ppadv/AnnualReports.aspx>

⁴ <http://www.financa.gov.al/en/the-ministry/departments/general-directorate-of-harmonization-of-public-internal-financial-control/joint-reports-for-chu-fmc-and-chu-ia>

⁵ http://www.klsh.org.al/web/alsai_performanca_compressed_3249.pdf

⁶ http://www.klsh.org.al/web/permbledhje_buletini_nr_4_3835.pdf

⁷ http://www.klsh.org.al/web/analiza_2016_3401.pdf

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6. The new Standard Budget Preparation Guidelines (SBPG) implementation.
7. The sub legal acts of the Law “On the finances of the local self-government”, should be finalised in order to strengthen its implementation.
8. External Assistance Management Information System (EAMIS) implementation, to progressively manage external funds through government systems.
9. Approval of Internal Audit Methodology to reflect the latest changes in international standards.
10. Approval of the provisional Instruction "On the procedure of preparation, presentation and reporting of financial statements annually in general government units ", to regulate the field of accounting in the public sector based on Generally Accepted Accounting Principles (GAAP) in the public sector.
11. Other priorities for 2018, will be defined during the MTR process.

1.6. Mid - term evaluation

The MOFE, with the support of PFM, TA will undertake Mid Term Evaluation (MTR) process of Albania PFM Strategy 2014-2020 during 2018. The evaluation, which will be based on a peer review approach involving all key stakeholders, will cover 2015 to 2017 and highlight the achievements and challenges of the strategy implementation in relation to the expected activities and objectives. The MTR will serve to define a more precise action plan for the period of 2018-2020 in relation to reform priorities, both existing and new. New priorities may have emerged as a result of PFM-related diagnostic assessments (often donor supported) that have been undertaken over the past three years since the PFM strategy was formulated⁸. In addition, linkages between reforms will be identified, although the aim is to keep the approach to managing reform a participative but simple. Most importantly will be a process that creates a strong sense of ownership amongst stakeholders with a focus on the aspects of PFM reform that matter the most, at the right time.

⁸ Particularly, the 2016 *Public Expenditure and Financial Accountability Assessment (PEFA)*, and *The Principles of Public Administration Public Financial Management (SIGMA Monitoring Report)*

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2. PFM SECTOR DONOR SUPPORT

2.1. Donor funding

Public Finance falls under the National Strategy for Development and Integration (NSDI-II) 2015-2020, Pillar “Growth through Macro Economic and Fiscal Stability”. The sector is dominated by loans which comprise around 95 per cent of total funding, provided by the International Monetary Fund (IMF) and World Bank (WB). Other donors in the sector include: the European Union (EU), Sweden, Switzerland, and USAID which provide their assistance through grants, budget support and TA. There were 20 donor supported projects under implementation during 2017 (See annex 4). Commitments for the new projects for each year are shown below; with Eur. 88.17 million committed to new projects in 2017.

2014	2015	2016	2017
583,683,590	8,843,326	52,904,762	88,151,676

European Union EU through Instrument for Pre-accession Assistance II (IPA II) 2014-2020, continued to provide financial assistance for Albania, the majority of which is through sector budget support for PFM (€42 million). The PFM Technical Assistance (TA) component commenced in April 2017, aiming to strengthening the capacity of the stakeholders to implement the PFM strategy, providing better coordination and management of the reform process, transparency and accountability processes through enhanced dialogue and availability of information through Parliament, High State Control and strengthen the capacity of the MOFE for the better coordination and management of the reform process. Key outputs under TA of PFM during 2017 included:

- A comprehensive Inception Report which included assessments of the key challenges and areas for improvement in relation to key components within the purview of the TA project;
- An overview of all Sector Reform Contracts (SRC) was prepared through the development of a simple database;
- Proposed approach to undertaking Mid Term Review of Albania PFM Strategy 2014-2020 paper;
- Support to the establishment of the MOFE MTBP Steering Committee, production of Baseline Budgeting guidelines, Programme and Performance Based Budgeting guidance, an outline of the MTBP and budget preparation processes that have to be supported by AFMIS, Budget Calendar and MTBP Roadmap;
- Support to preparation of a “Summary of Citizens’ Budget 2018;
A draft “Root cause analysis of arrears of the Albanian government” Report. The Project has facilitated the establishment of a Working Group between the High State Control (HSC) and the Central Harmonisation Unit (CHU), MOFE, ahead of the Project schedule. The aim is to promote the follow up of audit findings more comprehensively and effectively.
- An Internal Communications Survey was undertaken and survey report is drafted. A Terms of Reference (ToR) was also produced to commission PAR-PFM public research. Furthermore, an initial Communications Strategy has been drafted. The IPA I EU-funded projects on Modernisation of the Customs are contributing to the implementation of the New Computerised Transit System and the Integrated Tariff Management System, in the Albanian Customs Administration.

World-Bank has significantly increased its loan finances for Albania in the last years. Through its Country Partnership Framework for Albania 2015-2019, the WB 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 (DPL). In March 2017, the WB Board of Executive Directors approved a US\$100 million Financial Sector Development Policy Loan (DPL) to the Republic of Albania. The policy operation supports reforms aimed at strengthening the resilience of the banking sector and the regulation and supervision of nonbank financial institutions in

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Albania. The operation is structured around three pillars: adopting policy measures to reduce NPLs and enhance the financial safety net; strengthening regulation, supervision, and resolution regime of banks and Savings and Credit Associations (SCAs); and strengthening the regulation and supervision of investment funds. The actions undertaken by the government and the financial sector authorities supported by the new operation include significant improvements in the legal framework, such as a new Bankruptcy Law, a Bank Resolution Law, a new law on Savings and Credit Associations, and amendments to the Law on Audit, the Deposit Insurance Law, Collective Investments Undertaking Law, the Civil Procedure Code, and the Private Bailiffs' Law. Some of these key reforms were part of the National Action Plan for the Reduction of NPLs, endorsed by the government and the Bank of Albania.

Sweden A new government priority is to establish a fiscal cadastre. In this context, a new property tax law was prepared and consulted with external partners. Cooperation between the Swedish, Kosovo and Albanian tax administrations is focused on building up a fiscal cadastre (property taxing) system for the use of revenues by the municipalities, following the experience of Kosovo Cooperation with Sweden includes the building of the IT system for the fiscal cadastre free of charge from the Swedish side.

Switzerland has a large portfolio of projects supporting PFM, including: macro forecasting, tax administration, government finance statistics, public accounting, and debt management. The funding agency is the State Secretariat for Economic Affairs (SECO) and most of these projects are implemented by WB or IMF.

International Monetary Fund IMF provided a loan fund through a General Budget Support mechanism that concluded in February 2017, when Albania drew the last instalment of a \$400.4 million credit line. It concluded its three-year program aimed at restoring economic growth and controlling the rapidly rising public debt that had threatened the stability of the economy. The program has successfully put Albania on a recovery path with sound public finances. The IMF continues to support the Government of Albania 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.

Under the Integrated Planning System Trust Fund II managed by the WB and currently financed by EU/IPA 2013, Sweden, and Switzerland are financing components to strengthen the finance systems, through External Assistance Management Information System (EAMIS) and Albanian Financial Management Information System (AFMIS), as well as to strengthen capacities of the Government for Macroeconomic forecasting and budget preparation. The EAMIS, which aims to support the Government of Albania in effectively managing development finance and promoting accountable and transparent use of resources, is designed and is in testing phase. Switzerland and USAID are focusing also in supporting fiscal decentralisation and sub-national PFM. In addition, capacity building in PFM is being developed through workshops, study tours and conferences, provided by OECD/SIGMA, a regional EU-funded IMF implemented strengthening of PFM programme, Regional School of Public Administration (ReSPA), Joint Vienna Institution (JVI), Centre of Excellence in Finance (CEF), and TAIEX.

2.1.1. EU funded PFM Technical Assistance

In support of the PFM SRC, the EU funded accompanying Technical Assistance (TA) commenced in April 2017. The overall objective of the TA is to strengthen the capacity of the Government and especially the MoFE 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 MoFE for the better coordination and management of

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the reform process. It will also provide assessment, policy advice, capacity building etc. to the MoFE and other stakeholders involved in relation to the implementation of the reform process.

The project's Inception Report⁹ included assessments of performance gaps and recommendations as well as the approaches and outputs to be adopted and delivered in relation to its six components: (C1) EU Budget Support management; (C2) Management of PFM Reform; (C3) Annual and Medium Term Budget Planning; (C4) Budget transparency and comprehensiveness; (C5) Public Internal Financial Control; and (C6) Communication and Public Awareness. These components link with the Pillars within the PFM Reform Strategy, namely: Pillar 2: Well-integrated and efficient Planning and Budgeting of Public Expenditure; Pillar 4: Transparent Government Reporting; Pillar 5: Effective Internal Control; and to an extent, Pillar 6: Effective External Oversight of the Public Finances, through support to Central Harmonisation Unit (CHU) under C5, which is seeking to strengthen its cooperation with High State Control (HSC).

Key outputs under TA of PFM during 2017 included:

- A comprehensive Inception Report which included assessments of the key challenges and areas for improvement in relation to key components within the purview of the TA project;
- An overview of all Sector Reform Contracts (SRC) was prepared through the development of a simple database;
- Proposed approach to undertaking Mid Term Review of Albania PFM Strategy 2014-202 paper;
- Support to the establishment of the MOFE MTBP Steering Committee, production of Baseline Budgeting guidelines, Programme and Performance Based Budgeting guidance, an outline of the MTBP and budget preparation processes that have to be supported by AFMIS, Budget Calendar and MTBP Roadmap;
- Support to preparation of a "Summary of Citizens' Budget 2018;
- A draft "Root cause analysis of arrears of the Albanian government" Report. The Project has facilitated the establishment of a Working Group between the High State Control (HSC) and the Central Harmonisation Unit (CHU), MOFE, ahead of the Project schedule. The aim is to promote the follow up of audit findings more comprehensively and effectively; and
- An Internal Communications Survey was undertaken and survey report is drafted. A Terms of Reference (ToR) was also produced to commission PAR-PFM public research. Furthermore, an initial Communications Strategy has been drafted

⁹ Inception report, Technical Assistance to support the strengthening the strengthening of the capacities for the implementation of the Public Financial Management Strategy, Ecroys, 27 September 2017

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2.2. Assessments related to PFM

2.2.1. The Principles of Public Administration SIGMA - Monitoring Report

Support for Improvement in Governance and Management (SIGMA)'s Public Administration Reform (PAR) final report was prepared and published in November 2017¹⁰ and covers the period May 2015-June 2017. It conducts a monitoring process only for two problematic areas per annum and Public Financial Management is the sixth pillar of the PAR. The SIGMA score per each of the Principles of PFM is presented in the table 1. The recommendations (see annex 5) will be reflected on during the PFM Strategy Mid Term Review (MTR) to be undertaken during 2018. Main findings are listed below:

- The Medium-Term Budget Program Framework (MTBP) is still unreliable. However, efforts are being made to strengthen its role in the budget process through the establishment of fiscal rules in the legislation, and steps to introduce more unbiased macro forecasting and binding medium-term ceilings for budget users. Risks for the sustainability of the public finances remain due to the absence of mechanisms to enforce the fiscal rules.
- There is alignment between the MTBP and the annual budget process, but more is needed to ensure complete consistency of the two publications. Progress is also being made with regard to the transparency of the budget proposal and in the credibility of planned revenue and expenditures in the annual budget. Moving the responsibility for capital budgeting to the MOFE is a positive step. Significant weaknesses remain, however, regarding parliamentary scrutiny of the budget. The MOFE centrally controls disbursement of funds and ensures cash liquidity, but cash management remains weak. Despite some irregularities indicated in the Standards for State Audit Institutions (SSAI) audit reports, the Arrears Prevention and Clearance Strategy and funds allocated for the purpose had a positive impact on payment of arrears, but did not prevent the accumulation of new ones. In addition, no progress was made in the area of asset management.
- Recent legislative amendments have been adopted to strengthen debt sustainability and minimise risks to debt sustainability following a period where public debt-to-GDP ratio has been allowed to grow significantly. Although the Government has planned to gradually reduce the level of debt, risks related to refinancing, interest rates and exchange rates persist.
- New legal requirements are leading to better in-year and annual budget reporting. However, during the assessment period only limited progress on expenditure transparency was achieved, as public analysis of expenditures by institutions remains restricted. The opportunity for the Parliament to scrutinise the annual budget report is reduced due to weaknesses in the format and content of the document.
- The required legal and operational framework for Financial Management and Control (FMC) continues to be largely in place. The Public Administration Reform (PAR) Strategy 2015-2020 and the PFM Strategy 2014-2020 both include measures to strengthen the framework for FMC and its application at the organisational level. An exception to this is alignment of national budget management and European Union (EU) funded programmes, for which different structures and processes are used.
- Development of Financial Management Control (FMC) at the organisational level has still not reached the same stage as for the overall legislative framework. The organisations involved in the pilot rollouts of FMC have benefited from a strong level of support, and some areas such as rulebooks and the availability of risk registers have improved. However, key issues such as delegation have yet to impact the way the public sector is managed in Albania.
- A stronger legal and operational framework for Internal Audit (IA) is now in place, but there are still some weaknesses with organisations not setting up IA units when required to and

¹⁰ <http://sigmaweb.org/publications/Monitoring-Report-2017-Albania.pdf>

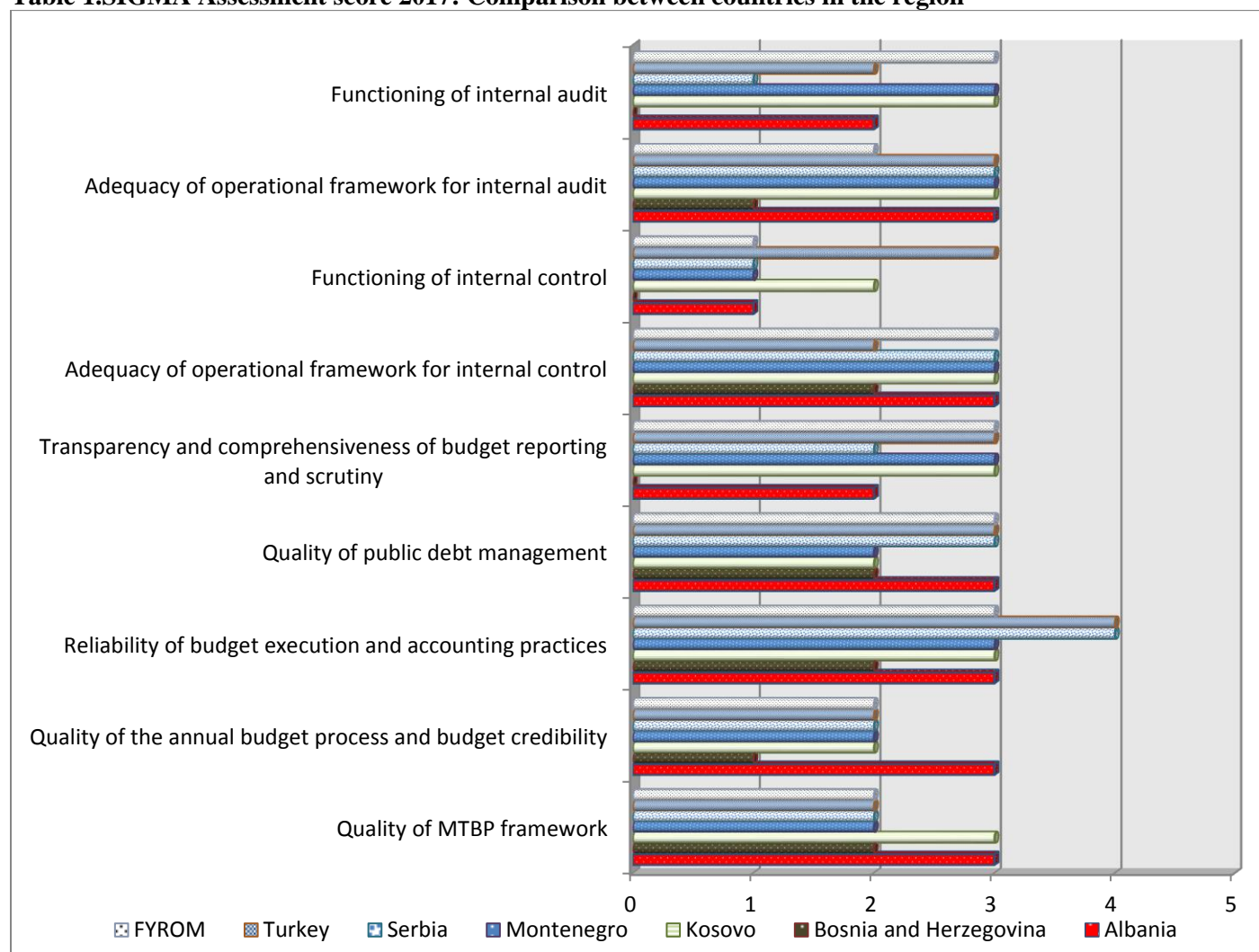
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staffing levels of approximately 25% units still do not meet the minimum staffing requirements. The PFM Strategy seeks to address some of these issues. The MOFE has begun to implement a system for quality assurance of IA.

- The share of cases in which the procurement review body exceeded the legal maximum processing time in relation to the total number of complaints (39.6% to 70%) has grown, indicating the PPCs capacity limitations.

Several recommendations were laid out by SIGMA and MOFE has begun to address them (Annex 5). A comparison between countries in the region is presented and it is noted that Albania is scored higher than other countries for the MTBP and budget process indicators (Table 1). However, the need for improvements in transparency and comprehensiveness of budget reporting and scrutiny is identified in particular.

Table 1. SIGMA Assessment score 2017: Comparison between countries in the region



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2.2.2. PEFA Assessment

In April 2017, World Bank (WB) team jointly with Government of Albania started to conduct third assessment on Public Expenditure and Financial Accountability (PEFA). MOFE played the lead role on the Government side, while the WB led on behalf of the development partners. The main purpose of the 2016 PEFA assessment is to provide the Government of Albania with an objective up-to-date diagnostic of the national-level PFM performance based on the latest internationally recognized PEFA methodology. This assessment establishes a new PEFA baseline using the 2016 PEFA methodology and also provides an update on changes in performance since the 2011 assessment which had used the earlier methodology. The assessment process sought to build a shared understanding of PFM performance and those dimensions that require improvement. The results of the assessment are expected to assist the Government in monitoring the implementation and updating of its ongoing 2014-2020 Public Financial Management Reform Strategy. According to the PEFA Secretariat, Albanian authorities have made extensive efforts to implement PFM reforms through the current PFM Strategy. Initial efforts focused on laying down the foundations for reform, creating institutional arrangements and drafting legislative amendments. A monitoring and reporting framework for the implementation of PFM reforms is now fully operational.

Improvements and areas of deterioration are described below, and Table 5 shows the current ‘C’ and ‘D’ scores that would usually, accordingly to international practice, warrant inclusion in a PFM Strategy. As with the SIGMA recommendations, the PEFA findings will be incorporated into the revised PFM Strategy during the impending MTR.

2.2.2.1. Improvements

Compared to the assessment carried out in 2011, substantial improvements are noted in some key indicators: (i) Revenue forecast has been more realistic; (ii) Greater emphasis on managing and reporting commitments and expenditure arrears has resulted in an improvement in performance; (iii) More important documents are included in the budget package and important fiscal information has become available to the public. For the first time, the Citizen's Budget was prepared and published, as well as the Six Monthly Report on Macroeconomic, Fiscal and Budget Performance of the Government; (iv) Improvements in public access to fully, comprehensible and timely information on procurement. Factors that contributed to these improvements are the changes in the legal framework developed between the two assessments, the improvement of forecasting methodologies and capacity building in the compilation and dissemination of Government Financial Statistics data, as well as developments in information technology where the treasury system has progressed by giving access to the Government Financial Informatics System to the budget institutions, currently 15 entities (more than 75% of the costs) have full access to the system.

2.2.2.2. Deterioration

Despite the improvements, slippages in performance are noted in the following areas: (i) Extent of unreported operations – minor slippage due to the comprehensiveness of data collected in respect of extra-budgetary units; (ii) Transparency of inter-governmental fiscal transfers – slippage due to an increase in the share of conditional Regional Development Fund grants which are not allocated on a transparent manner; (iii) Orderliness and participation in the annual budget process –slippage in performance due to issuance of budget ceilings after the budget circular in 2016 and late approval of the 2014 budget; (iv) Legislative scrutiny of external audit reports – deterioration in performance due to less interest by the Line Ministries (LMs) to address the recommendations arising from audit reports.

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Table 5: Weak PEFA indicators

PEFA C's and D's	Relevant PFM Strategy Pillar
PI-2 Expenditure composition outturn (D+)	2
PI-6 Central government operations outside financial reports (C+)	4
PI-7 Transfers to subnational governments (C+)	2
PI-8 Performance information for service delivery (C+)	3&4
PI-10 Fiscal risk reporting (C)	1
PI-11 Public investment management (C+)	2
PI-12 Public asset management (C)	2
PI-16 Medium-term Perspective in expenditure budgeting (C+)	2
PI-19 Revenue administration (C+)	3
PI-22 Expenditure arrears (C+)	3&5
PI-23 Payroll controls (C+)	5
PI-26 Internal Audit (C+)	5
PI-28 In-year budget reports (C+)	4
PI-29 Annual financial reports (D+)	4
PI-30 External audit (C+)	6

2.2.3. Compliance Review mission

In the context of EU Budget Support Program, by the beginning of 2017, the EU Delegation commissioned a Compliance Review of support to PFM reform Albania¹¹. The first of five compliance review missions was in Tirana from March 27th to April 6th 2017 and focused on the 2nd variable tranche of PFM Sector Reform Contract (SRC). Compared to our self-assessment, in which we assessed seven out of eight specific conditions as having been met; the Compliance Review team reported that six specific conditions were fully compliant, one partially met and one condition not met. Indicator 1: “*Improved legal and fiscal framework*” was not met because whilst not a substitute for a full-fledged Fiscal Council, the introduction of fiscal rules in the amended OBL, firstly removed one of the main policy biases observed in the past - that of over-optimistic forecasting and secondly, set the level of public debt on a declining path. Indicator 8: “*Strengthened external audit*” was partially met because only six out of 10 compliance reports generally complied with HSC’s Compliance Manual and INTOSAI 400. Table 6 below presents the first mission’s assessment conclusions and EUR 8,125,000 was recommended for disbursement of the 2nd tranche:

¹¹ To assess the fulfilment of the general and specific conditions of the Instrument for Pre-Accession Assistance 2014 (IPA 2014) Public Financial Management Sector Reform Contract (PFM SRC)

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Table 6: Compliance and recommended disbursement for the specific conditions of 2nd tranche

		Weight	2 nd tranche Amount €	Preliminary Status	To be disbursed €
Variable tranches			10,000,000		
1	Improved legal and fiscal framework	12.5%	1,250,000	Not met	0
2	Improved planning and budgeting of public expenditures	12.5%	1,250,000	Full compliance	1,250,000
3	Enhanced expenditure control	12.5%	1,250,000	Full compliance	1,250,000
4	Improved tax administration	12.5%	1,250,000	Full compliance	1,250,000
5	Strengthened public procurement review	12.5%	1,250,000	Full compliance	1,250,000
6	Improved transparency	12.5%	1,250,000	Full compliance	1,250,000
7	Fight against corruption, fraud and conflict of interest	12.5%	1,250,000	Full compliance	1,250,000
8	Strengthened external audit	12.5%	1,250,000	Partial compliance	625,000
To be disbursed					8,125,000

Following the same remit and approach, the second mission took place in September 2017; a pre-mission which pre-assessed the compliance with third year (2017) indicators. The Compliance team prepared the Compliance Review reports (for 2nd tranche and a pre-report for 3rd tranche), which assessed Sector Budget Support (SBS) eligibility related to the macro-economic situation; relevance and credibility of the PFM policy; transparency and oversight of the budget; and assessment of the specific conditions of the PFM Sector Reform Contract (SRC).

Whilst, during second pre-assessment mission it was concluded some of SBS targets should be changed since they seemed no longer in fitting with the current stage of the PFM Strategy; the opportunity to revise SBS indicators is only permitted by the EU no later than during the first quarter of each respective year. However, since 2017 was an electoral year and pre-electoral government was replaced by a technical government, the EU considered the Albanian political situation and decided to allow changes due to these mitigating circumstances. MOFE then reviewed each of the 8 indicators with respective units and the Compliance Review team and concluded that 4 of 8 indicators should be changed, which were accepted by European Commission.

2.2.4 Albania Country Procurement and Contract Implementation (CPCI) Review

The GoA requested the WB's support for the review of the public procurement system and contract implementation (CPCI) to optimize the effectiveness of its investment spending through improved public services and accelerated delivery. In 2017, the CPCI review was prepared by a team from the WB and the Islamic Development Bank, in cooperation with the Government of Albania (GoA), the EU Delegation to Albania, the Embassy of Switzerland in Albania, SIGMA-OECD and European Bank for Reconstruction and Development (EBRD). Last Country Procurement Assessment Report and the Country Fiduciary Assessment report were done in 2001 and 2006. Hence, this CPCI review was a long overdue task.

The overall objective of this CPCI review is to gain a better understanding of the environment and the factors affecting the implementation of civil works projects by (i) updating the Bank's earlier analysis of the Albanian public procurement system, as well as the associated and relevant financial management functions, contract management and integrity of the procurement processes; and (ii) assessing the efficiency of public procurement operations as well as contract implementation and management.

Main findings in this CPCI presents significant achievements on public procurement reform; however, more is still needed. The GoA has taken important steps to build a modern and sound system to improve the

overall effectiveness of public procurement over the last several years. There has been progress especially regarding the legal, regulatory and institutional frameworks as well as development and functioning of an e-procurement system. Management, transparency, performance, and effectiveness of public procurement could be significantly improved. Overall, the implementation of public procurement framework should be further reinforced. The level of trust of private sector in procurement system is still very low. Private sector companies and the public at large remain sceptical when it comes to transparency and the fight against fraud and corruption. Continued efforts to enhance transparency of public procurement, would also strengthen position of the public employees working on public procurement to exercise their professional judgment, which would have very significant impact on reducing the delays and hence improving effectiveness of service delivery. Contract management and administration are weak. Severe contract implementation problems, especially payments issues, and management of contract changes and amendments are undermining the effectiveness of contract implementation, in term of quality, cost and time. Going forward, and especially in view of the agenda for accession to the EU, the central challenge is therefore to dramatically improve the effectiveness of procurement operations and contract implementation, with the objective of better contributing to service delivery to the public and to gain credibility and support from the different stakeholders, including private sector and donors community.

Also, this report presents a number of recommendations and suggestions for action, on various fronts such as legal and regulatory amendments, institutional changes, capacity building, performance monitoring, implementation as well as modernization of procurement system, in particular: (i) Enhance the Monitoring and Follow up functions for procurement operations and contract implementation both by the Contracting Authorities and at the central level, e.g. at MOFE, including through a much better use of the exiting e-procurement system and data; (ii) Establish full institutional and resource independence of the Public Procurement Commission (PPC), both in the PPL and in practice; (iii) Make a much more systematic use of Framework Agreements for centralized purchasing of common used items, especially for Security Services; (iv) Change the behaviour and enhance the effectiveness of the purchasing, tender/proposal evaluation and controlling entities by no longer penalizing civil servants as individuals for appropriately exercising their professional judgment in the course of their work and actions; by enhancing the Auditors procurement knowledge and capacity; by clarifying the rules for exclusion and disqualification of bidders and; by clarifying the difference between major and minor deviations and when to seek clarifications from bidders. (v) Revise and modernize the existing standard procurement documents and contract forms, by using the existing international practices and standards.

2.2.5 Extractive Industries Transparency Initiative in Albania (EITI)

The Extractive Industries Transparency Initiative (EITI) is a voluntary international coalition of governments, extractive industry companies and civil society organizations engaged in management and use of natural resources, such as oil, gas and minerals. Its aim is to promote transparency in order to prevent corruption as well as provide citizens with a basis for demanding fair use of revenue. The EITI is regulated through an international standard the “EITI Standard”¹² which requires countries and companies to disclose information on the key steps in the governance of oil, gas and mining revenues including: contracts & license, production, revenue collection, revenue allocation and social & economic spending.. As part of the ongoing implementation of EITI, the Albanian Government publishes information reports annually on the extraction of oil, gas and other minerals and their contribution to the State budget and Albanian Economy. The 7th Albanian Extractive Industry Transparency Initiative Report which covers the year 2016 was produced. The report provides an overview of activities in the upstream oil and gas sector, mining sector and hydro-energy, the reconciliation of main flows paid by licensees and collected from the government agencies in these sectors and an assessment of the appropriateness of disclosures on the sector in line with the EITI standards (120 mining companies and 12 hydro-energy companies). Key facts reported on this report were:

¹² <https://eiti.org/document/standard>

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(i) production value generated during 2016 by these sectors is estimated at USD 613 million; (ii) The sectors' collective known contribution was about 6% of the revenue recorded in National Budget for 2016; (iii) the ratio of exports from the extractive sector of oil and minerals to total exports was 19% in 2016; (iv) Exports of crude oil accounted for the largest share of the extractive sector exports; and (v) Based on data reported from the GDT license holders engaged in the extractive sector of oil, mining and hydro power sector employed collectively approximately 16,500 staff accounting for 1.2% of the registered workforce reported by INSTAT in 2016. In the report are noted areas that could be further improved affecting the extent of EITI reporting process and analysis of extractive industry activity and cash flows as summarized below: (i) Access to timely and reliable information from the reporting licensees; (ii) Access to timely and reliable information from the reporting government entities; (iii) Quality aspects of the contextual information presented in the report; and (iv) Regulatory aspects in the context of EITI reporting.

2.3. 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. Meetings of the both the PFM Steering Committee (SC) and the Technical Committee were held during 2017 where the progress of the implementation of the PFM Strategy was reported. The SC was attended by key PFM stakeholders for GoA as well as donors/development partners.

The MOFE has stepped up its efforts to enhance the transparency of the budget documentations and to improve the quality of documents produced continuously. Referring to the latest update of the Open Budget Survey 2017 conducted by IBP¹³ in January 2018, improvements were noted on the Albania's ranking. Its transparency score increased from 38 in 2015 to 50 in 2017, which is moderately higher than the global average score of 42. Referring to Open Budget Survey 2017, Albania produces and publishes 7 of 8 key budget documents classified as indispensable in the context of transparency. However, MOFE has produced and published all of key budget documents, including the mid-year review report which was produced and published for the first time in July 2017. A more detailed report on the 2017 Budget transparency is prepared by the MOFE. Albania's score of 2 out of 100 indicates that it provides few opportunities for the public to engage in the budget process. This is lower than the global average score of 12. Albania's score of 69 out of 100 indicates that legislature and SAI in Albania provide adequate oversight of the budget.

In May 2017 a workshop on the implementation of the new law "On Local Finance" by Local Government Units (LGUs) was organised. Decentralization and Local Development Programme, DLDP, (MOFE, local finance experts, civil society, different donors, municipal advisor, local government associations and civil society representatives participated on the workshop. A "Transparency Portal" on Local Finance was also established on MOFE website to enable better monitoring by providing analyses of financial performance at the local level. Several meetings were held regarding the implementation of the new law on local finances and the incorporation of the principles of gender equality in the local budgets during September 2017. Representatives from MOFE, local finance experts, various donors, 2 representatives from each municipality took part in these meetings. Four regional meetings were also organised during October-December 2017 to introduce and test a new Financial Planning Tool (FPT), before using in the preparation of the budget. Representatives from MOFE, local finance experts, DLDP, representatives from each municipality took part in these meetings.

As mentioned, some activities under Component C6 *Communication and public awareness* of the PFM TA project of PFM were undertaken in 2017 including: an internal communications survey through individual interviews with MOFE employees and a MOFE Communications Working Group; and arrangements for an external public opinion survey were also made. A Communication Strategy and Plan will be drafted during the first quarter of 2018.

¹³ <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-report-english.pdf>

3. PROGRESS ON PFM REFORMS FOR 2017

3.1. Pillar 1- Sustainable and prudent fiscal framework

3.1.1. Summary of Pillar 1 progress

This Pillar demonstrates good progress with three out four outcome indicators having been met. The **first objective** of the Pillar is “*Fiscal responsibility framework for fiscal management established in the legal framework*”. The outcome indicator is “*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*”. The target of 70 per cent for 2017 was **met** since the trend has declined over the past year. The annual deficit is *significantly lower than the planned capital expenditure* at an average of 3.4 percent of GDP in 2017.

The **second Pillar objective** is “*Sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives, underpin the budget*”. The 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*” was **met** since nominal GDP was 0.21 million Lek – less than the IMF forecast.

After fiscal rules were introduced in OBL, more efforts have been made to enforce these rules and principles. In the 2017 budget, as well in fiscal framework 2018-2020, special sections have been included explaining the full compatibility of these two Acts. The 2017 annual consolidated budget implementation report published each year by the MOFE in June, now includes the Macroeconomic Policies and Fiscal Issues Directory.

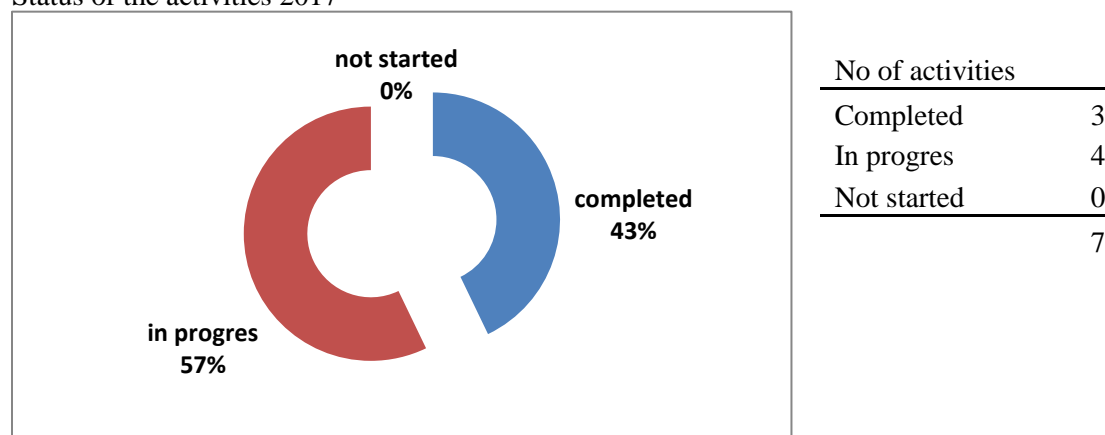
In terms of National Accounts, the **third Pillar objective** is “*Independent statistical agency produces reliable and timely National Accounts*”. The outcome indicator was **not met** “*Compilation of Government National Accounts according to European System of Accounts (ESA) 2010 Indicator value*”, with a target of 50 per cent and only 25 per cent having been achieved; although the indicator has improved compared to 2016.

Fiscal Risk Management is the **fourth objective**, is “*Adequate capabilities to detect, monitor and propose measures to mitigate fiscal risks faced by the government*”. The target of 50 per cent of categories covered by the Statement of Fiscal Risk (SFR) relating to the outcome indicator “*Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied*” was **met**.

At the activity level, **seven actions comprise this Pillar, with three having been completed** and four in progress (Graph 4).

Graph 4: Pillar 1- Sustainable and prudent fiscal framework

Status of the activities 2017



Notable **outputs and challenges** against actions are as follows:

“Strengthen INSTAT’s capacity in the area of Government accounts” (in progress/on track): INSTAT continued efforts to strengthen capacity in the area of Government accounts. For the first time, INSTAT prepared GFS data according to the requirements of ESA 2010 transmission program. The Public Sector list was officially published on the INSTAT Website during the second half of 2017 and will be regularly published to ensure transparency for users. The SECO-funded IMF TA project continued into its second phase and several SECO missions took place supporting the production of GFS and EDP statistics.

Implementation of Enhanced General Data Dissemination System (e-GDDS) (status-completed): A monthly National Summary Data Page (NSDP), supported by IMF mission, was published for the first time on the INSTAT website providing essential macroeconomic data.

Strengthen fiscal risk management and reporting within the MOFE (in progress/ delayed): During 2017, the FRU focused on drafting the methodological guidance for evaluating and reporting fiscal/budgetary risks, supported by IMF TA, including clarifying FRU’s main risk management responsibilities. The FRU has also published periodically the arrears created on January 2016- September 2017 from October 2016-January 2017. The first draft of the FRS, a legal requirement, was under preparation during 2017 but not published. Also, the WB assisted FRU in identifying sources of fiscal risks to the GoA from its contingent liabilities and helped assess the associated direct and indirect fiscal costs and risks stemming from its PPP projects.

3.1.2. Fiscal rules, forecasting and fiscal responsibility framework

<i>Objective</i>		
Fiscal responsibility framework for fiscal management established in the legal framework		
<i>Outcome indicator</i>		
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”		
<i>Indicator value</i>		
The target value for 2017 was met since the declining trend is present compared to 2016.		
Baseline (2013)	2017	Target for 2017
70%	70% ¹⁴	declining trend

¹⁴ Expected outturn per 2017

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After fiscal rules were introduced in Organic Budget Law (OBL), more efforts have been made to enforce these rules and principles. In the 2017 budget, as well in fiscal framework 2018-2020¹⁵, special sections have been included explaining the full compatibility of these two Acts with principles and the respective fiscal rules defined in OBL no. 57/2016. The 2017 annual consolidated budget implementation report published each year by the MOFE in June, now includes the Macroeconomic Policies and Fiscal Issues Directory for the implementation of the fiscal principles and rules, established by the OBL. Also, the Midyear Review Report, published for the first time in 2017, testifies: “*debt growth in nominal terms is within the limits provided in the annual budget law and in line with medium-term macro-fiscal targets for reducing the level of debt in relation to GDP*”.

The fiscal consolidation aims to achieve a debt to GDP ratio that continues its downward trajectory, which commenced in 2016. In accordance with this provision (fiscal rule) of the OBL, the fiscal framework 2018-2020 presents:

- Targets an annual level of total public debt in percentage of GDP significantly lower than the level of the previous year.
- 2018-2020 framework is based on the following nominal GDP projections, which are not higher than the projections of the World Economic Outlook report, of International Monetary Fund, most recently published on October 2017.
- Includes each year in a separate item, labeled "Contingency on interest rate fluctuations, etc.", **and a contingency of over 0.7 percent of total expenditures.**
- Does not include revenues from potential privatizations.
- The annual deficit targets **are significantly lower than the planned capital expenditure.** Consequently, the targeted current balance is positive at an average of 3.4 percent of GDP in each programmed year.

Action 1: Improve forecasting methodologies (*completed / on track*)

The Macroeconomic Directorate has been receiving TA since 2015, to improve forecasting skills and strengthen evidence-based policymaking. Through Switzerland's funding (SECO), an international consultant is developing a financial programming tool, jointly with the participants from MOFE, Bank of Albania and INSTAT, which has established a stable and coherent group of participants in regular training sessions. During 2017 two workshop missions were held with topics on: 'Monetary and external sectors of the model' and 'Monthly monitoring and first programming exercise'. The program has finished its technical phase involving the construction of the model. It has now begun to focus more on monitoring and analysis. In terms of quantitative indicators, Albania had a good start as it has completed its tasks in relation to technical infrastructure and analytical capacities. The project is expected to be completed during the first quarter of 2018 and authorities have requested continued assistance beyond technical model construction. The main challenge faced during last mission was Macroeconomic Directorate staffing capacity, which reduced after government restructuring, with some posts having been deleted.

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 2017 **was met** as the forecasted nominal GDP for the year 2017 was lower than the respective forecasted nominal GDP in the World Economic Outlook

Baseline (2013)	2017	Target 2017
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¹⁵ approved by decision No. 47, dated 25.01.2017

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14.3 mln Lek	-0.21 million Lek	≤ 0
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3.1.3. Government National Accounts

<i>Objective</i>		
Independent statistical agency produces reliable and timely National Accounts		
<i>Outcome indicator</i>		
Compilation of Government National Accounts according to ESA 2010		
<i>Indicator value</i>		
Even though the indicator is improved compared to 2016, the target for 2017 was not met .		
Baseline (2016)	2017	Target 2017
0%	25%	50%

Action 1¹⁶: Strengthen INSTAT's capacity in the area of Government accounts (*in progress/on track*)

During 2017, INSTAT continued the effort to strengthen capacity in the area of Government accounts finalizing the main objectives:

- I. For the first time, INSTAT compiled and transmitted the GFS data according to the requirements of European System of Accounts (ESA) 2010 transmission program. In January 2017, 2 of 7 ESA 2010 TP of GFS tables were sent to EUROSTAT on a best effort basis for 2011-2016 following EUROSTAT requirements. During second half of 2017, INSTAT sent a second transmission of the GFS tables to EUROSTAT, as part of the requirements of EUROSTAT to have biannual reporting of GFS. INSTAT is working on keeping a regular transmission of the current ESA 2010 TP tables and to send some additional tables in 2018. INSTAT has developed Excessive Deficit Procedure (EDP) tables on an experimental basis since October 2014. The regular biannual EDP tables have been reported in April 2017 and October 2017 to EUROSTAT with information for 2013-2016. In addition, were compiled quarterly public sector debt (QPSD) data and reported these data to the IMF-World Bank QPSD database for the period Q4 2016–Q3 2017. These data cover all debt instruments, except other accounts payable, insurance, pensions, and standardized guarantee schemes. Important to note is that the coverage as stated excludes nonfinancial public sector units and extra budgetary units. In recent years, the MOFE has started compiling GFS and has also been reporting to the Government Finance Statistics Yearbook (GFSY). This includes the budget, local government, and social security funds, but not extra-budgetary funds.
- II. INSTAT has been updating and improving the list of PSIU classifications and extended the time series of information on some Extra-Budgetary units. Also, new information has been found on the existing units to make the classification more reliable. Finally, **in September, the inter-institutional Working Group (INSTAT, MOFE and Bank of Albania (BoA),) with external support from EUROSTAT and IMF finalised the list of The Public Sector Institutional Units (PSIU) according to GFSM 2014 and ESA 2010.** The official publication of the Public Sector list on the INSTAT Website¹⁷ is one of the most notable improvements made during the second half of 2017. The list published also covered public corporations that are outside of the General Government (the government is the owner of shares from these units) and it contains information on economic activity (Nomenclature of Economic Activities of the European Community NACE), institutional sector classification, etc. The list will be regularly published by INSTAT (starting from next year) and all revisions will be clearly presented to ensure transparency for users. By adding these units, the availability of General Government data, which is also more consistent (in terms of structure and frequency), has become more accessible to the public.

¹⁶ For this action refer to actions 1-4 of component 1.2 in the annex 1

¹⁷ http://instat.gov.al/media/3045/nd_rmarjet_n_sektorin_publik_n_shqip_ri_shtator_2017-1.xlsx

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- III. The aforementioned SECO-funded an IMF TA project continued into its second phase and during 2017 several SECO missions took place, in collaboration with the working group. The missions worked either on theoretical methodological issues or on specific cases giving a valuable support on production of GFS and EDP statistics. **Furthermore, work is being done to create an integrated system**, by integrating the AGFIS system of MOFE and other data sources aiming to ensure a more flexible and reliable statistical system. A draft structure of a system to integrate the extra-budgetary structure with the existing data in a transparent and practical way was proposed during the last SECO mission in December. The proposed structure will be further analysed by the Inter-institutional working group before it goes live.
- IV. The inter-institutional working group continues work to address compliance with international standards. During the SECO missions a variety of GFS topics were discussed, where the most notable were: (i) Analyses of Taxes and their treatment; (ii) Analyses of AGFIS system and its relation with other IT systems; (iii) DMFAS specific nature (iv) A new IT system for GFS. These missions have made recommendations for INSTAT, MOFE and BoA and are being followed up by the respective agencies. In addition, training took place in March, at Centre of Excellence in Finance (CEF), in Ljubljana, Slovenia, to present some basic concepts of GFS, where 5 staff from MOFE, NSTAT and BoA participated.
- On October 20, INSTAT organised the **European Statistics Day that aimed to raise public awareness on the importance of official statistics** for the public good. It focused on exchanging experiences between the general public, policymakers, businesses, research community, media and citizens on the use of official statistics.

Action 2¹⁸: Implementation of Enhanced General Data Dissemination System (e-GDDS) (*completed*)

A mission of the IMF's Statistics Department came in Albania during April 2017 to assist the authorities with the implementation of the e-GDDS¹⁹, which was endorsed by the Executive Board in May 2015. The mission supported the development of the National Summary Data Page (NSDP)²⁰, which was published on the INSTAT website on June 20, utilising the Statistical Data and Metadata Exchange (SDMX). The page aims to serve as a one-stop publication vehicle for essential macroeconomic data. Making this information easily accessible in both human and machine-readable formats, and according to an Advance Release Calendar, will allow all users to have simultaneous access to timely data and will bring greater data transparency. This data began to be reported and published for the first time in June 2017 and has been published periodically on a monthly basis since then.

3.1.4. 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 target value for 2017 was **met** as the Fiscal Risk Unit was completed by the end of October 2016.

Baseline (2016)	2017	Target 2017
0%	50%	50% of categories are covered in the SFR

¹⁸ For this action refer to action 5 of component 1.2 in the annexes

¹⁹ <http://www.financa.gov.al/al/raportime/e-gdds>

²⁰ <http://instat.gov.al:8080/NSDPAlbania/>

Action 1: Strengthen fiscal risk management and reporting within the MOFE (*in progress/ delayed*)

During 2017, the FRU **focused on drafting the methodological guidance for evaluating and reporting fiscal/budgetary risks**. An IMF TA necessary for the successful activity of the unit started in March 2017. The purpose of this TA was a deeper analysis of the available data on the existing fiscal/budgetary risks and more specifically: (i) Discussion and evaluation of existing data that FRU unit already have; (ii) Review the quality of existing analysis, discussions and recommendations for improvements, and identify capacity gaps within the sector; (iii) The development of a reporting framework, including the frequency and content of internal reporting in the unit, and internal and external reports to be produced, including deadlines; (iv) Sector coordination with other departments of the Ministry of Finance and Economy, regarding the reporting of the potential fiscal risks. **IMF mission has provided a checklist of FRU's main responsibilities related specifically to:**

- ✓ Coordination and gathering information on fiscal and budgetary risks, identified and assessed by the responsible departments in the MOFE;
- ✓ Information processing as above and providing summary analytical reports.
- ✓ Periodic reporting to the Minister of Finance and Economy, Council of Ministers and the Parliament.
- ✓ Publication and presentation to Parliament of a specific document "Statement of Fiscal Risks", which will accompany the new MTBP in July 2017 and the Budget Proposal for 2018 in October 2017.

Strategy for the prevention and payment of arrears and its action plan accomplished its main goal to clear arrears cumulated up to 2013, however continuous measures are undertaken to prevent the creation of new arrears after January 1, 2014 since the figures shows the presence of arrears even though at a lower level compared to baseline (2.2 billion ALL in 2017, referring indicator no.14 in the annex 4). These measures tend to consolidate the process of maintaining the level of arrears as low as possible. In addition, following this strategy, from October 2016-January 2017 the **FRU was fully engaged in gathering, processing and reporting the new arrears of budgetary institutions, which is considered one of the main fiscal risk**. Thus, in close cooperation with the Directorate of Public Investments in MOFE and all relevant LMs and pursuant to specific tasks given by IMF recent mission for this purpose, it has been working on determining the path to be followed by the central government to pay the overdue financial obligations (arrears) and on actions to be taken to prevent the creation of arrears in future. Simultaneously, pursuant to the Law No.50 dated 05.02.2014 "On approval of the Strategy for the prevention and payment of arrears and of the action plan"²¹, on the official **MOFE website are published periodically the arrears created on January 2016-September 2017**. Also, in the framework of preventing the creation of new arrears, **a number of measures have been taken that are also sanctioned in point 37 of Supplementary Guideline No. 8, dated 13.01.2017 "On the Implementation of the 2017 Budget"**.²²

Other missions assisting FRU, on building capacity to assess and manage fiscal risks, have been:

- ✓ **World Bank technical mission** which took place in Tirana during June19-23, 2017. The main objective of this mission was to introduce the World Bank's analytical tools for identifying sources of fiscal risks to the GoA from its contingent liabilities and to help assess the associated direct and indirect fiscal costs and risks stemming from its Public Private Partnership (PPP) projects.
- ✓ **A TA mission from Fiscal Affairs Department (FAD)** took place on 26 October-7 November 2017. This mission has provided advice on issues related to managing, monitoring and reporting fiscal risks arising from PPP-s.

Further technical assistance will be provided from IMF, in reviewing draft of the first FRS. MOFE considers as necessary to publish the Fiscal Risk Statement (FRS) document, the first draft, which is currently under

²¹

http://www.financa.gov.al/files/userfiles/Njoftime/E_FUNDIT_Strategjia_per_likuidimin_e_pagesave_te_vonuara.pdf

²² <http://www.financa.gov.al/al/buxheti/buxheti-ne-vite/buxheti-2017/udhezimi-plotesues-nr-8-date-13-01-2017-per-zbatimin-e-buxhetit-te-vitet-2017>

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preparation with close assistance to the IMF and WB and foresee the year 2018 to mark the first year of its publication. **The FRU will present different versions of the FRS at different times during the budget year. The audience for these reports will be different**, and this will have an impact on the format of the report. This document will cover all the fiscal and budgetary risks that characterize the respective budget year, with a view to raise awareness of the Government and the Parliament about them, as well as encouraging the taking of preventive and mitigating measures including: overview of fiscal risks and key policy implications; fiscal risks related to macroeconomic assumptions and developments, government revenues and spending; government debt and guarantees fiscal risks; public-private partnerships fiscal risks; local governments fiscal risks; state-owned enterprises fiscal risks and other fiscal risks.

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

3.2.1. Summary of Pillar 2 progress

Objective 1

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%

Pillar 2 **comprises five objectives, which show mixed progress, with one objective having been met; two partially met and two not met.** The first objective of Pillar 2 for strategic policy development and review is “*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*”. It comprises two outcome indicators. The outcome indicator 1 (increasing trend) target is met “*Ratio between total funds estimated in the sectorial strategies and total funding identified for corresponding sectors within MTBP is 90%*” as the ratio increased to 56 per cent, compared to the 2015 baseline of 42 per cent. The outcome indicator 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%*” which was **not met** since there should have been no deviation between total planned expenditures adopted for the first year of the MTBP against total planned expenditures adopted in 2017 Annual Budget.

In terms of capital investment planning, appraisal and inclusion in budget, the **second objective** is “*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.*” The outcome indicator - growing trend target is **met**: “*share of public investment projects are proposed based on the strategic priorities of the government*”, with 57 per cent of investment projects included in the MTBP; and 75 per cent of projects proposed being based on strategic priorities.

The **third Pillar objective** is “*Strengthened processes and institutional capacity for initiating, appraising, prioritizing and approving capital investment projects*” The other outcome indicator is “*Actual disbursements for major investment projects compared to planned disbursements along with explanation of variations*”, which was **not met**, achieving 96 per cent instead of the 97 per cent target.

Objective 4 of Pillar 2 relates to 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*”. It comprises three current outcome indicators, outcome indicator 1 “*The amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero*” which was **not met** since there was a gap of 682 million LEK; and 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*” was **not available** as the AGFIS and PPA systems are not integrated as yet, to ensure that funds are pre-committed in the Treasury System before the procurement process starts; and outcome indicator 3 “*No payment arrears are recorded on multi-year capital investment project activities' after 3 years*” **could not be measured** as the effect of multi-year commitment control implementation into AGFIS will be visible in 2019.

The Law “On the finances of the local self-government” was approved on 27 April 2017, establishing foundations for a fiscal and budgetary discipline in all local units. The **fifth and final objective of Pillar 2** is: “*Prudent, effective, and efficient financial management of the local governments*”, underpinned by three

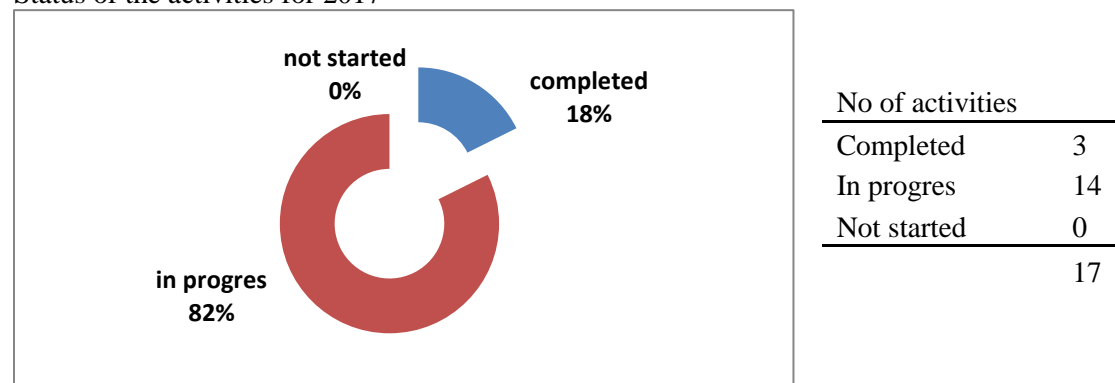
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outcome indicators: outcome indicator 1 “*Improve collection and administration of taxes from the municipalities after the new administrative territorial reform*” which was **partially met**. This indicator measures the performance of revenues at the local level through: (1) the ratio of total outturn annual local government revenues versus the total revenues of the government which is **met**, and (2) The growth ratio from the previous year, which showed a declining trend in 2017 and so was **not met**. Outcome indicator 2 “*Increasing the share of investment expenditures in local budgets, compared with expenditures*” was **met**. Outcome indicator 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)*” **could not be measured**.

At the activity level, **17 actions comprise this Pillar, with three having been completed** and 14 in progress (Graph 5).

Graph 5: Pillar 2- Well integrated and efficient planning and budgeting of public expenditure

Status of the activities for 2017



Notable **outputs and challenges** against actions are as follows:

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/on track): The National Sectorial Health Strategy 2016 – 2020, and the National Strategy for Science, Technology and Innovation 2017-2020 have been approved. Until December 2017, 26 strategies, as part of NSDI II have been adopted by the Albanian Government,

The PMO in close collaboration with OECD/SIGMA has prepared a new methodology is currently being piloted in five Ministries aiming to standardise the process of monitoring and reporting of the strategic frame (the NSDI, sectors and cross cutting strategies). During 2017, seven strategy monitoring reports out of 25 were prepared including the PFM Strategy 2016 Monitoring Report.

Modular training in policy making and budget preparation and management as part of “The Management of Integrated Planning” has been provided twice by ASPA, with 27 LM and central institutions staff trained. A one-day training course on “MTBP management - Introduction” has been provided five times with 63 employees trained. Furthermore, an advanced 6 – day training on “MTBP Management and Public Investment” has been delivered twice, wherein 35 civil servants were trained.

“Maintain a “Single Strategic Project Pipeline” & ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects” (status-in progress/on track:) The General Secretariat of SPC/NIC collaborated with the LMs and the Budget Management Group in close cooperation with the MOFE resulting in the revised National Strategic Project Pipeline (NSPP),

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2015, and for 2016-2017 - comprising 143 projects within five sectors, having been approved on 17 May 2017 by the Strategic Planning Committee.

The NSPP comprises 2 main categories: Category I – Connectivity Balkan Projects, and Category II – Projects of National/ Regional Relevance; the Category I projects comprise 21 projects with a total investment cost of Euro 2.2 billion but the financing gap is 79 per cent.

Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support. (In progress/ on track): In line with the amended OBL, the first Methodological Guideline for fiscal risks monitoring was drafted by FRU at the beginning of 2017 that defined the role of MOFE for fiscal oversight of State Owned Enterprises (SOEs).

Develop routines for and IT- support for the tracking and monitoring large investment projects. (In progress/ on track): At the end of 2017, all 11 LMs became users of the “Electronic register for public investment monitoring” (ERPIM). The system was further developed with new functions, in order to ensure a better monitoring process.

Design a new Law on local government financing (status- completed): Law no. 68, dated 27.04.2017 "On the finances of the local self-government" was promulgated. In the medium term, an increase in fiscal and local financial autonomy will be achieved through the provision of more funding sources for local self-government units, accompanied with more predictability, stability and transparency. In May 2017, MOFE organised a workshop on the implementation of the new law by local units. In addition, a meeting on the new law on local finances and the incorporation of the principles of gender equality in the local budgets was organised in September 2017.

Updating the local government finances portal (status-in progress/on track): MOFE updated financial and fiscal data of LGUs and their comparative analysis; and for the first time in 2017, the LGUs legal framework, “LGUs MTBP 2018 – 2020”, 2017 Annual Local Budget, and Local Budget Analysis were published on the portal.

PEFA assessment of 5 selected municipalities (status- completed): a Dissemination Workshop was held on 29 March 2017 in Tirana. It presented the main findings of “PEFA Assessment in Five Municipalities of Albania”. Experts from SECO and USAID prepared action plans for each of five municipalities for strengthening PFM in LGUs and implementation has started. Also, the most important recommendations are reflected in the new law “On the finances of the local self-government”.

Clearance of hidden arrears and prevention of new arrears (status- completed): MOFE in collaboration with LGUs, has prepared an action plan for the payment of the Arrears and LGUs have complied with the requirement to report arrears quarterly at local level, introduced by Instruction no. 8, dated 13.01.2017 “On the implementation of the 2017 budget”. However new arrears remain an ongoing issue.

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3.2.2. Strategic policy development and review

Objective 1

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 90%

Indicator value

The indicator value **is met** for 2017 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 (2015) ²³	2017	Target 2017
42%	56%	Growing trend

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 progress/on track*)

The GoA has worked towards development of sector strategies of the National Strategy for Development and Integration (NSDI-II) on the basis of prudent growth path for total expenditures. Actually, under the NSDI framework, the National Sectorial Health Strategy 2016 – 2020,²⁴ and the National Strategy for Science, Technology and Innovation 2017-2020²⁵ have been approved. Until December 2017, 26 strategies, as part of NSDI II have been adopted by the Albanian Government, while the remaining four are in their drafting stage.

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

MOFE in close cooperation with **Prime Minister Office (PMO) and the Ministry for Europe and Foreign Affairs organised several hearing sessions during May - June and September 2017 in which LMs and other budgetary institutions participated. The objectives were to: promote** a prudent and stringent procedural framework for MTBP 2018-2020 preparation process; consider the financial requirements of the Government Programme; priorities as defined in sector and cross-cutting strategies and National Plan for European Integration (NPEI) 2015-2020; and the NSDI.

The quality of the costing of sector strategies and their alignment with the MTBP has been improved, however, information on financing sources is still often lacking. Based on the **SIGMA Report 2017, the level of alignment between the financial estimates provided in sector strategies and the funds allocated in the Medium-term Budget Program (MTBP) is estimated to be 56 per cent.** This is improvement compared with the ratio estimates from 2015 (42%) and 2016 (53%). Also, the Government develops and approves most of the sector strategies on time, in accordance with its original plan. **It is estimated that only 21 per cent of all strategies that were to be developed in 2016, were postponed.**

The alignment between the sectorial strategies with the programmes planned in the MTBP **is expected to be improved with implementation of Integrated Planning System Information System (IPSIS)** supported by the Project of the Second Multi-Donor Trust Fund. **The IPSIS system** includes Planning, Monitoring and Reporting Module and **will ensure:** (i) preparation of the strategic frame through this automatized platform; (ii) automatized link between strategic planning and budgeting by means of a sector approach; (iii) interface

²³ Assessment of SIGMA 2015 for the strategies in 2014

²⁴ with DCM no. 439, dated 17.5.2017

²⁵ with DCM no.710, dated 1.12.2017

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with the MTBP and PIM module of AFMIS; (iv) strengthening performance and results monitoring of the strategic frame (NSDI, sector and crosscutting strategies) and budget programs; (v) providing a unified tool for different types of monitoring, including EU related monitoring; and (vi) introducing performance based budgeting into the MTBP through the linkage of IPSIS with AFMIS (MTPB module). The **Prime Minister's Office (PMO)** is leading the implementation of the IPSIS contract and at the end of 2017, in pursuit of the implementation of IPSIS the System (design) Requirement Analysis was finalized.

With regard to the IPMG mechanism set up, the work is in progress. The IPMG mechanism provides an integrated approach to the coordination and management of programming, implementation and performance monitoring of sector programs for achieving Albania's European integration and sustainable development goals. The work regarding the IPMG mechanism set up has been concentrated in two main directions: (i) the setting up of the four pilot IPMGs as by the Prime minister's Order nr.129/2015 "On taking institutional and operational measures to implement the sector approach and setting up IPMG"; (ii) enhancement of the mechanism in other priority areas. There is qualitative progress regarding the consolidation of the IPMGs Mechanism during 2017. The project Technical Assistance to Support the Integrated Sector Approach Mechanism in Albania was implemented between mid-2016 and early-2017. The overall objective was to improve the planning, implementation and monitoring of national sectors reforms and to support an effective mechanism for an integrated EU accession process in Albania. The two specific objectives were as follow: (i) Enhance capacities, effectiveness and performance of existing IPMGs/thematic groups and technical secretariats (in the areas of Employment Skills & Social Policy, Competitiveness & Innovation, Integrated Water Management and Good Governance & Public Administration Reform) and (ii) Analysis of new potential areas to be included in the IPMG system (public finance management, rule of law, integrated land management, regional development, transport, health and education). In frame of the new GoA Program and restructuring reform will be an 'IPMG redesigning Phase' (IRP) led by PMO. The IRP process it is expected to extend within the first quarter of 2018, by defining and confirming the major Government priorities, with priority areas and measures for implementation.

Moreover, the PMO in close collaboration with OECD/SIGMA has prepared the new methodology aiming to standardise the process of monitoring and reporting of the strategic frame (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. Currently, five pilot strategies are being coordinated by PMO with relevant ministries to draft monitoring reports based on the methodology developed with SIGMAS assistance: (i) Cross-cutting Strategy against Corruption for the period 2015-2020; (ii) Crosscutting Strategy on Consumer Protection and Market Surveillance 2020; (iii) Crosscutting Strategy of Justice 2017-2020; (iv) Transport Sectorial Strategy 2016-2020; (v) National Employment and Skills Strategy 2014-2020.

In regard to monitoring progress of NSDI and sector strategies, during 2017, seven strategy monitoring reports out of 25 were designed and prepared namely: (1) Albania Public Finance Management Strategy 2014-2020, (2) Business and Investment Development 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 Decentralization and Local Government 2014-2020; (6) National Cross-cutting Strategy for Jobs and Skills 2014-2020); ND (7) Intellectual property strategy. However, monitoring reports were not prepared in relation to two-third of all strategies.

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

In pursuit of the aim (inter-alia) to *create the capacity to carry out in - depth sector reviews as needed*; a new the PMO organisational structure has been redesigned. It now has three main Departments which are related to the functioning of the PMO, under the competency of the Secretary General, as below follows:

- The Department of Development and Good Governance - This Department is composed of three units: (i) development; (ii) the programmes of development and cooperation for development; (iii) national projects for development.

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- The Department of Regulatory and Compliance – This Department is composed of two units, (i) legislation and regulatory acts; (ii) programming of regulatory acts, as well as the quality and system of impact evaluation.

- The Department of Resources, Transparency and Good Administration – This Department has three units, (i) transparency and anticorruption; (ii) national resources for development; (iii) budget and internal administration. The structures of the PMO (**Department of Development and Good Governance – DDGG**) **will function for the orientation of the priority policies, good governance and main programmes for development and cooperation, in order to orient the development sectors of the country, as well as the system for good governance.**

In order to contribute to the strengthening of the capacities of LMs to better understand different instruments and tools of policy making, as well as budget preparation and management, further trainings have been provided. In this context, the training package on “The Management of Integrated Planning” has been provided by Albanian School of Public Administration (ASPA) twice and there have been trained 27 staff of LMs and central institutions. The training package included 5 modules related to important processes of the policy making cycles in the Albanian practices, such as: (a) Processes of IPS; (b) Policies and strategies preparation; (c) Costing of Policies and Strategies; (d) Monitoring & Evaluation of policies/strategies; and (e) Policies Impact Evaluation. Also, capacities related to the budget preparation and management have been further strengthened, through several trainings provided by ASPA. A one-day training on “MTBP management – Introduction” has been provided 5 times (out of the 6 times that had been planned), with 63 employees trained. Furthermore, an advanced 6 – day training on “MTBP Management and Public Investment” has been delivered twice, wherein 35 civil servants were trained.

Action 4: Maintain a “Single Strategic Project Pipeline” & ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects (*in progress/on track*)

The first National Strategic Project Pipeline (NSPP), 2016-2017, was approved by Strategic Planning Committee (SPC) on December 2015. It was composed by 41 projects, categorised within 17 projects of regional and connectivity relevance, as well as 24 projects of national relevance, amounting to Euro 2.3 billion. The process of revision/update of the NSPP and preparation of NSPP started in April 2016. The General Secretariat of SPC/NIC has collaborated with the LMs and the Budget Management Group in close cooperation with the MOFE in order to finalize the NSPP and it **was approved on 17 May 2017 by the Strategic Planning Committee. This package includes its methodology and recommendation statement. It comprises 143 projects and includes the following sectors:** (a) **Transport** (road, railway, portal, air); (b) **Energy** (Transmission, energy efficiency); (c) **Environment** (water and sewerage, flood protection, air pollution); (d) **Social infrastructure** (education & sports, health, art-culture, support for prisons, social housing, vocational education); and (e) **Business infrastructure** (marinas, tourism and broadband infrastructure). Three meetings of the budget management group have been held to coordinate and provide sound technical analysis of the draft NSPP. In addition, there have been two meetings of the Strategic Planning Committee/National Investment Council (NIC) held, in order to discuss and approve the NSPP for 2016-2017.

The NSPP is composed of 2 main categories: Category I – Connectivity Balkan Projects includes sub-categories of Core Network Projects and Balkan/ Cross-border Development Projects. It comprises of 21 projects with a total investment cost of Euro 2.2 billion. However, the financing gap for this category is 79 per cent. The rest of the investments are composed of 3 per cent grants, 6 per cent loans, and 2 per cent from national budget through MTBP. Under this category, 10 per cent of the total amount is foreseen that could be implemented through PPP funding as potential resource. **Category II – Projects of National/ Regional Relevance** involve three sub-categories of projects: National; Regional Development; and Local Development. The total investment cost for this category is Euro 11.5 billion, of which there is a 28 per cent financing gap. The amount of grants for these categories is 3 per cent, 13 per cent loans and 3 per cent from national budget through MTBP. Under this category, 11 per cent of the total amount is foreseen as a potential for PPP funding and 42 per cent as potential from private investment.

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In order to ensure aligned strategic prioritisation of projects and national NSPPs and other common initiatives among Western Balkan countries, within the frame of the Berlin Process Agenda, an initiative to establish a Regional NICs Advisory Network (RNAN) has been discussed. The concept of RNAN as an instrument for technical coordination among WB6, is being followed up, to ensure necessary financing for developing activities within this platform.

3.2.3. Capital investment planning, appraisal and inclusion in budget

Objective 2

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,²⁶ 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.

The target values for 2017 **were met**.

Baseline	2017	Target for 2017
I _{SPP} 55%	I _{SPP} = 57%	Growing trend
V _{SPP} 68%	V _{SPP} = 75%	

Outcome indicator 2

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

Indicator value

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

The target value for 2017 **was not met**.

Baseline (2015)	2017	Target for 2017
95%	96%	97%

Actions 1: Develop routines for and IT- support for the tracking and monitoring large investment projects. (in progress/ on track)

²⁶ 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

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At the end of 2017, all 11 LMs became users of the “Electronic register for public investment monitoring” (ERPIM). The system was further developed with new functions, in order to ensure a better monitoring process. During 2017, the Public Investment Management unit, continued to prepare monthly monitoring reports, based on the financial data generated from AGFIS and nonfinancial data extracted from ERPIM and other reports coming from the LMs.

In addition to the aforementioned achievements, substantial improvements in the pursuit of major investment projects are expected from the implementation of AFMIS (Albanian Financial Management Information System). The AFMIS project implementation was extended from June 2018 to the beginning of 2019 due to: the implementation of new methodology on public investments definition; other functional configurations with the AFMIS project; and requirements of the budget execution process as per the OBL (the fiscal year starts on 1st January and ends on 31st December).

Action 2: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support. (*in progress/ on track*)

Following Article 4.2 of the amended OBL, first Methodological Guideline for fiscal risks monitoring was drafted by FRU in the beginning of 2017. This draft defined the role of MOFE as regards to the fiscal oversight of State Owned Enterprises (SOEs) that are subject of potential fiscal risks. The abovementioned guideline to be finalized in 2018, contains detailed report templates and periodic reporting timeline that each SOE must submit to the FRU, in order for it to gather the necessary information regarding SOE annual financial plans, quarterly financial statements and/or other ad hoc information. Based on these quarterly and annual reports, FRU will assess the most significant SOEs from a fiscal risk perspective and disclose a summary analysis in the annual Fiscal Risk Statement. Bearing in mind the PEFA score of D, this will be an area to be strengthened within the revised PFM Strategy during the MTR.

Action 3: Have a clear Project classification to avoid unnecessary multiplication of projects. (*in progress/ on track*)

Article 49 of the amended OBL introduced a definition of an investment project in order to rationalise project classification and avoid unnecessary multiplications of projects. The intention was 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. In 2017 it was decided that all project costs have to be included under a unique project code. 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 4: Strengthen the MOFE’s oversight and fiscal gatekeeper function regarding project appraisals. (*in progress/ on track*)

PIM Department continues to strengthen its oversight and fiscal gatekeeper role regarding project appraisals. They revised the current arrangements and practices for appraisals and prepared guidelines and criteria to be used in the technical appraisal of large projects by MOFE. **The revised Public Investment Management (PIM) procedures has been drafted but not finalised**, partly due to the reorganisation of the Ministries. It is foreseen to be approved by the Council of Ministers by the end of first quarter of 2018. Regarding ERPIM it has already been transferred from the Ministry of Economy and is in operation for all LMs. After government restructuring in September 2017, MOFE and Ministry of Economic Development Trade and Enterprise (MEDTE) merged there were two vacant positions in PIM directorate (director and specialist). The appointment of the PIMD Director is expected to strengthen the fulfilment of the increased demands upon this department.

Action 5: Prioritization and selection of large investment projects is done in a systematic manner (*in progress/ on track*)

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Following an IMF recommendation, the PIM unit revised draft procedures to include criteria linked to national priorities for all new projects; part of which are large state public investment projects, drawing on the NSDI-II document, the IPS framework and the NSPP.

As is required by the OBL, investment projects above a certain size (over 700,000,000 ALL) are required to go through a complete appraisal process before they can be considered for the NSPP, and only projects from the NSPP can be considered for inclusion in the budget proposal. In May 2017, was developed next SPC/NIC meeting, where it **was finalised the revision of NSPP 2015**. Also, the methodology, sectorial criteria and three ranking options **143 projects for 5 sectors** (transport, energy, environment, social infrastructure and business infrastructure) within the NSPP 2016-2017 were approved).

3.2.4. Medium Term Budget Programme

Objective²⁷

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

Indicator value

The target values for this indicator **was not met** because:

- (1) There should be no deviation between total planned expenditures adopted for the first year of the MTBP₁₇₋₁₉ against total planned expenditures adopted in 2017 Annual Budget (deviation rate=zero)
- (2) There should be no deviation between total planned revenues adopted for the first year of the MTBP₁₇₋₁₉ against total planned revenues adopted in 2017 Annual Budget Law (deviation rate=zero)

Baseline (2015)	2017	Target for 2017
-14%	DE _{MTBP/AB} = 0.4%	DE _{MTBP/AB} = 0%
-1%	DR _{MTBP/AB} = 0.07%	DR _{MTBP/AB} = 0%

Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process (in progress / delayed)

The objective for tightening the MTBP process greatly improved with the OBL approval. Moreover, estimates of budgetary ceilings on a program basis continued to be made in 2017 budget proposals but further improvements are needed to require all the budgetary institutions to clearly to show in their budget proposals, which funds are effectively already committed and which are New Policy Initiatives (NPI), within the ceiling. For such procedures, the Budget Department supported by PFM TA (C3 'Annual budget law and MTBP') started **the process of reviewing the MTBP methodology**. The TA started by meeting Budget Department and other stakeholders to identify gaps related to MTBP design and practice. In June 2017, they presented the findings of the Project Inception Report to GoA and EUD stakeholders. The presentation identified performance gaps, recommendations, activities and results and work plan to improve MTBP methodology. Afterwards, continuous meetings took place with technicians and senior level management of MOFE. MOFE is working on revising the SBPG. The redesigned MTBP process will separately cost the baseline of financing existing policies, distinct from NPI; enforce budget ceilings and have two phases of budget planning: Strategic and Technical, to improve efficiency and effectiveness. Training on implementing this new methodology will take place during 2018, with a selected number of pilot LMs.

²⁷ Same with objective 1 at component 2.1 "Strategic policy development and review", section 3.2.2.

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3.2.5. 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 difference between the committed budget for multi-year projects and the total amount disbursed for these projects during 2017 continued to reduce, but the target value for 2017 **was not met.**

Baseline (2015)	2017	Target for 2017
967 million LEK	682 million LEK	Reduced by 50%

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**

For this indicator data are not available 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	2017	Target for 2017
NA	NA	NA	

Outcome indicator 3

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

Indicator value

For this indicator data are not available since this 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	2017	Target for 2017
NA	NA	NA	0

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

The activities under this component were completed in 2016, when the new AGFIS configuration enabled to disaggregate multiyear commitments.

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3.2.6. PFM in local government

Objective 5

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

Outcome indicator 1

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

Indicator value

The indicator for 2017 **was partially met**. This indicator measures the performance of revenues at the local level through: (1) the ratio of total outturn annual local government revenues versus the total revenues of the government (R_{LGR}) which is met. (2) The growth ratio from previous year R_{LGRG} , which even is increased compared with baseline (2015) it has a declining trend compared with 2016 value, so it was not met.

Baseline (2015)	2017	Target 2017
$R_{LGR}=3.04\%$	$R_{LGR}=4.2\%$	Growing trend
$R_{LGRG}=-6\%$	$R_{LGRG}=23.38\%$	Growing trend

Outcome indicator 2

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

Indicator value

This indicator 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. The value for 2017 has been significantly improved and **met** the target of 2017.

Baseline (2016)	2017	Target 2017
$R_{Total M}=-3.83\%$	$R_{Total M}=0.12\%$	$R_{Total M}>0\%$

Outcome indicator 3

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

Indicator value

This indicator **can't be measured** for 2017. Following the approval of the law "On local finances" on 27 April 2017, HSC and MOFE are jointly drafting an instruction to determine the procedures, dates and standards to be applied for auditing financial statements of municipalities.

Baseline	2017	Target 2017
NA	NA	NA

Action 1: Design a new Law on local government financing (completed)

The main achievement with regard to PFM in Local Government was the approval of Law no. 68, dated 27.04.2017 "On the finances of the local self-government" which lays the basis to better management of local finances. The Law, designed in close collaboration of the international partners, mainly USAID and Switzerland (through SDC, Swiss Agency for Development Cooperation), has the following objectives: (i) determining the rules, principles of LGUs financing procedures, including its own income from local taxes and fees, separate taxes, transfers from the State Budget, as well as other incomes provided by law; (ii) determining the basic rules for size and the division of central government transfers to local self-government units; (iii) determining the policy rules, instruments and procedures for PFM at the local level; and (iv) other important issues for funding the local self-government functions. Through this law in the medium term, an increase in fiscal and local financial autonomy will be achieved through the provision of more funding sources for local self-government units, accompanied with more predictability, stability and transparency.

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Action 2: Strengthen implementation of the local government financing law and PFM practices (*in progress/on track*)

The Law “On the finances of the local self-government”, strengthens the rules and procedures for managing public finances at the local level by providing more fiscal discipline and creating a balance between autonomy and fiscal discipline. **In order to strengthen its implementation, in 2017, MOFE started drafting the sub legal acts, which are expected to be approved in 2018.** Sub-legal acts will address issues such as: (i) Form and content of the Register of Physical and Juridical Persons who have the obligation to pay local taxes and fees (ii) The standard procedures for preparing the MTBP (iii) Detailed guidance on the preparation of the MTBP (iv) Fiscal reforms and safeguards (v) Monitoring implementation of the local budget (vi) Determining the cases when the audit is carried out by other auditors and procedures, external audit deadlines and standards by these auditors (vii) Preparation of consolidated financial statements (viii) Detailed procedures for managing financial difficulties, and (ix) Detailed procedures for managing insolvency situations.

Moreover, in May 2017, MOFE organised a workshop on the implementation of the new law by local units. The main issues discussed have been as follow: (i) the establishment of the key aspects of a fiscal and budgetary discipline in all unit of local government unifying budgeting procedures and schedules, financial management and control procedures (ii) increasing the predictability of local revenues, strengthening financial and fiscal discipline to local government units (iii) the procedures for programming and implementation of the local budget (which will be the standard procedures to follow by local governments to be effective and efficient in the planning of revenues and expenditures in providing quality services to citizens), and (iv) criteria for the management of current and capital expenditure, transparency, accountability, fiscal discipline and efficiency in the management and use of public resources. Workshop participants included representatives from Decentralization and Local Development Program (DLDP), MOFE, Local Finance Units, Donors, Municipal Advisor, Local Government Associations and Civil Society. In addition, a meeting on the new law on local finances and the incorporation of the principles of gender equality in the local budgets was organised in September 2017. Main issues discussed were: (i) main sub-legal acts of the local finances law; (ii) the preparation of the new financial reports for the local finances; and (iii) the new responsibilities for the local units and Ministry of Finance and Economy derived from the law. MOFE representatives, local finance experts, different donors, and 2 representatives from each municipality participated on the meeting. In 2018, MOFE will continue with the trainings to all local units for the implementation of the new legal acts, derived from the new law.

Action 3: Establish a medium-term financial planning database for local governments (*in progress delayed*)

MOFE in close collaboration with DLDP, in 2017, prepared the new Financial Planning Tool for the preparation of MTBP for local units and the Manual on Financial Planning Tool.

In order to introduce this FPT, MOFE organised several trainings and discussion meetings. During the first semi-annual of 2017, the first session of training on local budget process at ASPA was completed. Budgeting process responsible officers at all LGUs has been participated. Moreover, **in the period October to December 4 regional meetings for all local units were organised.** This tool brought new formats for the preparation and reporting of the LG MTBP: Representatives from each Municipality, MOFE, DLDP and Local Finance Experts, participated on those meetings.

Due to training being delivered throughout 2017, the implementation of the implementation of the new planning tool was delayed until 2018, for preparation of the MTBP 2019-2021.

Furthermore, **a Help Desk has been set up in the MOFE** in order to help municipalities implement this planning tool and accurately complete planning formats. The tool will be approved in 2018 and will be sent to all local units. The local units will use it in the preparation of the MTBP 2019-2021.

Action 4: Updating the local government finances portal (*in progress/on track*)

In order to increase the transparency of public finances for LGUs, **MOFE updated the local government finance portal.** In addition to the provision of the financial and fiscal data of LGUs and their comparative

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analysis, for the first time in 2017, the LGUs legal framework, “LGUs MTBP 2018 – 2020²⁸”, 2017 Annual Local Budget, and Local Budget Analysis were published on the portal.

Moreover, based on the new local finances and introduction of the new legal acts, MOFE will prepare a new guideline for LGU budget monitoring, with the aim of ensuring that the procedures and reports are unified for all LGUs in the medium term.

Action 5: PEFA assessment of 5 selected municipalities (completed)

Following the first PEFA assessment of PFM systems in Albania at the sub-national level, which aimed to gain a better understanding of the strengths and weaknesses of municipal PFM system, a **Dissemination Workshop was held on 29 March 2017 in Tirana. It presented the main findings of “PEFA Assessment in Five Municipalities of Albania”**. Five municipalities (Tirana, Berat, Fier, Kuçova and Tropoja) were assessed through the revised PEFA methodology (2016), through Swiss (SECO) and USAID financing. In order to address all the weaknesses identified, experts from SECO and USAID prepared action plans for each of five municipalities for strengthening PFM in LGUs and implementation has started. Also, the most important recommendations are reflected in the new law “On the finances of the local self-government”.

Action 6: Clearance of hidden arrears and prevention of new arrears (completed)

In the framework of local government arrears clearance, MOFE in collaboration with LGUs, has prepared an action plan for the payment of the Arrears. Moreover, in order to prevent the creation of new arrears, the reporting of the arrears in local level was introduced by Instruction no. 8, dated 13.01.2017 “On the implementation of the 2017 budget” for the year 2017. According to this new instruction LGUs are obliged to report and submit to the MOFE information on accumulated Arrears as well as their repayments, every quarterly²⁹. Until December 2017, all LGUs have reported periodically. Based on this information, MOFE prepares monitoring report of Local Government Arrears every three months. The monitoring reports for the first three quarters have been published on the MOFE website³⁰.

However, whilst the current activities within the action plan in relation to arrears have been completed; it should be noted that new arrears is an ongoing issue and will be included within the PFM Strategy during the MTR. An overview of stock of arrears at the end of each year, at central and local government level should be monitored and reported, along with a brief analysis of remaining causes for re-occurrence /new creation of arrears.

3.2.7. Budget Documentation

Action 1: Improve the information content and quality of local government budgets (in progress/delayed)

After approval of Law “On the finances of the local self-government”, MOFE in close cooperation with different actors, has prepared draft-legal acts and consulted on them with LGUs, in order to improve content and quality of local government budget documentation. These draft Acts were expected to be adopted in 2017 but were delayed until 2018.

²⁸ <http://www.financatvendore.al/buxhetet>

²⁹ <http://www.financa.gov.al/al/buxheti/buxheti-ne-vite/buxheti-2017/udhezimi-plotesues-nr-8-date-13-01-2017-per-zbatimin-e-buxhetit-te-vitit-2017>

³⁰ <http://www.financa.gov.al/al/raportime/buxheti/buxheti-i-pushtetit-vendor/viti-2017>

3.3. Pillar 3- Efficient execution of the Budget

3.3.1. Summary of Pillar 3 progress

Pillar 3 comprises ten objectives and is making good progress despite being packaged within an unwieldy pillar framework. According to the outcome indicators, seven objectives were met, two partially met, and one could not be measured. There are two objectives covering taxation with all three outcome indicators having been met. **Objective 1** is: *“Tax administration reforms increases tax bases, supports efficient tax collection, and reduces fraud”* and its outcome indicator’s: *“Enlarge the tax base by 30 % for employees and 20% for businesses in 2020”* 2017 targets **were met as** the tax base increased to 25 per cent employees and 17 per cent of businesses. **Objective 2**: *“Effective, efficient, fair and transparent management of tax revenues”* is supported by Outcome indicator 1: *“Increased tax efficiency as result of reducing administrative cost to less than 1%”*, which was **met** as the tax efficiency ratio increased more than expected. Outcome indicator 2: *“Provide reimbursement of VAT under the terms of legislation”*. The target value for 2017 **met** as the cases reviewed versus total requests for reimbursement increased more than target.

Objective 3 relates to Tax and Customs: *“Effective, efficient, fair and transparent management of revenues”* with its outcome indicator *“Percentage deviation of actual collection is within defined % of approved budget estimate for revenue”* having been **met** and moreover, exceeded.

The **fourth objective** of Pillar 3 was partially met: *“Fully transparent and efficient recording and control of the government’ spending and accrued financial obligations”* with its outcome indicator 1: *“Accumulated arrears for central government measured as a percentage of total accrued expenditure at the end of the fiscal year”*, remaining static and **not met**. However, outcome indicator 2: *“Public Administration employees registered in the HRMIS, in percentage”* was **met** with 58 per cent having been registered.

Objective 5: *“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”* with its outcome indicator *“Ratio of disbursements on EU and other donors funds presented in the monthly fiscal reports produced by the Treasury”* **could not be measured** since it requires the finalisation of EAMIS project.

Debt management is the focus of the **sixth objective** *“Debt sustainability analysis, as well as debt management and debt sustainability strategies based on it are prepared annually”* with its outcome indicator *“Stock of domestic debt re-fixed within one year”* was **met** and exceeded as the ratio between domestic debt stock over total domestic debt stock outstanding was reduced. **Seventh objective** *“Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania’s credit rating”* composed by two outcome indicators was **partially met**. Outcome indicator 1: *“Increase days to maturity of domestic debt to 790 days”* 2017 target was **met** and exceeded with 780 days achieved, as the days to maturity for domestic debt increased in line with the objective for 2017. Outcome indicator 2: *“Primary fiscal balance positive with a level of more than 2%”* target of 1 per cent was **not met**.

Public Procurement is **comprised by two objectives**: **Objective 8**: *“Public procurement system is in line with EU good practice”* with its outcome indicator *“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”* was **met**. **Objective 9**: *“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”* with its outcome indicator *“The percentage of cases when the review body exceeds the legal maximum processing time is below 10%”* was **met**.

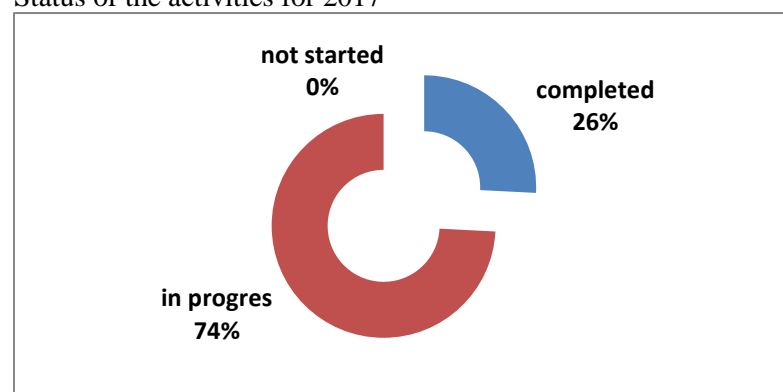
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The **tenth** and final **objective** of the pillar is: “*Complete asset registry including values and depreciation rules according to national standards*” with the outcome indicator being “Public assets are recorded into the AGFIS at least for 5 budget institutions” and **met**, since assets were recorded in 6 BIs during 2017.

At the activity level, **31 actions comprise this Pillar, with eight having been completed** and 23 in progress (Graph 6).

Graph 6. Pillar 3- Efficient execution of the Budget

Status of the activities for 2017



No of activities	
Completed	8
In progress	23
Not started	0
<hr/>	
	31

Notable **outputs and challenges** against actions are as follows:

Reengineer and computerize core tax administration processes (In progress/ in delay): The Tax Administration Information System used since 2015 by the Tax Authority was finalised during 2017.

Overhaul the tax administration's organizational structures and staffing at headquarters and at field level (Completed): A tax appeal department was re-established within MOFE in April 2017 and a Tax Administration Internal Regulation and Manuals for the General and Regional Directorates were approved.

Implement compliance risk management of tax collection. (In progress/ delay): The Risk Management Directorate has initiated two Projects for the Trade and Health Sectors. A sector strategic plan and action plan for monitoring of tourism activities and risk management compliance was established and implemented.

Strengthen audit capacity. (Completed): Revisions to manuals and related procedures have been completed to time and quality.

Establish a fiscal cadastre of properties (In progress/ in delay): several Memorandum of Understanding (MoU) by MOFE and key stakeholders: Electricity Power Distribution Operator (OShEE); municipalities of Tirana, Durrës, Korça, and Fier; and Kosovo. A new property tax law was promulgated in December.

Assist the taxpayers to enhance voluntary compliance (In progress/ on track): A range of support and information for taxpayers have been launched including: website, help desks, Call Centre, business visits, and brochures.

Take actions to reduce informality (Completed): The Tax Administration began to implement the Anti-Informality Action Plan. The health sector was selected as a high-risk for the under-declaration of tax liabilities. Non-declaration VAT taxpayers were targeted and premises of non-registered companies were visited. An Order of the Minister of Finance and Economy no.103 of 4.10.2017 “On the monitoring of performance indicators in the fight against Informality” was signed.

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Improve Debt Management (In progress/ on track): A two-year Action Plan on Debt Management was drafted in 2017 and is currently being implemented. The Debt Collection Directorate has created a current register regarding the Customs blocking of entities.

A new Law "On Payment and Deletion/ Suppression of Tax Liabilities, Payable Liabilities in Customs, as well as the Removal Procedure from circulation of the Transport Vehicles, after Deletion / Suppression of Tax Liabilities" was promulgated. To cover the amnesty of fines and interest, a total of 2.8 billion ALL was paid to cover the principal liabilities which was reimbursed by a loan amounting to 3.57 billion ALL.

In 2017, more than 21 billion ALL debt arrears was collected; there was a 35 per cent reduction in the creation of new debt arrears, compared to 2016; and debt stock decreased from 147 billion to 95 billion.

In relation to **Customs**, Customs implementation and Simplification Guidelines have been adopted and implemented. A "Business Strategy for Custom Administration" - framework with private sector, has been prepared. The General Directorate of Albanian Customs and Italian Industrialists Association in Albania (Confindustria Albania) have signed a Cooperation Protocol to facilitate the procedures for Italian companies present in Albania.

Make service delivery at the border-crossing checkpoints more efficient (status-in progress/on track): GDC has benefited from a framework of cooperation in relation to the EXBS Program for Export Control and Border Security with training and equipment received.

Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency (status-in progress/on track.): GDC has created a range of complaint mechanisms for business operators to appeal decisions by the customs authorities, with 299 complaints received.

Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions (status-in progress/on track): The new Customs Code was adopted but requires Asycuda World System for enabling full implementation.

Improve transparency of the Albanian Customs activities (status-in progress/on track): A new website was launched; and the Albanian Customs Portal, e- customs, offers new real-time services to help businesses and individuals.

To contribute to implementation in Albanian Customs Administration the New Computerized Transit System, fully in line with EU – NCTS, and full membership in Common Transit Convention, and prepare its ICT (status- completed): The "Modernization of the Albanian Customs Administration" twinning project ended in December 2017. Main outputs related to Customs legislation and procedures for interoperability of IT systems with the EU – NCTS; and Enforcement and Intelligence of Customs Transit through technical documentation, capacity building, and piloting.

To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS. (Status-in progress/on track): In March 2017 the Twinning Project "Aligning Albanian Customs tariff legislation and procedures with the EU acquis and supporting interoperability of IT systems with the Integrated Tariff Management System, ITMS" started for a two-year extension period.

Gradually make AGFIS available to all major budget entities (status - in progress/on track): In 2017, 15 BI had rolled out into AGFIS, covering 75 per cent plus of budget expenditures.

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Review current institutional arrangements, internal organization, and staff responsible for debt and cash management (status - in progress/in delay): The **Debt Management** Financial Analysis System (DMFAS) has been fully functional for both external and domestic debt during 2017.

Improve liquidity forecasting. (In progress/ in delay): A Cash and Debt Management Committee (C&DMC) was established to improve the coordination between budget execution, debt management and monetary policy implementation.

*Strengthen the legal and institutional framework for **public procurement** (status - in progress/on track):* Amendments to the Law on Public Procurement (law no.47/2017) regarding the guarantee of Independence of the Public Procurement Commission were approved; and the re-engineering of the electronic procurement system has been finalised.

Develop professional expertise of the auditors of the High State Control during the audit of the procurement activities (status – completed): An audit manual on procurement has been developed.

Prepare methodology and action plan. (In progress/on track): Findings of a comparative analysis (Gap Analysis) between the current legal framework of Public Accounting and International Public Sector Accounting Standards (IPSAS) were presented in a workshop in May 2017.

3.3.2. 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 2017 **is met** as the tax base increased, as requested for employees and more than the target for businesses.

Baseline (2014)	2017	Target for 2017
507,891employees	25%employees	25% employees
100,765businesses	17%businesses	13% business

Objective 2

Effective, efficient, fair and transparent management of tax revenues

Outcome indicator 2

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

Indicator value

The target value for 2017 **is met** as tax efficiency ratio increased more than expected.

Baseline (2013)	2017	Target for 2017
1,46%	1.45%	1.1%

*Outcome indicator 3**

Provide reimbursement of VAT under the terms of legislation

Indicator value

The target value for 2017 **is met** as the cases reviewed (paid or rejected) annually versus total requests no. for reimbursement were increased more than target.

Baseline (2014)	2017	Target for 2017
69%	83%	80%

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Action 1: Reengineer and computerize core tax administration processes. *(in progress/ delayed)*

The Tax Administration Information System used since 2015 by the Tax Authority was finalised during 2017. Problems encountered during the process of sending data have been resolved, so the communication protocol with Social Insurance Institute (SII) and GDC is already functional. Starting from June 2017, SII has begun to provide certificates of payment of contributions to taxpayers and individuals. GDT has prepared and published reports comparing data obtained from Customs and the data from return sheets declared from taxpayers. In addition, changes were made in the legal base during 2016 and 2017, to engage with the Data Warehouse (DWH) consultancy to build and deploy DWH capacity, but are not applied yet, because they need additional budget financing. During 2017 funding for 2018 was approved and the IT Directorate started to prepare ToRs for Business Intelligence (BI) system maintenance.

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

After the new Tax Administration Organisation Structure approval³¹, the tax administration changed the structure of GDT and Regional Offices. The Central Tax Administration is organised in directorates and other units according to the following functions: (i) **Basic and Operational Functions** and (ii) **Support functions**. The reorganisation of the tax administration established a division of duties and responsibilities within tax administration and the **creation of an independent appeals mechanism/body. The tax appeal department was re-established within MOFE structure in April 2017**, as two units, with a total of 15 employees. These changes increase professionalism in the fiscal sectors of the economy toward entrepreneurial developments. Also, **in the beginning of 2017, Tax Administration Internal Regulation³² and Manuals³³ for General Directorate and Regional Directorates were approved.** Methods to ensure effective working relationships between program design and operations, were developed during 2017 and will continue during 2018.

Action 3: Implement compliance risk management of tax collection. *(in progress/ delayed)*

Based on **EU/OECD model for Compliance Risk Management (CRM)**, the Risk Management Directorate **has initiated two Projects for the Trade and Health Sectors.** These are the first two projects that will test the effectiveness of the new risk management system launched in November 2016.

Considering to be a risky sector, an action plan of measures for the **monitoring of tourism** activities and risk management compliance was established and implemented during the (June-September) 2017 tourist season. The sector strategic plan was developed and mandatorily applied in all Regional Directorates as well in Implementation Structures at Tax Investigation Directorate. The objective was to increase voluntary tax compliance for this developing sector through taxpayer's education and awareness on observance/compliance with tax laws; and ensuring the implementation of the law.

For this reason, a well thought strategy was drafted and adopted during the Compliance Committee Meeting (no. 11) where the following objectives were considered:

- a) Monitoring taxpayers 'compliance behaviour for who benefited from the VAT reduction to 6%.
- b) Monitoring the flow of fiscal devices in market segments as: hotels and restaurants; retail; wholesale; transport; food, beverage and tobacco; sports and entertaining activities.
- c) Verification of employee's declaration.
- d) Verifying correct turnover and billing declaration.
- e) Verification of irregular taxpayers in the installation of fiscal boxes.
- f) Detecting unregistered taxpayers.

Since the implementation of the strategy, 1,133 fiscal visits and 779 audits were conducted by the Regional Directorates in the coastal areas. In addition, during June-August, 834 field verifications were conducted including turnover monitoring for the taxpayers. A result of full audits/controls, there was in total 66.247.047

³¹ Prime Minister Order no.126 on 02.08.2016.

³² Minister of Finance Order no. 19 date 22.02.2017

³³ GDT General Director Order no. 14 date 13.03.2017

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ALL findings. The largest share goes for the reduction of losses by 46 per cent and revaluations by 28 per cent.

As part of FISCALIS 2020, an EU cooperation programme, conducted a working visit in Vienna, Austria, on 13-14 December, 2017. Also, several meetings were held during September 2017 with an IMF expert, who assigned the Risk Management Directorate to establish a Risk Register and demographic profiles for industrial sectors and specific types of markets. The work related to the demographic profiles has been completed, and work on evaluating the risks identified by the risk register has commenced but the risk assessment register has not fully established. Therefore, it will further continue in 2018 with assistance of IMF experts.

Action 4: Strengthen audit capacity. (Completed)

Revisions to manuals and the related procedures have been completed to time and quality.

Strengthening audit capacity is based on a continuous training module, planned to be develop according to the 3rd phase of an anti-informality campaign plan. A training program is developed each year by the headquarters with direct input from operational staff in the Regional Offices. The program for 2017 included the following topics:

- Tax procedures in the Republic of Albania and implementation guidelines;
- Tax Administration rules for the audit function;
- The new 2017 Tax Audit Manual;
- Planning tax audits, performing audits under the Procedures Law, audit sequencing, notice period, audit performance, and submission of final audit reports to taxpayers;
- Tax avoidance and tax fraud;
- Method of operation and tax visit specific aspects, purpose and increased effectiveness
- Specific examples from audits in taxpayers operating in various industries at various regional tax offices; and
- Opportunities for experience sharing from attending auditors.

The functions of Audit Department are defined in their manual and operational plan, which were approved this year. The Risk Management Directory (RMD) selects audit cases using an analytical risk tool (up to of 70 percent of audit capacity). The remaining 30 percent audit capacity is used by Regional Offices to undertake a range of non-discretionary case work.

Action 5: Revise the system of the fiscal cash registers and encourage their use (*in progress/ delayed*)

GoA continues efforts to achieve the transmission of the data from the cash register machines to the GDT database in real time. The initial idea to design a system through a PPP project was found to be unviable. The MOFE (tax administration budget) is now funding the project and will consider the experience of Croatia and GDT, in cooperation with the NAIS, are drafting the project ToR.

Action 6: Establish a fiscal cadastre of properties (*in progress/ on track*)

Following the establishment of the Working Group³⁴, in January 2017 a Memorandum of Understanding (MoU) between MOFE and Electricity Power Distribution Operator (OShEE) was signed for sharing the Operator's national property database. This, together with the data from the Immovable Property Registration Offices (IPRO), the National Registry of Civil Status, and the National Address Register will be the primary source (input) of information for the establishment of the Fiscal Cadastre. In addition, the MOFE signed four MoUs with the municipalities of Tirana, Durrës, Korça, and Fier in order to enact the integration of the property tax bills with the electricity/water bills. The object of these Memoranda is to define the overall framework of cooperation between the parties for the realization of the Fiscal Cadastre, maintenance and updating it in real time in order to increase the performance of the collection of the property tax. Also, in

³⁴ Prime Minister Order no.173, dated 9.12.2016

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January, another MoU was signed with the MOFE of Kosovo to share their experience of using the fiscal cadastre system since 2012, through: revising legal base; raising capacity building through training; IT system; and technical support. Furthermore, in cooperation with IMF, a new property tax law (based on the market value of the property) was approved by Parliament in December 2017³⁵. MOFE efforts continue to complete the bylaws by April 2018. MOFE, assisted by Swedish International Development Cooperation Agency (SIDA), will pilot the cadastre system in four municipalities (Tirana, Durres, Fier and Korça) by the first quarter of 2018, with a project duration of three years. A General Directory of the Property Tax will be established in the MOFE by the first quarter of 2018.

Action 7: Strengthen the professional capacity of the GTD staff through continuous training. (completed)

The training program for 2017 has continued with the trainings of new employees in 'confirmation period', provided from Tax and Customs Administration Training Centre (TCATC) and ASPA on basic knowledge on Tax Procedures, the Ethic Code of tax administration (a total of 40 employees). Also, the training program for middle management and executive level for specific topics: audit structure, taxpayer service, debt collection and budget and tax investigation, continued in August, September, October, December, and was finalised on 20 December 2017. So far 600 employees were trained in the above topics from TCATC, 130 employees from Tax Investigation Unit were trained for the Internal Regulation functions and duties and 40 new employees from ASPA. Further activities, were organised jointly with International Organizations such as IOTA, OECD, CEF and FISCALIS 2020, to raise capacity building. **During 2017, GDT staff participated in 34 workshops and 3 working visits and approximately 78 employees attended training.**

Action 8: Assist the taxpayers to enhance voluntary compliance. (in progress/ on track)

A range of initiatives were organised during 2017 to enhance taxpayers' awareness:

- ✓ **A new website with comprehensive, user-friendly designed for all taxpayers'** categories was established. All the legal changes with detailed explanations text for both taxpayers and tax inspectors are included;
- ✓ At the National Registration Centre -NRC, a new taxpayer's help desk service has been launched;
- ✓ At Agency for the Delivery of Integrated Services Albania (ADISA) centres in Fier, Gjirokastr, Kruje and Kavaja, help desk services for taxpayers have also been launched;
- ✓ **A functional Call Centre**, in order to answer live queries has been established;
- ✓ **15 Informative Brochures** for newly registered taxpayers have been designed and published; For the first time, **visits directly to taxpayers' business premises** have **started**, in order to test the knowledge of taxpayers regarding tax matters; and
- ✓ In collaboration with the National Agency of Information (AKSHI), nine different certificates were issued for individuals and entities, automatically via e-Albania government portal.

Action 9: Take actions to reduce informality. (Completed)

In the beginning of 2017, the Tax Administration started the work to implement the Anti-Informality Action Plan³⁶. This plan aims to support the belief that voluntary compliance will be enabled only when the processing of all taxpayers' service functions for tax control and debt collection are integrated and based on a risk management model. Following the implementation of this plan, several reports were drafted and shared with stakeholders. The health sector was selected as a high-risk for the under-declaration of tax liabilities. After an analysis was made by regional directorates and problems encountered, several visits to business' premises were conducted so that tax administration could provide its assistance for the proper notification of taxpayers. Furthermore, relating the non-declaration taxpayers, taxpayers who for three consecutive months had not declared VAT, were targeted and the relevant RDTs informed. The CRM

³⁵ Law no. 106/2017 date 30.11.2017 On amendments and additions to Law no. 9632, dated 30.10.2006, "On the Local Tax System", as amended http://www.qbz.gov.al/botime/fletore_zyrtare/2017/PDF-2017/222-2017.pdf

³⁶ approved by the General Taxation Directorate on 20.12.2016

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system, also enabled an automated process for the evaluation of missing declarations thus reducing the number of non-declared taxpayers. The Tax Investigation Directorate undertook measures to identify the premises of the non-registered activities.

The fight against informality was intensified after the Order of the Minister of Finance and Economy no.103 of 4.10.2017 "On the monitoring of performance indicators in the fight against Informality". The Government of Albania aims to achieve significant results in the first 100 days of its activity, setting sights on a further consolidation in the up-coming periods. The main objectives are: to promote self-declaration; timely payment of tax liabilities; to reduce tax evasion and to increase revenues; to increase the number of job positions; to control debts, to avoid the creation of new debts and debt reduction.

Action 10: Improve Debt Management. (*in progress/ on track*)

A two-year period Action Plan on Debt Management, following IMF Recommendations, has been drafted in 2017 and is currently being implemented. Following these recommendations, the Debt Collection Directorate requested legal changes in order to improve **debt management, and they will be submitted again to GDT and RDTs, as part of the operational plan for 2018**. Also, the implementation of the risk management for debt collection enabled a better use of procedures and human resources for the maximisation of the collection of tax liabilities. The Directorate has created a current register regarding the Customs blocking of entities; regional directorates report periodic information on instruments related to collection procedures. A mortgages database with a list of taxpayers who have unpaid debts and mortgages is published in GDT web. Debt reports have been revised and changes are required from the system regarding the inaccuracies.

An important milestone in 2017 was the adoption of a new law³⁷ no. 33/2017 dated 30.03.2017 "On Payment and Deletion/ Suppression of Tax Liabilities, Payable Liabilities in Customs, as well as the Removal Procedure from circulation of the Transport Vehicles, after Deletion / Suppression of Tax Liabilities", published in the Official Journal dated 21.04 .2017. The main purpose is to enable the tax administration to focus on meeting new obligations and provide an incentive to for taxpayers to pay tax liabilities for the past five years by removing penalties, focus on the work of the tax administration in meeting the obligations of 2015-2016. In order to benefit from the amnesty of fines and interest, a total of 2.8 billion ALL was paid to cover the principal liabilities which was reimbursed by a loan amounting to 3.57 billion ALL.

2017 presented improved tax debt indicators; the main drivers of positive performance in debt management were better involvement and orientation of the tax administration in terms of accurate identification, the strategy deployed for the collection of debt arrears, and the application of the Amnesty Law. The figures below illustrate the huge achievements:

- ✓ More than 21 billion ALL debt arrears collected;
- ✓ 35% reduction in the creation of new debt arrears, compared to 2016;
- ✓ More than 1,000 instalments agreements made;
- ✓ Debt stock has decreased from 147 billion to 95 billion;
- ✓ • 155,000 taxpayers have benefited from the Amnesty Law where about 55 billion ALL of unpaid tax liabilities have been cancelled;
- ✓ The free cancellation relieved around 99,000 taxpayers of 25 billion ALL unpaid tax obligations (which generally belonged to the period prior to 2010);
- ✓ Fines for: delayed VAT declaration ; profit allocation; social security and health insurance payroll; profit tax/simplified profit tax, etc. were cancelled automatically;
- ✓ For the period 2011-2014, 55,000 taxpayers paid the principal sum and benefited from a total of 25.8 billion ALL.

³⁷ <http://www.dogana.gov.al/dokument/605/85-2017>

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3.3.3. 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 2017 **was met** and exceeded as the difference between of the actual collection of revenues versus planned revenue was reduced.

Baseline (2015)	2017	Target 2017
-10.2%	-0.6%	+/-3%

*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 (completed)

In order to facilitate customs procedures, to reduce the time spent in customs operations and to eliminate the procedural ambiguities between the private sector and GDC, Implementation and Simplification Guidelines have been adopted and implemented as below:

- Instruction no. 3 dated 03.03.2017 "Approval of the regulation on equipment for the use of electronic signatures;
- Instruction no. 8048 dated 04.04.2017 "On the application of the Regional Convention on pan-Euro-Mediterranean preferential origin rules or protocols on rules of origin providing for diagonal commutations between the Contracting Parties to this Convention";
- Instruction no. 09 dated 24.01.2018 "Regarding the Status of the Approved Exporter"
- Order no. 06 dated 26.05.2017 "On the Closure of the Simplified Declarations System";
- Guideline No. 05 dated 04.07.2017 "On the Practical Application of the Temporary Allowance Scheme for Goods Covered with ATA Carnet".
- DCM No. 651, date 10.11.2017 "For the implementing provisions of Customs Code" partially aligns with EU acts;
- DCM No. 799, dated 29.12.2017 "For the approval and official publication of the Combined Nomenclature of Goods 2018".

With the aim of creating a clear interaction framework with private sector General Directorate of Custom has prepared the "Business Strategy for Custom Administration". A TAIEX Expert Mission for "Preparing a Business Strategy for the Customs Administration" took place 10-14 July 2017. The business strategy is expected to be approved in January 2018.

In relation to business cooperation, the General Directorate of Albanian Customs and Italian Industrialists Association in Albania (Confindustria Albania) have signed a Cooperation Protocol on 14 February 2017, to facilitate the procedures for Italian companies present in Albania. In addition to this protocol, on 2 May 2017, a workshop was held on "Customs and Internationalization, Energy Enhancement" understand procedures in force, legislative innovations, technical solutions and expected developments in customs legislation in Albania and international markets. Furthermore DGC has organised consultative meetings with private operators, as follow: (i) Meeting with representatives of the American Chamber of Commerce; (ii) Meeting with business representatives on awareness on new transit procedures; (iii) Meeting for customs procedures by the Investment Council; (iv) 3 informative meetings on the provisions of the new Code and (v) Awareness meeting with stakeholders on 23 November 2017 about advantages from NCTS in international trade for European and partner countries.

Action 2: Make service delivery at the border-crossing checkpoints more efficient (*in progress/on track*)

In order to make the service delivery at the border-crossing checkpoints more efficient, the GDC has initiated a procedure for further improving Asycuda World IT System functionalities and security.

GDC has benefited from a framework of cooperation in relation to the EXBS Program for Export Control and Border Security. Support has included: the technical specifications of the baggage scanner for the Rinas Customs Department; "Southern Border Initiative" meeting held in Tirana on 23 March 2017; X-ray Imaging Analysis Course, organised on 27-31 March 2017, in Vysne Nemecke, Slovakia; and new computers for the Directorate of Risk Analysis and Monitoring. Within the UNODC and OBD Project on "Container Control", the Hazmat 360 equipment was donated to the General Directorate of Customs too. Also, UNDOC organised an "International Conference on Co-operation against Illegal Drugs and Organised Crime", on February 27-28, 2017, in Tehran, Iran. Another X-ray Image Analysis Course was conducted during 7-10 November 2017 in Slovakia.

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 progress/on track*)

In order to facilitate the customs procedures and to save time in carrying out customs operations for the goods, GDC has approved Instruction no. 06/1 dated 02.02.2017 "On Amendments to the Instruction no. 06 of 22.04.2016 - On simplified procedures, customs clearance on the premises of the economic operator", applying the Local Customs Clearance procedure for the export of goods from the premises of the authorized economic operator. During the 2017, 2 other companies had applied for local clearance, increasing in 7 the number of companies benefiting from this procedure. However **Albania still has zero authorised economic operators (AEO) in accordance with CEFTA / EC definition.**

GDC has organised an awareness campaign for increasing applications. Awareness gathering (within the IPA 2012 Project) was held in March 2017 with participants from Chambers of Commerce, Customs Association, and potential operators to benefit from the status of AEO. In May a series of informative meetings on new customs legislation, including provisions on the AEO and other simplifications have been conducted until July 2017.

In order to facilitate and improve customs procedures, the following instructions were approved:

- Instruction no. 01 dated 07.03.2017 "On Simplified Declaration, for non-commercial goods imported by chance by travellers" – Standardizing and unified procedures for customs clearance of goods by travellers;
- "Manual for Customs Operational Procedures at the Rinas Airport" – defining precise and unified customs and common control procedures with all organs Border enforcement law; and
- Instruction no. 05 dated 04.07.2017 "On the Practical Application of the Temporary Allowance Regime of Goods Covered with Carnet ATA" – standardizing and unfitting procedures for goods under the temporary importation procedure and covered by Carnet ATA.

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

GDC has created a range of complaint mechanisms for business operators to appeal decisions by the customs authorities in order to promoting fairness of treatment and transparency. During 2017, 299 complaints / denunciations were reported through the "STOP CORRUPTION" portal, green number, e-Mail, protocol and recently through the co-governance platform respectively, with the following received:

- 35 cases from "Stop Corruption" Portal
- 160 cases from the green number 08002222
- 25 cases by the General Director
- 78 cases in other ways (e-mail, letters, etc.)
- 1 case through co-governance platform

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The issues raised in these complaints/denunciations mainly related to customs procedures that are not known by individuals as well as suspected violations of the Code of Ethics by GDC employees. All of the above-mentioned cases have been addressed and 60 different disciplinary measures have been proposed, as defined in Law 152/2013 "On Civil Servants".

During this period 2 Integrity Tests were performed: (i) For documentation delivered to HMRC Directorate from different employers of Customs Administrations; and (ii) For implementation of Guidelines Manual No.2 date 31.03.2016 (on Risk management and the authority of Control Based on Risk Analysis) from Customs House of Kakavie and the Customs House of Vlora. There were performed control "On implementation of SAFCORM Methodology" at customs house of Fier, Lezha, Morina, Saranda, Tre Urat, Berat, disciplinary measures have been proposed as a result.

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 progress/on track*)

The new Customs Code entered into force on 1 June 2017 and approved DCM no.651 dated 10.11.2017 "For the implementing provisions of the Law no.102 / 2014 The Customs Code of the Republic of Albania". This DCM defined the procedures of use a single guarantee for any type of transaction in customs. However, the fulfilment of this duty is related with the development of Asycuda World System for enabling the usage of a single guarantee for all types of registrations and transactions. Only after the successful establishment of this element GDC will proceed with formulating of the rules and decide upon the procedures that will be followed for achieving this objective.

Action 6: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis (*in progress/on track*)

In order to achieve faster customs clearance procedures and ensure the prompt release of goods, legal acts for the preliminary declaration have been finalised during 2017. Preparation of the AEO list and implementation of prior clearance will begin to be implemented in practice after the upgrade of the electronic systems according to the Plan that was sent for approval to the Minister of Finance and Economy.

Action 7: Take measures to stamp out fraud (*in progress/on track*)

Measures to stamp out fraud are contained in the New Customs Code, which, as regards Customs offenses and penalties, is based on the proposal of the European Commission (EC), and other EU countries best practice. The New Customs Code, clearly defines a list of actions or omissions that involves the violation of customs in Albania. These violations are differentiated by the behaviour of the offenders, the level of severity and some are categorized based on whether they were intentional or due to negligence.

During first half of 2017, the General Directorate of Custom has taken measures to facilitate legal trade by revising the criteria for selecting subjects to enter in the green channel. All current green channel criteria in IM-EX procedures are being reviewed in collaboration with GDT. Next, work will be done on the expansion of the green channel also in the transit procedure (analysis conducted according to the internal and external transit module within the IPA 2012 project) through: (a) Implementation of the Green Channel; and (b) Decreasing documentary control, replacing the yellow-to-green channel.

The implementation of Blue channel is a new initiative for ACA involving a number of selection, analysis, monitoring, but also AW implementation, processes. **The blue channel operation, which was scheduled to be completed at the end of December 2017, started operating in November 2017.** However, work on improving the selection criteria is a daily and operational task.

During 2017, the objective of updating existing profiles and implementing new profiles based on identifying new areas of risk and analysing/assessing possible violations (tariff misstatements, underestimation, violations in the area of excise, origin of goods or over high risk economic operators, etc.), was fully achieved: **a total of 113 analyses were performed which resulted in the updating/construction/deletion of 90 risk profiles.**

With regard to use the mechanism for the so-called 'mystery shoppers' to detect corruption cases at customs, pursuant to DCM 816, November 2016, GDC has issued the order to enable the enforcement of the

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law on whistle blowers and administratively, the law enforcement procedure for whistle blowers has been completed. The next step is its practical implementation.

Action 8: Improve transparency of the Albanian Customs activities (*in progress/on track*)

In order to improve the transparency of its activities, in May 2017, the General Directorate of Customs launched its new user-friendly website. Based on the GDC Regulation, website data are updated continuously. It is also fully translated in English. GDC in cooperation with the EBRD has established a business information centre, in order to improve efficiency and operate a help–desk. Furthermore, GDC has a Draft Project with European Bank for Reconstruction and Development (EBRD) to further develop the business information centre.

The new Albanian Customs Portal, e- customs, offers new real-time services to help businesses and the individuals, as follows: - Verifications (a) Online Tariff Estimation; (b) Verification of Single Administrative Document; (c) Verification of the Excise Document; (d) Verification of Customs Payment; and; (e) Verification of the applied documents.- Applications (a) Registration of identification document and (b) Registration of unique identification number (NUIS / TIN).

Action 9: To contribute to implementation in Albanian Customs Administration the New Computerized Transit System, fully in line with EU – NCTS, and full membership in Common Transit Convention, and prepare its ICT (*completed*)

Within the framework of IPA Program 2012 “Modernization of the Albanian Customs Administration” twining project operated during 2016-2017 (Euro 1.8 Million). This project aimed to: (a) Contribute to more secure trade in the framework of the Copenhagen criteria, through support on modernization of Albanian Customs Administration, based on EU standards; Align Customs Transit legislation and procedures with the *EU acquis*, also in view of the interoperability of IT systems with the EU – NCTS system; (b) Assist the Albanian Customs Administration in strengthening its administrative capacity in line with the EU Customs blueprints, in the field of Customs transit; and (c) Strengthen technical and operational capacities in enforcement and intelligence. All the project activities are done according to the schedule and in close cooperation between ACA and EU Project experts. The Project ended in December 2017.

Main outputs of Component 1: “Customs legislation and procedures related to interoperability of IT systems with the EU – NCTS” are as follows:

- ✓ *Draft* proposal for alignment of customs legislation and procedures to those envisaged by the Common Transit Convention submitted to the Albanian government for approval;
- ✓ Technical documentation and ToR for future implementation of the NCTS drafted;
- ✓ Training ACA officers in controlling and testing the new functionalities of national transit application to be developed by the External Contractor delivered;
- ✓ Awareness meetings towards public institutions and traders organised and relevant material produced; and
- ✓ Guidelines for the creation of the National Service Desk drafted.

Main achieved outputs of Component II: “*Enforcement and Intelligence of Customs Transit*” are as follows:

- ✓ Proposals on legal amendments and procedural improvements drafted to support the Albanian enforcement and intelligence system in facing the new fraud attempts with regard to transit sector;
- ✓ Training on the enforcement of Customs Transit for customs managers and staff delivered and preparation of training modules and related materials prepared
- ✓ Capacity building on the collection and processing of intelligence data for strategic and operative purposes delivered;
- ✓ Joint Pilot exercises organised and conducted; and
- ✓ (v) Proposals for the development of IT tools aimed at supporting the enforcement and intelligence activities drafted.

The ACA is considering different financial possibilities in relation to EU IPA funds, other IFI or Budget funds in order to *develop the necessary IT system* through a separate service contract. This will ensure

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continuity of the work commenced with the Twinning Project under IPA 2012 to achieve Integration of the Albanian Customs Information Systems with the EU Customs Information Systems.

The proposed project activities are: (a) to develop the National Transit Application and Economic Operator Registration and Identification (EORI) fully compatible with EU- New Computerized Transit System (NCTS); and (b) to provide management support for implementation of the System including project management, quality assurance, technical training in the Albanian and Montenegro customs. It is also necessary to take the required steps for adhering in the Common Transit Convention (CTC) as Albania intends to join the CTC before entering the EU which requires: the adoption of appropriate national legislation; some changes in administrative procedures; and an IT system that is fully in line with the New Computerized Transit System (NCTS) used by all CTC members.

Action 10: To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS. (*in progress/on track*)

In March 2017 the Twinning Project “Aligning Albanian Customs tariff legislation and procedures with the EU acquis and supporting interoperability of IT systems with the Integrated Tariff Management System, ITMS” started. The Project’s purpose is to assist the GDC in: strengthening its administrative capacity in line with the EU Customs blueprints, in the field of Customs tariff; align Customs Tariff legislation and procedures with the Union acquis; and integrate Albania IT systems with the EU – ITMS system.

The project comprises three components and has a two year extension. On 4 May 2017, the launch event of the EU ITMS twinning project was held to give institutional visibility to the Twinning Project and to strengthen the collaboration between the representatives of the Albanian and Italian customs administrations and other interested public institutions and stakeholders.

During the first quarter of 2017, Components 1 and 2 activities focused mainly on the context of the screening and analysis of the Albanian legislation in the field of tariffs in view of the harmonization with the EU legislation. They aimed at drafting all the necessary legal amendments together with the guidelines, reports, manuals on relevant procedures and interoperable IT systems in terms of tariffs. It has been already accomplished the alignment from GDC of the 2013/C 105/01 “Guidelines on the classification in the Combined Nomenclature of goods put up in sets for retail sale”. The EU Guidelines for BTI (Binding Tariff Information) and BOI (Binding Origin Information) will be soon aligned too.

During 2017 activities under component 3 “*Improvement of ACA’s Administrative Capacity: Organization, Training and Communication*” was also launched. Activities were designed to prepare internal instructions on the procedures, working methods and quality service management of the ACA offices involved in the implementation of the ITMS and to identify the ITMS training needs. After each activity that is being developed based on the operation side letter with the planned activities, the Italian experts create an output based on the fields cover during the activity. However, it is important to be mention the problems related to the contracting company responsible for the development of the ITMS software system. The tender for ITMS module is already done and GDC is waiting for continuity of the contract.

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3.3.4. Improve the coverage and functionality of AGFIS

Objective

Fully transparent and efficient recording and control of the government' spending and accrued financial obligations

Outcome indicator 1

Accumulated arrears for central government measured as a percentage of total accrued expenditure at the end of the fiscal year.

Indicator value

This indicator **was not met**.

Baseline	2017	2017 Target
(2016)		
0.48%	0.48%	Declining trend

Outcome indicator 2

Public Administration employees registered in the Human Resources Management Information System (HRMIS), in percentage

Indicator value

The target value for 2017 **was met**.

Baseline (2013)	2017	2017 Target
0.5%	58%	50%

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

In 2017, 15 Budget Institutions (BI) had rolled out into AGFIS, which in terms of volume represent more than 75% of budget expenditures. The reasons of no additional roll-out in 2017 are: (i) the restructuring of the institutions after the election of June 2017 and (ii) payment of software. By the end of 2018, the MOFE intends to roll out a further 50 BI into AGFIS. However, this number will be revised in line with the technical solution design of the AFMIS Project (and mostly relates to the financial cost of licenses required for direct AGFIS access. It should be noted that the timeline for this activity is 2015-2020 but phasing is somewhat misleading as no additional roll-out took place in 2017. The number of BIs has now changed due to the public administration restructuring, so during PFM MTR, the number of BI for roll – out in AGFIS will be revised and so the target will become more realistic.

Action 2: Configure AGFIS so as to allow tracking operational expenses by project code (*in progress/on track*)

Changing AGFIS configuration to allow tracking of operational expenses by project code will be part of AFMIS Project since the methodology regarding project definition and codification will be improved. Based on AFMIS implementation project, **this activity is planned to be completed in 2019**.

Action 3. Gradually integrate AGFIS and other government IT systems under AFMIS (*in progress/on track*)

As During 2017, the Company for AFMIS (Albanian Financial Management Information System) Project implementation was selected. MOFE has been in close collaboration with the selected Companies: Intechplus and Infosoft, World Bank and other stakeholders discussing in detail functional requirements for each AFMIS module and its integration with other systems, **in order to finalize the detail AFMIS Technical Solution Design, which is expected to be signed in the beging of 2018.** Activities such as: (i) Creation of interfaces with customs management system, (ii) Make fully functional the electronic system for payroll management and establish an interface with AGFIS; and (iii) Design and implement the web portal for AGFIS users and the document management system (digital archive) for online AGFIS budget users; are part of AFMIS Project implementation. This project has been extended until in the beginning of 2019, hence these activities are expected to be completed by that time. Moreover, integration of the debt management

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system with AGFIS and the future AFMIS will be completed during the second half of 2018 since the DMFAS Upgrade Project is extended to that time.

It is important also to stress that besides **AFMIS**, two other management information systems **EAMIS** and **IPSIS**, which are considered complex, but in the same time crucial, systems for the modernization of the public administration in general, are under implementation process. The process of MIS implementation is on good track as far as: the EAMIS design is finalized and is ready for testing, AFMIS is in design process and IPSIS is in finalization of the System Requirement Analysis. However, during the project lifetime, the three systems are expected to be integrated and successfully be implemented pursuant to project requirements.

3.3.5. 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 data on total donors' funds disbursed is expected to be calculated with finalization of EAMIS project.

Baseline (2014)	2017	Target 2017
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10% donors financing	NA	Growing Trends
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Action 1: Prepare and implement, in cooperation with donors, a program to progressively manage external funds through government systems (*in progress/ on track*)

In the framework of strengthening PFM and in compliance with the IPS, the efforts for implementation of EAMIS project continued during 2017. EAMIS is support by the World Bank through a multi-donor trust fund under the IPS2 project (Sweden, EU and Switzerland). The system records and retains information on: (i) projects financed by foreign aid; (ii) Foreign Direct Investment (FDI) and (iii) Concessions / PPPs.

In 2017 the following progress has been made: (i) work plan drafted (ii) needs analysis related to EAMIS functionality conducted (iii) EAMIS database selected (iv) hardware technical specifications approved (v) technical specifications of foreign-funded projects, FDI and PPP modules drafted (vi) Manual data transferred from original PMO projects database into excel project template conducted, and (vii) analysis and testing of the provided Demo for EAMIS. Moreover, the competencies and EAMIS system contract has been transferred from PMO to MOFE in December 2017. All the activities in the approved work plan are delayed due to transfer of competencies and the re-organization process of PMO.

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3.3.6. Debt and cash management

Objective

Preparation of the annual debt management strategies.

Outcome indicator 1

Stock of domestic debt re-fixed within one year

Indicator value

The target value for 2017 **was met** and exceeded the objective for 2017 as the ratio between domestic debt stock that re-fixes the interest rate within one year over the total domestic debt stock outstanding is reduced.

Baseline (2015)	2017	Target 2017
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67.7%	56.7%	65.7%
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Outcome indicator 2

Increase days to maturity of domestic debt to 790 days.

Indicator value

The target value for 2017 **is met** as the days to maturity for domestic debt increased in line with the objective for 2017.

Baseline (2015)	2017	Target 2017
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705 days	780 days	740 days
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Outcome indicator 3

Primary fiscal balance positive with a level of more than 2%

Indicator value

The target value for 2017 **is not met** even though the primary fiscal balance is positive in 2017

Baseline (2015)	2017	Target 2017
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-1.7%	0.4%	1%
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Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management (*in progress/ delayed*)

With regard to internal organisation and employment of new staff in the General Public Debt Department (GPDD)³⁸, during 2017, three new staff members were hired, reducing the number of vacancies from 7 to 4. In order to increase the staff capacities within GPDD, several training sessions, workshops and discussion meetings were conducted, as follows:

- “Strengthening Government Bond Market and related Public Debt Management Program”, in the framework of The Financial Sector Reform and Strengthening Initiative (FIRST mission³⁹) occurred in the period from 5-11 April 2017..
- **Workshop on Government Bond Market Development (FIRST mission) on June 6-7, 2017**, were representatives from the MOFE, the BoA) local banks, banks associations, financial institutions, and other stakeholders participated.
- Workshop on “Designing and Implementing the Government Debt Management Strategies” organised by The World Bank Treasury.
- Following “Strengthening Government Bond Market and related Public Debt Management Program” workshop, during July, WB experts conducted a visit in Albania. During their one-week visit, a training session and technical discussions with GDPP employees were conducted. The discussions have been focused on topics such as: a) Issuance of Government Securities in the domestic market; b) Benchmark building target size, reopenings; c) Communication with the market; and d) Liability management.

³⁸ Referring to the old structure as the new MFE structure entered into force in 2018

³⁹ FIRST, is a multidonor grant facility

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- The Ministry of Finance and Economy in July 2017 has request to join the Government Debt Risk Management Program (GDRM), a new program that is a continuation of the FIRST initiative that ended in July 2017. **Related to this new program a quick mission took place during October in order to discuss about the areas of priority that need to be assisted within the GDPP.**
- **Updating of the Medium Term Debt Management Strategy (MTDS) 2018-2020, continued in 2017 drawing on** methodologies and the recommendations of the international financial institutions. The working group aims to ensure that the new strategy will be in line with the fiscal and monetary policy.

The Debt Management Financial Analysis System (DMFAS) **has been fully functional for both external and domestic debt during 2017.**

Action 2: Improve liquidity forecasting. (in progress/ delayed)

Forecasted cash flows are essential for more active cash management. A WB mission in March 2017 aimed to support the authorities in the review of institutional and operational structures concerning cash management and the framework for forecasting and planning cash flows. **A Cash and Debt Management Committee (C&DMC) was established to enhance the operational framework for cash management with a view to improve the coordination between budget execution, debt management and monetary policy implementation.** During October-November, another mission with WB and IMF experts addressed the cash forecast issue: ‘Public-Private Partnership Oversight and Cash Management’. Following their recommendation further efforts were undertaken to carry out monthly variance analysis. Such analysis has been reported annually in previous years but will be improved by generating detailed consolidated fiscal indicators based on actual data from AGFIS’ cash module, compared with the forecasted cash flow financial statement data.

Once AFMIS redesign is implemented during 2019 onwards, it will be possible to develop the software, a separate system from AGFIS, to manage: the daily treasury cash plan data changes of Tax and Customs administration; special funds; SII and Compulsory Health Insurance Fund (CHIF); main ministries; budget support; debt auctions calendar; disbursement of foreign financing etc. which will improve liquidity forecasting.

3.3.7. 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

The indicator **is met** for 2017. Based on SIGMA Monitoring Report on Public Finance Management related to the Principles of Public Administration this indicator is evaluated **with a score 3 (out of 5).**

Baseline (2015)	2017	Target 2017
2	3	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 met** for 2017. The highest number of cases reviewed within the legal deadline has come as a result of increased number of inspectors, more efficient time management, and reduced number of irresponsible complaints.

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Baseline (2013)	2017 Value	2017 Target
39.6%	54.7%	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:

- Amendments to the Law on Public Procurement (law no.47/2017) regarding the guarantee of Independence of the Public Procurement Commission were approved on 13 April 2017. According to these amendments, members of the PPC will not be appointed by the Council of Ministers, but by the Parliament following a competitive selection procedure. With regard to the implementation of the newly added legal provisions regarding independence of the Public Procurement Commission, DCM 521, of 20.09.2017 “On the approval of the selection procedure for the selection of the candidates for chair and members of the PPC” has been adopted. This DCM describes in details all the procedural steps that shall be followed and the scoring method in order to prepare the lists of candidates that should be sent for approval to the Parliament. Until, December 2017, the selection procedures have been conducted and the lists of candidates; respectively for chair and members of the PPC have been sent to the Parliament for further selection and appointment.⁴⁰ These amendments partially align and reflect the key principles of the EU directives 89/665 and 92/13 as amended by 2007/66.
- **In addition, with the assistance of SIGMA, a Legislative Gap Analysis was prepared** regarding compliance of Albanian procurement legislation (including Concessions/PPPs, Procurement in the field of Defence and Security etc.) with relevant EU directives. Overall, there is partial compliance and there are still provisions of the new directives that should be transposed within the Albanian Legislation such as those related to the contract implementation.
- Following the preparation of the LGA and the evaluation reports by the international institutions, **PPA is preparing a plan for further alignment of legislation framework with EU acquis.**
- The first draft Law on Defense and Security Procurement has been prepared, which is being discussed by the working group. Progress in this area has been delayed due to the restructuring process within the Government and Central Institutions.
- The re-engineering of the electronic procurement system has been finalized by adding new functionalities and increasing its capacity. The next step is to follow up on issues that may arise during the use of the new system and procedures and the provision of continuous TA to Contracting Authorities (CAs).
- Following the new Government Programme launched on September, where special focus has been given to public procurement, PPA has initiated a new reform action, focusing on: (i) increasing transparency (ii) minimize the use of negotiated procedures without prior publication of the contract notice (iii) increase the use of the framework agreements, and (iv) better use of public money and increased efficiency. To this end, **PPA held several meetings with the contracting authorities in order to raise awareness regarding the use of the framework agreements (FA). They explained that FA** are an important tool to ensure the availability of services and goods of a continuous nature for a time period up to 3 years, avoiding situations precluding unlawful negotiations (without prior publication of the contract notice).

Therefore, a series of changes have been made to the DCM 914/2014 on the public procurement rules which have already been adopted by DCM 797 of 29.12.2017 comprising:

⁴⁰ In February 2018 the chair was appointed but all other proposed members rejected in March 2018, following which a new selection procedure was launched.

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- **Introduction of the electronic registers for both planning and realisation of the public procurement procedures:** since January 2018 all the CAs will be obliged to prepare their Public Procurement forecast registers in the electronic procurement system. Every procurement procedure shall be included in the register, otherwise the CAs will not be able to conduct it and procure goods/services/works.
- **Providing a new function within the Contracting Authority; the responsible person/s:** at the beginning of each calendar year, CAs shall designate one or more responsible person/s for procurement procedures' administration and reporting on the execution of contracts to the PPA. CAs will also have the possibility to establish a procurement unit on an ad-hoc basis, for specific procurement procedures.
- Encouraging the Contracting Authorities to use FA as a tool for procuring supplies and services of common and continuous nature. The use of this tool will give the possibility to the CAs to ensure the availability of the necessary goods and services without creating any financial obligation to them. Thus, the framework agreements can be published at any time after budget approval and avoid the creation of periods where needs are not covered.
- **Streamlining of the procedure with negotiation without prior publication of the contract notice.** As explained above, this is now unlawful but an exception has been provided for 2018, allowing the CAs to sign extension of the pre-existing contracts (up to 2016). Moreover, the obligation to conduct this procedure through the electronic system has been introduced.
- **Streamlining of the Centralized procurement procedures:** introduction of the obligation for the Central Purchasing Body to use framework agreements and also providing the possibility to Contracting authorities that do not have the capacities to delegate the conduction of the procurement procedures to another CA.
- **Increasing the PPA role regarding procurement procedures:** by defining a more pro-active role during the preparatory phase and providing consulting regularly with the CAs in relation to the preparation of the tendering documents. Moreover, in addition to ex-post monitoring of the public procurement procedures, PPA is also being trained to collect information and monitor the execution of the contract.
- **Facilitation and simplification of the procedures for CAs and EOs:** this is mainly related to the introduction of a self-declaration form for the EOs replacing their obligation to send detailed documentation to the CAs.
- **Introduction of a simplified dynamic purchasing system for air transport tickets.** The aim of this measure is to simplify the procurement procedures for air transport tickets and familiarize contracting authorities with dynamic purchasing procedures.

Action 2: Develop professional expertise of the auditors of the High State Control during the audit of the procurement activities (*status – completed*)

An audit manual on procurement has been developed in collaboration with WB experts and Albania Supreme Audit Institution (ALSAI) experts. Several training sessions for ALSAI staff have been delivered on: primary and secondary procurement legislation; audit approaches; issues and checks on procurement systems; and design and implementation of procurement system, based on international best practice. The training sessions are part of the 2017 Annual Training Program finalized within the first half of 2017 in which 153 participants took part.

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3.3.8. 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 **was met** since assets are recorded into AGFIS for 6 budget institutions during 2017.

Baseline (2014)	2017	Target for 2017
0	6	1

Action 1. Prepare methodology and action plan. (*in progress/ on track*)

During the first half of 2017, Directorate of Harmonization/Financial Management Control (DoH/FMC) has been screening and analyzing the current situation of the accounting in public sector in order to prepare ToRs, proper methodology and action plan for asset valuation. **The comparative analysis (Gap Analysis) between the current legal framework in the field of Public Accounting and International Public Sector Accounting Standards (IPSAS) was finalized and findings presented in a workshop in May 2017.** Also, the DoH/FMC in cooperation with the General Directorate of Treasury and the General Directorate of Budget and Public Debt is drafting a provisional Instruction "On the procedure of preparation, presentation and reporting of financial statements annually in general government units ", to regulate the field of accounting in the public sector based on Generally Accepted Accounting Principles (GAAP) in the public sector.

Action 2. Initiate and complete the process of full public assets inventory in General Government institutions and local government. (*in progress/ on track*)

The process of registration for each public entity will include the *physical Inventory of public assets* and *verification of assets property*. Then the value of the assets will be recorded in AGFIS. This process started with MOFE on pilot basis, and is planned to be completed for the institutions which will be online (AGFIS) by 2020. . During 2017, six out of the 15 BIs that are online, started using the AGFIS assets module (MOFE; Ministry of Education, Sports and Youth; Ministry of Internal Affairs; Ministry of Agriculture; National Information Society Agency; and Agricultural and Rural Development Agency). Meanwhile, during the second half of 2017, CHU and General Directorate of Treasury conducted many meetings with pilot institutions to assure the progress of the process. Work continues to provide the remaining nine BIs with access to the assets module.

Action 3. Further complete the process of public assets transfer to local governments. (*Completed*)

By the end of 2015, after the territorial reform, new financial statements were prepared by the new municipalities that were reconstructed during 2016 and the process was completed in 2016.

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3.4. Pillar 4- Transparent government reporting

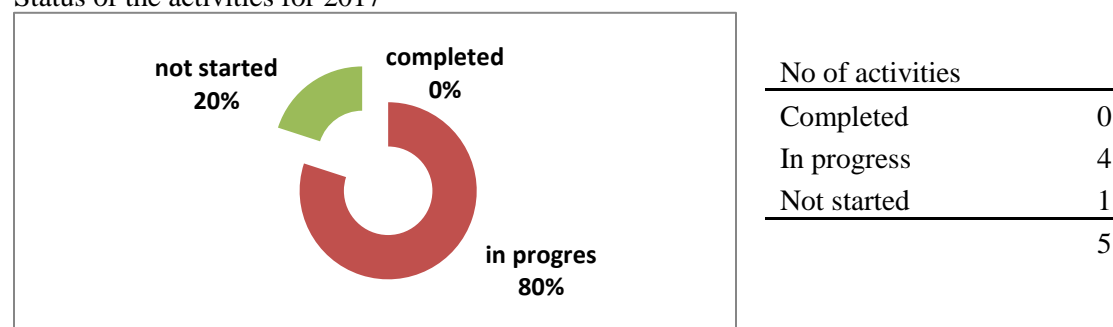
3.4.1. Summary Pillar 4 progress

Objective 1 of Pillar 4, which is its only objective, is “*Accounting and reporting is done in compliance with International Public Sector Accounting Standards (IPSAS). Improvement of Financial Reporting Standards and the Quality of Financial Reporting through increase of professional capacities and the IT infrastructure*” and underpinned by two outcome indicators. 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*”: was **partially met** as two of target values demonstrated a growing trend and one of them remained the same compared to 2016 value. Outcome indicator 2: “*Presentation of financial statements as per IPSAS framework by 2020*” **was not met**. Considering the broad scope of increasing transparency agenda, this objective is particularly narrowly focused. Progress is slow but the PFM TA is now supporting MOFE to increase the comprehensiveness and transparency of budget planning and reporting, including the involvement of CSOs.

At the activity level, **five actions comprise this Pillar**, four in progress and one not yet started (Graph 7).

Graph 7: Pillar 4- Transparent government reporting

Status of the activities for 2017



Notable **outputs and challenges** against actions are as follows:

Prepare financial reports as per the ESA 2010 integrated government finance statistics manual (status-in progress/on track): Government Finance Statistics (GFS) data were prepared and published in MOFE website. Statistical tables and financial data/information was provided to INSTAT and financial reports following European System of Accounts (ESA 2010) framework were sent to EUROSTAT According to the IMF experts, considerable work has been done on the analysis of AGFIS system and its interfaces with other IT systems.

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

The MOFE is been assisted by BOOST initiative, a WB collaborative effort, to facilitate public access to budget data and promote effective use for improved decision-making processes, transparency and accountability. A “Transparency Portal” on Local Finances was established in collaboration with Co-Plan on the MOFE website. In addition, the MOFE website includes information about: Quarterly Income Reports; Quarterly Reports of Expenditures, income per capita, spending per capita; Annual Budget; Mid -Term Budget Program; Fiscal Package; the legislative framework of LGU; and approved budgets and the MTBP

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for each of the 61 municipalities. During September – October, the government led nationwide open budget consultations exercises at the regional level.

3.4.2. Accounting

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

Government Finance Statistics (GFS) data were prepared and published in MOFE website during the second half of 2017, according to 2014 IMF manual for FY2016⁴¹. Also, statistical tables and other government financial data and information have been provided to INSTAT as input for the production of financial reports following *ESA 2010* framework. In January 2017 INSTAT has compiled and transmitted to EUROSTAT two tables of the GFS data according to the requirements of ESA 2010. Also, INSTAT sent a second transmission of the GFS tables to EUROSTAT, as part of the requirements of EUROSTAT to have biannual reporting of GFS. The MOFE is being 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 on the analysis of AGFIS system and its interfaces with other IT systems and the new proposed IT system for GFS. The proposed IT infrastructure is the right step toward having a better system of integrated financial statistics, using different sources and ensuring good quality data.

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 2017 **was partially met** as two of target values demonstrated a growing trend and one of them remained the same compared to 2016 value. 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)	2017	Target 2017
I _{ACCESS} = 5	I _{ACCESS} = 15	Growing trend
I _{AGFIS} = 8.5%	I _{AGFIS} = 15%	Growing trend
I _M = 16.5%	I _M = 87%	Growing trend

Outcome indicator 2

Presentation of financial statements as per IPSAS framework by 2020

Indicator value

The indicator **was not met** as the WB financed project “Development of Public Sector Accounting” has not started as planned.

Baseline (2014)	2017	Target 2017
I _{IPSAS CA} = 0	I _{IPSAS CA} = 0	Growing trend

⁴¹ [http://www.financa.gov.al/files/userfiles/Thesari/GFS_ne_Vite/2016/GYQ14_2016_Final_\(1\).pdf](http://www.financa.gov.al/files/userfiles/Thesari/GFS_ne_Vite/2016/GYQ14_2016_Final_(1).pdf)

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Action 2: Implement IPSAS (*in progress/on track*)

A GAP assessment between the local accounting standards and IPSAS was performed by WB team during 2016 and the final report of the GAP analysis was presented to a workshop in May 2017. Also, MOFE drafted a provisional instruction "On the procedure of preparation, presentation and reporting of financial statements annually in general government units" based on GAAP in the public sector.

The GAP Analysis served as an initial stage for the development of accounting and legal framework and creation of demand for reform of public sector accounting. This resolves a number of issues in relation to the required institutional framework: uncertainty regarding the number of public sector entities; complex and ambiguous legal framework for public sector financial accounting and reporting; encourage universities to offer more detailed courses in public sector accounting and auditing; and establish a code of ethics for accounting staff in public sector). During 2017, the required institutional and legal frameworks in the field of public sector accounting, and academic/ education/professional education and trainings in public sector accounting were identified.

IPSAS will be implemented in three phases: (i) alignment with the current legal framework of public sector accounting in Albania (ii) working towards consistency with Albania GAAP, and (iii) full consistency with GAAP.

Action 3: Capacity building and ensure sustainability (*not started/delayed*)

The training mechanism for accountants in public sector is not established yet, as the capacity building is foreseen to be part of the WB project has not started, but it is envisaged that the project will commence in 2018 and the deliverables will be completed by 2023.

3.4.3. Financial and performance monitoring and reporting

Action 1: Improve formats for a comprehensive government yearly budget execution report for local government units (*in progress/on track*)

A new Law No.68 dated 27.04.2017 "*On Local Finances*"⁴² was approved to determine the rules, principles and procedures of: financing local self-government units; size and allocation of central government transfers to local self-government units; and rules on the policies, instruments and procedures for managing public finances at the local level and other important issues. Considerable work has been done on the preparation and drafting of guidelines and by-laws to improve and to unify the reporting formats for budget execution of LGUs and are expected to be approved by the Minister of Finance and Economy by end of 2018. The sub-law regarding the situations of Financial Distress and Insolvency is expected to be approved by April 2019. The drafted guidelines are: "On the preparation of the MTBP", "On monitoring the implementation of the local budget" and "On the preparation of consolidated financial statements". Moreover, **quarterly budget monitoring reports for local government have been prepared and published on the MOFE website**⁴³. Another achievement is the introduction of the new FPT that provides new formats for the preparation of the MTBP for all LGUs.

Action 2: Improve access to data on the government's finances and operations (*in progress/on track*)

The MOFE is been assisted by BOOST initiative, a WB collaborative effort, to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability. The BOOST initiative is a platform which provides data from the treasury system. Central and Local government has taken part in workshops during 2017 to improve access to government financial information data. The WB team is currently finalising the update of BOOST with 2017 data, A "User's Manual" for expenditure and revenue database has been prepared by BOOST and formal training conducted by MOFE officials on its usage.

⁴² <https://www.parlament.al/wp-content/uploads/2017/03/ligj-nr.-68-dt.-27.4.2017.pdf>

⁴³ <http://www.financatvendore.al/pub/raporte>

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MOFE is waiting for the WB to grant access to BOOST application to all interested parties: government and non-government bodies and a dissemination event is scheduled for March 2018.

A "Transparency Portal" on Local Finances was established in collaboration with Co-Plan⁴⁴, during the first half of 2017 on the MOFE website⁴⁵, which provides a user-friendly platform where all expenditure and revenue data of Local Government information can be easily accessed and used by the public to examine trends in allocations of local public resources, analyze potential sources of inefficiencies, and become better informed about how local government finance the delivery of public services. Also, during 2017 formal training has been conducted on the application usage of the "Transparency portal" on Local Finances⁴⁶.

Referring to the latest update of the Open Budget Survey 2017 conducted by IBP⁴⁷ in January 2018 improvements are noted on the Albania's ranking from 38 scores in 2015 to 50 scores in 2017 in context of transparency, which is moderately higher than the global average score of 42.

In addition, the MOFE website includes information about: Quarterly Income Reports; Quarterly Reports of Expenditures, income per capita, spending per capita; Annual Budget; Mid -Term Budget Program; Fiscal Package; and the legislative framework of LGU. Also, during the second part of 2017, the portal included information regarding the approved budgets and the MTBP for each of the 61 municipalities. The government has established a practice of consultation with selected members of the public, organising public consultations on the early drafts of the MTBP and annual budget document with representatives of academia and think tanks in June of every year. Furthermore, in the months of September - October 2017 the government led nation wide open budget consultations exercises at the regional level.

⁴⁴ Co-PLAN is a non-profit organization that has contributed to sustainable development by enabling good urban and regional governance, tackling key environmental issues, developing civil society, impacting policies, and promoting community participation since 1995.

⁴⁵ www.financatvendore.al

⁴⁶ www.financatvendore.al

⁴⁷ <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-report-english.pdf>

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3.5. Pillar 5- Effective internal control

3.5.1. Summary of Pillar 5 progress

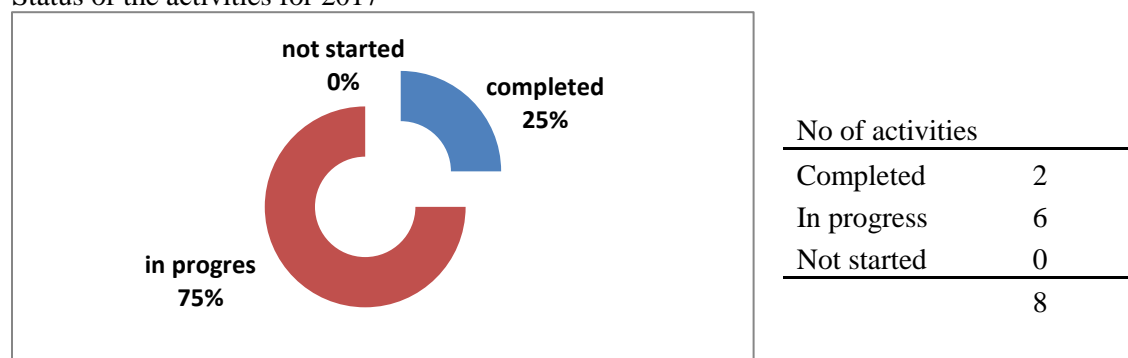
Pillar 5 comprises two objectives with one having been met and the other partially met due to information being unavailable about training completed. **Objective 1** of Pillar 5 is: “*Effective managerial accountability in local and central governance units. Successful implementation of modern management practices at all local and central governance institutions*”. Its outcome indicator was **met**: “100% of budget entities will use FMC requirements to improve internal control systems and achieve objectives and results” due to a growing trend of usage of FMC instruments in the public sector.

Objective 2: “*Well-functioning and efficient IA function in the public sector*” has three outcome indicators. The outcome indicator 1’s: “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” first rate has been **met** as all internal auditors have completed CPD training, versus the total number of Internal Auditors that are certified; whilst information required for the second target is not yet available. The information required for outcome indicator 2: “*ratio of the new Internal Auditors employed in the public administration who obtain certification*” and outcome indicator 3: “*65% of internal audit recommendations have been implemented within two years*” are also not yet available.

At the activity level, **eight actions comprise this Pillar, with two having been completed** and six in progress (Graph 8).

Graph 8: Pillar 5- Effective internal control

Status of the activities for 2017



Notable **outputs and challenges** against actions is as follows:

Monitor the implementation of the legal framework for FMC (status – in progress/on track): Instructions and manuals were issued; and the 2016 PIFC Annual Report was approved. This year, for the first time, a detailed performance analysis of all LGUs was conducted and municipalities were categorised based on the existence or not of Internal Audit (IA) Units. On completion, official letters were issued with the status of the internal control system and recommendations for improvements. Two draft-instructions were produced: “On the Evidence, Registration, Use and Reporting of Foreign Finances in the Framework of Projects and Agreements with Foreign Donors” and “On Standard Budget Execution Procedures”. Training for LGUs on

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the requirements of the FMC law and tools were held as well as training on risk management process for selected LMs and agencies. However, some training sessions were not developed due to limited funds.

Implement a modern FMC system in three Line Ministries and four municipalities (status – completed): The plan to implement modern FMC system within six selected pilot institutions was not delivered due to the appointment of the technical government.

Increase the awareness of public units about the benefits of implementing the concept of “Managerial Accountability” (status - in progress/on track): Training and monitoring sessions, workshops and meetings were held with high level managers and heads of central and local institutions.

Amend legal and methodological IA framework (status – completed) Three orders of the Minister of Finance were approved: (1) No.40, dated 08.05.2017 “On the publication of international standards for best practices of **internal audit** in the public sector adopted for implementation in the Republic of Albania” (2) No.26, dated 21.03.2017 “For some additions and amendments to the regulation on the procedures of Certification of internal auditors in the public sector approved by Order No. 37, dated 16.03.2016”, and (3) No.22, dated 06.03.2017 “On Approval of the Methodology for External Quality Evaluation for Internal Audit in the Public Sector”.

Professionalise IA function (status – in progress/ on track): Several training sessions for internal auditors were held. The new certification process of 51 internal auditors, for the period 2017-2018 began.

3.5.2. 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 2017 **was 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)

2017

Target 2017

3/4

3.4171/4

Growing trend

Action 1: Monitor the implementation of the legal framework for FMC (in progress/on track)

In pursuance of strengthening FMC implementation in the Public Sector, **instructions and manuals were issued and capacity building activities organised during 2017**. The main focus has been the successful implementation of modern practices of FMC in all public entities, raising the awareness of managers about the concept of “Managerial Accountability”.

While the work on the primary laws was finalised with the adoption of the FMC Law at the end of 2015, **DoH/FMC has developed and improved by-laws in the field of Public Internal Financial Control (PIFC) and public accounting**.

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Regarding monitoring of the implementation of internal control systems, the 2016 PIFC Annual Report was approved in May 2017, based on an improved methodology of collecting and processing data. This year, for the first time, a detailed analysis for all LGUs based on performance indicators was conducted. These municipalities were ranked into two large groups based on the existence or not of IA Units within LGUs. A separate chapter was devoted to the findings of on-site monitoring of 16 institutions. After the completion of the entire monitoring process, an official letter is sent to the institutions where the identification of the state of play of the internal control system with recommendations for improvements were laid out.

The activities performed during 2017 regarding this action are as follow:

- Preparation of two draft-instruction: “On the Evidence, Registration, Use and Reporting of Foreign Finances in the Framework of Projects and Agreements with Foreign Donors” and “On Standard Budget Execution Procedures”;
- Five training sessions on informing LGUs on the requirements of the FMC law. Managers were trained regarding the legal and sub-legal basis of FMC and how to implement the FMC tools (practical cases). The training served to raise the awareness of high level managers about the importance of implementing FMC in the municipalities of Vlorë, Korçë, Tirana, Gjirokastra and Kukes (131 participants);
- Three training sessions organised in cooperation with ASPA, for different levels of management on the PIFC system and managerial accountability (63 participants);
- Training related to the risk management process, based on the request of the institutions for assistance such as: Former Ministry of Economic Development, Tourism Trade and Entrepreneurship, Office of Judicial Budget Administration, Albanian National Security Authority, Tax Administration and Customs Administration Training Centre (80 participants);
- Monitoring 16 selected public institutions during March-April 2017, in order to assess the level of implementation of FMC law requirements and the functioning of internal control system. The monitoring results are provided in 2016 PIFC Annual Report⁴⁸;
- Two meetings of PIFC Board discussing the latest developments of internal control.

However, some activities have not delivered during the second half of 2017. Four training sessions in cooperation with ASPA were not developed due to limited funds. During this period, some institutions have submitted their requests for assistance from the DoH/FMC regarding implementation of FMC legal requirements, mainly for the risk management process.

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

During 2017 the DoH/FMC has continued to monitor the status of implementation of FMC system in these seven institutions. Furthermore, **in the framework of the implementation of a modern FMC system, based on the experience gained from the twinning project, it was planned to implement this system in six other selected pilot institutions** (Ministry of Internal Affairs, Ministry of Interior Transport and Infrastructure, the Municipality of Vlorë, the Municipality of Gjirokastra, the Competition Authority and the Ombudsman). The piloting process was scheduled to begin in May 2017 and continue until the end of the year. However, due to the appointment of the technical government, which prevented the timely and quality execution of the activities, this process was foreseen to start after the elections. However, the revision of the DoH/FMC work plan and the restructuring of some of the LMs led to the change of selected pilot institutions. Thus, **the new institutions in which this process is being developed, are: the Ministry of Interior Affairs, the Ministry of Infrastructure and Energy, the Municipality of Vlorë and the Albanian Road Authority**. During December 2017, the first meeting with the Albanian Road Authority took place, where DoH/FMC experts got acquainted with the functioning and the nature of work, as well as the problems of this institution. Further, during 2018, other missions will be developed in order to implement

⁴⁸ <http://www.financa.gov.al/al/ministria/drejtore/drejtoria-e-pergjithshme-e-harmonizimit-te-kontrollit-te-brendshem-financiar-publik/raportet-vjetore>

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the FMC instruments such as: internal regulations and procedures, risk registers, book of business processes and audit trails.

Action 3: Increase the awareness of public units about the benefits of implementing the concept of “Managerial Accountability” (in progress/on track)

As explained in Action 1, one of the most important objectives of DoH/FMC is to increase the awareness about the benefits of a sound internal control system for the managerial accountability, starting from top management. Thus, training and monitoring sessions, workshops and meetings were held with high level managers (General Secretaries (52 participants) and heads of central and local institutions of every LM about the benefits of the Managerial Accountability concept. This also included three training sessions in collaboration with ASPA on PIFC and “Managerial Accountability” concept during April-June 2017 (63 participants).

3.5.3. 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 **was met** for IA_{CPDT} while for IA_{NC} the data will be collected by the end of May 2018.

While for 2016, the value for IA_{NC} is reported 60%, the same as the baseline value.

Baseline (2014)

IA_{CPDT}: 82%

IA_{NC}: 60 %

2017

IA_{CPDT}=100%

IA_{NC}: Not Available

Target 2017

Growing trend

Growing trend

Outcome indicator 2⁴⁹

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

Indicator value

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. **The indicator could not be measured as of the date of the reporting.** IA 2017 Annual Reports will be submitted to CHU/IA during February 2018 and the consolidated report will be prepared and published by end of May 2018.

Baseline (2015)

40%

2017

Not Available

Target 2017

Growing trend

⁴⁹ The indicator is met for 2016 and the indicator value for 2016 is 60%.

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Outcome indicator 3⁵⁰

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

Indicator value

This indicator shows the degree of implementation of the recommendations issued by the Internal Audit Units. **The indicator could not be measured as of the date of the reporting.** IA 2017 Annual Reports will be submitted to CHU/IA during February 2018 and the consolidated report will be prepared and published by end of May 2018.

Baseline (2014)

2017

Target 2017

R.impl: 45%

Not Available

Growing trend

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

While the work on the primary laws was finalised with the adoption of the **Law no. 114 “On Internal Audit”⁵¹ dated on 22.10.2015, DoH/IA has developed and improved by-laws in the field of internal audit;** during 2017, three orders of the Minister of Finance were approved:

- Order of Minister of Finance No.40, dated 08.05.2017 “On the publication of international standards for best practices of internal audit in the public sector adopted for implementation in the Republic of Albania⁵²”. The purpose of the International standards for professional practice in internal audit (standards)⁵³ is to instruct compliance with the mandatory elements of the Framework of International Professional Practices; to provide a framework for the performance and promotion of a wide range of services; to establish the basis for assessing the performance of the internal audit and to foster the improvement of organizational processes and operations.
- Order of Minister of Finance No.26, dated 21.03.2017 “For some additions and amendments to the regulation on the procedures of Certification of internal auditors in the public sector approved by Order No. 37, dated 16.03.2016⁵⁴” aiming to further strengthen the processes of (1) hiring, (2) certification and (3) continuous professional development of internal auditors.
- Order of Minister of Finance No.22, dated 06.03.2017 “On Approval of the Methodology for External Quality Evaluation for Internal Audit in the Public Sector⁵⁵”. The methodology provides the way of programming, analysing compliance with international standards of internal audit unit activity, reporting and monitoring progress as important components of the external quality evaluation process.

Action 2: Professionalize IA function (in progress/ on track)

The main focus of DoH/IA has been the extension of the internal audit service in all public entities, as an important element for ensuring efficiency and effectiveness of public governance, as well as the improvement of **professionalism of the IA function**. For this purpose, during 2017, several trainings for the

⁵⁰ The indicator is met for 2016 and the indicator value for 2016 is R.impl: 60%.

⁵¹ <http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria e Pergjithshme rregullatore Kontrolluese/Akte ligjore/Ligji 114, 22.10.2015.pdf>

⁵² <http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria e Pergjithshme rregullatore Kontrolluese/Auditimi i brendshem/2017/Urdheri date 8.5.2017 Per publikimin e standardeve nderkombetare per praktikat profesionale te Auditimit te Brendshem ne sektorin publik.pdf>

⁵³ <http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria e Pergjithshme rregullatore Kontrolluese/Auditimi i brendshem/2017/Urdhernr26dt21032017.pdf>

⁵⁴ <http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria e Pergjithshme rregullatore Kontrolluese/Certifikimi i Auditueve/Urdheri Nr.37, date 16.03.2016 Per miratimin e Rregullores se Procedurave te Certifikimit te Audituesve te Brendshem.pdf>

⁵⁵ <http://www.financa.gov.al/files/userfiles/Drejtore/Drejtoria e Auditit te Brendshem/urdhera/Urdheri nr.22dt.6.3.2.017 Miratim Metodologjise per vleresimin e jashtem te cilesise se AB.pdf>

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internal auditors (IA) are held such as: training of 24 internal auditors on auditing IPA funds and continuous professional development. Other activities performed by IA unit are as follows:

- Twelve training sessions in which are trained 313 internal auditors in collaboration with ASPA;
- 16 workshops (32 days) in collaboration with ASPA in which are trained 312 internal auditors;
- Certification of 37 staff as “Internal Auditors in the public sector” for the period 2016-2017, as well as the beginning of the new certification process of 51 internal auditors, for the period 2017-2018;
- DoH/IA in collaboration with SIGMA experts, have carried out external quality assurance for audit activity in the Ministry of Urban Development, Ministry of Health, Albanian Road Authority, Municipality of Berat and Municipality of Fier. The approved methodology was applied for the first time. This methodology analysed in detail the compliance of audit activity with IA international standards and provided recommendations for improvement; and
- Nine training sessions in the field of audit for central government internal auditors (218 participants) and three training sessions for LGUs internal auditors (71 participants), in collaboration with ASPA.

Quality external evaluations for 10 different institutions were planned but due to the delayed implementation of SIGMA assistance (scheduled to start in March 2017 but actually commenced in June 2017) only five external quality evaluations were conducted.

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

Although the staff are almost in place (11 out of 13), the CHU is not able to fully execute the policy functions required by law. For example, with the new IA law in 2015, CHU/IA has to implement a new function related with the external quality assessment of internal audit activity in the public sector. Based on IA standards, each IA unit should be assessed once in 5 years, which means that CHU/IA should assess 20 IA units per year. However, with the existing staff CHU/IA is able to assess a maximum 8-10 IA units per year. Nevertheless, during 2017, **staff have participated in several trainings and conferences organised by national and international institutions.** Topics include: Process of Certification; Concept of Managerial Accountability; Enhancement of managerial competences in the civil service; Internal Audit for Non-Auditors; Methodology of external quality evaluation; and Improving Public Financial Management in Support of Sustainable Development; and Internal Control and Audit in Practice.

3.5.4. Public Financial Inspection

Action 1: Increase the skills of public inspectors (in progress/ on track)

One of the objectives for 2017 was the enhancement of professional capacities and increase accountability and integration of public financial inspectors through training. The staff of the Department of Public Financial Inspection (3 plus 1) participated in the annual conference of Anti-fraud Coordination Service (AFCOS) in June 2017 which took place in Montenegro. While the Committee for the Prevention of Fraud against the EU AFCOS, scheduled to take place in December 2017 in Rome, will be held in June 2018.

One of the main challenges was the lack of the professional capacity of some external inspectors that affects the quality of many financial inspections. For this reason, the Department of Public Financial Inspection has already started reviewing the existing list of inspectors and will be followed by a proposal for approval by the Minister of Finance and Economy for new selections in specific areas where expertise is currently unavailable, along improved criteria for Inspectors' selection⁵⁶.

Action 2: Information and awareness of the authority and the 3 high level of management and of the public as well (in progress/ on track) No activities have been performed during 2017 for this action because of the Election and government organisational restructuring which affected a change in high-level staff of the institution.

⁵⁶ based on specific criteria and on the rules defined in the Decision of the Council of Ministers No.84, dated 03.02.2016 “On selection procedures for external expert”.

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

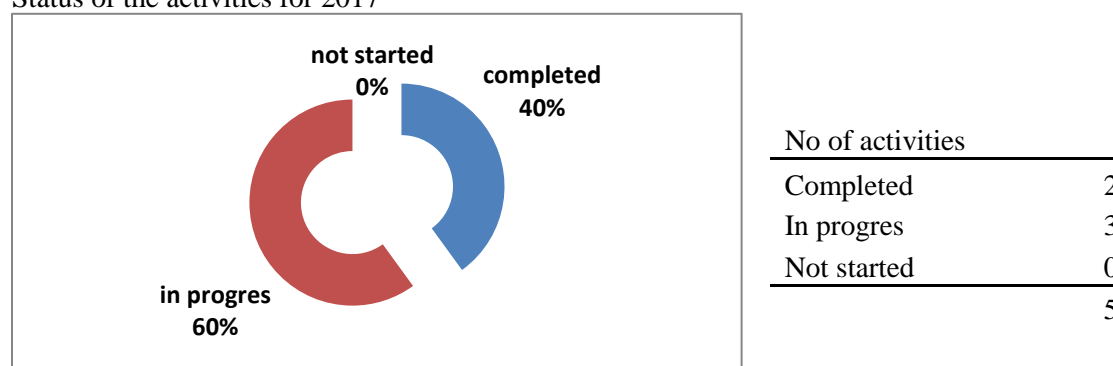
3.6.1. Summary of Pillar 6 progress

Objective 1 is the only objective of Pillar 6 “*Strengthening the external oversight function by bringing it in line with INTOSAI standards*”. Its three outcome indicators showed mixed performance and were **partially met**. Outcome indicator 1: “*The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits*”: was **met**, as compliance audits decreased to 75 per cent while financial and performance audits increased to 9 and 10 per cent respectively. Outcome indicator 2 was **partially met**: “*% of audit recommendations accepted and implemented by auditees is higher than 75.5%*” and has two targets, the first of which, “*audit recommendations accepted versus those issued*”, was not met; whilst the second, “*% of audit recommendations implemented versus issued*” was met. The target of the third outcome indicator: “*The training strategy is in place, auditors are trained according to ISSAI*” **was met**.

At the activity level, **five actions comprise this Pillar, with two having been completed** and three in progress (Graph 9).

Graph 9: Pillar 6: Effective external oversight of the public finance

Status of the activities for 2017



Notable **outputs and challenges** against actions is as follows:

156 Audits were undertaken: 117 Compliance Audits (out of which 25 Pilot Compliance Audits); 14 Financial Audits (Pilot Audits); 15 Performance Audits; five IT Audits; and five Thematic Audits. The number of Pilot Audits is increased, exceeding SIGMA and Progress Report Recommendations, achieving more than the objective, completing 14 financial audits and 25 compliance audits compared with 10 financial audits and 14 compliance audits as planned.

Align audit approaches to international standards (ISSAIs) (status-completed: The New “*Regulation of Audit Procedures*” was approved ensuring the alignment of audit approach and methodology with INTOSAI Standards, ISSAI-s. An average of 28.5 days training was received by 145 auditors as part of the 2017 training plan. Other capacity building included ALSAI in collaboration with Economic Faculty of Tirana, Turkish Court of Audit and Foundation for Accounting of Academic Collaboration of Turkey organising the 5th Scientific Conference “*Auditing Sustainability and Development*” on 11-13 October 2017.

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Increase training and the use of information technology in tandem with the introduction of new audit approaches (status-completed): All IT audit staff were trained and methodology and IT audit guidelines were further developed. An IT Help Desk was created and training sessions delivered. IPA and ALSAI experts developed a pilot IT tool on preparing the 2017 Audit Plan. An Audit of the IT system of the Directorate of the Local Taxes of the municipality of Tirana was undertaken and reported.

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): As part of IPA 2013 Project, a seminar “On the relations between SAI and Parliament” was organised. The following Acts were promulgated: “On the Establishment of Mechanisms for Systematic Monitoring of the Follow-up and Implementation of Recommendations of Independent Constitutional and Law Institutions”; and “On the implementation of the HSC’s obligations towards the Albanian Parliament”. The Annual Report on the State Budget Execution, 2016 was reviewed by the Parliamentary Committee on Economy and Finance. ALSAI delivered 24 audit reports of high public sensitivity to the Parliament.

The IPA project’s “Communication Strategy 2017-2019” was approved by the Chairman of ALSAI and a working group for the implementation of this strategy has been established. 98 per cent of audit decisions of the Chairman have been published on the ALSAI website ALSAI visibility efforts include: publication of 125 articles; 642 movie sequences, 18 books; press releases, and TV coverage. An “Open Month” of the Assembly in November 2017, providing 49 events, workshops and other activities, for all stakeholders, citizens, media, CSOs etc. sought to strengthen public trust through transparency of audit results.

Audit manual amendments to include activities to detect corruption and fraud (status-in progress/on track): A review of the anti-corruption/fraud system in Albania and ALSAI related achievements was undertaken and an internal report of challenges/constraints produced. Relatedly, three practical training sessions were delivered for auditors A Fraud and Corruption Audit Manual was developed in collaboration with SAI’s EU funded experts of Poland.

3.6.2. External audit

Objective

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

Outcome indicator 1

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

Indicator value

The indicator **was met**, as the weight of compliance audits decreased to 75%, while financial and performance audit’s weight was increased respectively to 9 % and 10 % during 2017.

Baseline (2014)	2017	Target 2017
Compliance audit 82%	Compliance audit 75%	Declining trend
Financial Audit 7%	Financial audit 9%	Growing trend
Performance Audits 5 %	Performance audit 10%	Growing trend.

Outcome indicator 2

% of audit recommendations accepted and implemented by auditees is higher than 75.5%

Indicator value

The indicator on % of audit recommendations accepted versus those issued **was not met** for the year 2017 and the indicator on % of audit recommendations implemented versus issued **was met** for the year 2017. For this reason, % of audit recommendations accepted and implemented by auditees **was partially met** for the year 2017.

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Baseline	2017	Target 2017
R _{ACC} 73.4% (2016)	R _{ACC} 66 %	Growing trend
R _{IMPL} 75% (2014)	R _{IMPL} 35.2 %	Growing trend
<i>Outcome indicator 3</i>		
The training strategy is in place, auditors are trained according to ISSAI		
<i>Indicator value</i>		
The indicator for 2017 was met . It measures the degree ALSAI 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.		
Baseline (2014)	2017	Target 2017
T _{ISSAI} 100%	T _{ISSAI} 114%	Growing trend

Action 1. Align audit approaches to international standards (ISSAIs) (*completed*)

The methodological framework of ALSAI is strongly based on the International Standards of Supreme Audit Institutions (ISSAIs). **ALSAI has approached the implementation of ISSAI's in the audit work as one of the main and strategic objectives over the years** and it is an on-going process until full compliance has been fully achieved.

“The New “Regulation of Audit Procedures” was approved by the Chairman Decision No.107, dated 08.08.2017 and entered into force on 01.09.2017, ensures the alignment of audit approach and methodology with International Organization of Supreme Audit Institutions (INTOSAI) Standards, ISSAI-s.

Since 2012, ALSAI has established a consolidated Professional Training System based in Annual Training Programme, with 25 training days per year per auditor and a general training events calendar to be organised during the planning year. **During 2017, an average of 28.5 days training was received by 145 auditors. as part of the 2017 training plan⁵⁷.** The workshops were delivered mostly by the experts affiliated in the Twinning Project from which ALSAI benefits, provided through: ASPA; academic and professional organisations; and other audit institutions, on recent audit developments, ISSAI standards and relevant manuals. Some in house training sessions were also arranged from ALSAI using a pool of ALSAI experts focusing on technical issues of public auditing, based on implementation of ISSAI's Standards.

In collaboration with IPA experts a set of training sessions were delivered on financial statements and the compliance audit process, in accordance with a risk-based audit methodology and practical application of audit procedures and techniques and will be completed in 2018. Furthermore, a number of pilot audits: financial and compliance, were carried out in order to test the usability of the Financial and Compliance Audit Manuals.

Other capacity building included ALSAI in collaboration with Economic Faculty of Tirana, Turkish Court of Audit and Foundation for Accounting of Academic Collaboration of Turkey organising the **5th Scientific Conference** “Auditing Sustainability and Development” on 11-13 October 2017.

Action 2. Increase training and the use of information technology in tandem with the introduction of new audit approaches (*completed*)

Several activities have been undertaken in 2017 aiming to enhance the skills and knowledge of auditors in IT audits and to improve the use of information technology.

⁵⁷ http://www.klsh.org.al/web/projekti_i_planit_vjetor_te_trajnameve_te_punonjesve_viti_2017_2841.pdf

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“The new organizational structure” was approved with the decision No.4 of the Chairman of the ALSAI, dated 27.01.2017 aiming to strengthen IT audit capacity, and the Directorate of IT Audit.

During 2017, all IT audit staff were trained and methodology and IT audit guidelines were further developed. Specific Training Needs Analyses resulted in a substantial need for auditors to extend their knowledge of IT tools and usage, according to the new audit approaches adopted. 653 days of training on IT audit techniques were performed. These trainings had three components: (1) Computer – Aided Audit Tools (CAAT) such as Office, IDEA, visualisation techniques, accounting and database management software; (2) Management Information Systems, information security and cybernetic crimes of the auditee; (3) IT audit manual and guidelines. **A new Software REV Zone was adopted and all ALSAI’s staff received on-the-job trained on using the programme and the process is still under progress.**

Other achievements regarding this action were:

- IT Help Desk was created and training sessions for selected persons were developed in collaboration with experts from the Twinning Project of IPA 2013.
- IPA Experts in collaboration with ALSAI experts have developed a pilot IT tool on preparing the 2017 Audit Plan.
- “Auditing of the IT system in the Directorate of the Local Taxes of the municipality of Tirana” is an IT pilot audit that was completed by 30 December 2017 with a Final Report was delivered to the auditee.
- A peer review of IT related audits was conducted over the risk areas and topic selection. The discussion was enhanced by the use of European Organization of Supreme Audit Institutions (EUROSAI) IT Working Group ‘E-government control space’ tool⁵⁸.

Action 3. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work (in progress/on track)

Progress has been made in improving communication relations with key clients aiming to improve the impact of audit work. During 2017, in the spirit of INTOSAI standards, specifically ISSAI 20, Transparency and Accountability, ALSAI continues to improve its relations with the Parliament, especially with Economy and Finance Committee, where its main activities are listed below:

- In the framework of the implementation of IPA 2013 Project Fiche – IPA National programmes / Component I, on March 24, 2017 a seminar “On the relations between SAI and Parliament” was organised. Members of Parliament, Professors of the Faculty of Justice and Faculty of Economy, representatives of NGO and the media took part in the roundtable;
- On April 20, 2017, the Albanian Parliament approved the Act "On the Establishment of Mechanisms for Systematic Monitoring of the Follow-up and Implementation of Recommendations of Independent Constitutional and Law Institutions"⁵⁹ aiming to establish a common mechanism for systematic monitoring of the follow-up and implementation of the recommendations of independent constitutional institutions and law institutions;
- The Chairman of ALSAI approved the Act No.122, dated 23.06.2017 “On the implementation of the HSC’s obligations towards the Albanian Parliament”⁶⁰. In summary these obligations include: the submission of the following reports and information:

⁵⁸ egov.nik.gov.pl

⁵⁹ http://www.qbz.gov.al/botime/fletore_zyrtare/2017/PDF-2017/90-2017.pdf

⁶⁰ Pursuant to the Albanian Parliament's Act No.49/2017, dated 20.04.2017 "On the Establishment of Mechanisms for Systematic Monitoring of the Follow-up and Implementation of Recommendations of Independent Constitutional and Law Institutions", of the Action Plan “On the Implementation of the Recommendations of Parliament Resolution of 26th of June 2014” (No.106 / 6 Ref, dated 07.07.2014) of the Action Plan “On the Implementing the Recommendations of Parliament Resolution”, 20 October 2016 "(No.1064 / 1 Ref, date 26/11/2016) and in the framework of cooperation and fulfilment of ALSAI obligations towards the Parliament of Albania

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1. Every year after the adoption of the resolution by the Albanian Parliament on the assessment of the activity of the HSC, an Action Plan will be drafted for the implementation of the Assembly's recommendations and this plan will be sent as information to the Assembly;
2. Information regarding the progress made in the implementation of the action plan, every six months, to the Albanian Parliament;
3. Annual Performance Report of the institution, as well as information on the status of implementation of the resolutions of the previous year, to the Assembly of Albania;
4. Annual Performance Report of the institution will also include specific information on the criminal reports sent to the prosecution body by the SAI, as well as the implementation of the SAI recommendations for the dismissal of high ranking and senior officials;
5. Report on the implementation of SAI recommendations by the audited entities, referring to the audit activity of the institution for the previous year, as well as the quality assurance reports, according to ISSAI 40, to the Assembly of Albania;
6. Any information related to issues of external public audit, regarding the tasks that the institution has in the framework of EU integration, to the Parliamentary Committee of Economy and Finance and any other relevant Commission;
7. Performance Audit Reports to the respective Assembly Committees.

“*The Annual Report on the State Budget Execution for the year 2016*”⁶¹ was sent to the Parliamentary Committee on Economy and Finance on October 30, 2017.

In the frame of institutional communication and respective constitutional obligations of both institutions, **the ALSAI delivered 24 audit reports of high public sensitivity to the Parliament.**

Considering the importance of a sound relationship between ALSAI and in promoting transparency, accountability and good governance, the Parliament considered establishing a sub-committee of the Committee of Economy and Finance, as a parliamentary mechanism to systematically monitor ALSAI's activity and the implementation of audit recommendations. However, this sub-committee has not yet been established.

Under the IPA project, the “**Communication Strategy 2017-2019**” was approved by the Chairman of **ALSAI No.16/48, dated 31.07.2017.** A working group for the implementation of this strategy has been established, including increased communication between ALSAI and the Parliament.

ALSAI has periodically published the Decision of the Chairman for each audit process carried out during the year 2017⁶².

In 2017, ALSAI carried out 156 audits and as for 20th of January 2018, 98% of audits decisions of the Chairman (153/156) have been published on the ALSAI website in accordance with Law no. 154/2014⁶³.

ALSAI has visibility in almost all newspapers, **with 125 articles having been written by ALSAI's auditors and staff.** Furthermore, the work of ALSAI was introduced with 642 movie sequences, press releases, and other various TV chronicles in national and other TV media channels. In the written media about 840 articles in 2017 were related to ALSAI activity. ALSAI continued to issue quarterly statistical bulletins, which include economic damage, lost income, and administrative disciplinary measures recommended, as well as criminal charges submitted for prosecution from audits completed in the respective periods.

18 books were published during 2017, focused on several topics such as: Auditing Standards; Performance of ALSAI Activity (both in Albanian and English language); Public Audit Magazine of Research, Science and Information; Historical Books; and Annual Analyses of Audit Work etc.

⁶¹ www.klsh.org.al/web/raport_per_zbatimin_e_buxhetit_te_shtetit_te_vitet_2016_3478.pdf

⁶² http://www.klsh.org.al/web/Raporte_Auditimi_201_1.php.

⁶³ Article 15, letter “j” “The audited entities within 20 days from the date of receipt of the request have to response to the ALSAI on the implementation of recommendations and respective Action Plan”.

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ALSAI has continued its cooperation with all stakeholders and strategic partners and has signed eight more MoUs with other institutions, CSOs and professional bodies. By the end of 2017, ALSAI had established a total of 50 collaboration agreements.

Fulfilling its mission as a public body and the Assembly, an **“Open Month” was organised in November 2017, providing 49 events, workshops and other activities**, for all stakeholders, citizens, media, CSOs and other groups’ of interest, aimed at strengthening public trust, through transparency of audit results and increase impact by improving public governance.

Action 4. Introduce quality assurance activities over the audit (*in progress/on track*)

Regarding the Quality Assurance (QA) and Quality Control (QC) ALSAI has improved its procedures in line with ISSAI Standards. As part of the Twinning IPA project, experts from Croatian SAI with ALSAI's staff have developed the QA and QC check lists which are awaiting final approval, in pursuance of the new Regulation on Audit Procedures. In addition, the Internal Regulation on Administrative and functioning of ALSAI defines job functions in relation to as per ISSAI 40 requirements.

Action 5. Audit manual amendments to include activities to detect corruption and fraud (*in progress/on track*)

A review of the anti-corruption/fraud system in Albania and ALSAI achievements in the field of tackling corruption and fraud was undertaken to assess the effectiveness of ALSAI with other organisations. An internal report of challenges/constraints of the complete audit remit was produced. A three one-day practical course was then delivered for auditors covering the following topics:

- Strengthening the awareness of ALSAI staff;
- A risk-based approach to anti-fraud and anti-corruption planning;
- Planning for anti-fraud and anti-corruption activities, including self-assessment of integrity in public organizations; and
- Methods of gathering and analysing evidence of fraud and corrupt practices.

A Fraud and Corruption Audit Manual was developed in collaboration with SAI's experts of Poland. Furthermore, rules and audit procedures for anti-fraud and anti-corruption were outlined in Regulation of Audit Procedures, approved by Decision of Chairman No. 107, dated 08.08.2017. The Fraud and Corruption Audit Manual is now under review, being adapted to the Albanian context. This will then form part of the legal framework of ASAI. A number of training sessions have been delivered on the audit of fraud and corruption with internal and external experts for all ASAI's auditors.

Since 2013, ALSAI has brought to the attention and sought parliamentary and government approval for a proposal Law *“On managerial responsibility of public servants”* but it has not been adopted as yet.

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ANNEXES

ANNEX 1			
Status of Implementation of Pillars/Activities during 2017			
Activities	Status of Implementation of Activities	Timeline	Responsible unit
Pillar 1: Sustainable and prudent fiscal framework			
1.1. Fiscal rules, forecasting and fiscal responsibility framework			
Action 1: Improve forecasting methodologies	Completed	2015 - 2018	Directorate of Analysis and Macroeconomic Planning
1.2. National Government Accounts accounts			
Action 1: Complete classification of all public entities	Completed	2015 - 2019	INSTAT
Action 2: Creation of a sustainable statistical system of public administration	In progress	2015 - 2019	INSTAT
Action 3: Ensure collection of information	In progress	2015 - 2019	INSTAT
Action 4: Prepare Review/Transparency policies	In progress	2015 - 2019	INSTAT
Action 5: Implementation of Enhanced General Data Dissemination System (e-GDDS)	Completed	2015 - 2019	INSTAT
1.3. Fiscal risk management			
Action 1: Strengthen fiscal risk management and reporting within the MoFE	In progress	2016-2017	Secretary General of MoFE
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure			
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 progress	2015-2018	PMO
Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process	In progress	2015-2018	PMO
Action 3: Create the capacity to carry out in-depth sector reviews as needed	In progress	2015-2018	PMO
Action 4: Maintain a "Single Strategic Project Pipeline" & ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects	In progress	2017-2020	PMO
2.2. Capital investment planning, appraisal and inclusion in budget			
Action 1: Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project)	In progress	2016-2018	Directorate of Business Processing
Action 2: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support.	In progress	2016-2018	General Directorate of Budget and Public Debt
Action 3: Have a clear Project classification to avoid unnecessary multiplication of projects.	In progress	2016-2018	General Directorate of Budget and Public Debt
Action 4: Strengthen the MoFE's oversight and fiscal gatekeeper function regarding project appraisals.	In progress	2016-2018	General Directorate of Budget and Public Debt
Action 5: Prioritization and selection of large investment projects is done in a systematic manner	In progress	2016-2018	General Directorate of Budget and Public Debt
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 progress	2015	General Directorate of Budget and Public Debt
2.4. Multi-year commitment control			
2.5. PFM in local government			
Action 1: Design a new Law on local government financing	Completed	2015 - 2017	Directorate of Local Finance
Action 2: Strengthen implementation of the new law and PFM practices	In progress	2017-2018	Directorate of Local Finance
Action 3: Establish a medium-term financial planning database for local governments	In progress	2017	Directorate of Local Finance
Action 4: Updating the local government finances portal	In progress	2017-2020	Directorate of Local Finance
Action 5: PEFA assessment at 5 selected municipalities	Completed	2017-2020	Directorate of Local Finance
Action 6: Clearance of hidden arrears and prevention of new arrears	Completed	2017	Directorate of Local Finance
2.6. Budget documentation (2015)			
Action 1: Improve the information content and quality of local government budgets	In progress	2015	Directorate of Local Finance

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ANNEX 1			
Status of Implementation of Pillars/Activities during 2017			
Activities	Status of Implementation of Activities	Timeline	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 progress	2015	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 2: Overhaul the tax administration's organizational structures and staffing at headquarters and at field level	Completed	2015	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 3: Implement compliance risk management of tax collection	In progress	2015-2017	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 4: Strengthen audit capacity	Completed	2015 - 2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 5: Revise the system of the fiscal cash registers and encourage their use	In progress	2015	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 6: Establish a fiscal cadaster of properties	In progress	2016 - 2019	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 7: Strengthen the professional capacity of the GTD staff through continuous training	Completed	2015 -2019	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 8: Assist the taxpayers to enhance voluntary compliance	In progress	2016-2020	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 9: Take actions to reduce informality	Completed	2017-2020	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 10: Improve Debt Management	In progress	2017-2019	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
3.2. Customs management			
Action 1: Eliminate procedural ambiguities to create a clear interaction framework between the private sector and the Customs Administration	Completed	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 2: Make service delivery at the border-crossing checkpoints more efficient	In progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
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 progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 4: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency	In progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
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 progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 6: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.	In progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 7: Take measures to stamp out fraud	In progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 8: Improve transparency of the Albanian Customs activities	In progress	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 9: 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	Completed	2016-2017	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 10: To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS.	In progress	2017-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs

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ANNEX 1			
Status of Implementation of Pillars/Activities during 2017			
Activities	Status of Implementation of Activities	Timeline	Responsible unit
Pillar 3: Efficient execution of the Budget			Gelardina PRODANI
3.3. Improve the coverage and functionality of AGFIS			
Action 1: Gradually make AGFIS available to all major budget entities	In progress	2015-2020	Directorate of Business Processing
Action 2: Configure AGFIS so as to allow tracking operational expenses by project code	In progress	2016-2019	Directorate of Business Processing
Action 3: Gradually integrate AGFIS and other government IT systems under AFMIS	In progress	2015-2019	Directorate of Business Processing
Action 4: Perform an assessment on the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenses	It is planned to start in 2018	2018	Directorate of Business Processing
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	In progress	2015-2020	MOFE
3.5. Debt and cash management			
Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management	In progress	2015-2016	General Directorate of Budget and Public Debt
Action 2: Improve liquidity forecasting	In progress	2015-2016	Directorate of Treasury Operations
3.6. Public Procurement			
Action 1: Strengthen the legal and institutional framework for public procurement	In progress	2016-2019	Public Procurement Agency
Action 2: Develop professional expertise of the auditors of the State Supreme Audit during the audit of the procurement activities	Completed	2017	State Supreme Audit Institution
3.7. Asset management			
Action 1: Prepare methodology and action plan	In progress	2016-2020	Directorate of Harmonization of FMC
Action 2: Initiate and complete the process of full public assets inventory in General Government institutions and local government	In progress	2016-2020	General Directorate of Treasury
Action 3: Further complete the process of public assets transfer to local governments	Completed	2016-2020	General Directorate of Treasury
Pillar 4: Transparent government reporting			Gelardina PRODANI
4.1. Accounting			
Action 1: Prepare financial reports as per the ESA 2010 integrated government finance statistics manual	In progress	2015-2019	Directorate of Treasury Operations & INSTAT
Action 2: Implement IPSAS	In progress	2015-2019	General Directorate of Harmonization of Public Internal Financial Control Directorate of Treasury Operations
Action 3: Capacity building and ensure sustainability	Not started	2015-2019	General Directorate of Harmonization of Public Internal Financial Control Directorate of Treasury Operations
4.2. Financial and performance monitoring and reporting			
Action 1: Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information	In progress	2015-2019	Directorate of Budget Monitoring and Implementation Directorate of Local Finance
Action 2: Improve access to data on the government's finances and operations	In progress	2015-2019	Directorate of Budget Monitoring and Implementation Directorate of Business Processing

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ANNEX 1			
Status of Implementation of Pillars/Activities during 2017			
Activities	Status of Implementation of Activities	Timeline	Responsible unit
Pillar 5: Effective internal control			Kesjana HALILI
5.1. Financial Management and Control (FMC) at Public Institutions			
Action 1: Monitor the implementation of the legal framework for FMC	In progress	2015-2020	General Directorate of Harmonization of Public Internal Financial Control
Action 2: Implement a modern FMC system in three Line Ministries and four municipalities.	Completed	2015-2020	General Directorate of Harmonization of Public Internal Financial Control
Action 3: Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"	In progress	2015-2020	General Directorate of Harmonization of Public Internal Financial Control
5.2. Internal audit			
Action 1: Amend legal and methodological IA framework	Completed	2015-2018	General Directorate of Harmonization of Public Internal Financial Control Directorate of Harmonization of Internal Audit
Action 2: Professionalize IA function	In progress	2015-2018	General Directorate of Harmonization of Public Internal Financial Control Directorate of Harmonization of Internal Audit
Action 3: Strengthen the capacity of the CHU/IA	In progress	2015-2018	General Directorate of Harmonization of Public Internal Financial Control Directorate of Harmonization of Internal Audit
5.3. Public Financial Inspection			
Action 1: Increase the skills of public inspectors.	In progress	2015-2018	Directorate of Public Financial Inspection
Action 2: Information and awareness of the authority and the 3 high level of management and of the public as well	In progress	2015-2018	Directorate of Public Financial Inspection
Pillar 6: Effective external oversight of the public finances			Luljeta NANO
6.1. External audit			
Action 1. Align audit approaches to international standards (ISSAIs)	Completed	2015-2017	State Supreme Audit Institution
Action 2. Increase training and the use of information technology in tandem with the introduction of new audit approaches	Completed	2015-2018	State Supreme Audit Institution
Action 3. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.	In progress	2015-2018	State Supreme Audit Institution
Action 4. Introduce quality assurance activities over the audit	In progress	2017-2018	State Supreme Audit Institution
Action 5. Audit manual amendments to include activities to detect corruption and fraud	In progress	2017-2018	State Supreme Audit Institution

Legend

	To be Completed by 2018
	On track
colorless	Completed
	Delayed

ANNEX 2

Overall PFM Performance indicators

	Outcome indicator	Baseline	Outcome indicator 2016	Status in 2016	Outcome indicator 2017	Target value 2017	Status in 2017	Target value 2020	Responsible unit
1	Public debt to GDP ratio, in percentage	70 % (2013)	71% (72.4%)	Met	70,0%	65,50%	Not Met	59.5%	Macroeconomic Policy 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 (1.4 percentage points)	Met	1.1 percentage points	(-1) percentage points	Not met	(- 0.5) percentage points	Macroeconomic Policy 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	-0,6%	≤ planned deficit	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	NA	NA	5%	NA	3%	Macroeconomic Policy Department
5	Public revenue trend (Revenue as a percentage of GDP)	24%	26.7% (27.6%)	Met	27,7%	25%	Met	27.50%	Macroeconomic Policy Department
6	Budget credibility: Percentage deviation of actual expenditure from projected expenditure	-10%	(-) 4.7%	Met	-1,24%	(-3.5%) - 0%	Met	(-3% -0%)	DG of Budget
7	Budget credibility: Percentage deviation of actual revenue from projected revenue	5%	2%	Met	3,0%	+/-4%	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	-0,7%	+/-3%	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	5,3%	1,60%	Met	1,00%	Fiscal Department
10	Deviation between approved and actual capital expenditures figures	-10%	4.5%	Met	-6,65%	(-)7%	Met	(-5%)	DG Budget
11	Public Investment trend – capital expenditure as a percentage of GDP	5%	4.5%	Met	4,40%	4,50%	Not 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	38 scores (in 2015)	NA	50 score	60 th score	Not met	70th score	DG Budget
13	Public Administration employees registered in the HRMIS, in percentage	0.5%	62%	Met	58%	50%	Met	90%	DoPA
14	Arrears accumulation (stock), in ALL billions	72,75	1.8 billion Lek*	Not met	2.2*	0	Not met	0	DG Budget

The figures in brackets for indicators 1, 2 and 5 are revised according to last macro fiscal framework.

*The 14th indicators is revised, it was re-formulated from "Arrears clearance (payments), in ALL billions" in "Arrears accumulation (stock), in ALL billions" and also the 2016 figure was updated with 2016 last update.

Legend	
	Met
	Not met
	NA

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ANNEX 3									
Outcome indicators under each Pillar									
Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Outcome indicator 2017	Target Value 2017	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	70,0%	Declining Trend	Met	Declining Trend	Macro Department
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	(-) 0.21	≤ 0	Met	≤ 0	Macro Department
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	25%	50%	Not met	75%	DNSTAT
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	50%	50% of categories are covered in the SFR	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	ISPP = 57% VSPP = 75%	Growing trend	Met	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	96%	97%	Not 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	56%	Growing trend	Met	Growing trend	GD Budget Planning-MoF
	2.3.2 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%	DEM/TBP/AB = - 14% DRM/TBP/AB = -1% (2015)	DEM/TBP/AB = 0.4% (2016) DRM/TBP/AB = -0.05% (2016)	Met	DEM/TBP/AB= 0.4 (2017) DRM/TBP/AB= 0.07% (2017)	DEM/TBP/AB = 0 % DRM/TBP/AB = 0%	Not met	DEM/TBP/AB = 0% DRM/TBP/AB = 0%	GD Budget Planning-MoF

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ANNEX 3									
Outcome indicators under each Pillar									
Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Outcome indicator 2017	Target Value 2017	Status	Target Value 2020	Responsible unit
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure									
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	682 million LEK	Reduced by 50%	Not 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	NA	No target	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	NA	0	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 = -6% (2015)	RLGR = 3.7% RLGRG = 27.7%	Met	RLGR = 4.2% RLGRG = 23.38%	RLGR = Growing trend RLGRG = Growing trend	Partially 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 = 0.12%	RTotal M > 0%	Met	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	NA	No target	NA	100%	DMRPFM
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	25% employees 17% businesses	25% employees 13% 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	1,45%	1,10%	Met	1,00%	General Directorate of Taxes , General Directorate of Customs
	3.1.3. Provide reimbursement of VAT under the terms of legislation	69% (2014)			83%	80%	Met		
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	-0,6%	+/-3%	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	0,48%	Declining trend	Not met	Declining	Directorate of Treasury Operations
	3.3.2. Public Administration employees registered in the HRMIS, in percentage	0.50%	62%	Met	58%	50%	Met	90%	DoPA

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ANNEX 3									
Outcome indicators under each Pillar									
Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Outcome indicator 2017	Target Value 2017	Status	Target Value 2020	Responsible unit
Pillar 3: Efficient execution of the Budget									
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	NA	NA	Growing Trend	NA	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	56.7% (2017)	65,70%	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	780 days (2017)	740 days	Met	790 days	Debt Department
	3.5.3. Primary fiscal balance positive with a level of more than 2%	-1,70%	(+) 0.7%	Met	(+) 0.4%	(+)1%	Not 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	NA	3 score	Growing Trend	Met	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	54.7%	Declining Trend	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	6 budget institutions	1	Met	5	Directorate of Treasury Operations
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	IPSAS CA=0	Growing Trend	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	1. Iaccess=15 2. IAGFIS= 15% 3. IM=87%	Growing Trend Growing Trend Growing Trend	Partially Met	100 BI Growing trend Growing trend	Business Processing Department

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ANNEX 3									
Outcome indicators under each Pillar									
Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Outcome indicator 2017	Target Value 2017	Status	Target Value 2020	Responsible unit
Pillar 3: Efficient execution of the Budget									
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	NA	NA	Growing Trend	NA	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	56.7% (2017)	65,70%	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	780 days (2017)	740 days	Met	790 days	Debt Department
	3.5.3. Primary fiscal balance positive with a level of more than 2%	-1,70%	(+) 0.7%	Met	(+) 0.4%	(+)1%	Not 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	NA	3 score	Growing Trend	Met	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	14.16% (H2 2017)	Declining Trend	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	6 budget institutions	1	Met	5	Directorate of Treasury Operations
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	IPSAS CA=0	Growing Trend	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	1. Iaccess=15 2. IAGFIS= 15% 3. IM=87%	Growing Trend Growing Trend Growing Trend	Partially Met	100 BI Growing trend Growing trend	Business Processing Department

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ANNEX 3									
Outcome indicators under each Pillar									
Objective	Outcome indicator	Baseline	Outcome indicator 2016	Status	Outcome indicator 2017	Target Value 2017	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	3.4171/4 score (2017)	Growing trend	Met	Growing trend	MoFE
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)	R.impl = 60%	Met	NA	Growing trend	NA	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.	IACPD= 82% IANC= 60% (2014)	IACPD= 100% IANC= 60%	Partially Met	IACPD= 100% IANC -NA	Growing trend	NA	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)	60%	Met	NA	Growing trend	NA	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	Compliance audit=75% (2017) Performance audit = 10% (2017) Financial audit = 9% (2017))	trend of Compliance A	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% RIMPL32.5%	Not met	RACC 66% RIMPL 35.2%	Growing trend Growing trend	Partially 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	TISSAI 114%	Growing trend	Met	Growing trend	SAI

Legend	
	Met
	Not met
	Partially met
	NA

Annex 4: PFM donor supported projects

Donor	Project Title	Description	Type of Finance	Committed Funds (€)	Status
IMF	Extended Facility	Fund Budget Support	loan	330,900,000	Completed FEB2017
EU (IPA 2012)	Twinning support to Supreme audit institution	The objective of the twinning project is further institutional strengthening of the ALSAI and adjustment to the EU standards. The SAIs of Poland and Croatia are the twinning partners for the ALSAI. The Project's implementation started in March 2016 and is going to last 24 months.	grant	2,000,000	Ongoing
EU (IPA 2012)	Modernisation of Custom Administration	AL-12-IB-FI-02 Twinning project: Modernisation of Custom Administration in view of the New Computerised Transit System (NCTS) Contract ref. IPA/2015/370-523)	grant	1,800,000	Completed DEC 2017
EU (IPA 2013)	Upgrading the Albanian Customs Administration (Action Reference: IPA/2013/024-190)	Technical assistance contract to develop computerised Integrated Tariff Management System (ITMS) (Contract ref. IPA/2017/383-985)	grant	2,100,000	Ongoing
EU (IPA 2013)	Upgrading the Albanian Customs Administration (Action Reference: IPA/2013/024-190)	AL 13 IPA FI 02 16 Twinning project: Preparation of the Albanian Customs Administration for the EU-Integrated Tariff Management System (ITMS) IPA/2017/382-335)	grant	1,800,000	Ongoing
EU (IPA 2014)	Sector Reform Contract for Public Financial Management	Sector Budget Support: Support to public finance management (PFM) reforms in order to ensure fiscal discipline, more prudent financial management towards efficient public service delivery (EUR 40 million).	grant (Budget Support)	40,000,000	Ongoing
EU (IPA 2014)	Sector Reform Contract for Public Financial Management	PFM Technical Assistance to strengthen the capacity to implement the PFM strategy, providing better coordination and management of the reform process, transparency and accountability processes through enhanced dialogue and availability of information through Parliament	grant	2,000,000	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	130,692	Ongoing
Switzerland	Support for Public Accounting reforms	The project provides 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	1,700,000	Ongoing
Switzerland	Strengthening Public Financial Management at sub-national level in Albania	Project objective: To improve the sub-national PFM environment to enable financial discipline, efficient use of public resources and improved service delivery in targeted municipalities and support MoF in dealing with the difficult processes of inter-governmental finance	grant	3,900,000	Ongoing
Switzerland	Reform and modernization of Tax Administration	TA assists the GDT in ensuring: that organizational arrangements enable more effective delivery of strategy and reforms; that corporate priorities are better managed through effective risk management; that a larger proportion of taxpayers meet their payment obligations as required by law.	grant	900'000	Ongoing

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Donor	Project Title	Description	Type of Finance	Committed Funds (€)	Status
Switzerland	Improve capacities for GFS	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	300,000	Ongoing
Switzerland	DMFAS: capacity building for integrated debt management	Consolidation of the external/internal database at the MOFE, 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); interface between treasury and DMFAS	grant	440,000	Ongoing
Switzerland	GDRM: government debt risk management	Government bond market development; support for strengthening the institutional setup of the debt management office, especially in light of the merger of the MOFE; assistance for strengthening cash management operations (in coordination with the IMF);	grant	410,000	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
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
USAID	Planning and Local Governance Program (PLGP)	Project Description: The project provides technical assistance and training to GoA and to Albanian local government institutions to support their efforts to successfully implement decentralisation legislation, policies and reforms, including fiscal decentralisation	grant	11,861,773	Ongoing
Austria IPA 2013 Switzerland Sweden	Multi Donor Trust Fund (MTDF) on Capacity Building Support to Implement the Integrated Planning System (IPS II)	Assist the Government to relate its budget to the development of the country and its integration in the EU. Increase capacities in the Government to implement and monitor the IPS.	grant	138,483 1,100,000 1,077,027 3,052,414	Ongoing
World Bank	Financial Sector Development Policy Loan 2	Objective: to strengthen the resiliency of the financial sector, the deposit insurance framework, and regulation and supervision of non-banks. This policy operation supports reforms aimed at strengthening the resiliency of the banking sector and the regulation and supervision of nonbank financial institutions in Albania.	loan	81,251,676	Ongoing

Annex 5: SIGMA key recommendations

SIGMA Recommendations		Relevant PFM Strategy Pillar ¹	Timescale
MTBP and annual budget processes		3	
1	The MoF should improve the MTBP document by including a summary of sector-based policy information and sector expenditure plans		2018-2019
2	The MoF should improve annual budget documentation by including a separate statement on fiscal risks		“
3	The Parliament should initiate discussions on the MTBP prior to submission of the draft budget proposal		“
4	The MoF should consider strengthening the existing budget balance rule to ensure sustainability of public finances		2018 – 2020/2022
Transparent budget reporting		4	
1	The MoF should improve reporting on local governments, including on local government debt		2018-2019
2	The MoF should amend the annual budget report to mirror the annual proposal budget		“
3	The MoF should strengthen monitoring of the financial situation of state-owned enterprises (SOEs) by elaborating a consolidated financial report at least once a year		“
4	The MoF should establish a budget expenditure evaluation process to increase spending efficiency		2018 – 2020/2022
5	The MoF should ensure the development of accounting standards for the public sector consistent with international standards.		“
Internal FMC		5	
1	The CHU/FMC should consider whether there is a means for the Government to endorse the recommendations in the PIFC annual report to provide more encouragement for implementation, either within the existing legal framework or through additional measures		2018-2019
2	The CHU/FMC should analyse the coherence of PIFC legislation with other horizontal legislation such as the MBS Law or the Law on Public Administration, especially in areas that have yet to develop fully, such as delegation		“
3	The CHU/FMC should implement pilot delegation exercises for a range of activities, for instance small-scale procurement and simple human resources (HR) processes such as leave and budget management, together with appropriate internal controls and monitoring arrangements		“
4	The CHU/FMC should expand the annual FMC questionnaire to include issues affecting the FMC implementation process, such as the existence of a		“

¹ Minimum score is “0” and maximum score is “5”.

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SIGMA	Relevant PFM Strategy Pillar ¹	Timescale
Recommendations		
	plan or the name of the officer responsible for implementation (rather than the authorising officer, who has overall responsibility as FMC and risk coordinator)	
5	The CHU/FMC should extend the range of organisations completing the FMC questionnaire to include larger subordinate bodies, to ensure that they have as clear a picture of progress as key organisations such as the Tax Authority or the Roads Authority have	“
6	The CHU/FMC should consider appropriate ways to maintain oversight of FMC implementation progress of those organisations not required to complete the full questionnaire. This might involve a simpler questionnaire asking whether key elements are in place and regularly updated, such as rulebooks, organigrams and risk registers.	“
7	The MoF should develop software to enable transactions within ministries' own accounting systems to be imported to AGFIS, rather than processing them twice. This would be an interim measure for organisations that will be linked directly to AGFIS in the future, but could be a more permanent solution for others	“
8	The MoF should complete implementation of the Action Plan associated with the PFM Strategy	2018 – 2020/2022

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SIGMA Recommendations		Relevant PFM Strategy Pillar ¹	Timescale
Internal Audit		5	
1	The CHU/IA should ascertain why organisations are not creating IA units when they are legally obligated to, and should provide assistance in setting up units.		2018-2019
2	The CHU/IA, when completing the planned programme of external quality assurance reviews of internal audit, should identify areas in which additional training or changes to methodology guidance may be required.		“
3	The CHU/IA should update the IA manual and guidance to reflect the 2017 changes in international IA standards.		“
4	The CHU/IA, the MoF and the SSAI should seek ways to establish effective IT capacity for IA.		“
5	The MoF should review the staffing of the CHU/IA to ensure it has sufficient and appropriate resources to complete the 20 external quality assurance reviews required each year to meet the standard five-year cycle for such reviews		“
6	The CHU/IA should implement the Action Plan of the IA Strategy 2016-2020.		2018 – 2020/2022
7	The MoF should implement the Action Plan of the PFM Strategy		“
Procurement		3	
1	A Procurement Strategy Committee should be established by Government decision to initiate all actions under the PFM Strategy		2018-2019
2	The process of harmonising the PPL with recent EU procurement directives should be initiated.		“
	In revising the PPL, the current regulatory approach and extent of implementing regulations should be reviewed.		“
3	The Law on Defence and Security Procurement based on the EU directive should be adopted and effectively implemented.		“
4	A forum for policy co-ordination and consultation should be established.		“
5	Measures should be taken to improve daily communication and co-operation among the key procurement institutions.		“
6	An organisational review of the PPA should be initiated, and its capacity and capabilities should be strengthened.		“
7	The roles and responsibilities of ATRAKO, the MoF and the PPA should be		“

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SIGMA Recommendations	Relevant PFM Strategy Pillar ¹	Timescale
8	clarified.	“
9	The capacity and capabilities of ATRAKO should be strengthened.	“
10	A PPL harmonised with the new EU Public Sector and Utilities Directives should be adopted.	2018 – 2020/2022
11	Complete secondary legislation should be adopted that redirects the focus from integrity towards value-for-money when appropriate, and grants contracting entities more flexibility and discretion in managing procurement operations.	“
12	A new PPA organisational design should be instituted to more effectively meet the new responsibilities and challenges.	“
13	A new organisation for centralised purchasing should be established	“
PPC aligned with EU acquis		3
1	PPL amendments making the PPC subordinate to Parliament, the effective merit-based appointment of new PPC members should be ensured; comprehensive instructions should be issued; and necessary budgetary resources, office facilities and other measures should be provided for proper functioning of the PPC.	2018- 2019
2	As part of the PFM Strategy, a review mechanism fully aligned with EU directives and good practice should be initiated, and an explicit standstill period of at least ten days should be introduced.	“
3	Review procedures should be clarified and simplified, particularly concerning time limits and stages in the process to be respected.	:
4	A capacity-building plan should be initiated, adopted and implemented to redirect the current formalistic focus of the PPC towards the substance of complaints instead	2018 – 2020/2022
Procurement by contracting authorities		3
1	A collaborative efficiency review of the operational component of the procurement system should be initiated to identify obstacles and problems for effectively and efficiently undertaking public procurement, both procedurally and operationally.	2018- 2019
2	A review of centralised purchasing should be initiated to contemplate other organisational and operational solutions outside the Ministry of Interior.	“
3	The system for small-value purchases should be revised or abolished.	“
4	The limited fund rules and the approval procedures under the Budget Law	“

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SIGMA	Relevant PFM Strategy Pillar ¹	Timescale
Recommendations		
	for control and authorisation of procurement transactions should be revised.	“
5	Development of the e-procurement system should continue, to prepare it for e-auctions, call-offs under framework agreements and a DPS.	“
6	Support and other measures for the wider use of framework agreements should be strengthened.	“
7	A procurement capability and capacity review of contracting entities should be initiated to determine training and competence-building needs, and to outline a national strategy on training and other capacity-building actions.	“
8	The strategies and actions plans on efficiency development and capacity strengthening determined and initiated during the short-term phase should be implemented	2018 – 2020/2022
External Audit		6
1	The SSAI should begin preparations for updating the SDP 2013-2017 well in advance.	2018-2019
2	The SSAI should develop a risk-based audit strategy in which: a) the current focus on increasing the number of reports should be reconsidered in favour of improving the quality of audit work and recommendations in line with the ISSAIs ; and b) a gradual reduction in the number of compliance audits should be considered in favour of increasing the number of financial and performance audits.	“
3	The SSAI should regulate that the budget coverage of each audit be mentioned in each individual audit programme and individual audit report.	“
4	The SSAI should improve its public relations by organising press conferences following newly published audit reports, and should organise seminars, to increase publicity around the importance of performance audits for as wide an audience as possible.	“
5	The SSAI should draft a long-term training strategy to improve the professional skills of audit staff in using the ISSAIs.	2018 – 2020/2022
6	The SSAI should develop a vision on how to fulfil its advisory role regarding national and international developments in public finance and auditing.	“

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ANNEX 6		
Action Plan 2018		
Activities	Timeline	Responsible unit
Pillar 1: Sustainable and prudent fiscal framework		Endrit LAMI
1.1. Fiscal rules, forecasting and fiscal responsibility framework		
Action 1: Improve forecasting methodologies	2015-2018	Directorate of Analysis and Macroeconomic Planning
1.2. National Government Accounts accounts		
Action 2: Creation of a sustainable statistical system of public administration	2015-2019	INSTAT
Action 3: Ensure collection of information	2015-2019	INSTAT
Action 4: Prepare Review/Transparency policies	2015-2019	INSTAT
1.3. Fiscal risk management		
Action 1: Strengthen fiscal risk management and reporting within the MoF	2016-2017	Secretary General of MoFE
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	2015-2018	PMO
Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process	2015-2018	PMO
Action 3: Create the capacity to carry out in-depth sector reviews as needed	2015-2018	PMO
Action 4: Maintain a "Single Strategic Project Pipeline" & ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects	2017-2020	PMO
2.2. Capital investment planning, appraisal and inclusion in budget		
Actions 1: Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project)	2016-2018	Directorate of Business Processing
Action 2: Strengthen the oversight of SOE which are loss making, carry large fiscal risks, and require direct or indirect budget support.	2016-2018	General Directorate of Budget and Public Debt
Action 3: Have a clear Project classification to avoid unnecessary multiplication of projects.	2016-2018	General Directorate of Budget and Public Debt
Action 4: Strengthen the MoF's oversight and fiscal gatekeeper function regarding project appraisals.	2016-2018	General Directorate of Budget and Public Debt
Action 5: Prioritization and selection of large investment projects is done in a systematic manner	2016-2018	General Directorate of Budget and Public Debt
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	2015	General Directorate of Budget and Public Debt
2.4. Multi-year commitment control		
2.5. PFM in local government		
Action 2: Strengthen implementation of the new law and PFM practices	2017-2018	Directorate of Local Finance
Action 3: Establish a medium-term financial planning database for local governments	2017	Directorate of Local Finance
Action 4: Updating the local government finances portal	2017-2020	Directorate of Local Finance
2.6. Budget documentation (2015)		
Action 1: Improve the information content and quality of local government budgets	2015	Directorate of Local Finance

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ANNEX 6		
Action Plan 2018		
Activities	Timeline	Responsible unit
Pillar 3: Efficient execution of the Budget		Gelardina PRODANI
3.1. Tax administration		
Action 1: Reengineer and computerize core tax administration processes	2015	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 3: Implement compliance risk management of tax collection	2015-2017	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 5: Revise the system of the fiscal cash registers and encourage their use	2015	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 6: Establish a fiscal cadaster of properties	2016-2019	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 8: Assist the taxpayers to enhance voluntary compliance	2016-2020	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
Action 10: Improve Debt Management	2017-2019	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Taxation
3.2. Customs management		
Action 2: Make service delivery at the border-crossing checkpoints more efficient	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
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	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 4: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 5: Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 6: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 7: Take measures to stamp out fraud	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 8: Improve transparency of the Albanian Customs activities	2015-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
Action 10: To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS.	2017-2018	General Directorate of Macroeconomic Policies, Fiscal Affairs and Employment General Directorate of Customs
3.3. Improve the coverage and functionality of AGFIS		
Action 1: Gradually make AGFIS available to all major budget entities	2015-2020	Directorate of Business Processing
Action 2: Configure AGFIS so as to allow tracking operational expenses by project code	2016-2019	Directorate of Business Processing
Action 3. Gradually integrate AGFIS and other government IT systems under AFMIS	2015-2019	Directorate of Business Processing
Action 4. Perform an assessment on the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenses	2018	Directorate of Business Processing

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ANNEX 6		
Action Plan 2018		
Activities	Timeline	Responsible unit
Pillar 3: Efficient execution of the Budget		Gelardina PRODANI
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	2015-2020	MOFE
3.5. Debt and cash management		
Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management	2015-2016	General Directorate of Budget and Public Debt
Action 2: Improve liquidity forecasting	2015-2016	Directorate of Treasury Operations
3.6. Public Procurement		
Action 1: Strengthen the legal and institutional framework for public procurement	2016-2019	Public Procurement Agency
3.7. Asset management		
Action 1: Prepare methodology and action plan	2016-2020	Directorate of Harmonization of FMC
Action 2: Initiate and complete the process of full public assets inventory in General Government institutions and local government	2016-2020	General Directorate of Treasury
Pillar 4: Transparent government reporting		Gelardina PRODANI
4.1. Accounting		
Action 1: Prepare financial reports as per the ESA 2010 integrated government finance statistics manual	2015-2019	Directorate of Treasury Operations & INSTAT
Action 2. Implement IPSAS	2015-2019	General Directorate of Harmonization of Public Internal Financial Control Directorate of Treasury Operations
Action 3. Capacity building and ensure sustainability	2015-2019	General Directorate of Harmonization of Public Internal Financial Control Directorate of Treasury Operations
4.2. Financial and performance monitoring and reporting		
Action 1: Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information	2015-2019	Directorate of Budget Monitoring and Implementation Directorate of Local Finance
Action 2: Improve access to data on the government's finances and operations	2015-2019	Directorate of Budget Monitoring and Implementation Directorate of Business Processing

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ANNEX 6		
Action Plan 2018		
Activities	Timeline	Responsible unit
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	2015-2020	General Directorate of Harmonization of Public Internal Financial Control
Action 3: Increase the awareness of public units about the benefits of implementing the concept of “managerial accountability”	2015-2020	General Directorate of Harmonization of Public Internal Financial Control
5.2. Internal audit		
Action 2: Professionalize IA function	2015-2018	General Directorate of Harmonization of Public Internal Financial Control Directorate of Harmonization of Internal Audit
Action 3: Strengthen the capacity of the CHU/IA	2015-2018	General Directorate of Harmonization of Public Internal Financial Control Directorate of Harmonization of Internal Audit
5.3. Public Financial Inspection		
Action 1: Increase the skills of public inspectors.	2015-2018	Directorate of Public Financial Inspection
Action 2. Information and awareness of the authority and the 3 high level of management and of the public as well	2015-2018	Directorate of Public Financial Inspection
Pillar 6: Effective external oversight of the public finances		Luljeta NANO
6.1. External audit		
Action 3. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.	2015-2018	State Supreme Audit Institution
Action 4. Introduce quality assurance activities over the audit	2017-2018	State Supreme Audit Institution
Action 5. Audit manual amendements to include activities to detect anti corruption and fraud	2017-2018	State Supreme Audit Institution

