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| [Rezultate imazhesh për public finannce management](https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=2ahUKEwjZhrndkdbeAhXIGuwKHUDMCckQjRx6BAgBEAU&url=https://www.edx.org/course/public-financial-management&psig=AOvVaw1ypJRMx0xR2IW4HZC7TeRv&ust=1542362329911689)  ***MID-TERM REVIEW 2014-2018 Draft Report***  **PUBLIC FINANCIAL MANAGEMENT REFORM 2014-2020** | **MoFE**  December, 2018 |

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# List of Acronyms

|  |  |
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|
| 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 |
| CHIF | Compulsory Health Insurance Fund |
| CHU | Central Harmonization Unit |
| DLDP | Decentralization and Local Development Programme |
| DMFAS  DWH | Debt Management and Financial Analysis System  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 |
| EU | European Union |
| EUD | European Union Delegation |
| 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 |
| GDP | Gross Domestic Product |
| GDT | General Directorate of Taxation |
| GoA | Government of Albania |
| GFS | Government Finance Statistics |
| GFSM | Government Finance Statistics Manual |
| HRMIS | Human Resources Management Information System |
| HSC | High State Control |
| IA | Internal Audit |
| 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 |
| LGUs | Local Government Units |
| LM | Line Ministries |
| MoFE  MEDTE | Ministry of Finance and Economy  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 |
| NRC | National Registration Centre |
| NSDP | National Summary Data Page |
| NSPP | National Strategic Project Pipeline |
| OBL | Organic Budget Law |
| 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 |
| RDF | Regional Development Fund |
| RNAN | Regional NICs Advisory Network |
| SAI | Supreme Audit Institution |
| SBS | Sector Budget Support |
| SDMX | Statistical Data and Metadata Exchange |
| 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 |
| WB | World Bank |

# Executive Summary

This Mid Term Review (MTR) report of the Public Financial Management (PFM) Strategy, 2014-2020, has been produced by Ministry of Finance and Economy, Directorate for Managing the Reforms on Public Finances. The PFM reform Mid Term evaluation timeframe is 2014- first half of 2018. PFM reform has been driven by a path towards economic stability and fiscal consolidation, coupled with internal demand for sustainable growth, in accordance with the European integration goals. To this end it has recently been decided to extend the Strategy implementation until 2022 and the MTR seeks to inform this renewed PFM agenda. The current Strategy comprises six Pillars: 1) Sustainable and Prudent Fiscal Framework, 2) Well-integrated and efficient Planning and Budgeting of Public Expenditure, 3) Efficient Execution of the Budget, 4) Transparent Government Reporting, 5) Effective Internal Control, and 6) Effective External Oversight of the Public Finances. After the review of PFM framework and pillars focus, it is proposed that the PFM Revised Strategy 2018-2022 to be composed by seven pillars. This is related with the changes proposed to the existing pillar three which has a broad area of focus. In this context, aiming to focus more in the achievement of the action plan, it is proposed to split pillar three in two pillars: Pillar 3- Revenue Administration and Pillar 4- Efficient execution of the Budget.

In this Mid Term Review is presented the new approach of PFM pillars, the future seven pillars will be: 1) Sustainable and prudent fiscal framework, 2) Well integrated and efficient planning and budgeting of public expenditure, 3) Revenue Administration, 4) Efficient execution of the Budget, 5) Transparency of Public Finances, 6) Effective internal control, 7) Effective external oversight of the public finances.

The Government’s fiscal consolidation efforts as well as PFM reforms have benefited from strong support by Albania’s Development Partners, including Delegation of Europe Union in Albania, International Monetary Fund, Worlds Bank, State Secretariat for Economic Affairs, Swedish International Development Cooperation Agency, United States Agency for International Development, Austria and Switzerland..,.

The objectives of the Mid Term Review (MTR) are to identify progress, achievements, challenges and gaps in order to plan the future agenda and SMART approach to PFM reform. Improving both technical PFM reform as well as accompanying culture change are crucial to the successful fulfilment of the Strategy and Action Plan.

The report comprises four main sections, the **section one** presents the MTR objectives and the Methodology used, **section two** presents six existing pillars organized each of them on every component achievements 2014- June 2018, challenges faced and revision of each pillar. **Section three** presents the refocus of the PFM Strategy for 2018-2022. Section **four** presents the risks of Monitoring PFM Reform.

The main progress of pillar one is presented as: **a)** The amendments to the Organic Budget Law (OBL) as adopted by the Parliament in June, 2, 2016; **b)** In compliance with OBL, on the 2017 annual consolidated budget implementation report, the Macroeconomic Policies and Fiscal Issues Directorate, for the first time included the implementation of the fiscal principles and rules established in the OBL, which resulted fully accomplished; **c)** aMemorandum of Understanding was signed aiming to defining responsibilities between INSTAT, Bank of Albania (BoA) and the MoFE for data compilation, dissemination, transmission, sharing and exchange. A list with institutional unit (IU) classifications is finalized and it was published in 2017; **d)** For the first time, in 2017, INSTAT compiled and transmitted the GFS data according to the requirements of ESA 2010 transmission program. Up to June, 3 of 7 GFS tables were sent to EUROSTAT. e) In October 2016, a Fiscal Risk Unit was established, in charge for risk management and for the preparation of the Statement of Fiscal Risk. FRU drafted a new guideline in the beginning of 2017, in which is define the role of MoFE on SOEs fiscal oversight that carry fiscal risks; **e)** 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*[[1]](#footnote-1)", on the official MoFE website are published periodically the arrears created on January 2016- March 2018.

The main progress of pillar two is presented as**: a)** NDSI 2015-2020 was approved in May 2016, (DCM 348, dt.11.5.2016). Until June 2018, 26 strategies part of NSDI II were adopted, while the remaining 4 are in their drafting stage. The National Strategic Project Pipeline (NSPP) for Albania has been prepared for the first time in 2015; first NSPP/2015 was approved by the National Investment Council (NIC)/Strategic Planning Committee (SPC) on December 2015. NSPP 2016-2017, has been approved on 17 May 2017; **b)** For the first time the 2015 budget proposal submitted to the Parliament for approval, included budgetary ceilings not only for 2015, but also for 2016 and ongoing. New Standard Budget Preparation instruction (February 2018) was approved; **c)** The government has published for the first time in 2015, as part of the MTBP documentation, the entire list of ongoing and new investments, with details regarding total approved cost; the incurred cost to date; budget provision; multiyear commitments over the MTBP period at national, sector, and program level. A Public Investment Management Assessment (PIMA) to assess the quality of public investment management practices was conducted by the IMF at the MoFE by the beginning of 2016. A Public Investment Management Department was re-established within the MoFE. The decision on public investment management procedures was approved on March 29th, 2018; **d)** The order of the Minister of Finance, no 2, dated 9.01.2015, art 25 – art 30 spells out additional requirements for proper allocation and evidencing of multi - year commitments to all the Budgetary Institutions in order to avoid the creation of arrears. In the amended OBL, art. 40, new instructions were included to ensure that the multi-year commitments of the BI are within the three-year ceilings approved with the annual budget Law. An arrears prevention and clearance strategy, and associated instructions for its implementation was approved. A special unit in the MoFE was established and were established. In April 2016, Albanian Financial Management Information System (AGFIS) was enhanced to have some automated controls and to allow their disaggregation by individual years of allocation; **e)** The number of municipalities and communes reduced radically from 373 local government units into 61. Law no. 30/2015 “On the Organization and Functioning of Local Government” was approved on 2 April 2015. A new National Crosscutting Strategy on Decentralization and Local Governance was approved with CMD no. 691, dated 29.07.2015. Law “On the finances of the local self-government” was approved on 27 April 2017. MoFE in close collaboration with Decentralization and Local Development Programme (DLDP), in 2018 has prepared and approved the new FPT for the preparation of MTBP for local units and the FPT. MoFE during the first part of 2018 has prepared and approved two new guidelines for LGU budget monitoring and preparation of the Medium Term Budget Program. LGUs in collaboration with MoFE, following the Instruction no. 2, dated 19.01.2018 “On the implementation of the 2018 budget” LGUs are obliged to report and submit to the MoFE information on accumulated arrears as well as their repayments, every quarterly. MoFE updates the local government finance portal periodically**; f)** The 2017 Citizens’ Budget has been produced and it is available for download from the MoFE website.

The main progress of pillar three is presented as**: a)** The government launched a public awareness campaign, waived penalties for businesses that become fully compliant before end-2015 which has been ongoing, and set up a lottery to incentivize customers to claim their tax receipts. To enhance enforcement, 500 new tax inspectors have been hired. In 2015, GDT started to implement the Anti-Informality Action Plan. The last phase of the fight against informality was carried out during the period 2 October 2017 – 31 December 2017. The Tax Procedures Code was amended in November 2015. In the beginning of 2017 it was approved and published the instruction of the Minister of Finance No. 7, dated 10 January 2017. "*For some additions to the instruction no. 24, dated 2.9.2008, "On Tax Procedures in the Republic of Albania".* It was established a new informative website for all taxpayers’ categories, it is created a new taxpayer’s help desk service at National Registration Centre (NRC) and at Agency for the Delivery of Integrated Services Albania (ADISA) centres in Fier, Gjirkoaster, Kruje and Kavaja; a functional Call Centre, were designed 15 Informative Brochures; started the application of taxpayer service visits directly to businesses. A new General Directorate of Taxation (GDT) function- based organization structure was approved by the Council of Minister in August 2016. Risk Analysis Module was deployed in 2015. In in 2017, initiated the first two projects that will test the effectiveness of the new risk management system launched in November 2016; Projects for the Trade and Health Sector. On the 15th meeting of the GDT Compliance Committee, held on May 4th, 2018, it was approved the Tourist Season Plan for 2018. A new property tax law was prepared and consulted with external partners as: SIDA and WB and was approved by Parliament in November 2017**; b)** New Albanian Customs Code was approved on July 2014, where some of its provisions entered into force in September 2014, some in 1st of January 2015 and the latest in 1st of June 2017. On 10th of November 2017 was approved the Decision No.651, of Council of Ministers for the implementing provisions of the new Customs Code. The “Business Strategy of the Albanian Customs Administration” was approved in February 2018. Legal acts for the preliminary declaration have been finalized during 2017. It is approved Order No.27, of the MoFE dated 25.01.2018 "On the adoption of the Work Plan for Customs Information Systems"; It is approvedRegulation No.67, of DGC dated 24.10.2018 “On the equipment and use of electronic signatures”; It is approvedManual No. 9, of DGC dated 16.07.2018 "On the export and exit of goods from the Republic of Albania"; It is approved by DGC the guideline for the preservation of other documents and information. In May 2017, the General Directorate of Customs launched its new user-friendly website**; c)** Aiming to increase transparent and efficient recording and control of the government’ spending and accrued financial obligations, in AGFIS are rolled out 15 Budget institutions, which in terms of volume represent more than 75% of budget expenditures; **d)** In 2016 The Prime Minister Office has started the process of implementing External Assistance Management Information System (EAMIS),a comprehensive automated system to support the Government of Albania in effectively managing development finance and promoting accountable and transparent use of resources; **e)** The legal framework for central government debt management is included in the Constitution, the Law on State Borrowing, State Debt and State Loan Guarantees (2006), and the Law on Management of the Budgetary System (2016). Since in 2015, a permanent working group for preparation of the Medium Term Debt Strategy with representatives from the MoFE and BoA is in place. In 2015 they produced the Medium Term Debt Management Strategy (MTDS) 2015 -2017. The MTDS is updated and published by MoFE on annual basis, based onmethodologies and the recommendations of the international financial institutions. A new software (AFISAR) implemented by the Bank of Albania is assisting the Debt Department to manage the domestic government instruments since January 2015. Debt portfolio analysis are prepared and published on a quarterly basis by the MoFE. In 2016 a new version of Debt Management and Financial Analysis System (DMFAS) replaced the old version of it. The DMFAS has been fully functional for both external and domestic debt during 2017; **f)** In order to ensure Public Procurement system to be in line with EU good practice, on 24 December 2014, was adopted the law no. 182/2014 on amendments to the Public Procurement Law to further align the legislation with the newly adopted EU directives namely Directive 2014/24/EC and 2014/25/EC. The PPL amended again and adopted on 13 April 2017 with aim to regulate the establishment, functioning and strengthening independence of the PPC. The new commission which is now independent has officially started functioning on 16 July 2018, the election of The Head of the Public Procurement Commission was and of the members was made. With the assistance of SIGMA, a Legislative Gap Analysis was prepared regarding compliance of Albanian procurement legislation with relevant EU directives. The first draft Law on Defence and Security Procurement has been prepared. An audit manual on procurement has been developed in collaboration with WB experts and Albania Supreme Audit Institution (ALSAI) experts; g) during the year 2015 new administrative territorial reform resulted in the creation of new territorial communes and the closure of the existing ones. 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 for LGUs. During 2017, six out of the 15 Budget Institutions (BIs) that are online, started using the AGFIS assets module.

The main progress of pillar four is presented as: **a)** The GFS Annual reports for 2015, 2016 were prepared and published in MoFE website according to 2014 IMF manual. Till now INSTAT has compiled and transmitted to EUROSTAT three tables of the GFS data according to the requirements of ESA 2010. During 2016, a World Bank team performed a GAP assessment between the local accounting standards and International Public Sector Accounting Standards (IPSAS). The final report of the GAP analysis was presented to a workshop in May 2017. The Harmonization Directorate for Financial Management and Control, in collaboration with Budget Directorate and Treasury Directorate, within MoFE, has approved the Instruction no. 8, dated 09.03.2018 "On the procedures for preparation, presentation and reporting of annual financial statements in general government units"; **b)** In 2014, with the proposal of the Ministry of Economic Development, Trade and Entrepreneurship, the Council of Ministers has approved a new methodology for monitoring public investment projects. The guideline "On the standard procedures for monitoring the budget of the central government units" which was approved by the Minister of Finance on 17.11.2016. Improvements to the quarterly and annual budget execution reports were introduced with the decision of Minister of Finance, no.2, dated 09/01/2015, art 57 “On the Budget Execution”. 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. During 2015 a "Transparency portal" to access, understand, monitor and analytically use the data on financial Performance at the local level in Albania was established. A new Law No.68 dated 27.04.2017 “On Local Finances” was approved. The World bank supported Boost application is available on MoFE website since June 2018.

The main progress of pillar five is presented as**: a)** Changes to the Law “*On Financial Management and Control*” No. 10296, dated 08.07.2010, were approved in Parliament with Law No. 110, on 15.10.2015. A Twinning project between MoFE of Austria and Ministry of Economy and Finance of France, on the “*Implementation of for Financial Management and Control and Public Financial Inspection in Albania*” started in September 2014 and finished in November 2016. Amodern system of FMC was implemented in seven pilot institutions. During 2016, the CHU/FMC conducted monitoring of the status of the implementation of the FMC framework in two independent institutions: the Presidency and Parliament. There were organized several awareness seminars on the importance of FMC implementation for both local and central government representatives. 2016 PIFC Annual Report was prepared and approved in May 2017 and 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. During April-June 2018, the CHU/FMC, in cooperation with the Albanian School of Public Administration has conducted three cycles of a 5-day training course on key concepts of public internal financial control and implementation in practice of the main FMC elements; **b)** Was approved the new Law No. 114 “*On Internal Audit*”, dated 22.10.2015. The Law introduced for the first time the establishment of the Audit Committee in public entities as an independent monitoring and advisory body to senior management. During the period 2014 – June 2018 the CHU/IA focused mainly on improving the legal basis, primary and secondary legislation, as well as the extension of the internal audit service in all public entities. Around 1564 people have participated in the training sessions and workshops. Currently there are 129 IA units established in Line Ministries, central government institutions, local governments and some other partially owned public entities. Certification process of internal auditors in the public sector for the period 2018 – 2019 was approved by the Order of the Minister of Finance and Economy No. 162 of 29.05.2018. Based on the analysis of the activity of Internal Audit units, during 2018, it is observed that there is an increase in the quality of the recommendations given for implementation. During 2018, eight external quality evaluations in IA units are finalized; **c)** A new Law No. 112 “*On Public Financial Inspection*”, dated 15.10.2015 replaced the Law No. 10294, dated 01.07.2010 “*On Public Financial Inspection.* Several decisions of the Minister of Finance and Economy relating to Public Financial Inspection were issued. During 2015, within the framework of IPA 2012, a conference with participants from Local and Central Government was organisedaiming to raise awareness on the new law On Public Financial Inspection*.*

The main progress of pillar six is presented as: **a)** a new Law No.154 dated 21.11.2014 “*On the Organization and functioning of the High State Control*” was approved in Parliament. At the beginning of 2015 the ALSAI was supported in its development by a Twinning project for 24 months. On March 2015, a revised Institution's Development Strategy for the period 2015 - 2017 was approved by the Chairman of the ALSAI(Decision No. 42, dated 31.03.2015) alongside a revised Action Plan for the strategy implementation. Moreover, a new Code of Ethics of ALSAI was approved by the Chairman Decision No. 56, dated 30.04.2015. Memorandum of Understanding has been signed between ALSAI and MoFE to foster the cooperation in audit field. . A Peer Review about ALSAI institutional independence was conducted by the Austrian Court of Audit where some Albanian Member of Parliaments participated as well (04.11.2016). ALSAI has increased the transparency of its activities during 2016 in the Albanian media by being more present with information and messages compared to previous years. Considering the importance for sound relationship between ALSAI and in promoting transparency, accountability and good governance, the Parliament approved the Resolution for the ALSAI’s 2015 activity assessment on 20th of October 2016. The New “*Regulation of Audit Procedures*” was approved ensuring the alignment of audit approach and methodology with INTOSAI Standards, ISSAI-s. All IT audit staff is trained and methodology and IT audit guidelines were further developed. IPA and ALSAI experts developed a pilot IT tool on preparing the 2017 Audit Plan. 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. A review of the anti-corruption/fraud system in Albania and ALSAI related achievements was undertaken and an internal report of challenges/constraints was produced. ALSAI has prepared and finalized the Development Strategy 2018-2022 approved by the Decision of the Chairman No. 229 dated 31.12.2017. Human Resources Policy Document was approved by the Chairman’s Decision No. 228, dated 31.12.2017.

# Methodology

To conduct PFM MTR are undertaken the stages as below:

1) A desk top stock-take of progress has been undertaken and a Draft Stock Take Report was produced by directorate of PFM (DR-PFM). An internal government launch of the “Mid Term Review (MTR) of Albania Public Finance Management Strategy 2014-2020” on 4 May, 2018. The MTR had already been communicated to the PFM Steering Committee, held on 21 March, 2018. The main purpose of the workshop was to launch the PFM Strategy Mid Term Review methodology.

2) In the second stage, during June 2018 the Draft Stock Take template was sent to all responsible units part of PFM strategy where they contributed with updating the information, and after elaboration of their contribution by DR-PFM, technical meetings were organised with each of them. During the technical meetings were presented the findings and challenges faced, as well as it was discussed for the status of actions and the upcoming changes, the main focus was the `AS-IS` and `TO-BE` situation. The DR-PFM elaborated all information discussed and asked them for new information.

3) In the third stage, during September-October 2018 directorate of PFM organised high level meetings for each of six pillars of PFM strategy. In each pillar meeting took part all component leaders for that pillar, and the General Secretary Mrs. Gelardina Prodani, also the Deputy Minister Mr.Elton Haxhi and the Deputy Minister Mr. Erjon Luci have participated in the meetings of according to their responsibility area. . In this stage the draft report of MTR was discussed focusing more on the main priorities and issues that each unit has under their responsibility, also was discussed how international report assessment recommendations are addressed by each of these responsible units and to clarify the reasons of changing Passport Indicator. Since the revised PFM Strategy will have new priorities and objectives, new Indicators are added in order to measure the achievements of indicators.

# Pillar 1: Sustainable and prudent fiscal framework

## Component 1.1: Fiscal rules, forecasting and fiscal responsibility framework

### Assessment 2014-June 2018

**Objective**

Fiscal responsibility framework for fiscal management established in the legal framework. Sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives, underpin the budget

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline**  (2013) | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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 % | 71.00% | 70.0% | Declining Trend | Declining Trend | Macro Department |
| 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 | (-) 18,22 | (-) 0.21 | ≤ 0 | ≤ 0 | Macro Department |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve several instruments as: legislation and capacity building, which are all completed for this component. In this context, to ensure the maintenance of the fiscal discipline and to achieve the medium term debt targets, the Government revised the Organic Budget Law. The amendments to the Organic Budget Law (OBL) as adopted by the Parliament in June, 2, 2016 are considered a very important milestone. It was reviewed and selected the best option for fiscal rules and policy oversight and amended the OBL accordingly. While not a substitute for a full-fledged fiscal council, the recently introduced provisions of the OBL first removed one of the main policy bias observed in the past: overoptimistic forecasts and second put the public debt on a deterministic declining path. Optimism bias in macroeconomic and fiscal forecasts is reduced; there were enhanced capabilities for preparation of the medium-term planning for all processes relevant to European Integration. Fiscal principles which were included in the OBL, such as legal provisions, aim at restricting spending during election years; to ensure that proceeds from privatization can only be used for retiring public debt and/or capital investments; and contingency; enhanced capabilities for preparation of the medium-term planning for all processes relevant to European Integration. In compliance with OBL, on the 2017 annual consolidated budget implementation report that was published by the MoFE in June 2018, the Macroeconomic Policies and Fiscal Issues Directorate, for the first time included the implementation of the fiscal principles and rules established in the OBL, which resulted fully accomplished. The debt to Gross Domestic Product (GDP) ratio planned, was characterized by declining trend from 71% in 2016 to 70 % in 2017. In order to improve economic forecasting capacity, Technical assistance was provided from the State Secretariat for Economic Affairs for MoFE to improve the forecasting methodologies within the Department of Macroeconomic Policies and Fiscal Issues from MoFE, Bank of Albania and INSTAT, which were involved especially in forecasting the GDP and the inflation in the broader context of Albania’s effort to comply with the IMF Extended. Under this program several training were conducted on regular bases from 2015 up to September 2018, which was the timeline of this TA (Q3 2018).

**Challenges faced during 2014-** **June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues[[2]](#footnote-2) to be addressed as presented in the Box below.

**Box 1**

|  |  |
| --- | --- |
| EU | Albania is encouraged to continue efforts in fiscal consolidation for reducing its public debt as a share of GDP in line with the recently adopted fiscal rule. [[3]](#footnote-3)  Albania is advised to monitor the implementation of the 2017 budget as an important test for the amended organic budget law and the fiscal rule introduced last year, in particular the special spending restriction in election years. [[4]](#footnote-4) |
| IMF[[5]](#footnote-5) | Albania needs to continue its fiscal consolidation. IMF staff recommended adopting the primary balance (excluding one-offs) as a fiscal anchor, supported by an independent fiscal council to strengthen the fiscal framework.  IMF recommended a more front-loaded consolidation to create room for fiscal policy manoeuvre and improve the credibility of the medium-term budgetary framework. Additional permanent measures to the tune of 1 percent of GDP over 2018 – 19 would be needed to achieve the 60 percent debt target. Safeguarding the original primary balance target in 2017, by locking in existing savings and avoiding inefficient year-end spending, would also help. |
| SIGMA | The MoFE should consider strengthening the existing budget balance rule to ensure sustainability of public finances |

### Revision of the Component 1.1

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 1.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

Fiscal responsibility framework for fiscal management established in the legal framework.

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

**Outcome Indicator**

1) The Debt to GDP ratio planned for each budgetary versus the ratio for the previous year

2) Forecasted nominal GDP used in each budgetary planning phase versus the respective forecasted nominal GDP in the World Economic Outlook, published by the IMF

3)Primary fiscal balance

Based on the assessment of the Component 1.1, the objective remain the same as before and one more indicator is added under this component ‘Primary balance’ to address the IMF recommendation about fiscal anchor. However, MoFE will put more emphasis especially on addressing the challenges faced and the findings from external assessments which will contribute on the fully application of the fiscal rule and principles and to achieve medium term debt target. As below are presented briefly new activities.

**Component 1.1: Fiscal rules, forecasting and fiscal responsibility framework**

* Monitoring and reporting the fiscal rules and principles to the (actual) Annual Law of Budget.
* Reporting the fiscal rules and principles to the Maintenance of the Macroeconomic Stability report.
* Improve forecasting methodologies.

## Component 1.2: National Government Accounts

### Assessment 2014-June 2018

**Objective:**

Independent statistical agency produces reliable and timely National Accounts

**Outcome Indicator**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Compilation of Government National Accounts according to ESA2010- | | 0% | 0% | 25% | 50% | 75% | INSTAT |

**Achievements**

Reliable National Accounts are indispensable for properly setting the macro-fiscal framework. In recent years, the accounts have, when first published, been seriously “off” and have had to be adjusted retroactively. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, some activities were undertaken to improve several instruments as: legal framework, capacity building and IT systems, three of which are completed and three others are in progress. In this context, aMemorandum of Understanding was signed aiming to defining responsibilities between INSTAT, BoA and the MoFE for data compilation, dissemination, transmission, sharing and exchange. A list with institutional unit (IU) classifications is finalized and it was published in 2017. Work has started for creation of a sustainable statistical system of public administration where a road map defining the transition from to ESA 2010 is designed. Furthermore, INSTAT assisted by International Monetary Fund (IMF), developed ‘National Summary Data Page (NSDP)’, which was published on the INSTAT website, in June 2017, utilizing the Statistical Data and Metadata Exchange (SDMX). INSTAThas been working towards improving the quality and quantity of data necessary for Government Financial Statistics (GFS) and European System of Accounts (ESA) 2010 requirements.For the first time, in 2017, INSTAT compiled and transmitted the GFS data according to the requirements of ESA 2010 transmission program. Up to June, 3 of 7 GFS tables were sent to EUROSTAT and work is in process to prepare and send the fourth table, foreseen for the second half of 2018. INSTAT has developed Excessive Deficit Procedure (EDP) tables on an experimental basis since October 2014.

To strengthen capacities in the compilation and dissemination of government finance statistics (GFS) data and EDP statistics, a technical assistance is provided to the MoFE and INSTAT by the State Secretariat for Economic Affairs. This project supports the implementation of both the Government Finance Statistics Manual (GFSM) 2014 and the ESA 2010.

**Challenges faced during 2014-** **June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below:

**Box 2**

|  |  |
| --- | --- |
| EU.[[6]](#footnote-6) | EDP notification tables are sent regularly to Eurostat on a best-effort basis, but they are not complete. An MoU was signed in 2016 between the Institute of Statistics, Bank of Albania and MoFE towards further improving the fiscal statistics reporting according to the European System of National and Regional Accounts (ESA 2010) requirements. Albania should fill in the gaps for cross-annual statistics, as well as for regular transmissions of government deficit and debt statistics and government finance statistics. Further significant efforts are needed to align fiscal statistics with ESA 2010.[[7]](#footnote-7) |
| Other | The interoperation between the working Group (BoA &MoFE&INSTAT) should be more active in order to reach targeted progress. Actually they haven’t sent feedback on time for the proposal that we drafted together with INSTAT, under this component. |

### Revision of the Component 1.2

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 1.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective\***

Build an independent statistical system for the estimation of GFS following international standards.

**Outcome Indicator\***

Compilation of Government National Accounts according to International Methodology (ESA 2010 and GFS 2014).

Based on the assessment of the component 1.3, and considering that this component objective is more related with government reporting it is proposed to remove it from pillar one to pillar five “Transparency of Public Finances”. The objective was reformulated in order to involve not only statistical agency, but even BoA and MoFE, which contribute to compile Government National Accounts following international standards. However, more emphasis will be put on addressing the challenges faced and to compile new tables of GFS and transmit to EUROSTAT.

**Component 5.2: National Government Accounts[[8]](#footnote-8)**

* Revise and update if necessary the inter-institutions memorandum.
* Creation of a sustainable statistical system of public administration.
* Ensure collection and aggregation of information.
* Prepare reports following ESA2010 TP on government finance statistics (in SDMX format).

## Component 1.3: Fiscal risk management

### Assessment 2014-June 2018

**Objective**

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

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied | 0% (2016) | 0% | 50% | 50% of categories are covered in the SFR | 100% of categories are covered in the SFR | GD of Budget-MoFE |

**Achievements**

Albania, as any country, faces a number of risks to the public finances. External factors such as the financial and Euro crises will continue to have strong impact on the Albanian economy due to its smallness and heavy dependence on remittances from the Albanian diaspora. Under fiscal risk management are included all 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. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, Mo

FE has undertaken an activity to strengthen fiscal risk management and reporting, which is in progress. This activity includes improvements in instruments as: legislation and capacity building. In this context, in October 2016, it was established a Fiscal Risk Unit, in charge for risk management and for the preparation of the Statement of Fiscal Risk. Aiming to develop Fiscal Risk Unit (FRU) and to increase staff capacities, an assistance under Fiscal Affairs Department (FAD/IMF) project started in March 2017. Also, WB has assisted FRU for identifying sources of fiscal risks to the Government of Albania from contingent liabilities and to help assess the associated direct and indirect fiscal costs and risks stemming from PPP projects. FRU drafted a new guideline in the beginning of 2017, in which is define the role of MoFE on SOEs fiscal oversight that carry fiscal risks. Analyze of State Owned Enterprises, focusing on Energy Sector is conducted. Fiscal Risk Statement (FRS) is prepared and MoFE considers as necessary to publish the FRS document, the first draft, which is currently under preparation with close assistance to the IMF and WB and foresees the year 2018 to mark the first year of its publication. Currently, FRU is updating the FRS draft with the latest data in order to finalize it by September-October 2018 and to accompany the budget package of 2019. 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. One of the main achievements of the government was the minimization of the fiscal risk which stemmed from high level of arrears (72.75 billion ALL in 2013) and was addressed through the implementation of the Strategy for the Prevention and Payment of Arrears. This strategy 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). These measures tend to consolidate the process of maintaining the level of arrears as low as possible. MoFE 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*[[9]](#footnote-9)", on the official MoFE website are published periodically the arrears created on January 2016- March 2018. Also, in the framework of preventing the creation of new arrears, a number of measures have been taken that are also sanctioned in Supplementary Guideline No. 2, dated 19.01.2018 "On the Implementation of the 2018 Budget".[[10]](#footnote-10)

**Challenges faced during 2014-** **June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 3**

|  |  |
| --- | --- |
| EU | The MoFE should improve annual budget documentation by including a separate statement on fiscal risks *(SIGMA).*  On public financial management, Albania is invited to step up efforts on preventing the accumulation of new arrears.[[11]](#footnote-11) |
| PEFA | PEFA scored with C- *Fiscal risk reporting* *10.1 Monitoring of public corporations.* Government receives financial reports from most public corporations within nine months of the end of the fiscal year. No consolidation report is done.  PEFA scored with C *10.3 Contingent liabilities and other fiscal risks.*  Central government entities and agencies quantify some significant contingent liabilities in their financial reports including the Debt Statistics, the Economic Reform Program, and the supplement to the budget proposal. However, there is no comprehensive report which includes all PPPs and concessions which may at the moment not have direct implications for the budget but may represent a contingent risk.  PEFA scored with C ‘*Expenditure arrears’ 22.2 Expenditure arrears monitoring.* Treasury system therefore contains accurate information on arrears originating from 2016, including details at the level of the spending unit, contract, and the date of origin, which can be generated at any moment. However, there is no specific requirement / format to monitor arrears through the treasury system and regular reports are not produced. |
| Other | The preparation of the FRS consists on a comprehensive work to ensure that all major fiscal risks are identified, assessed and reported systematically and comprehensively. Therefore, its publication has been postponed. |

### Revision of the Component 1.3

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 1.2, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

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

**Outcome Indicator**

No of fiscal risks covered in FRS.

Based on the assessment of the Component 1.2, the objective and the outcome indicators remain the same as before. However, MoFE will put more emphasis especially on addressing the challenges faced and the findings from external assessments which will contribute on strengthening fiscal risk management and reporting.

**Component 1.2: Fiscal risk management**

* Strengthen fiscal risk management and reporting within the MoFE.

# Pillar 2: Well integrated and efficient planning and budgeting of public expenditure

## Component 2.1: Strategic policy development and review

### Assessment 2014 – June 2018

**Objective**

A restored and strengthened process for strategic sector policy development and review

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Ratio between total funds estimated in the sector strategies and total funding identified for corresponding sectors within the MTBP is 90% | 42% | 53 % | 56% | Growing trend | Growing trend | GD Budget Planning-MoFE |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, PMO has undertaken activities to improve the legal basis, capacity building and IT systems, which are all in progress. In this context, National Strategy for Development and Integration (NDSI)2015-2020 was approved in May 2016, (DCM 348, dt.11.5.2016). NSDI II is a key component of the Integrated Planning System, strategic document reflecting the vision, priorities, objectives and means for social and economic development and the aspirations for European Integration of the country up to the year 2020. Until June 2018, 26 strategies part of NSDI II were adopted, while the remaining 4 are in their drafting stage.

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%. This is a slight improvement compared with the ratio estimates from 2015 (42%) and 2016 (53%)[[12]](#footnote-12).

Integrated Planning System Information System (IPSIS) will be established. IPSIS is 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 with the MTBP and PIM module of Albanian Financial Management Information System (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 successful implementation of the Integrated Planning System Information System (IPSIS) is of crucial importance for ensuring a better alignment between sector strategies and MTBP.

The Prime Minister’s Office was assisted by OECD/SIGMA in drafting a new methodology aiming to standardize the process of monitoring and reporting the NSDI, sectors and cross cutting strategies. During 2018, eight strategy monitoring reports out of 25 were prepared including the Transport Strategy 2017 Monitoring Report.

The National Strategic Project Pipeline (NSPP) for Albania has been prepared for the first time in 2015; first NSPP/2015 was approved by the National Investment Council (NIC)/Strategic Planning Committee (SPC) on December 2015 (17 projects of regional and connectivity relevance, as well as 24 projects of national relevance with a total amount 2.3 billion euro). NSPP 2016-2017, has been approved on 17 May 2017, by NIC/SPC. It comprises 143 projects and includes the following sectors: Transport, Energy, Environment, Social infrastructure and Business infrastructure. The SPC has prepared a new list of projects included in the National Strategic Project Pipeline for the period 2018-2019 with the inclusion of new priority projects.

The initiative to establish a Regional NICs Advisory Network (RNAN) has been started in order to ensure aligned strategic prioritization of projects and national NSPPs and other common initiatives among Western Balkan countries, and to ensure necessary financing for developing activities within this platform.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 4**

|  |  |
| --- | --- |
| EU | The National Strategy for Development and Integration, NSDI 2015-2020, was approved in 2016, but the related process of planning suffers from overlapping and inconsistency. (Conclusive Aide Memoire 2nd variable tranche of PFM SRC Compliance Review Report, page 3).  There is the risk, though, that SPP expands the number of projects and their financial gaps to the point of losing credibility. Risks to lose credibility if the inclusion of a large number of unfunded projects in the list is not restrained, creating undue pressure to include ‘immature’ projects into the MTBP and budget cycle (Compliance Review Report)  As of 4 April 2017, the SPP includes 57 projects (45% of the total number) without any source of financing and only 54 projects (43%) which are rated as mature (i.e. accompanied by a feasibility study /CBA) (Compliance Review Report)  A functional review of the Office of the Prime Minister is needed to harmonize the strategy, planning, budgeting, and monitoring functions of Government; (Compliance Review Report)  Albania is encouraged to complete the establishment of the National Single Project Pipeline based on the adopted national sector strategies and the related action plans in correspondence with available fiscal space (8th Stabilization and Association Committee Brussels, 4 October 2017).  The alignment of the policy frameworks with the program budget process is a need which the Government’s central agencies, primarily OPM and MoFE, have not yet responded to. The possibility should be explored to (i) promote a permanent channel of communications, underpinned by a memorandum of understanding and a shared calendar, between the Delivery Unit in OPM and the General Directorate of Budget in MoFE on policy priorities; and (ii) facilitate a process by which the related performance assessment framework is jointly monitored and streamlined by ensuring that the preparation of delivery agreements and budget programs is coordinated. (Compliance Review Report). |
| SIGMA | The Government should streamline and rationalize the existing planning documents and ensure that the various plans, including the MTBP, are fully aligned with each other. It should also strengthen co-ordination among the different government units involved in planning, monitoring and reporting processes. (2017 SIGMA Assessment Report, page 38)  The Government should adopt and implement the new methodology for monitoring and reporting on cross-cutting and sector strategies. The OPM should provide necessary guidance to ministries to support implementation of the new methodology (2017 SIGMA Assessment Report, page 38).  The OPM should strengthen its co-ordination mechanisms and procedures to ensure that all relevant CoG institutions and OPM units are consulted on all new draft policy proposals before the package is submitted to the CoM for final approval (2017 SIGMA Assessment Report, page 45)  The Government should carry out a comprehensive review of existing monitoring and reporting practices, including the various IT systems, methodologies and tools used in developing those plans, with a view to streamlining and strengthening the current system and procedures. Monitoring practices and systems should be unified and integrated into a single central system (2017 SIGMA Assessment Report, page 38).  The MoFE, in co-operation with the OPM, should prepare a detailed methodology and guidance on costing of policy proposals, including for European Integration (EI) - related measures. Line ministries should provide accurate costing estimates for planned EI measures. (2017 SIGMA Assessment Report, page 32) |
| PEFA | PI 7 Transfers to subnational governments has C+ score[[13]](#footnote-13)  The criteria for allocation of conditional transfers exist, but they are not transparent and verifiable. The criteria decided from Committee for the Regional Development for allocation of funds among regions exist, but they are less rule based compared to the unconditional grants. |

### 

### Revision of the Component 2.1

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 2.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

A restored and strengthened process for strategic sector policy development and review.

**Outcome indicator**

Ratio between total funds estimated in the sector strategies and total funding identified for corresponding sectors within the MTBP.

Based on the assessment of the Component 2.1, it should be revised and is proposed to be named *“Managing policy development and improving Integrated Strategic Governance”,* new activities and outputs are proposed to be included. This will ensure that the focus is on both improving the process of developing and monitoring sector strategies and integration with MTBP. The objective and the outcome indicator still remain the same as before. PMO will put more emphasis especially on addressing the challenges faced and the findings from external assessments which will contribute to improve the quality of strategic framework and to establish strong linkages between the NSDI and program budget process (MTBP).

**Component 2.1: Managing policy development and improving Integrated Strategic Governance**

* Improve quality review process provided for strategies, policy priorities and MTBP submissions, prepared by line ministries (LM).
* Improving performance and achieve results, through enforcement and improvement of current and future management of outputs, outcomes and impact and also ensuring the linkage between the strategic framework and the budget programs, in accordance to the sustainable development goals.
* Implementing a comprehensive automated system to strengthen the Integrated Planning System (IPS) which links strategic policy planning with the budget planning and public financial management.
* Strength the framework for facilitating the processes of analyzing and evaluating evidence-informed policy making.
* Building the required capacity to implement and manage the IPSIS System.
* Maintain a “Single Strategic Project Pipeline” & ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects.

## Component 2.2: Medium Term Budget Program

### Assessment 2014-June 2018

**Objective**

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

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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% | DEMTBP/AB = - 14%  DRMTBP/AB = -1% (2015) | DEMTBP/AB = 0.4% (2016)  DRMTBP/AB = -0.05% (2016) | DEMTBP/AB= 0.4 (2017)  DRMTBP/AB= 0.07% (2017) | DEMTBP/AB = 0 %  DRMTBP/AB = 0% | Declining trends | GD Budget Planning-MoFE |

**Achievements**

The Organic Budget Law approved in 2008 institutionalized the Medium Term Budget Program as the tool for managing public expenditure at the central government level. It was based on the Program and Performance Budgeting philosophy. Despite some achievements, the implementation of this philosophy faced some key issues that are summarized as follows:

*(i) Poor linkage between the budget and policies underlying from strategic documents and government priorities;*

*(ii) Unclear allocation of budget requests to existing and new policies as a result of unrealistic and unstable budget ceilings;*

*(iii) Existing budget commitments not respected;*

*(iv)Fragmentation of public investment projects that lead to longer than anticipated completion timeframe.*

These issues were underlined in the Public Financial Management Reform Strategy 2014-2020 where clear actions were envisaged to address them. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken some activities focusing more in the improvement of one instrument: legislation framework. Three sub-activities are completed and one is still in progress. For the first time the 2015 budget proposal submitted to the Parliament for approval, included budgetary ceilings not only for 2015, but also for 2016 and ongoing. This constitutes an important innovation in PFM in Albania, aiming at: disciplining the multiyear contract commitments eliminating thus the possibilities for building up new arrears; and improving the quality of budget submissions in the framework of the MTBP, as LMs will now have a much more stable resource framework, where to base their medium term plans.

A milestone for PFM achievements are considered the amendments of the Organic Budget Law (June 2016) and approval of the new Standard Budget Preparation instruction (February 2018), resulting with a revised MTBP methodology that addresses the abovementioned shortcomings by including:

* A clear distinction of Existing Policies from New ones from a budget point of view, while ensuring priority funding for the necessary costs of Existing Policies.
* New policies are to be funded entirely from the fiscal space, resulting from the Macroeconomic and Fiscal Framework as well as savings from higher efficiency and termination of existing public investment projects;
* Creation of solid basis for non-violation of budget ceilings dedicated to existing policies in favor of new ones;
* Clear distinction between the first (strategic) phase of budget preparation and phase 2 (technical phase) with the intention that the budget ceilings of the first phase will be “firm” ones. Each stage of budget preparation will have different objectives and functions:
* *Strategic phase:* linking the cost of existing policies /new with the government's strategic priorities.
* *Technical phase:* technically implements the decision making of the strategic phase.
* The concept of the Policy Priority Note is presented as a document produced by the Council of Ministers, which will guide the process of drafting ceilings and allocating fiscal space according to government priorities.
* Clear link of Sector and Cross-Sector Strategies with MTBP (Interaction in the level of Goal Policy and Specific Target). Clear specification of Key Performance Indicators at Goal level (impact) and Objectives (results) (KPI passport).
* Public Investment Budgeting will follow the same methodological principles of existing and new policies. According to the new methodology, Ministries and Budget Institutions are not allowed to create “artificial fiscal space” for new investment projects, pushing the duration of current investment projects. All new public investment projects must necessarily be in accordance with Priority Policy Document and then have to follow the general procedures for reviewing and approving new policies;

Starting with the 2017 Budget, the Regional Development Fund has been brought back into the budget cycle. The authorities are using the new classification system for the 2019 budget.

For preparing MTBP 2019-2021 all Line Ministries and Central Institutions have prepared budget requests for the strategic phase according to the requirements of the new instruction. Efforts have been made to respect and clearly distinguish the existing policies with new ones. The process is assisted by PFM TA and is at its initial stages. The process will be further improved through the implementation of the new AFMIS system (planned to be introduced in early 2019), which will combine the new methodology with all the budgeting steps from preparation to execution and monitoring. These reforms in the MTBP process will yield a more transparent, efficient and effective use of public funds that will empower the Albanian citizens from a social and economic point of view.

**Challenges faced during 2014- June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 5**

|  |  |
| --- | --- |
| EU[[14]](#footnote-14) | Making the MTBF more effective continues to be a challenge. On public financial management, Albania is invited to step up efforts on: (ii) increasing the credibility of the medium term budget planning and annual budget preparation process. |
| PEFA | PEFA scored with D- *Expenditure composition outturn by function.* During the last three years, excluding contingency items. The composition variance between the expenditures outturn by function and the budgeted expenditure exceeds 20 percent in all the three years of assessment.  PEFA scored with C ’16.2 *Medium-term expenditure ceilings.* Aggregate expenditures ceilings for 2017-19 MTBP were approved by the Government in January, before the first budget circular was issued in February. Ministry level expenditures ceilings for 2017 -19 MTBP were approved by the Government in March, after the first budget circular was issued in February.  PEFA scored with C ’16.3 *Alignment of strategic plans and medium-term budgets.* Medium-term strategic plans are prepared by some ministries. Some expenditure policy proposals in the annual budget estimates align with strategic plans.  PEFA scored with D’16.4 *Consistency of budgets with previous year’s estimates.* Analysis of the deviations between the second year expenditures estimates from the past year and the first year of the current year is produced for internal purposes only and is not included in the budget documentation |
| Others | The MoFE during the past years have had to take on the primary responsibility for adjusting the budget mid-year, the line ministries’ strengthening of the MTBP process has suffered. The preparatory budget ceilings are not respected and the quality of the budget requests has declined. Until now, commitment control has been exercised only in the context of the execution of the annual budget and there has been no control in relation to the Medium Term Budget ceilings.  IMF discussed the need to **rebalance the budget towards more growth-friendly** spending. There is limited room for expenditure rationalization. Rather, there is a need to increase the quality and quantity of public spending in areas such as infrastructure and education. At the same time, fiscal buffers are needed to insure against contingent liabilities from SOEs, PPPs, and arrears.  IMF recommended a more front-loaded consolidation to create room for fiscal policy maneuver and improve the credibility of the **medium-term budgetary framework**. Additional permanent measures to the tune of 1 percent of GDP over 2018 – 19 would be needed to achieve the 60 percent debt target. Safeguarding the original primary balance target in 2017, by locking in existing savings and avoiding inefficient year-end spending, would also help. |

### Revision of the Component 2.2

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 2.2, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

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

**Outcome Indicator**

2) Total planned expenditures (and revenues) for the MTBF adopted in year n /Total planned expenditures (and revenues) in year n in annual budget.

Based on the assessment of the Component 2.2, it is proposed to continue the implementation of the activity remained and to introduce new activities, without changing the objective, however first indicator from this component will be removed to first component in charge of PMO.

**Component 2.2 Medium Term Budget Program**

* **Fully implement the new MTBP guideline**.

## Component 2.3: Capital investment planning, appraisal and inclusion in budget

### Assessment 2014-June 2018

**Objective**

A robust process is in place to technically and financially appraise all large public investment project proposals prior to their consideration by the Budget Committee of Cabinet for their inclusion in the budget.

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **[[15]](#footnote-15)Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Share of public investment projects that proposed based on the strategic priorities of the government | ISPP = 55% VSPP = 68% (2016) | ISPP = 55% VSPP = 68% | ISPP = 57% VSPP =75% | Growing trend | Growing trend | GD Budget PlanningMoFE |
| Annual publication of actual disbursements for major investment projects compared to planned disbursements, along with explanation of variations | 95% (2015) | 96% | 96% | 97% | 98% | GD Budget Planning-MoFE |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken some activities focusing more in the improvement of some instruments as: legislation framework, capacity building and IT systems. One activity is completed and five are in progress.

The government has published for the first time in 2015, as part of the MTBP documentation, the entire list of ongoing and new investments, with details regarding total approved cost; the incurred cost to date; budget provision; multiyear commitments over the MTBP period at national, sector, and program level. A Public Investment Management Assessment (PIMA) to assess the quality of public investment management practices was conducted by the IMF at the MoFE by the beginning of 2016. The PIMA provides a more comprehensive assessment of the public investment decision-making process at three key stages (i) planning sustainable levels of investment across the public sector; (ii) allocating investment to the right sectors and projects; and (iii) implementing projects on time and on budget. Recommendations coming out of the assessment are followed in the PFM Action Plan. MoFE is working to strengthen its oversight and monitoring of the public investment spending, including SoEs and PPPs. Moreover, as required in the OBL, MoFE has started to give its *no-objection* for all the *PPPs in pipeline* that have a financial impact in the annual budget and has presented to the Parliament alongside the 2017 Annual Budget a summary of all the PPP. In the context of IT developments, ERPIM (Electronic Register for Public Investment Monitoring) has been transferred from the former Ministry of Economy and is in operation for all line ministries. The system was further developed with new functions, in order to ensure a better monitoring process. PIM unit continues to prepare monthly monitoring reports, based on the financial data generated from AGFIS and nonfinancial data extracted from reports coming from the line ministries. For the first time, 11 LMs accessed in this software.

Aiming to strengthen staff capacities, a Public Investment Management Department was re-established within the MoFE. MoFE’s oversight and fiscal gatekeeper function is strengthened by staff fulfilment. In order to improve practices for capital investment, appraisal and inclusion in budget, budget department with support from the EU/IMF revised the current arrangements and undertook new incentives for legislative changes. The decision on public investment management procedures (guidelines and criteria to be used in the technical appraisal of large projects by MoFE) was approved on March 29th, 2018. During the negotiations under MTBP 2019-2021, the PIM procedures were discussed with all LMs to raise their awareness of the importance of this process and their application in introducing new projects during the presentation of the draft budget of the 2019 within the framework of the MTBP 2019-2021. In this context, it is expected the reflection of these procedures in the second phase of this draft budget.

**Challenges faced during 2014-** **June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 6**

|  |  |
| --- | --- |
| EU | Establish a temporary working group between the Department of Good Governance in OPM and the General Directorate of Budget in MoFE to define the operational details for the approval of large capital investment projects and the treatment of PPPs as part of the newly approved PIM procedures the guidelines. Extra efforts would need to be made to catch up during 2018. The information on Public Investment execution is also important in order to provide the public with the actuals information in order to judge for budget credibility. (Compliance Review 2018) |
| PEFA | PEFA scored with C ‘*Public investment management’ 11.1 Economic analysis of investment projects. Economic analyses are conducted to assess all major investment projects.* However, no documented publication of the results of economic analysis of those major investment projects was provided to the assessment team.  PEFA scored with D+ *11.2 Investment project selection.* Prior to their inclusion in the budget, some of the major investment projects are prioritized by a central entity, although the proportion cannot be determined.  PEFA scored with C *11.3 Investment project costing.* Projections of the total capital cost of major investment projects, together with the capital costs over a three-year horizon, are included in the budget documents. |
| IMF | Inefficiencies in Albania’s public investment management (PIM) undermine growth. A key shortcoming is the fragmentation of investment projects which, as the recent Public Investment Management Assessment (PIMA) showed, has contributed to poor appraisal, selection, management, and evaluation of public investment projects. With the planned scaling up of public investment, staff stressed the need to strengthen the PIM framework, in order to reduce inefficiencies. Key priorities are to operationalize the PIM unit at MoFE and improve budgetary processes, such as project classification, coverage of SOEs and local government in the database, and costing of new policies, to ensure adequate resources for core projects within the medium-term budgetary (MTB) envelope. Adhering to the MTBF would reduce the risks of unfunded commitments and arrears. |

### Revision of the Component 2.3

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 2.3, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

A robust process is in place to financially appraise all large public investment project proposals prior to their consideration by the Budget Committee of Cabinet for their inclusion in the budget.

**Outcome Indicator**

1) Share of public investment projects that are proposed based on the strategic priorities of the government.

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

Based on the assessment of the Component 2.3, it is proposed to continue the implementation of the activity remained, without changing the indicators. Minor changes are made to the objective to exclude technical appraise from PIM unit coverage and to the activities with the aim to address precisely findings or challenges faced.

**Component 2.3 Capital investment planning, appraisal and inclusion in budget**

* Develop routines for and IT-support for the tracking and monitoring large investment projects (part of AFMIS project).
* Have a clear Project classification to avoid unnecessary multiplication of projects.
* Strengthen the MoFE’s oversight and fiscal gatekeeper function regarding project appraisals.
* Prioritization and selection of large investment projects is done in a systematic manner.

## Component 2.4\*: Project and Contract of PPP and Concessions [[16]](#footnote-16)

Considering rooms for improvement and donors recommendation as IMF no 23 (box below), it is proposed to incorporate a dedicated component in PFM Strategy for **‘**Project and Contract of PPP and Concessions’to provide more prudent and stringent legal framework for a better management of PPP and Concessions in all stages, aiming to reduce fiscal risk.

**Box 7**

|  |  |
| --- | --- |
| Compliance Review 2018 | Another issue which has not yet been resolved is whether to include in the PIM Guidelines the institutional responsibilities for preparation, prioritization and appraisal of PPP initiatives. **PPP type investments need to be more carefully assessed** and explained by the Government in order for its credibility to be maintained in the future. Thus, the next best tool GoA, but on the side of budget execution, has to ensure that **only “value for money PPPs”** are implemented is to incur the lowest arrears level possible, which is the other face of having better risk premiums. |
| IMF | **23. Implementation of the new PPP framework is a challenge**. Given the fiscal risks posed by the authorities’ ambitious PPP agenda, staff stressed the importance of strengthening the implementation of the PPP framework and making use of MoF’s recently expanded legal powers to assess, veto, and monitor all PPP projects. Staff recommended introducing an aggregate quantitative limit on the total value of all PPP contracts, in addition to the current limit on annual PPP-related budget payments, to help contain risks. Staff also underscored the need to upgrade the capacity of the Fiscal Risks Unit to undertake financial analysis of new PPP contracts and to empower INSTAT to record PPPs in the fiscal and debt statistics in accordance with ESA. |

**Objective\***

Prudent and stringent legal framework for a better management of PPP and Concessions in all stages, aiming to reduce fiscal risk

**Outcome Indicator \***

|  |  |  |  |
| --- | --- | --- | --- |
| **Outcome indicator** | **Baseline 2017** | **Target 2020** | **Responsible unit** |
| No of monitored contracts/No .of total signed contracts | 1.38% | Growing trend | Directorate for Concessions | |
| No of successful bidding procedures/ No of approved feasibility study | 0% | Growing trend | ATRAKO | |

**Component 2.4\*: Project and Contract of PPP and Concessions**

* Review of legal basis and prepare new sub legal acts
* Assess the potential fiscal costs and risks arising from PPP projects
* Improve PPP and concessions monitoring, this activity will help to ensure transparency

## Component 2.4: Multi-year commitment controls

### Assessment 2014-June 2018

**Objective**

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

**Outcome Indicator**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | | **2017** | **Target 2017** | | | **Target 2020** | **Responsible unit** |
| The amount committed on multi-year projects for each year exceeding the approved budgets for those projects is equal to zero; | 967 mln LEK (2015) | 767 mln LEK | 682 mln LEK | | | Reduced by 50% | | Declining trend | Public Investment Department , GD Budget |
| 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 | | | No target | 100% | General Directorate of Treasury, Public Procurement Agency |
| No payment arrears are recorded on multi-year capital investment project activities' after 3 years. (This effect will be visible after 2-3 years of multi-year commitment control implementation into AGFIS). | NA | NA | | NA | | | 0 | 0 | General Directorate of Treasury , GD of Budget |

**Achievements**

Until 2014, commitment control has been exercised only in the context of the execution of the annual budget; there has been no control in relation to the Medium Term Budget ceilings. As a consequence, there have been situations when contracts have been entered into by individual ministries and approved on the basis of a very limited commitment for the upcoming year without taking into consideration the impact on the budget in the out-years of the MTBP and beyond. This gap in the PFM regulatory framework was a major contributing factor to the build-up of hidden arrears when the growth of the economy and revenue slowed down after 2009. As a part of the program with the IMF, the government was committed to clearing the existing arrears in an orderly fashion and to take the measures necessary to avoid new hidden arrears in future. The introduction of multi-year commitment control was one of the measures. The order of the Minister of Finance, no 2, dated 9.01.2015, art 25 – art 30 spells out additional requirements for proper allocation and evidencing of multi - year commitments to all the Budgetary Institutions in order to avoid the creation of arrears.

In the amended OBL, art. 40, new instructions were included to ensure that the multi-year commitments of the BI are within the three-year ceilings approved with the annual budget Law and to make also mandatory the presentation to Parliament of the list of the outstanding commitments alongside other documentations of the annual budget.

Was approved an arrears prevention and clearance strategy, and associated instructions for its implementation.

A special unit in the MoFE was established and were established and verified the outstanding stock of arrears, and were prioritized payments under the direction of a newly established Arrears Clearance Committee.

To guarantee full respect and control over multi-year commitments, in April 2016, AGFIS was enhanced to have some automated controls and to allow their disaggregation by individual years of allocation. The final goal was to eliminate every possibility for the creation and accumulation of new arrears not covered by the respective budgetary funds.

### Revision of the Component 2.4

Based on the stock take of the main achievements and challenges for this component, it will not continue to be part of PFM Strategy 2018 -2022 as its objective “*Medium term commitments are comprehensively controlled within limits set by Government and Parliament through the Budget and related laws, regulations and instructions”* is completed, but MoFE remains comitted to follow the performance indicators trends, which hasn’t been visible up to now to measure the effects.

**Objective**

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.

2) All major projects are pre-committed in the system based on estimated disbursement schedules approved in the Budget process, before procurement action commences.

3) No payment arrears are recorded on multi-year capital investment project activities' after 3 years. (The effect will be visible after 2-3 years of multi-year commitment control implementation into AGFIS).

## Component 2.5: PFM in local government

### Assessment 2014 – June 2018

**Objective**

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

**Outcome Indicators**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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% | RLGR =4.2%  RLGRG = 23.38% | RLGR = Growing trend  RLGRG = Growing trend | RLGR = Growing trend  RLGRG = Growing trend | DG Budget |
| Increasing the share of investment expenditures in local budgets, compared with administrative expenditures (more than 0%) | RTotal M =-3.83% | RTotal M =-3.83% | RTotal M =0.12% | RTotal M > 0%. | RTotal M > 0%. | DG Budget |
| Each report of external audit on the functioning of local self-government units should be available to the public, according to the legislation | NA | NA | NA | No target | 100% | DMRPFM |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building and IT systems, which three of them are completed and three are in progress. At the local government level, a new territorial administrative reform implemented in 2015. The number of municipalities and communes reduced radically from 373 local government units into 61. Law no. 30/2015 “On the Organization and Functioning of Local Government” was approved on 2 April 2015. Moreover, a new National Crosscutting Strategy on Decentralization and Local Governance was approved with CMD no. 691, dated 29.07.2015 to provide more clarity on the Government’s vision on decentralization. Fiscal decentralization was an important part of the reform, and aimed at increasing revenues from taxes and tariffs, thus increasing the autonomy of local government units in decision-making as well. *“The ratio of the total outturn annual local government revenues versus the total revenues of the government”* from 3.04% in 2015 increased to 4.2%in 2017and *“The growth ratio from previous year, that is the comparison between the total amount of the annual local government revenues in Year N, versus the total amount of the local government revenues for the year N – 1”*from – 6% in 2015 increased to 23.38% in 2017.

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 main objectives of the Law are: i) Strengthening financial autonomy, ii) Strengthening fiscal discipline; iii) Strengthening intergovernmental dialogue; iv) Increasing transparency and v) Unification. In order to strengthen the implementation this Law, in 2017, MoFE started drafting the sub legal acts, which 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.

MoFE in close collaboration with DLDP, in 2018 has prepared and approved the new Financial Planning Tool for the preparation of MTBP for local units and the Manual on Financial Planning Tool. The purpose of the FPT manual is to provide users (local government officials and other interested stakeholders) with comprehensive guidance on using the FPT in the preparation of the annual and medium-term budget plans. The local units have used it in the preparation of the medium term budget for the period 2019-2021.

This tool brought new formats for the preparation and reporting of the LG Medium Term Budget Program: (i) with a clear standard outline for the report; (ii) by showing how to link policy and financial information; (iii) by putting the emphasis on information that is relevant for council members and citizens; (iv) by pointing to the relevant sources of information for each section of the MTBP report; (v) by providing simple templates for the presentation of programs; (vi) with concise standard descriptions of each program and activity; and (vii) by showing how to use the MTBP for monitoring and reporting on strategy implementation. A Help Desk has been set up in the MoFE in order to help municipalities implement this planning tool and accurately complete planning formats.

MoFE during the first part of 2018 has prepared and approved two new guidelines for LGU budget monitoring and preparation of the Medium Term Budget Program, with aim to ensure that the procedures and reports are unified for all LGUs in the medium term period.

Measures were introduced in order to prevent creation of new local arrears and to clear the existing ones. LGUs in collaboration with MoFE, following the Instruction no. 2, dated 19.01.2018 “On the implementation of the 2018 budget” LGUs are obliged to report and submit to the MoFE information on accumulated arrears as well as their repayments, every quarterly. Based on this information, MoFE prepares monitoring report of Local Government Arrears every three months.

During 2016, was conducted the first PEFA assessment of PFM systems in Albania at the sub-national level, were five individual, municipalities (Tirana, Berat, Fier, Kuçova and Tropoja) were assessed. The objective of the assessment was to gain a better understanding of the strengths and weaknesses of municipal PFM systems as a basis for discussing PFM reform priorities and possible areas of support to the newly restructured municipalities which aimed to gain a better understanding of the strengths and weaknesses of municipal PFM system. The most important recommendations are reflected in the new law “On the finances of the local self-government”.

In order to increase the transparency of public finances for LGUs, MoFE updates the local government finance portal periodically. In addition to the provision of the financial and fiscal data of LGUs and their comparative analysis, the LGUs legal framework, “LGUs MTBP 2019 – 2021”, Annual Local Budgets, and Local Budget Analysis were published on the portal.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 8**

|  |  |
| --- | --- |
| EU | Albania needs to take further efforts in building the capacities of local administration for effective financial management and administration of local revenues, ensuring the implementation of newly transferred functions. (EU– AL SA Committee Recommendations)  Preventing the accumulation of new arrears (Brussels, 4 October 2017).  The PEFA 2016 covering five municipalities has a D score for all of them on the PI-22, which assesses public arrears. (2016 Compliance Review Report) |
| SIGMA | The MoFE should improve reporting on local governments, including on local government debt (2017 SIGMA Assessment Report, page 144) |
| PEFA | PI 7 Transfers to subnational governments has C+ score[[17]](#footnote-17)  The criteria for allocation of conditional transfers exist, but they are not transparent and verifiable. The criteria decided from Committee for the Regional Development for allocation of funds among regions exist, but they are less rule based compared to the unconditional grants. |
| Other | 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. To improve the quality of local government arrears monitoring reports including analysis of the causes of both the remaining arrears and new created arrears. |

### 

### Revision of the Component 2.5

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 2.5, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective\***

Prudent, effective, and efficient financial management of the local governments and well integrated and efficient planning and budgeting.

**Outcome indicator\***

1) Variance from year to year of actual collection of local taxes.

2) Level of local arrears.

3) The alignment of MTBP of local government with the MTBP at central level.

Based on the assessment the component 2.5 “PFM in local government” should be revised ensuring that the focus to be on strengthen of local revenue management; clearance of the local arrears; and on alignment of MTBP in local level with MTBP in central level. The objective is reformulated and is refocused on “Prudent, effective, and efficient financial management of the local governments and well integrated and efficient planning and budgeting”. The current outcome indicators will be removed and three new indicators will be included, in order to ensure a better measurement of the progress of reform implementation at the local level and to be in line with new priorities of strategy in local government. The existing activities are reformulated and new outputs are proposed to be included.

**Component 2.5: PFM in local government**

* Strengthen implementation of the local government financing law and PFM practices.
* Establish a medium-term financial planning database for local governments.
* Clearance of Local arrears and prevention of new arrears creation.
* Prepare the manual for local government revenues administration.

## Component 2.6: Budget documentation

### Assessment 2014 – June 2018

**Objective**

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

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis and capacity building, which two are completed, and is in progress. In this context, the 2016 Annual Budget Law, was formulated in a more transparent and comprehensive manner as it includes for the first time, the tax expenditures and contingent liabilities and more analytical tables giving a wider range of information from previous budget years, as well as for t+2 projections. “Budget at the glance”, a useful tool to establish context for Parliamentarians and other readers was also send alongside the budget documentation during the approval of 2016 annual budget.

MoFE prepared in 2015 a simplified Citizen Budget which was published on its website. The 2017 Citizens’ Budget has been produced and it is available for download from the MoFE website. The document is a clear and simple summary guide to the budget.

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 approved in 2018.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 9**

|  |  |
| --- | --- |
| OBI | The Citizens’ Budget lacks a fully detailed report format as informed by the Open Budget Partnership (OBP) and international institutions such as the World Bank and Organisation for Economic Co-operation and Development (OECD) among others. |

### Revision of the Component 2.6

This component will be removed. The existing activity is incorporated at component 2.5 “PFM in Local Government”.

# Pillar 3: Efficient execution of the Budget

## Component 3.1: Tax administration

### Assessment 2014-June 2018

**Objective**

Effective, efficient, fair and transparent management of tax revenues.

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Enlarge the tax base by 45% in 2020 | 507,891 employees;  100,765 businesses (2014) | 19% employees 14% businesses | 25% employees 17% businesses | 25% employees 13% business | 30% employees 20% businesses | GDT, MoFE |
| Increased tax efficiency as result of reducing administrative cost to less than 1% | 1.46% | 1.44% | 1.45% | 1.10% | 1.00% | GDT, MoFE |
| Provide reimbursement of VAT under the terms of legislation | 69% (2014) |  | 83% | 80% |  | GDT, MoFE |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken some activities focusing more in the improvement of some instruments as: legislation framework, capacity building and IT systems. Four activities are completed and six are in progress. In this context, keyreforms in tax administration have advanced, including the implementation of new rules into the IT system and comprehensive organizational restructuring, with a focus on compliance-based risk management. The reform to improve tax compliance, fight tax evasion, and reduce informality was initiated by Albanian Authorities in early September 2015. The government launched a public awareness campaign, waived penalties for businesses that become fully compliant before end-2015, and set up a lottery to incentivize customers to claim their tax receipts. To enhance enforcement, 500 new tax inspectors have been hired. In 2015, GDT started to implement the Anti-Informality Action Plan. The anti-informality campaign has been ongoing. The last phase of the fight against informality was carried out during the period 2 October 2017 – 31 December 2017, focusing mostly on the large businesses, but also on small enterprises and field verifications of the fiscal territory, checking tax receipts, fiscal registers, inventories, employment and work safety.

Albanian Tax Administration improved legislative bases.The Tax Procedures Code was amended in November 2015 to provide tougher penalties for non-compliance. In the beginning of 2017 it was approved and published the instruction of the Minister of Finance No. 7, dated 10 January 2017. "*For some additions to the instruction no. 24, dated 2.9.2008, "On Tax Procedures in the Republic of Albania", as amended*, where main changes are related to appeal structure, Collection of tax liability, instalment payment agreement. Furthermore, aiming to enhance voluntary compliance, a lot of awareness activities were undertaken during these months: it was established a new informative website for all taxpayers’ categories, it is created a new taxpayer’s help desk service at National Registration Centre (NRC) and at Agency for the Delivery of Integrated Services Albania (ADISA) centres in Fier, Gjirkoaster, Kruje and Kavaja; a functional Call Centre, were designed 15 Informative Brochures; started the application of taxpayer service visits directly to businesses; and it was realized that 9 different services for taxpayers will be certificated online.

The Tax Administration Information System (Communication protocols with Albanian Customs, Ministry of Welfare and State Health Insurance Institute) that is been used from 2015 by the Tax Authority was finalized during the first semi-annual of 2017. A new General Directorate of Taxation (GDT) function- based organization structure was approved by the Council of Minister in August 2016. The reorganization of the tax administration on functions-based includes a clear and structured division of duties and responsibilities within the tax administration and also the creation of an independent body of appeals mechanism/structure. Risk Analysis Module was deployed in 2015 aiming to build better business risk profiles and use the risk based - approach auditing. In in 2017, initiated the first two projects that will test the effectiveness of the new risk management system launched in November 2016; Projects for the Trade and Health Sector. On the 15th meeting of the GDT Compliance Committee, held on May 4th, 2018, it was approved the Tourist Season Plan for 2018. Key objectives of this tourist season plan, were: public awareness regarding tax liabilities, of the entities operating in this sector; providing assistance for each taxpayer request; public awareness for receiving tax coupon; reducing tax evasion, increasing tax revenues, and creating new jobs. This plan will last till September 2018, with an expansion in all important areas that provide touristic services in the country. Through continuous communication, this plan will focus mainly in public awareness and providing information for all taxpayers and individuals in order to respect the tax legislation in force.

An important improvement of tax base consists in establishing fiscal cadaster. MoFE has realized all legal changes and Council of Minister’s decisions related to the implementation of the property tax[[18]](#footnote-18). In this context, a new property tax law was prepared and consulted with external partners as: SIDA and WB. The law was approved by Parliament in November 2017. Cooperation between the Swedish, Kosovo and Albanian tax administrations is focused on building up the fiscal cadaster (property taxing) system for the use of revenues by the municipalities. At present, MoFE is concentrated in operational work together with National Agency for Information Society (NAIS) for the construction of virtual machine (server and software) of fiscal cadaster. Work is in the phase of population of the Central Register that will provide the primary information on building property tax for 61 municipalities, starting from 1 January 2019. During May-August 2018, census data have been transferred from OSHEE to the Central Register. Meanwhile, the process of providing information from the other relative institutions is still ongoing. During October - December 2018, the system training program with 61 municipalities will be ready. It will serve to use the Central Register on calculating the building property tax, starting from the 1st of January, 2019.

Regarding the authorized agent, the municipalities are allowed to choose their agent, in order to enhance the collectability of the building tax revenue.

Aiming to improve debt management, 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. Extensive work to re-design the overall audit approach starting from revising the policies, procedures and audit manuals to audit as part of a move to risk-based has started. Training on the new audit techniques, on tax legislation and on risk approaches have been given to the staff of the GDT in close cooperation with the Albanian School of Public Administration (ASPA). In the beginning of 2017 it was designed and approved the Tax Administration Internal Regulation and Manuals for each directory. A milestone to improve debt management was the decision for the automatic cancellation of tax liabilities (for the period before year 2010 and also for the period from January 2011 – December 2014, for all those taxpayers who have paid these obligations), which ended up on 31 December 2017, based on the Law No 33/2017 of 30.03.2017 “On the payment and deletion/remission of the tax liabilities, customs duties and the removal from circulation of the transport vehicles after the deletion/remission of the tax liabilities”, as published in the Official Journal of 21.04.2017.

**Challenges faced during 2014- June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 10**

|  |  |
| --- | --- |
| EU[[19]](#footnote-19) | Albania is encouraged to introduce a fiscal cadaster with identification of the properties and the establishment of their market value as well as to present timeline and plans to introduce value - based property taxation.  Albania is advised to continue efforts to contain the informal economy, which is a key challenge to the business environment in the country.  Albania needs to complete the application of VAT exemption for the implementation of EU assistance. |
| IMF | IMF (from consultation by the end of 2017 of the Article IV) has considered insufficient the progress on ‘Broaden tax base, including fiscal cadaster for property tax’.  The authorities should consider additional revenue measures, including broadening the tax base. The authorities should refrain from lowering tax rates or granting any new tax exemptions or preferential tax treatments. The discretionary tax breaks and VAT thresholds could complicate the tax system and undermine revenues significantly.  IMF recommended that the fiscal adjustment should mainly stem from revenue measures. Staff recommended additional measures such as indexation of excises and broadening the tax base. Staff supported administration reforms focused on modern compliance risk management. However, planned tax and customs merger risks derailing this effort.  Staff advised expediting the clearance of VAT refund arrears (0.4 percent of GDP at end-August) by dedicating adequate cash resources. To prevent other arrears, it will be crucial to strengthen commitment controls, expand the coverage of Treasury’s new IT system (AGFIS), and expedite the implementing regulations for the new law on local finances to strengthen reporting and monitoring. |
| PEFA 2017 | PEFA scored with C 19.2 *Revenue risk management* While GDT cooperates with GDC in exchanging payers’ information, there is limited exchange of information with other relevant government registers, i.e. registers of immovable property, automobiles, ships, business licenses; as well as other important third party sources, i.e. banks and financial intermediary institutions. (Addressed in Action Plan 3.1.2.3)  PEFA scored with C 19.3 *Revenue audit and investigation.* 40 percent of audit cases are selected from the regional tax offices, and may be subject to abuse by tax inspectors. The audit plan covers the main taxes. Audit of large taxpayers is conducted by the Large Taxpayer Office (LTO); however, it does not focus on other important taxpayer segments with high-compliance risks, i.e. high wealth individuals. Hence, full implementation of a modern CRM approach would improve audit coverage by including taxpayer segments with high-compliance risk.  PEFA scored with D-*Collection ratio for gross tax arrears.* The average debt collection ratio (the percentage of tax arrears at the beginning of the fiscal year, which was collected during that fiscal year) in the two most recent FY was 17%. The stock of tax arrears is significant accounting for 60% of total tax collection. |

### Revision of the Component 3.1

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 3.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

Effective, efficient and transparent management of tax revenues.

Efficiency in collecting unpaid obligations within the deadline.

Increase property tax collection.

**Outcome Indicator**

1) Enlarge the tax base for employees and businesses.

2) Increased tax efficiency as result of reducing administrative cost to less than 1% 3) Provide reimbursement of VAT under the terms of legislation.

4) Reduction of debt stock and collection of unpaid tax.

5) Increase the number of registered buildings.

Based on the assessment of the component 3.1, it is proposed to continue the implementation of the activity remained, adding two more specific objectives and respective indicators. Considering the wide range of cover under the pillar 3, it is proposed to split it in two different pillars: new pillar 3: “Revenue Administration” which will cover Tax and Custom Administration” and pillar 4: “Budget Execution”, which will include the coverage of AGFIS, Debt and Cash management, Public Procurement and Management of External Funds. In this context, the change of Tax Component will be the name of pillar ‘Revenue Administration’ and minor changes are made to the activities, reformulating them to address precisely findings or challenges faced, as below:

**Component 4.1: Tax Administration**

* Reengineer and computerize core tax administration processes.
* Implement compliance risk management of tax collection.
* Strengthen audit capacity.
* Revise the system of the fiscal cash registers and encourage their use.
* Assist the taxpayers to enhance voluntary compliance.
* Take actions to reduce informality.
* Improve Debt Management.
* Establish a fiscal cadastre of properties

## Component 3.2: Customs management

### Assessment 2014 – June 2018

**Objective**

Effective, efficient, fair and transparent management of customs revenues.

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Percentage deviation of actual collection is within defined % of/approved budget estimate for custom revenues | (-10.2%) | (-2%) | -0,6% | +/-3% | (+/-)2% | Fiscal Directorate of Fiscal Analyses and Polices |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, the General Directorate of Customs has undertaken activities to improve the legal basis, capacity building and culture changes, from which four are completed and eight are in progress. In this context, New Albanian Customs Code, which approximated Union Customs Code, was approved on July 2014, where some of its provisions entered into force in September 2014, some in 1st of January 2015 and the latest in 1st of June 2017. On 10th of November 2017 was approved the Decision No.651, of Council of Ministers for the implementing provisions of the new Customs Code, which almost fully aligned all EU sublegal acts issued for the implementation of UCC.

The “Business Strategy of the Albanian Customs Administration” was approved in February 2018, which provides main principles, development priorities and orientations of GDC till 2021.

The General Directorate of Customs moved toward paperless customs management and many important steps are made, such as changes to the legislative framework or improvement of the IT system, to accept electronic signature and to exchange electronic data. During 2016 - 2017, 7 companies had applied for local clearance. However Albania still has zero authorized economic operators (AEO). Legal acts for the preliminary declaration have been finalized during 2017. It is approved Order No.27, of the MoFE dated 25.01.2018 "On the adoption of the Work Plan for Customs Information Systems"; It is approvedRegulation No.67, of DGC dated 24.10.2018 “On the equipment and use of electronic signatures”; It is approvedManual No. 9, of DGC dated 16.07.2018 "On the export and exit of goods from the Republic of Albania"; It is approved by DGC the guideline for the preservation of other documents and information. Different awareness meetings are held for the new provisions of Customs Code, including AEO concept.

Measures to stamp out fraud are contained in the New Customs Code. The implementation of Blue channel was a new initiative for ACA involving a number of selections, analysis, monitoring, but also AW implementation processes. The blue channel operation was completed and started operating in November 2017. The separation of the Green Channel from the Blue Channel facilitated the implementation of the risk profiles in the system.

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

In the framework of making more efficient the service delivery at the border-crossing checkpoints, in 2017, a Protocol was signed between Albania and Montenegro "On the coordination and performance of joint actions at the Tuz border railway station, implementing in this way the agreement signed in 2012 between the Council of Ministers of the Republic of Albania and the Government of Montenegro on the performance of border railway transport between the two countries" Joint controls are done in Tuz by competent state authorities of both parties that operate at the border. On July 2018 was inaugurated the new Morina border crossing point between Albania and Kosovo. The changes make possible to greatly facilitate the transport of goods at this border crossing point as the vehicles will be processed in a single common point. To speed up the control of vehicles this new border crossing point has 12 control positions and a new by-pass for trucks with an adequate facility for second line control of heavy vehicles.

In order to improve the transparency of its activities, in May 2017, the General Directorate of Customs launched its new user-friendly website. GDC in cooperation with the European Bank for Reconstruction and Development (EBRD) has established a business information Centre and has a Draft Project with 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. Clear complain mechanism for the business operators exist and published in the GDC website and the results are reported in STOP CORRUPTION portal on daily basis.

The “Modernization of the Albanian Customs Administration” twining 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.

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.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 11**

|  |  |
| --- | --- |
| EU | Albania needs to harmonise different excise rates to locally produced and imported tobacco since this can be considered as discriminatory taxation, which is not in line with the obligations under the SA agreement. (8TH SACOMMITTEE BRUSSELS, 4 OCTOBER 2017: |

### Revision of the Component 3.2

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 3.2, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective\***

To protect the financial and economic interests of Albania, to contribute to the safety and security of the society and to facilitate trade, cooperate on national and international level with all relevant stakeholders

**Outcome Indicator\***

Average customs release time

Based on the assessment of the Component 3.2, it will be part of pillar no. 3 “Revenue Administration”. The overall objective of GDC is reformulated based on the “Business Strategy of the Albanian Customs Administration” as follow: “To protect the financial and economic interests of Albania, to contribute to the safety and security of the society and to facilitate trade, cooperate on national and international level with all relevant stakeholders”. Also the actions are reformulated and structured based on “Business Strategy of the Albanian Customs Administration”. The existing indicator is part of general indicators, so a new specific indicator is added.

**Component 3.2: Customs management**

* Further development of procedures and processes to enhance collection of duties (*Legislation, Customs Liabilities, Border and Inland Control, Post Clearance Control and Audit, Excise Blueprints*).
* Implementation of service oriented administration and enhancement of cooperation *(Trade Facilitation, Customs Transit, and Supply Chain Security).*
* Contribution to safety and security (*Risk management, Investigation and Enforcement, Intellectual Property Rights*).
* Improvement of IT systems and platforms (*Information and Communication Technology).*

## Component 3.3: Improve the coverage and functionality of AGFIS

### Assessment 2014 – June 2018

**Objective**

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

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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% | 0,48% | Declining trend | Declining trend | Directorate of Treasury Operations |
| Public Administration employee registered in the IT system | 0.50% | 62% | 58% | 50% | 90% | DOPA |

**Achievements**

During 2014 – June 2018, in order to achieve the objectives set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis and IT system which are in progress. Aiming to increase transparent and efficient recording and control of the government’ spending and accrued financial obligations, in AGFIS are rolled out 15 Budget institutions, which in terms of volume represent more than 75% of budget expenditures.

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. The Company for AFMIS (Albanian Financial Management Information System) Project implementation was selected in 2017. 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. 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 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 three systems are expected to be integrated and successfully be implemented.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 12**

|  |  |
| --- | --- |
| EU | It’s recommend that the MoFE revises the plan of giving access to all BI on the basis of efficiency and effectiveness and consider both alternatives:  • Increase the number of actual BI with direct access to the system  • Revise first the total number of BIs and then finally decide on the option of giving all BIs access. (Compliance Review Report) |
| PEFA | 22.2 Expenditure arrears monitoring C  In the treasury system is no specific requirement / format to monitor arrears through the treasury system and regular reports are not produced. (PEFA, page 85) |
| E & Y Recommendation | #4.2 *Uploading of contracts and subsequent amendments should henceforth be performed via an integrated PPA and FIS as recommended under Issue #7*  #5.4 *For a complete and reliable reconciliation, we recommend the use of the FIS payment records rather than the payment listing maintained on excel spreadsheet by Treasury, which is prone to potential errors and manipulation.* |
| Other | No additional roll-out in 2017, the reasons are: (i) the restructuring of the institutions after the election of June 2017 and (ii) payment of software  Is needed budget for new licenses and available staff in the Business Processing Directorate, which right now is under staff  The payroll management is not fully integrated with AGFIS as yet and delays are experienced due to the delayed design and roll out of AFMIS. |

### Revision of the Component 4.1

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 3.3, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

Fully transparent and unified internal financial control on the state budget execution process.

**Outcome indicator\***

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

2) Budget Institution of General Government shall be able to execute their budget and perform financial reporting through AGFIS

After revision of component 3.3 it is proposed that this component to be moved at Pillar 4: “Efficient execution of the Budget” since the objective of this component which aims to ensure a unified internal financial control on the state budget execution process, is more related with overall objective of pillar 4. The first indicator will remain the same. The second indicator is proposed to be removed in order not to create overlapping with Cross - Sector Reform Strategy in Public Administration, in which the Human Resources Management Information System (HRMIS) is comprehensively covered. It is proposed to include a new indicator “Budget Institution of General Government shall be able to execute their budget and perform financial reporting through AGFIS” which is moved from existing pillar 4 to this component since is directly link with its objective. MoFE will put more emphasis especially on addressing the challenges faced and the findings from external assessments so the existing activities are updated and new outputs are proposed.

**Component 4.1: Improve the coverage of AGFIS**

* Gradually make AGFIS available to all major budget entities.
* Configure AGFIS so as to allow tracking operational expenses by project code.
* Gradually integrate AGFIS and other government IT systems under AFMIS.
* Establish mechanisms to control the availability of funds prior to procurement[[20]](#footnote-20).

## Component 3.4: Management of external funds

### Assessment 2014 – June 2018

**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**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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 | Growing trend | Growing trend | Directorate of Treasury Operations |

**Achievements**

During 2014 – June 2018, in order to achieve the objectives set in the PFM Strategy 2014-2020, MoFE has undertaken an activity to improve the legal basis and IT system which is in progress. In this context, one instruction aiming to improve the management of external funds was issued from the Minister of Finance in March 2015, instruction No 10, “On the establishment of management procedures of the state budget co-financing of the IPA projects through the National Fund". In 2016 The Prime Minister Office has started the process of implementing EAMIS,a comprehensive automated system to support the Government of Albania in effectively managing development finance and promoting accountable and transparent use of resources.EAMIS will serve as a reliable and credible source of information on overall donor, public, private and local investments in Albania’s development and economic growth. 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 December 2017 the competencies and EAMIS system contract has been transferred from PMO to MoFE.

Regarding the implementation of EAMIS contract, the main development during 2018 are as follow: The Basic User trainings for key users for system testing: The training was conducted during 7-15 May 2018 and was attended by participants from Albanian Line Ministries, Development Partners, AIDA as well as from different departments, divisions and units of the MoFE of Albania that interact with the ALB-EAMIS system to handle, coordinate and maintain their business processes. Training Report is delivered by Synergy Company and approved by the working group of EAMIS. Synergy has provided the summarized user testing cases. The UAT users have completed the UAT as it was planned. Migration of External Assistance database’s historical data for initial EAMIS population MoU is shared with Donors for EAMIS usage as primary source for data exchange. Several meetings are held regarding the integration of EAMIS system with other systems (World Bank; Italy; EU; IPSIS; AFMIS and ATRAKO): The Contract of EAMIS is completed on 30 June 2018 and MoFE issued the Conditional Operational Certificate. The full Operational Certificate will be issued when the integration with the systems will be finalized.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 13**

|  |  |
| --- | --- |
| Other | The activities in the approved work plan were delayed due to transfer of competencies to MoFE and the re-organization process of PMO. |

### Revision of the Component 3.4

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 3.5, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**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

Based on the assessment of the Component 3.4, it is proposed that this component to be moved at Pillar 4: “Efficient execution of the Budget”. The objective will remain the same. MoFE will put more emphasis especially on addressing the challenges faced in order to ensure 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.

**Component 4.2: Management of external funds**

* Improve legal framework.

## Component 3.5: Debt and cash management

### Assessment 2014- June 2018

**Objective**

1) Debt sustainability analysis, as well as debt management and debt sustainability strategies based on it are prepared annually

2) Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania’s credit rating.

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Stock of domestic debt re-fixed within one year | 67.7% (2015) | 62.6% | 56.7% | 65,7% | 60.0% (2018) | Debt Department |
| Increase days to maturity of domestic debt to 790 days (2018) | 705 days (2015) | 753 days | 780 days | 740 days | 790 days (2018) | Debt Department |
| Primary fiscal balance positive with a level of more than 2% | -1,7% | (+) 0.7% | (+) 0.4% | (+)1% | 2% | GD of Budget |

**Achievements**

During 2014 – June 2018, in order to achieve the objectives set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building and IT systems, which two of them are completed and two are in progress. The legal framework for central government debt management is included in the Constitution, the Law on State Borrowing, State Debt and State Loan Guarantees (2006), and the Law on Management of the Budgetary System (2016). The amendments to the Organic Budget Law as adopted by the Parliament in June, 2, 2016 introduced a set of fiscal rules which ensure a steady reduction of public debt to GDP toward the level of 45%, effectively and unambiguously creating in this manner conditions for long-term sustainability of public finances. By the end of 2017, Public Debt was estimated at 70.0% of GDP. Compared with 2016, the level of public debt relative to GDP has decreased (72.4% in 2016).

Since in 2015, a permanent working group for preparation of the Medium Term Debt Strategy with representatives from the MoFE and BoA is in place. In 2015 they produced the Medium Term Debt Management Strategy (MTDS) 2015 -2017. The MTDS is updated and published by MoFE on annual basis, based onmethodologies and the recommendations of the international financial institutions. The overall objectives of debt management are specified as: 1. to ensure the government financing needs, as well as the needs for servicing the current debt with the lowest cost subject to maintaining a prudent degree of risks exposure; 2. to develop the primary and secondary market of government securities.

A new software (AFISAR) implemented by the Bank of Albania is assisting the Debt Department to manage the domestic government instruments since January 2015. Debt portfolio analysis are prepared and published on a quarterly basis by the MoFE. In 2016 a new version of DMFAS replaced the old version of it (DMFAS 6 replaced DMFAS 5.3). The new version compared to the old one allows the management of both domestic and foreign public debt. The DMFAS has been fully functional for both external and domestic debt during 2017.

During 2014 - 2017 several institutional arrangements, internal organization, and staff resources were performed at the General Public Debt Department (GPDD). Some changes to the work profile of the staff especially at the (a) agreements sector and (b) strategy and risk sector were introduced in 2016. However internal organization and employment of new staff in the Public Debt Department remain a challenge.

In order to increase the staff capacities within GPDD, several training sessions, workshops and discussion meetings were conducted. Since 2014, the MoFE has had continuous cooperation with the World Bank, the Financial Sector Reform and Strengthening Initiative (FIRST) program. This program intended to (1) improve of the Medium Term Debt Strategy, following international standards, (2) improve of the public debt management by improving and strengthening the organizational structure and efficiency and improving the information debt system, (3) development of the government securities primary and secondary markets. The MoFE 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.

In order to avoid the need to keep substantial idle balances in the Single Treasury Account and to effectively manage the volume of payments a “buffer” limit concept was introduced at the instruction to budget execution no 1 dated 15 January 2016.

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 2017, missions 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.

**Challenges faced during 2014- June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 14**

|  |  |
| --- | --- |
| IMF | IMF advised the authorities to focus on improving the functioning of the primary market for domestic government debt and developing a liquid secondary market, following the plan outlined with the support of the World Bank. Staff suggested the authorities to tap into Eurobond markets to amortize FX debt while being vigilant of risks posed by excessive reliance on FX and no concessional borrowing. Strengthening communication and coordination among the BoA, MoFE, AFSA, and other stakeholders on liquidity and debt management is also crucial to avoid excess volatility of T-bill rates.  Public debt management should focus on lengthening the maturity of public debt and diversifying the investor base, while avoiding risks posed by excessive non-concessional FX borrowing.  R 2.1 Revise the daily Treasury cash plan table to include major tax/non tax categories and expenditure of top spending agencies and use bottom up information for those agencies. (HP)  R 2.2 Revise the timing of meetings and the scope of the agenda of Cash and Debt Management Committee. (HP)  R 2.3 Develop daily cash flow forecasts related to major revenue items. (2018 Q1) (MP)  R 2.4 Start gathering bottom-up forecasts from the BIs. (2018 Q1) (HP)  R 2.5 Start to measure, analyze and monitor cash forecasting performance. (2019Q1) (HP)  R 2.6 Improve the cash forecasting capacity by better utilization of HR and IT resources. (MP)  R 2.7 Merge the LEK and FX accounts to manage government cash as a single portfolio (MoFE, BoA immediate) (HP)  R 2.8 Revisit the decision on the uses of swap transactions together with the BoA by analyzing their purpose, current uses and costs. (MoFE, BoA immediate)(HP)  R 2.9 Consider the possibilities of adjusting planned external debt borrowing strategy to focus on alternative instruments such as regular basis private placements to reduce the level of high Eurobond borrowing (Q1 2018) (MP)  R 2.10 Improve the coordination between cash management and debt management and integrate the decision making on the cash plans, annual borrowing programs and issuance calendar (Treasury CMU and Debt Management Department, January 2018).(HP)  R 2.11 Consider the use of short term instruments for cash management purposes and coordinate with the debt management strategy and the BoA Q1 2018). (HP) |
| PEFA 2017 | PEFA scored with C- Extent of consolidation of the government’s cash balances. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances. Balances on the bank accounts outside TSA exceed TSA balance |
| Others | Weak government cash management is a major impediment to public debt management and debt market development. Effective government cash management will support the development of an efficient and liquid government and financial debt market through adequate management of the government’s activity in the money market. This will ultimately help lower debt costs and achieve a broader and deeper distribution among ultimate investors. A deeper and more liquid market, coupled with a broader range of instruments, will give the government greater flexibility in managing its financing needs and reducing the borrowing costs associated with less flexible arrangements. Cash management in Albania suffers from a short-term perspective in cash planning, contributing to cash rationing therefore, cash flow planning by both spending and revenue agencies needs to be enhanced. With better information on future month-on-month fluctuations in cash requirements, the financial instruments that do exist could be used more proactively.  Organizational structure changes remain a challenge for debt department. |

### Revision of Component 3.5

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 3.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective\***

To ensure the government’s financing need in a timely manner, and as well to minimize borrowing costs subject to keeping risks at an acceptable level.

**Outcome indicator\***

1) Stock of domestic debt re-fixed within one year

2) The average maturity of domestic debt

Based on the assessment of the Component 3.5, it is proposed to be moved at Pillar 4: “Efficient execution of the Budget” since the objective to ensure the government’s financing need in a timely manner, and as well to minimize borrowing costs subject to keeping risks at an acceptable level, is related with overall objective of pillar 4. Regarding outcome indicators, it is proposed that at debt component to remain only two first indicators. The third indicator is proposed to be removed at pillar 1. MoFE will put more emphasis especially on addressing the challenges faced and the findings from external assessments from external assessments which will contribute to ensure the government’s financing need in a timely manner and as well to minimize borrowing costs subject to keeping risks at an acceptable level.

**Component 4.3: Debt and cash management**

* Optimization of risk indicators for domestic debt portfolio.
* Development of primary and secondary market.
* Improve liquidity forecasting.

## Component 3.6: Public Procurement

### Assessment 2014 – June 2018

**Objective**

1) Public procurement system is in line with EU good practice

2) 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:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| SIGMA score for indicator 2.6 for independent, transparent, effective and efficient remedy system is assessed as 2 (out of 5) in 2015 | 2 score (2015) | NA | 3 score | Growing trend | Growing trend | PPA |
| % of cases when the review body exceeds the legal maximum processing time: 39.6% in 2014 | 39.6% (2014) | 72% | 54.7% | Declining Trend | Declining Trend | PPC |

**Achievements**

During 2014 – June 2018, in order to achieve the objectives set in the PFM Strategy 2014-2020, PPA and PPC have undertaken activities to improve the legal basis, IT systems and capacity building, which one of them is completed and one is in progress. In order to ensure Public Procurement system to be in line with EU good practice, on 24 December 2014, was adopted the law no. 182/2014 on amendments to the Public Procurement Law to further align the legislation with the newly adopted EU directives namely Directive 2014/24/EC and 2014/25/EC.

The PPL amended again and adopted on 13 April 2017 with aim to regulate the establishment, functioning and strengthening independence of the PPC. According to these amendments, members of the PPC would not be appointed by the Council of Ministers, but by the Parliament. The Head of the Public Procurement Commission was elected on 26.02.2018, with the Decision of the Parliament of Albania no. 23/2018, with a mandate of five years. The election of the members of the PPC was made with the Decisions of the Parliament of Albania respectively no. 78/2018, no. 79/2018, no. 80/2018, no. 81/2018 on 28.06.2018. The new commission which is now independent has officially started functioning on 16 July 2018.  Pursuant to the public procurement law as amended, the Commission has drafted and approved the regulation on the organization and functioning of the Public Procurement Commission, which has already entered into force. With regard to the reorganization of the commission, with the decision No. 85, date 19.07.2018 of the Albanian Parliament, the structure and categorization of the positions of the Commission has been approved, which becomes effective on 1 January 2019. The number of employees will be 36. PPC is working to set criteria for categorizing complaints in simple and complex and to make part of the institution's internal regulation.

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 Defense and Security etc.) with relevant EU directives. 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.

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: i) Introduction of the electronic registers for both planning and realization of the public procurement procedures; ii) Providing a new function within the Contracting Authority; the responsible person/s; iii) Encouraging the Contracting Authorities to use FA as a tool for procuring supplies and services of common and continuous nature; iv) Streamlining of the procedure with negotiation without prior publication of the contract notice; v) Streamlining of the Centralized procurement procedures; vi) Increasing the PPA role regarding procurement procedures: vii) Facilitation and simplification of the procedures for CAs and EOs; and viii) Introduction of a simplified dynamic purchasing system for air transport tickets.

The re-engineering of the electronic procurement system has been finalized in 2017, ensuring a transparent process and providing the conditions for an open and unbiased competition between participating economic operators.

An audit manual on procurement has been developed in collaboration with WB experts and Albania Supreme Audit Institution (ALSAI) experts. The training sessions are part of the 2017 Annual Training Program finalized within the first half of 2017 in which 153 participants took part. There have been developed several trainings of HSC staff on procurement primary and secondary legislation, audit approach, issues and checks on procurement systems, and design and implementation of procurement system highlighting international best practices followed.

**Challenges faced during 2014- June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 15**

|  |  |
| --- | --- |
| EU | Albania needs to take final steps to fully ensure the independence of the Public Procurement Commission, in line with the acquis, in particular by completing the election of its members. The body's capacity, and especially its level of expertise, needs to be strengthened. (EU– Al SA Committee Recommendations)  On public financial management, Albania is invited to step up efforts on: i) the operationalization of the Public Procurement Commission in line with the amended public procurement law (EU– Al SA Committee Recommendations) |
| SIGMA | The process of harmonizing the PPL with recent EU procurement directives should be initiated.  The Law on Defense and Security Procurement based on the EU directive should be adopted and effectively implemented.  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.  A review of centralized purchasing should be initiated to contemplate other organizational and operational solutions outside the Ministry of Interior.  The system for small-value purchases should be revised or abolished.  Development of the e-procurement system should continue, to prepare it for e-auctions, call-offs under framework agreements and a DPS.  Following adoption of 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.  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.  Review procedures should be clarified and simplified, particularly concerning time limits and stages in the process to be respected.  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.  In revising the PPL, the current regulatory approach and extent of implementing regulations should be reviewed.  The roles and responsibilities of ATRAKO, the MoFE and the PPA should be clarified  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.  The limited fund rules and the approval procedures under the Budget Law for control and authorization of procurement transactions should be revised. |
| Other | A challenge of PPC was the high 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% in 2014, 72% in 2016 and 54.7% in 2017). |

### Revision of the Component 3.6

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 3.6, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

Establish an effective and efficient public procurement system in Albania in line with best international practices that guarantees high level of transparency, accountability, control and value for money.

**Outcome indicator\***

1) Ratio of elements modified in the Annual Procurement Plans

2) Share of contracts awarded by negotiated procedures without prior publication of the contract notice

3) Share of contracts amended during the year

4) % of cases when the review body exceeds the legal maximum processing time

After revision of component 3.6 it is proposed that this component to be moved at Pillar 4: “Efficient execution of the Budget”. The objective is proposed to be formulated as:Establish an effective and efficient public procurement system in Albania in line with best international practices that guarantees high level of transparency, accountability, control and value for money. As the focus of this component is put on increasing transparency in planning of public procurement procedures, improving efficiency in using public funds and in order to have a more comprehensive measurement of progress made in this field, the three first above indicators have been proposed to be part of PFM revised strategy. Regarding indicator four, it will remain the same. PPA and PPC will put more emphasis especially on addressing the challenges faced and the findings from external assessments so new activities and outputs are proposed to be included.

**Component 4.4[[21]](#footnote-21): Public Procurement**

* Monitoring the preparation of the forecast registry and of the registry of the realizations for the public procurement on the electronic procurement system.
* Monitoring the negotiated procedures without prior publication of the contract notice.
* Monitoring the contract implementation and their amendments.
* Review of the present legal framework and drafting of new legal and/or sublegal acts in line with EU Directives.
* Creation of the independent Public Procurement Commission.
* Amendment of the regulatory framework in line with the amended PPL.
* Draft and approve the set of standards criteria to define cases as simple or complex.
* Improve the database.
* Professional training of the PPC staff.

## Component 3.7: Asset management

### Assessment 2014-June 2018

**Objective**

Improvement of the measurement of taxation and financial statements information. Producing the accurate financial statement by transactions. Registration of asset including values and depreciation rules according to national standards.

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Public assets are recorded into the AGFIS at least for 5 budget institutions | 0 (2014) | 0 | 6 budget institutions | 1 | 30 | Directorate of Treasury Operations |

**Achievements**

During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken some activities focusing more in the improvement of some instruments as: legislation framework, capacity building and IT systems. One activity is completed and two are in progress. During year 2015 the new administrative territorial reform resulted in the creation of new territorial communes and the closure of the existing ones. This implied a transfer of property and property rights from the old to the new communes. At the final stage all assets of the government (except inventory) will be registered in AGFIS and it will thus be possible to automatically produce balance sheets for each institutional unit. 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 for LGUs. Also, regarding central government, 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, Central Harmonization Unit (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. The public restructuring by the end of 2017 delayed the continuity of the asset registration process. In this context, merger and amalgamation of the institution complicated the process by changing institution codes used in AGFIS, so more work was needed in this direction, to adapt BI’s access with new codes. Asset registration started initially as per GFS 2001 and ESA 2010 classification and will pass eventually as per EPSAS when that framework will be completed and Albania would implement it.In order to implement IPSAS, MoFE has screened and analyzed the current situation of the accounting in public sector 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 IPSAS was finalized and findings presented in a workshop in May 2017. Also, MoFE has prepared and approved the provisional Instruction no.8, date 09.03.2018 "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. This process has been delayed, as a new administrative territorial reform took place, the transfer of property and property rights from the old to the new communes is necessary. Furthermore, it does not exist a complete list of all the assets of the government and their values are not registered in AGFIS, so compliance with IPSAS will be ensured only after assets evaluation and registrations is finalized.

**Challenges faced during 2014-June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below:

**Box 16**

|  |  |
| --- | --- |
| PEFA 2017 | PEFA scored with D+ ‘*Public asset management’* *12.2 nonfinancial asset monitoring.* There is no complete and current register of non-financial assets. The register of assets should contain information on the financial and nonfinancial assets, including: description of assets, purchase value, subsequent capital investment that increased asset value, accumulated depreciation, and accumulated maintenance costs. Also, PEFA scored with C 12.3 *Transparency of asset disposal.* |

### Revision of Component 3.7

Based on the stock take of the main achievements and challenges during 2014-June 2018 for component 3.7, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

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

**Outcome Indicator**

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

Based on the assessment of the component 3.7, it is proposed to continue the implementation of the activity remained, without changing the objective, indicator nor activities. Minor changes proposed consist in the processes differentiation for BI online and BI offline, which will have different phases to start using asset module in AGFIS.

**Component 4.5 Asset management**

* Prepare methodology and action plan of full public assets inventory in General Government institutions and local government.
* Complete the registration of full public assets inventory in central and local government units online with AGFIS
* Complete the registration of full public assets inventory in central and local government units offline with AGFIS

# Pillar 4 Transparent Government Reporting

## Component 4.1: Accounting

### Assessment 2014 – June 2018

**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**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Presentation of financial statements as per IPSAS framework by 2020. | 0 %  (2014) | 0 | 0 | Growing trend | Growing trend | CHU/FMC |

**Achievements**

**At the activity level, four actions comprise this Component, with one having been completed, two in progress and one have not been started yet**. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building, culture changes and IT-development. In this context, more emphasis has been placed on standards, which are set by the IPSAS Board, aiming to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

During the second half of 2015, the MoFE has made a big step towards improving the quality and transparency of the government financial reporting according to international standards. In this context, for the first time, the Government Finance Statistics (GFS) Annual Report for 2014 in accordance with the latest Handbook of International Monetary Fund GFSM2014 was prepared and published in the MoFE website. Under this context, the GFS Annual reports for 2015, 2016 were prepared and published in MoFE website according to 2014 IMF manual. Till now INSTAT has compiled and transmitted to EUROSTAT three tables of the GFS data according to the requirements of ESA 2010.

Although, the timeframe of the actual strategy is mentioned to be until 2022, preparatory measures have been taken in order to gradually adopt these international standards. As preparatory measures, changes to the Law “On Financial Management and Control” to enlarge the supervising role of the Board of Public Internal Financial Control (PIFC) to the public accounting standards, were introduced during 2015. In addition, one of the proposed changes/amendments to OBL(Art. 61) relating to this, gives to the Board of PIFC the authority to approve the public accounting standards. During 2016, a World Bank team performed a GAP assessment between the local accounting standards and IPSAS in order to have clear objectives before the project “Development of Public Sector Accounting” started.. 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. The final report of the GAP analysis was presented to a workshop in May 2017;

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.

During 2018, some activities were performed regarding the public sector accounting. The Harmonization Directorate for Financial Management and Control, in collaboration with Budget Directorate and Treasury Directorate, within MoFE, has approved the Instruction no. 8, dated 09.03.2018 "On the procedures for preparation, presentation and reporting of annual financial statements in general government units". The purpose of this instruction is to establish a regulatory basis for the preparation, presentation and reporting of annual financial statements by general government units, based on the accepted General Public Sector Accounting Principles (regulatory framework of the area), as a transitional measure that will take place until the final modification of the generally accepted Public Sector Accounting Principles (the regulatory framework of the field), such that they are in accordance with the sections selected for implementation of the IPSAS.

Also, during April-June 2018, the DoH/FMC, in cooperation with the Albanian School of Public Administration has conducted three cycles of a 1-day training course on key concepts of public sector accounting, part of the 5-day training course of the internal financial control and implementation in practice of the main FMC elements (around 53 participants).

**Challenges faced during 2014-June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 17**

|  |  |
| --- | --- |
| EU | The main issue related to adaption of EPSAS, as reported in the 2017 PEFA report is that national standards significantly deviate from IPSAS ones. In particular Central Government’s financial reports (i) are often incomplete (e.g. no fiscal risk analysis in the budget); (ii) do not include a consolidated balance sheet; and (iii) while including statements of revenues and expenses, only compare the actual values with those in the latest revised budget, instead of the original approved budget. Neither is there a centralized public asset registry.[[22]](#footnote-22) |
| PEFA | The standards used in preparing the annual financial reports are disclosed, but the deviations from international accounting standards (i.e. International Public Sector Accounting Standards - IPSAS) are not explained. Overall, accounting standards used have significant differences compared to IPSAS[[23]](#footnote-23) |
| World Bank | The World Bank recommend in having a strategy to align Albanian PS GAAP with IPSAS. The recommended strategy to align Albanian PS GAAP with IPSAS is to select first those IPSAS requirements which: a) are largely consistent with current Albanian PS GAAP; b) address fundamental accounting issues relating to recognition, measurement and presentation which are currently poorly covered by Albanian PS GAAP and at the same time are neither expected to be controversial particularly as regards EPSAS nor to be changed by the IPSASB in the near future; c) address accounting and disclosure requirements which have a significant impact in increasing transparency of financial reporting and identification of risks; and d)essentially address disclosure requirements that would not require undue additional effort and cost to achieve compliance[[24]](#footnote-24)  Any proposals to introduce IPSAS should take into account not only the amendments that might be necessary to AGFIS but also those that might be necessary to local IT accounting systems used by public sector entities (budgetary and extra-budgetary-[[25]](#footnote-25).  The World Bank recommend to Address institutional framework. There are a number of issues with that framework that could be addressed: a) uncertainty regarding the number of public sector entities; b) Resolve the complex and ambiguous legal framework for public sector financial accounting and reporting; c) Make plans to address the shortage of accounting and finance staff including identifying the number and grade of staff required; d) Consider how to require or otherwise encourage universities to offer more detailed courses in public sector accounting and auditing; e) Form or sponsor a body to not only support public sector finance professionals including establishing appropriate professional education and qualification offerings but also to represent and help the profession develop, challenge and advocate changes to the field of public sector finance; f) Establish a code of ethics for finance and accounting staff in the public; g) Resolve the overlap with a view to streamlining the GFS and ESA statistical reporting functions at the MOFE and NSI given that they both rely on very similar data from AGFIS and ultimately produce similar reports; f)Translate relevant IPSAS into Albanian[[26]](#footnote-26) |

### Revision of the Component 4.1

In 2014 the European Commission (EC) decided to develop the European Public Accounting Standards, (EPSAS) based on IPSAS. The conceptual framework of EPSAS was foreseen to be in place by 2016 and most of the standards by end of 2020. Till now this was not accomplished. The EPSAS might become obligatory for all EU member states starting from year 2021. Accounts reconciliation and the integrity of financial data are strengths within the PFM system but weaknesses in fiscal reporting remain. 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.

Based on the stock take of the main achievements and challenges during 2014- June 2018 for the Component 4.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component

**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**

Presentation of financial statements as per selected IPSAS framework by 2022.

Based on the assessment of the Component 4.1, the objective remain the same while the outcome indicator has changed in order to be aligned with the timeframe of the new Strategy. Based on the recommendations given, MoFE, in collaboration with World Bank is developing the Project “Development of Public Sector Accounting”. This project, which is foreseen to be completed in a 5-year period (2018- 2022), has two main objectives as follow:

* Development of public sector accounting and financial reporting in line with IPSAS;
* Developing of MoFE capacities and of professional skills for public accounting practitioners.

Under these objectives, are foreseen activities as follow:

• Development of public accounting legal and regulatory framework. This component encompasses the following activities: i) translation of IPSAS into Albanian, ii) development and enactment of national accounting legislation, and iii) national level implementation guidance. The development of practical guidance materials, has proven to be a key success factor in other countries and contexts.

• Review and amendment of the national chart of accounts. This component includes (i) the review and (ii) if needed the amendment of the national chart of accounts in order to be fully in line with accrual accounting/ budgeting and statistical needs.

• Gradual implementation of international accepted accounting standards in line with IPSAS. The project will focus on the implementation of the selected set of standards at budget institutions at central government level and at least one pilot at a subnational government.

• Technical capacity building to the Financial Reporting Unit and CHU at the MoFE. This activity includes (i) defining institutional responsibilities and (ii) setting up a work plan for the Financial Reporting Unit (Treasury) and the CHU (newly created structure responsible for accounting).

• Development of professional accounting skills and a sustainable public sector accounting training mechanism. In order to improve the professional accounting skills and develop local training capacities, the following activities are foreseen under this component: i) training of a selected number of financial officers to obtain an internationally recognized professional qualification certificate, ii) training of a sufficient number of trainers through the train of trainers approach (ToT), and iii) institutionalization of a local training and certification program at a local institution to ensure the sustainability of the development of public accounting skills in the long-run.

During 2018, is established a separate accounting function, within Harmonization Directorate for Financial Management and Control, responsible for the oversight of accounting and the transition to International Public Sector Accounting Standards.

The priorities in the accounting field are: Development of national guide, institutional arrangements and long term action plan for transition from the existing public sector accounting and financial reporting framework, in alignment with the development of treasury system (AGFIS) into AFMIS; Presentation of financial statements in accordance with selected IPSAS standards; Development of a sustainable public sector accounting qualification compatible with international good practices; and improved understanding and application of relevant accounting standards by practitioners and public sector auditors.

The Activities of this component will be as below:

**5.1. Accounting**

* Implement IPSAS
* Capacity building and ensure sustainability.

## Component 4.2: Financial and performance monitoring and reporting

## Assessment 2014 – June 2018

**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:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| Budget Index produced by the International Budget Partnership, relating to information in the budget is increased. | 46 score (2013) | NA | 50 score | 60 score | Growing trend | Dr. of Budget Monitoring and Management |

**Achievements**

At the activity level, three actions comprise this Component, with two having been completed and one in progress. During 2014 – June 2018, in order to achieve the objective above set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building, culture changes and IT-development.

In 2014, with the proposal of the Ministry of Economic Development, Trade and Entrepreneurship, the Council of Ministers has approved a new methodology for monitoring public investment projects, by increasing the frequency and quality of reporting sent by the budget users to the MoEDTE which was in charge of capital spending programming and monitoring in Albania.

Following the amendments of the OBL with the Law no. 57/2016, the MoFE started the preparation of the relevant by-laws. The Department of Budget Management lead the process of the preparation of the guideline "On the standard procedures for monitoring the budget of the central government units" which was approved by the Minister of Finance on 17.11.2016. The main scope of the guideline was to determine the procedures and reporting timeline that all the general government units need to follow during the budget performance monitoring process. According to OBL, at the end of each four-month period, all budgetary institutions are required to submit to the MoFE periodic monitoring reports regarding the status and progress of their budgetary performance in terms of policy and financial achievements. The MoFE analyses the reports and makes recommendations for improvements to the respective budgetary institutions. The MoFE’s first and second monitoring reports (for the periods January to April, and May to August, respectively) provide feedback for, respectively, the first and second phase of the MTBP. The MoFE’s annual monitoring report serves as a basis for the new macroeconomic and fiscal framework review.

Improvements have been made to budget execution report formats for central and local government. Improvements to the quarterly and annual budget execution reports were introduced with the decision of Minister of Finance, no.2, dated 09/01/2015, art 57 “On the Budget Execution”.

Procedures for in-year budget implementation have improved and the Mid-Year Report was Macroeconomic, Fiscal and Budgetary Performance of the government was published and sent for approval to the Council of Ministers and to Assembly for the first time in 2017. 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;

This report include: a)an overall assessment of the country’s economic condition and of its macroeconomic, fiscal and budgetary indicators, for the period from January to May of the current year; b)an assessment of estimated macro-economic, fiscal and budgetary indicators for the remaining period of the year (from June to December); c)measures to be undertaken by the government to meet forecasts regarding macro-economic, fiscal and budgetary indicators; and d) the Minister of Finance and Economy’s proposals regarding any potential revisions to the budget.

Covering the budget and fiscal performance of the year’ first half, it is a permanent document prepared on a yearly basis Mid-year 2018 Report[[27]](#footnote-27),

During 2015 a "Transparency portal" to access, understand, monitor and analytically use the data on financial Performance at the local level in Albania was established with the support of Open Society Foundation for Albania, Soros;

During 2016, a new department to deal with Local Government issues was established within the Budget Department;

A new Law No.68 dated 27.04.2017 “On Local Finances” was approved. 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.

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. A “User’s Manual” for expenditure and revenue database has been prepared by BOOST and formal training conducted by MoFE officials on its usage.

The comprehensiveness and the quality of information available to the public have generally improved over time as witnessed also in the 2016 PEFA assessment scores on Comprehensiveness and Transparency. Based on the rating criteria used in the PEFA methodology, Albania scores reasonably well (B)[[28]](#footnote-28) when it comes to the content and accessibility of fiscal information produced for Parliament and the public. The International Budget Partnership scores Albania considerably lower, 50 out of a 100, on the 2017 Open Budget Index.

The World bank supported Boost application is available on MoFE website since June 2018.

BOOST database is published and is fully operational with the data 2010-2017 for both expenditures and revenues at 5 levels of reporting and with a granularity scale up to 7 digits that is the transaction mode level for both expenditures and revenues in Albania.

**Challenges faced during 2014-June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 18**

|  |  |
| --- | --- |
| EU | No Budget Execution Monitoring Reports from Line Ministries in 2017 on budget implementation have been issued. This is going to have consequences in performance measurement in order to match the information of Service Delivery provided by the Delivery Unit in PMO; therefore it is important to update the information during 2018. [[29]](#footnote-29)  The line ministries monitoring reports must resume in order to provide adequate information to the public, and enable citizens to match respective information from monitoring of service delivery. The comprehensiveness of information on service delivery performance is key to assure that public officials are held accountable for their choices in the cycle of policy development.[[30]](#footnote-30)  The arrears report and fiscal risk statement need to be completed with all relevant information and made public in order to assess the soundness of new policies being adopted and risks associated to them in order to enforce the accountability of public officials. [[31]](#footnote-31)  The participation in Budget Process is still low compared to regional average and global practice. OBI scores Albania with a 2 score out of 100. The Open Budget Index score has deteriorated and public participation is limited. This recommendation is related with component 4.7 discussed to be added. [[32]](#footnote-32) |
| PEFA | Pl-28 “In-year budget reports”, it is scored with D+ because: Coverage and classification of data does not allow direct comparison to original budget; here are concerns about data accuracy. Expenditure is captured at payment stage[[33]](#footnote-33).  PL- 29. “Annual financial reports”, dimension 29.3 it is scored with D+ because: Annual financial reports are prepared but do not present a comparison between the original budget and actual execution. |
| OBI | Albania can improve transparency throw: 1)Provide detailed data on the financial position of the government and increase the information on performance and policy in the Executive’s Budget Proposal; 2)Provide detailed information on actual outcomes for expenditures and the comparisons between **borrowing estimates** and actual outcomes in the Year-End Report[[34]](#footnote-34) |
| Others | In-year and end of year budget reports are not user-friendly; detailed information on actual outcomes for expenditures and the comparisons between **borrowing estimates** and actual outcomes in the Year-End Report are not available- (TA.)  The objectives, indicators and actions do not address the legal (OBL) requirements for the Citizens' Budget and Budget Hearings which are currently not met; nor do they address the ambition of the government to increase engagement with the public and CSOs during the budget planning process- (TA) |

## Revision of the Component 5.2.

The focus of reporting by budget entities to the superior levels of government and by the Government to Parliament is mostly financial, although information on outcomes, outputs and activities is reported on a regular basis. As regards the quality of documents that is presented to the Parliament, there have been improvements since the 2015Budget Proposal, as regards the informative report sent to the Government and the Parliament, which includes information on the future objectives of the spending policy for each line ministry/and sector, the identification of relevant fiscal risks on the budget, as well as the main results of current spending. Financial information is accompanied by the main results achieved by each line ministry for the disposable financial resources. Nonetheless, the monitoring and reporting documents will be further improved in order to address weaknesses as regards comprehensiveness, quality and integrity of inform.

Based on the stock take of the main achievements and challenges during 2014- June 2018 for the Component 4.2, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

The recommendation left from EU related to Budget execution monitoring reports from Line Ministries and their analysis is addressed, as they have resumed and published them in MoFE website. They cover the 1st 4-month period of 2018 (January – April 2018).

The component two “Financial and performance monitoring and reporting”, of the pillar five, will be removed. However, based on recommendation given from OBI and PEFA there are still room for improvements related to the Financial and performance monitoring and reporting despite the progress made up to now.

# Pillar 5: Effective internal control

## Component 5.1 Financial Management and Control at Public Institutions

### Assessment 2014 – June 2018

**Objective**

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

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 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 | 3.4171/4 score | Growing trend | Growing trend | CHU/FMC |

**Achievements**

At the activity level, four actions comprise this Component, with two having been completed and two in progress. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building and culture changes. In this context, more emphasis has been placed on managerial accountability within the framework of a performance based budgeting, to make the system more output oriented.

Changes to the Law “*On Financial Management and Control*” No. 10296, dated 08.07.2010, were approved in Parliament with Law No. 110, on 15.10.2015. This law provides an adequate legal framework for the implementation of the Financial Management and Control (FMC), and for developing methodologies and standards for FMC. Several instructions and orders of the Minister of Finance and Economy were finalized and approved aiming to improve the legal and methodological framework. Some of them are presented as follow:

* Instruction No. 16 dated 20.7.2016 “*On tasks and responsibilities of financial management and control and risk coordinator in public units*”;
* Instruction No. 21, dated 25.10.2016 “*On Executing Officer at all levels*”;
* Instruction No.9, dated 20.03.2018 “*On Standard Budget Execution Procedures*” is approved by the Minister of Finance and Economy;
* Order No. 68, dated 08.06.2016 “*On the organisation and functioning of the Board of Public Internal Finance Control*”;
* Finalisation of the manual for Financial Management and Control;
* Preparation of Risk registers and Audit trail;
* Draft-instruction: “*On the Evidence, Registration, Use and Reporting of Foreign Finances in the Framework of Projects and Agreements with Foreign Donors*” is produced.

Training for LGUs on the requirements of the FMC law and tools were held as well as training on risk management process for selected LMs and agencies.

A Twinning project between MoFE of Austria and Ministry of Economy and Finance of France, on the “*Implementation of a modern system for Financial Management and Control and Public Financial Inspection in Albania*” started in September 2014 and finished in November 2016 where the specific objective of the project was the implementation of a modern system for the FMC and Public Financial Inspection in the main public institutions in Albania.

One of the most important activities was the implementations of FMC in seven pilot institutions. The main scope was to emphasize the FMC role to lead to a better performance, more transparency, more efficiency and effectiveness in terms of spending of public money. During 2016, the CHU/FMC conducted monitoring of the status of the implementation of the FMC framework in two independent institutions: the Presidency and Parliament. There were organized several awareness seminars on the importance of FMC implementation for both local and central government representatives, as well as seminars on the monitoring of internal control systems for the top management of the MoFE and the General Secretaries of the Line Ministries. Furthermore, training and monitoring sessions, workshops and meetings were held with high level managers and heads of central and local institutions, as well as trainings related to financial planning and reporting tool.

2016 PIFC Annual Report was prepared and approved in May 2017 and 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.

During 2018, many activities were carried out in the field of FMC. Based on the obligation of the CHU/FMC to systematically monitor the internal control system in all public units, monitoring on-site was carried out in 20 institutions (ministries, municipalities and independent institutions) where, based on findings, CHU/FMC has given the recommendations in order to improve the internal control system.

CHU/FMC in the framework of the implementation of a modern financial and control management system and based on the experience gained by the previous twinning project, is carrying out the implementation of this system in 4 selected pilot institutions (Ministry of Interior, Ministry of Infrastructure and Energy, Municipality of Vlora and the Albanian Road Authority). Preliminary meetings were organised with the authorising officer and with employees of these institutions who will be engaged in the process of technical assistance, as well as general trainings on the implementation of the FMC requirements. All missions will be carried out on regular basis for these institutions and, the process is expected to be completed within 2018.

Regarding the technical assistance provided, CHU/FMC is working intensively with the Albanian Road Authority, focusing on the implementation and improvement of internal control instruments. Particular attention has been paid to the definition and drafting of written procedures and book of business processes, especially in the contract linking sector, in order to prevent the creation of arrears as one of the most problematic areas of this institution.

During April-June 2018, the CHU/FMC, in cooperation with the Albanian School of Public Administration has conducted three cycles of a 5-day training course on key concepts of public internal financial control and implementation in practice of the main FMC elements (around 53 participants).

In addition, CHU/FMC has conducted trainings on FMC legal and sub-legal basis and how to implement the FMC tools (practical cases) in local government (including training sessions in the district of Shkodra and Elbasan) for high level managers and other managers (66 participants).

**Challenges faced during 2014 - June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 19**

|  |  |
| --- | --- |
| EU | The Public Financial Internal Control legislation is broadly sufficient however the capacity and the level of application of financial management, internal control and internal audit policies and procedures and practices are weak[[35]](#footnote-35).  Establishment of a working group ALSAI-MoFE to implement the MoU[[36]](#footnote-36). |
| SIGMA | 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 control and monitoring arrangements[[37]](#footnote-37).  The CHU/FMC should extend the range of organizations completing the FMC questionnaire to include larger subordinate bodies, to ensure that they have as clear a picture of progress as key organizations such as the Tax Authority or the Roads Authority have[[38]](#footnote-38). |
| Others | The plan to implement modern FMC system within six selected pilot institutions by the end of 2017 was not delivered due to the appointment of the technical government.  Some training sessions were not developed due to limited funds.  Improving risk management process and risk development strategy in central and local government units in accordance with the new regulations acts of FMC.  Improving the capacity of the General Government Units (GGU) managerial staff, about the innovations of the legal framework of FMC and the concept of managerial accountability.  Carrying out activities in pilot institutions in order to implement the full requirements of FMC.  Due to the lack of staff to review annual FMC reports by public entities, CHU/FMC is unable to complete comprehensive reviews or provide in-depth guidance to public entities on FMC. Moreover, on-site monitoring on FMC implementation could not be performed as planned due to lack of staff. |

### Revision of the Component 5.1

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 5.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

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

**Outcome Indicator**

All the budget entities will use FMC requirements to improve internal control systems and achieve objectives and results.

Based on the assessment of the Component 5.1, the objective and the outcome indicator still remain the same as before. This component will be composed by three new sub-components aiming to address the challenges faced and the findings from external assessments which will contribute on an effective managerial accountability in local and central government units and in successful implementation of modern management practices at all local and central government institutions. While, some of the before mentioned challenges have been addressed during 2018. With regard to the lack of staff, during 2018 the structure of the department has been revised and is fully staffed. With regard to the plan to implement modern FMC system within six selected pilot institutions by the end of 2017, it was not delivered due to the appointment of the technical government. However, the restructuring of some of the LMs after the 2017 election 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 Vlora and the Albanian Road Authority.

**Component 6.1 Financial Management and Control at Public Institutions**

* Amend methodological FMC framework
* Monitor the implementation of the legal framework for
* Increase the awareness of public units about the benefits of implementing the concept of “*Managerial Accountability*”

## Component 5.2 Internal audit

### Assessment 2014 – June 2018

**Objective**

Well-functioning and efficient IA function in the public sector

**Outcome Indicator**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| 65% of internal audit recommendations have been implemented within two years; | 45%  (2014) | 68% | 55% | Growing trend | Growing trend | CHU/IA |
| 100% of the audit staff employed in all IA units undertook each year 40 hours of CPD training and 100% of new staff is certified within 2 years from the date of their appointment. | IACPDT= 82% IANC=60%  (2014) | 100% 60% | 100% 86% | Growing trend | Growing trend | CHU/IA |
| 70% of IA reports are focused on performance issues and assessment of internal control systems (five FMC components) | 40%  (2015) | 60% | 66% | Growing trend | Growing trend | CHU/IA |

**Achievements**

At the activity level, three actions comprise this Component, with one having been completed and two in progress**.** During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building and culture changes. MoFE has an important coordinating, harmonizing and monitoring role of internal auditing activity in the public sector. In fulfilling this role, it’s based on the regulatory framework in force for internal audit in the public sector and international standards of this field. In this context, it was approved the new Law No. 114 “*On Internal Audit*”, dated 22.10.2015 where the changes in the Law were mainly focused in strengthening the processes of (1) hiring, (2) certification and (3) continuous professional development of internal auditors. In addition, the Law introduced for the first time the establishment of the Audit Committee in public entities as an independent monitoring and advisory body to senior management. Other activities performed to improve the legal basis for internal audit are as follow:

* Council of Ministers Decision (CMD) No. 83, dated 03.2.2016 “*On approval of the criteria for establishing of internal audit units in the public sector*”, as amended by CMD nr.353, dated 11.05.2016. The decision aims the establishment of a sustainable internal audit system in compliance with International Standards on Internal Auditing and gives a better definition of the criteria’s for its creation by ensuring in the same time quality and professionalism of internal auditors;
* CMD No. 116, dated 17.02.2016 “*For the organization, functioning and composition of the qualification commission of internal auditors in the public sector and the determination of the training fees*”;
* CMD No. 160, dated 02.03.2016 “*On the functioning, powers and composition of the Audit Committee on Public Units*” aiming to establish the role of the Audit Committee in public entities as an independent monitoring and advisory body to senior management; According to the decision only the Line Ministries and the Local Government Units will need to have the Audit Committees and during 2016, eight out of 77 Audit Committees are created;
* Order of the Minister of Finance and Economy No. 3, dated 08.01.2016 “*On approval of the Regulation for the continuous professional training for internal auditors in the public sector*”;
* Order of the Minister of Finance and Economy No. 37, dated 16.03.2016 “*On approval of the Regulation on the procedure of certification of internal auditors in the public sector*”;
* Order of the Minister of Finance and Economy No. 100, dated 25.10.2016 “*Internal Audit Manual*” aiming to revise the manual that is concerned with the adoption of the International Standards on Internal Auditing and introduction of new concepts of risk management or quality assurance procedures, IT or EU funds auditing procedures and so on;
* Order of the Minister of Finance and Economy No. 40, dated 08.05.2017 “*On the publication of international standards for the professional practices of internal auditing in the public sector accepted for implementation in the Republic of Albania*”;
* Order of the Minister of Finance and Economy 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;
* Order of the Minister of Finance and Economy No. 22, dated 06.03.2017 “*On Approval of the External Quality Evaluation Methodology of Internal Auditing in the Public Sector”*;

As it is mentioned above, during the period 2014 – June 2018 the CHU/IA focused mainly on improving the legal basis, primary and secondary legislation, as well as the extension of the internal audit service in all public entities, as an important element for ensuring efficiency and effectiveness of public governance, and the improvement of professionalism of the IA function. Around 1564 people have participated in the training sessions and workshops. The modernization of the internal audit function has been satisfactory.

Currently there are 129 IA units established in Line Ministries, central government institutions, local governments and some other partially owned public entities. 11 IA units have approved agreements with other public entities to conduct the internal audit activity. There are 1960 certified internal auditors qualified by the Commission for Qualification of Internal Auditors (CQIA). Currently, there are 400 internal auditors employed in public units, both in central and local level (308 certified as internal auditors and 92 as junior auditors) of which 181 internal auditors currently work in the central government units, respectively in 57 IA units. The 214 internal audit staff in the central government administration work across 58 internal audit units.

Certification process of internal auditors in the public sector for the period 2018 – 2019 was approved by the Order of the Minister of Finance and Economy No. 162 of 29.05.2018. 80 candidates applied to this process, but only 48 met the criteria to follow this process. While, several training sessions for internal auditors were held during 2014 – June 2018.

Regarding the continuous professional training program, MoFE defines the training topics by analysing the training needs of the internal audit units, as well as financial management and control reform developments. The program for the year 2018 included specific topics on financial management and control, public procurement, changes of external audit, internal audit and financial inspection, analysis and addressing arrears, presentation of amendment in the regulatory framework, contemporary topics of internal audit in public sector, etc. During 2018, have been developed 13 training phases. In this process, 320 internal public sector audits were trained.

Internal audit units, pursuant to the mission of their activity gave their opinion on the adequacy and effectiveness of the internal control system, based on these evaluation systems. The assessment of internal control systems consisted not only on compliance with laws and regulations, but it also included financial/non-financial actions of the organization and the assessment of whether public funds were allocated and used effectively, efficiently and economically.

Based on the analysis of the activity of Internal Audit units, during 2018, it is observed that there is an increase in the quality of the recommendations given for implementation. An important factor leading to this, are the specific topics addressed in the professional training.

Five external quality evaluations were conducted during 2017.

During 2018, 10 external quality evaluations were planned in eight line ministries and two municipalities. There are currently finalized eight external quality evaluations in IA units: Ministry of Tourism and Environment, Ministry of Defence, Ministry of Education, Sports and Youth, Ministry for Europe and Foreign Affairs, Ministry of Interior, Ministry of Agriculture and Rural Development, First Financial Development Society, S.A. and Municipality of Gjirokastër.

Based on the findings, the assessment teams came to conclusions which have been addressed both during the assessment and in the final reports and in order to enhance audit activity in the future, relevant recommendations were made.

Some of the recommendations related to the primary criteria of assessment are as follow:

* Heads of Internal Audit units should address heads of the public units and relevant structure of internal audit harmonization to follow multi-level appeal procedure about the involvement of internal auditors in operational activities in public units, in order to minimize any threats on the independence and objectivity of the audit activity. Standard 1100: Independence and Objectivity;
* Internal Audit Units should not only include in the strategic and annual plans the audit commitment, but also conduct them in all the directorates of the public unit, part of its organization. Standard 2000: Managing the Internal Audit Activity;
* A quicker implementation of the procedures laid down in IAM (recast) on planning, periodical reports, internal quality assurance, and the monitoring of the progress of addressed recommendations. Standard 2000: Managing the Internal Audit Activity;

Some of the recommendations related to the secondary criteria of assessment are as follow:

* Updating of Internal Audit Charts and completing the structure in line with the provisions of the Internal Audit Manual in force. Standard 1000: Purpose, Authority and Responsibility;
* Definition of quality performance measurement indicators of audit activity in order to assess its compliance with the internationally accepted internal auditing standards. Standard 1300: Quality Assurance and Improvement Program and Drafting and adoption of the Quality Assurance and Improvement Program. Standard 1300: Quality Assurance and Improvement Program;
* Carrying out an effective monitoring with respect to the implementation of addressed recommendations, in order to increase accountability on the effect that the non-implementation has on the fulfilment of the defined objectives. Standard 2500: Monitoring Progress.

**Challenges faced during 2014 - June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 20**

|  |  |
| --- | --- |
| EU | Creation of a joint database, alignment of recommendations made by the ALSAI and the CHU FMC/IA to budget entities, development of joint methodology and training programmes[[39]](#footnote-39).  Professionalise IA function through continuous professional development programme[[40]](#footnote-40). |
| SIGMA | 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[[41]](#footnote-41).  CHU/IA should update the IA manual and guidance to reflect the 2017 changes in international IA standards[[42]](#footnote-42).  MoFE 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[[43]](#footnote-43).  CHU/IA, the MoFE and the SSAI should seek ways to establish effective IT capacity for IA[[44]](#footnote-44). |
| PEFA | The internal audit function still has no systematic or diagnostic nature in assessing the effectiveness of the internal control. PEFA PI 26.1 scored with C[[45]](#footnote-45). |
| Others | The CHU/IA would have addressed its annual objectives have all the vacancies been filled in; While the legal and operational framework for internal audit is strong, implementation is still a challenge.  The focus of the internal auditor shall be to increase the number of performance audits.  Beside weak technical skills, the IA function does not have in all instances the necessary resources and structure to fully support planned activities. |

### Revision of the Component 5.2

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 5.2, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**\*

Strengthening IA function in the public sector.

**Outcome Indicator**

* Internal audit recommendations implemented within two years;
* The audit staff employed in all IA units trained and the new staff certified within 2 years from the date of their appointment;
* IA reports focused on performance issues and assessment of internal control systems (five FMC components).

Based on the assessment of the Component 5.2, the objective will be changed focusing more on strengthening the IA function in the public sector. The outcome indicators will remain the same as before. However, MoFE will put more emphasis especially on addressing the challenges faced and the findings from external assessments which will contribute on strengthening IA function in the public sector. This Component will be composed by four sub-components, two out of them are new ones in support of addressing the challenges and the findings from external assessments.

**Component 6.2 Internal audit**

* Amend legal and methodological IA framework.
* Professionalize IA function.
* Carrying out external evaluations for public institutions regarding to the internal audit activity.
* Evaluating and addressing the root causes of arrears in internal audit unit reports.

## Component 5.3: Public Financial Inspection

### Assessment 2014 – June 2018

**Objective**

An effective public financial inspection function.

**Achievements**

At the activity level, four actions comprise this Component, with two having been completed and two in progress. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, MoFE has undertaken activities to improve the legal basis, capacity building and culture changes. In this context, more emphasis has been placed on assuring an effective public financial inspection function. MoFE reviewed the entire legal framework covering the Public Financial Inspection (PFI). A new Law No. 112 “*On Public Financial Inspection*”, dated 15.10.2015 replaced the Law No. 10294, dated 01.07.2010 “*On Public Financial Inspection*”. The main changes of the law focused on: Strengthening of the role of the unit responsible for public financial inspection; Clarification of the roles and responsibilities of the decision-making authorities and of the structures involved in the public financial inspection; Definition of measures to be taken by the Minister of Finance at the end of the inspection process; Definition of the Anti-Fraud Coordination Service (AFCOS) role in reporting fraud on the EU use of funds; Separation of internal audit role from the one of the Financial Inspection. Several decisions of the Minister of Finance and Economy were issued such as:

* Decision No. 29 dated 27.11.2015, “*On the criteria for the start of the public financial inspection*”;
* Decision No. 30 dated 27.11.2015, “*On the rules and procedures of public financial inspection*”;
* Decision No. 84 dated 09.12.2015 “*On the Creation of Reporting Network Anti-Fraud Coordination Service*”; In this context, the Minister of Finance and Economy has signed cooperation agreements with 17 institutions about the functioning of the AFCOS network;
* Order of the Minister of Finance and Economy No. 85 dated 12.09.2015, “*Code of Ethics for public financial inspectors*”;
* Order of the Minister of Finance and Economy No. 26, dated 17.02.2016 “*On the approval of the Public Financial Inspectors manual*”.

During 2015, within the framework of IPA 2012, a conference with participants from Local and Central Government was organisedaiming to raise awareness on the new law “*On Public Financial Inspection*”. Furthermore, PFI unit has performed 22 inspections during 2016 to 35 public entities where irregularities in the use of public funds and lack of managerial accountability were found. Some capacity training activities were held during the period 2015-2017.

During first half of 2018, PFI Unit has performed nine inspections to 22 public entities. According to the results of the findings in the final inspection reports, two cases have been referred to prosecution. Aiming to strengthen the role of the unit responsible for public financial inspection, the vacancies in the PFI unit has been filled. Concerning the AFCOS role in reporting fraud on the EU use of funds, the number of reporting officers has increased by three reporting officers. PFI unit staff has participated in the trainings organized by OLAFF on Anti-Fraud inspections on the use of EU funds.

**Challenges faced during 2014 - June 2018:**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 21**

|  |  |
| --- | --- |
| EU | Increase professional level of financial inspection service[[46]](#footnote-46). |
| Others | One of the main challenges was the lack of the professional capacity of some external inspectors that affects the quality of many financial inspections performed by them. For this reason, the Public Financial Inspection Unit 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’ selection.  Low number of awareness activities on the Public Financial Inspections took place especially during 2017. |

### Revision of the Component 5.3

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 5.3, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**\*

Improving the efficiency of the public financial inspection

**Outcome indicator**\*

The level of findings in relation to the public financial inspections carried out.

Based on the assessment of the Component 5.3, the objective will be changed focusing more on improving the efficiency of the public financial inspection. For the first time, it is set an outcome indicator for this component and the methodology is explained in the Passport Indicator. Meanwhile, MoFE will address the challenges faced and the findings from external assessments which will contribute on improving the efficiency of public financial inspection.

**Component 6.3 Public Financial Inspection**

* Improve professional capacities and increase accountability and integrity of internal public financial inspectors.
* Increase awareness campaign on the role and the functions of Public Financial Inspection.
* Increase the quality of external public financial experts.

# Pillar 6: Effective external oversight of the public finances

## Component 6.1 External audit

### Assessment 2014 – June 2018

**Objective**

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

**Outcome Indicators**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Outcome indicator** | **Baseline** | **2016** | **2017** | **Target 2017** | **Target 2020** | **Responsible unit** |
| The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits. | Compliance audit = 90% | Compliance =76% Performance = 8% Financial = 5% | Compliance =75% Performance = 10% Financial = 9% | Declining trend of Compliance | Declining trend of Compliance | ALSAI |
| % of audit recommendations accepted and implemented by audited are greater than 75.5%. | RACC = 73.4% (2016) RIMPL=75% (2014) | RACC =73.4% RIMPL=32.5% | RACC=66% RIMPL =35.2% | Growing trend Growing trend | Growing trend Growing trend | ALSAI |
| The training strategy is in place, the auditors are trained according to ISSAI. | TISSAI 100% | TISSAI 108% | TISSAI 114% | Growing trend | Growing trend | ALSAI |

**Achievements**

At the activity level, seven actions comprise this Component, with four having been completed and three in progress. During 2014 – June 2018, in order to achieve the objective set in the PFM Strategy 2014-2020, ALSAI has undertaken activities to improve the legal basis, capacity building, IT systems and culture changes. In this context, a new Law No.154 dated 21.11.2014 “*On the Organization and functioning of the High State Control*” was approved in Parliament replacing the old one. The Law regulates the functional, operational and financial independence, mandate and organization of the High State Control and introduces some new International Standards for State Audit Institutions (ISSAI) based on the requirements such as the use of financial and/or performance audit.

The changes align the Albanian legislation with the INTOSAI fundamental declarations of Lima and Mexico, and the ISSAIs. At the beginning of 2015 the ALSAI was supported in its development by a Twinning project for 24 months. The majority of the activities included in the PFM strategy were parts of the twinning project.

In order to perform all its responsibilities and tasks in compliance with ISSAI, ALSAI has adopted new audit approaches and appropriate methodologies and guidelines are developed and updated. On March 2015, a revised Institution's Development Strategy for the period 2015 - 2017 was approved by the Chairman of the ALSAI(Decision No. 42, dated 31.03.2015) alongside a revised Action Plan for the strategy implementation. Moreover, a new Code of Ethics of ALSAI was approved by the Chairman Decision No. 56, dated 30.04.2015, which represents the all-inclusive statement of values, behaviours and principles.

Memorandum of Understanding has been signed between ALSAI and MoFE to foster the cooperation in audit field. A Peer Review about ALSAI institutional independence was conducted by the Austrian Court of Audit where some Albanian Member of Parliaments participated as well (04.11.2016). A meeting between Albanian Chairman of Parliaments and Chairman of State Supreme Audit of both Albania and Poland was organized on 5th of May, 2016. In addition, several sessions with Polish SAI experts, ALSAI auditors and members of Parliaments were organised during the period 15-18 November 2016. An international conference organised by SIGMA where participants from State Supreme Audit of Albania, Kosovo, Macedonia, Montenegro, Turkey, Leetonia, Bosnia Herzegovina and ECA and members of Parliament from these countries were there (8-9 November 2016).

During 2016 and 2017 ALSAI was more actively engaged in parliamentary commission and hearings regarding audit reports and other important issues. ALSAI has increased the transparency of its activities during 2016 in the Albanian media by being more present with information and messages compared to previous years (the press has reflected ALSAI reports in 931 articles, reports, editorials and analytical reviews in 2016, 922 in 2015, and published in the newspapers 135 articles, written by 72 auditors of ALSAI).

Capacity building and professional development of audit staff was one of the strategic objectives of ALSAI during PFM implementation.Specific Training Needs Analyses resulted in a great necessity of the auditors for extending their knowledge in IT tools and their usage according to the new audit approaches adopted. During 2016, 489 days of training on IT audit techniques were performed.

Considering the importance for sound relationship between ALSAI and in promoting transparency, accountability and good governance, the Parliament approved the Resolution for the ALSAI’s 2015 activity assessment on 20th of October 2016.

During 2017 were undertaken 156 Audits: 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.

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 organizing the 5th Scientific Conference “*Auditing Sustainability and Development*” on 11-13 October 2017.

All IT audit staff is trained and methodology and IT audit guidelines were further developed. IT Help Desk was created and training sessions were 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 organized. 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 ALSAI’s obligations towards the Albanian Parliament*”. The 2016 Annual Report on the State Budget Execution was reviewed by the Parliamentary Committee on Economy and Finance. ALSAI delivered 24 audit reports of high public sensitivity to the Parliament. A guideline for effective relations SAI - Parliament was developed. Risk based planning Methodology used for annual and strategic planning was developed.

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% of audit decisions of the Chairman have been published on the ALSAI website. ALSAI visibility efforts in 2017 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.

A review of the anti-corruption/fraud system in Albania and ALSAI related achievements was undertaken and an internal report of challenges/constraints was produced. In this regard, 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.

ALSAI has prepared and finalized the Development Strategy 2018-2022 approved by the Decision of the Chairman No. 229 dated 31.12.2017. The Strategy outlines the strategic and professional mind-set, defining Goals and action plans following the conduct of deep analysis on practices and responding to the changes in the dynamic environment ALSAI operates, leading to successful management of challenges and risks.

Human Resources Policy Document was approved by the Chairman’s Decision No. 228, dated 31.12.2017. This document has been prepared based on a number of important documents resulting from cooperation and institutional partnership with institutions such as with the National Audit Office of Poland (NIK) mission reports in the framework of the IPA Twinning Project 2013 “*Strengthening External Audit in Albania*”. This document is one of the tools for ALSAI to measure the effectiveness of these policies, and will keep the HR management system updated, in order to ensure effective distribution and use of these resources.

The EU-funded twinning project which began to be implemented in the SAI in March 2016 has been successfully completed in July 2018. The main objective of project implementation was to strengthen the audit capacity of SAI towards institutional modernization and the fulfilment of its mission and vision to become a professional body and an audit institution that performs the activity in line with the requirements, standards and practices of the INTOSAI. The project was focused in three components:

* Improvement of the legal auditing framework;
* Development of audit methodologies and reporting capacities;
* Strengthening institutional capacity and improving the impact of audit results.

**Challenges faced during 2014- June 2018**

Despite the progress made during the period 2014 – June 2018, still remain some issues to be addressed as presented in the Box below.

**Box 22**

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| --- | --- |
| EU | The legal and operational framework for the ALSAI does not operate fully in line with international standards. The Oversight mechanism of the public finances including the analytical capacity of the relevant Parliamentary committee is weak[[47]](#footnote-47).  Implementation of the “*ALSAI Development Strategy 2018-2022*” to be translated in well-balanced budget requirements to drive the respective MTBP program responsible for external audit in MoFE[[48]](#footnote-48). |
| SIGMA | The ALSAI should regulate that the budget coverage of each audit be mentioned in each individual audit programme and individual audit report[[49]](#footnote-49).  The ALSAI should develop a risk-based audit strategy in which:  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;  a gradual reduction in the number of compliance audits should be considered in favour of increasing the number of financial and performance audits[[50]](#footnote-50).  The ALSAI 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[[51]](#footnote-51). |
| PEFA | The indicator on % of audit recommendations accepted versus those issued was not met for the year 2016 and 2017; PEFA Scoring for PI 30 was C+, because of low level of implementation of external audit recommendations[[52]](#footnote-52). |

### Revision of the Component 6.1

Based on the stock take of the main achievements and challenges during 2014 – June 2018 for the Component 6.1, as well as taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component.

**Objective**

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

**Outcome Indicators**

1. The weight of Financial and Performance audits undertaken by the SAI will increase when compared to Compliance Audits;
2. % of audit recommendations accepted and implemented by auditees \*;
3. The training strategy is in place, junior auditors are trained according to ISSAI \*.

Based on the assessment of the Component 6.1, the objective and the first outcome indicator will remain the same as before, while the second and the third outcome indicators will be revised. For the second outcome indicator only the methodology is clearly specified in order to provide the most accurate values, while for the third outcome indicator it is decided to focus more on the capacity building for the junior auditors of ALSAI. The ALSAI will work on addressing the challenges faced and the findings from external assessments which will contribute on strengthening the external oversight function by bringing it in line with INTOSAI standards. In this context, the revised component will be as below:

**Component 7.1 External audit**

* Improve legal and methodological framework.
* Strengthening audit capacities in order to ensure the performance of audit activities in compliance with INTOSAI Standards.
* Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.

## Component 7.2 Strengthen Parliamentary oversight and accountability for public spending\*

The Component 7.2 is considered to be added in the revised PFM strategy in order to strengthen Parliamentary oversight and accountability for public spending.

The Open Budget Survey[[53]](#footnote-53) (OBS) examines the role that legislature plays in the budget process and the extent to which it is able to provide effective oversight of the budget. This institution plays a critical role in planning budget and overseeing its implementation.

The legislature provides adequate oversight during the budget cycle in Albania based on OBS 2017. This score reflects that the legislature provides adequate oversight during the planning stage of the budget cycle and adequate oversight during the implementation stage of the budget cycle. The main barriers to effective legislative oversight are:

* A legislative committee does not examine or publish reports on in-year budget implementation online;
* In practice, as the budget is implemented, the legislature is not consulted before the government shifts funds between administrative units specified in the Enacted Budget.

Some other important findings with regard to this Component are presented in the Box below.

**Box 23**

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| PEFA | In-depth hearings on the audit findings take place regularly and involve representatives of the ALSAI and MoFE officials. Representatives of line ministries, or other audited entities do not participate in the hearings[[54]](#footnote-54).  The legislature issues recommendations on actions to be implemented, but there is no tracking system for following up on these recommendations[[55]](#footnote-55). |
| OBS | It is strongly recommended to set up an independent fiscal institution to further strengthen budget oversight[[56]](#footnote-56).  Ensure a legislative committee examines and publishes reports on in-year budget implementation online.  Ensure the legislature is consulted before the executive shifts funds between administrative units specified in the Enacted Budget during the budget year. |
| SIGMA | The Parliament has a formal procedure for handling the two mandatory ALSAI reports: the Committee of Economy and Finance discusses these reports with the Chairman of the ALSAI, and after this discussion the Committee defines a resolution with recommendations for the ALSAI, the Government and the Parliament. There are no hearings with auditees on the findings and recommendations of the ALSAI.  The ALSAI has to report annually on the implementation of the Committee’s recommendations to the ALSAI and to the Government[[57]](#footnote-57). |
| Others | The establishment of a sub-committee on public accounts audits, under the Parliament’s economic-financial committee. |

Taking into consideration the findings of several assessment reports and the recommendation from the donors, below is presented the revised framework of the component 7.2.

**Objective**

Strengthening the Parliamentary oversight function and accountability for public spending

**Outcome Indicator**

No. of activities of the Parliament with regard to addressing the recommendations issued by ALSAI

**Component 7.2 Strengthen Parliamentary oversight and accountability for public spending**

**Increase the quality of the activities of the Committee for the Economy and Finances**

**Establishment of a special Parliamentary sub-committee regarding to audit in public sector**

**Draft and approve the report on the follow up of recommendations issued by SAI**

# Refocus of the PFM Strategy for 2018-2022

Considering the mid-term evaluation for the implementation and the progress done for each pillar, it is decided to continue the implementation for most of the ongoing activities, some activities are reformulated and new activities are added, considering findings from international reports. As well, after the review of PFM framework and pillars focus, it is proposed that the PFM Revised Strategy 2018-2022 to be composed by seven pillars. This is related with the changes proposed to the existing pillar three which has a broad area of focus. In this context, aiming to focus more in the realization of the action plan, it is proposed to split pillar three in two pillars: pillar 3: *Revenue Administration* and pillar 4: *Efficient execution of the Budget.*

## Pillar 1: Sustainable and prudent fiscal framework

Considering implementation and the progress done in pillar one, it is decided to continue the implementation of ongoing component with some changes. From this pillar will be removed the component of National Government Accounts, which is related more with the objective of pillar four Accounting and Reporting. In this context, this pillar will be made of two component:

The component one: ‘Fiscal rules, forecasting and fiscal responsibility framework’, since all planned activities were completed, the revised strategy will contain **a new focus**: *Monitoring and reporting the application of fiscal rules according to OBL*, with the objective as before, to ensure sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives.

The component two ‘Fiscal risk management’ will be focused as before aiming to ensure adequate capabilities to detect monitor and propose measures to mitigate fiscal risks faced by the government.

## Pillar 2: Well integrated and efficient planning and budgeting of public expenditure

Considering implementation and the progress done in pillar two, it is decided to continue the implementation of ongoing component with some changes and to add a new component. Also it is proposed to reorganize the components as fits better from the strategic point of view.

The component one “Managing policy development and improving Integrated Strategic Governance”, the focus will be on both improving the process of developing and monitoring sector strategies and integration with MTBP.

The component two will be ‘Medium Term Budget Program’, which has a new **refocus** for the upcoming years. The objective of this component will be methodological improvements and fully implementation of performance based budgeting.

The component three will be ‘Capital investment planning, appraisal and inclusion in budget’, which needs a refocus to implement new PIM procedures implementation aiming to optimize value for money.

The component four ‘Project and Contract of PPP and Concessions’ is proposed to be added as a new component. It comprises a new focus of the PFM strategy, to ensure a prudent and stringent legal framework for a better management of PPP and Concessions in all stages, aiming to reduce fiscal risk.

The component five “PFM in local government” will be focus on better management and increased local revenue collection; clearance of the local arrears; and on alignment of MTBP in local level with MTBP in central level. The objective is reformulated as “Prudent, effective, and efficient financial management of the local governments and well integrated and efficient planning and budgeting”.

## Pillar 3: Revenue Administration

This is a new pillar with two existing components tax and custom administration that covers only the revenue side from budget execution. First component will be ‘Tax administration’ with minor change to ongoing activities. This component will continue with the same objective to ensure an effective, efficient and transparent management of tax revenues, refocusing mainly on property tax base.

Second component ‘Customs management’ will be refocus on the objective to protect the financial and economic interests of Albania, to contribute to the safety and security of the society and to facilitate trade, cooperate on national and international level with all relevant stakeholders.

## Pillar 4: Efficient execution of the Budget

This is a new pillar with five existing components that has derived from the existing pillar three and will cover only the expenditure side from budget execution.

The component one is “Improve the coverage and functionality of AGFIS”. The focus will remain as before to make AGFIS available to all major budget entities and to integrate AGFIS and other government IT systems under AFMIS. The objective is fully transparent and unified internal financial control on the state budget execution process.

The component two is “Management of external funds”. The focus will be on the focus will be on putting into operation EAMIS and integration with IPSIS and AFMIS. The objective will remain the same as” 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”.

The component three “Debt management” has the objective to ensure the government’s financing need in a timely manner and as well to minimize borrowing costs subject to keeping risks at an acceptable level"

The component four “Public Procurement” will be focused on improving the planning of public procurement procedures; increasing transparency in public procurement; improving efficiency in using public funds; improving legal framework amendment of the PPC regulatory framework in line with the amended Public Procurement Law.

The component five ‘Asset Management’ will focus in the same objective as before to complete asset registry including values and depreciation rules according to national standards.

## Pillar 5: Transparency of Public Finances

Considering implementation and the progress done in pillar four, it is decided to continue the implementation of ongoing components with some changes. As the strategy is foreseen to be revised, there are thought some changes in pillars organization. The existing pillar four will be moved as pillar five, and the name of it is thought to be: “Transparency of Public Finances”. The existing components of pillar five will stay in this pillar, also, some components of other pillars are moved to this pillar.

The component one “Accounting”, of the pillar five, will be focused as before aiming to ensure the full implementation of IPSAS in order to have improvement of Financial Reporting Standards.

The component two will be “National Government Accounts”, which is removed from pillar one to pillar five, since the objective to build an independent statistical system for the estimation of GFS following international standards, is related more with the government reporting rather than the objective of pillar one, which aims to maintain a sustainable and prudent fiscal framework.

## Pillar 6: Effective internal control

The components of the Pillar 5 will be removed to Pillar 6.

The component one “Financial Management and Control at Public Institutions” will be composed by three sub-components refocusing on amending methodological FMC framework, monitoring the implementation of the legal framework for FMC and increasing the awareness of public units about the benefits of implementing the concept of “Managerial Accountability”. The objective and the outcome indicator will remain the same as before.

The component two “Internal Audit” will be composed by four sub-components refocusing on carrying out external evaluations for public institutions regarding to the internal audit activity and evaluating and addressing the root causes of arrears in internal audit unit reports. The objective will be changed focusing more on strengthening the IA function in the public sector.

The component three “Public Financial Inspection” will be composed by three sub-component refocusing on improving the professional capacities and increasing accountability and integrity of internal public financial inspectors; on increasing awareness campaign on the role and the functions of Public Financial Inspection, as well as on increasing the quality of external public financial experts. The objective will be changed focusing more on improving the efficiency of the public financial inspection, as well as an outcome indicator is considered to be added aiming to measure the level of findings in relation to the public financial inspections carried out.

## Pillar 7: Effective external oversight of the public finances

The component of Pillar six will be removed to Pillar 7.

The component one “External Audit” will be composed by three sub-components with the focus on improving the legal and methodological framework, strengthening of audit capacities and improving the impact of audit work.

The Component two “Strengthen Parliamentary oversight and accountability for public spending” is proposed to be added. It will be composed by three sub-components with the focus on increasing the quality of the activities of the Committee for the Economy and Finances; establishment of a special Parliamentary sub-committee regarding to audit in public sector and on drafting and approving the report on the follow up of recommendations issued by SAI.

# PFM Monitoring risks

The PFM Reform Strategy lays out an ambitious reform agenda for all the government, not just the Ministry of Finance and Economy. Implementing and monitoring PFM reform requires an inclusive approach to the reform in which coordination and cooperation are an essential ingredient. Moreover, key factors such as a sustainable commitment to the PFM reforms, adequate human and financial capacity, cooperation and coordination between organizations and institutions have not been in required level. Regarding this statement, despite the will and the insistence of Directorate of PFM, there has been a lack of information came from responsible institutions part of PFM Strategy.

The lack of ownership of PFM Reform has slow down the implementation process. Also, the weak coordination among different PFM responsible institutions has hampered the progress of cross- institutional issues, such as IT systems integration.

Frequent reorganizations of the public sector have eroded the ability of the Budgetary Institutions in general and of the MoFE in particular to deliver on its core functions. Capacity constraints make it impossible for the MoFE to build a solid foundation for carrying out its role in the public sector.

At the activity level, access to resources and timely implementation of laws and regulations has been key influences on the progress achievable. Beyond the implementation of laws, the knowledge possessed by people implementing the initiatives has been crucial for effectively managing the changes.

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| Annexes **PFM priorities 2018-2022** |
| **Pillar 1: Sustainable and prudent fiscal framework**   1. Application of fiscal rule and fiscal principles 2. FRS finalization and publication   **Pillar 2: Well integrated and efficient planning and budgeting of public expenditure**   1. Implementation of Integrated Planning System Information System (IPSIS) and integration with AFMIS and EAMIS 2. Fully implementation of new PIM procedures. 3. Fully implementation of the new MTBP methodology. 4. Strengthen legal framework for a better management of PPP and Concessions. 5. Well integrated and efficient planning and budgeting in local government.   **Pillar 3: Revenue Administration**   1. Revenue collection maximization 2. Fiscal Cadaster established and operational   **Pillar 4: Efficient execution of the Budget**   1. Start using Asset Management module in AGFIS |
| **Pillar 5 : Transparency of Public Finances**   1. Implement IPSAS 2. Transmission of GFS tables   **Pillar 6: Effective internal control**   1. Usage FMC requirements to improve internal control systems and achieve objectives and results 2. Strengthening IA function in the public sector 3. Improving the efficiency of public financial inspection   **Pillar 7: Effective external oversight of the public finances**   1. Strengthening the external oversight function by bringing it in line with INTOSAI standards 2. Strengthen Parliamentary oversight and accountability for public spending |

1. <http://www.financa.gov.al/files/userfiles/Njoftime/E_FUNDIT_Strategjia_per_likuidimin_e_pagesave_te_vonuara.pdf> [↑](#footnote-ref-1)
2. There are no enough activities incorporated in new Action Plan 2018-2022 to address the target for indicators under this component. [↑](#footnote-ref-2)
3. (Joint Conclusions Of The Economic And Financial Dialogue Between The EU And The Western Balkans And Turkey, 25 May 2018) [↑](#footnote-ref-3)
4. (European Union – Albania 8th Stabilization and Association Committee Brussels, 4 October 2017) [↑](#footnote-ref-4)
5. ((IMF 2017 ARTICLE IV CONSULTATION—PRESS RELEASE- pg7) [↑](#footnote-ref-5)
6. (European Union–Albania 8th Stabilization and Association Committee Brussels, 4 October 2017). [↑](#footnote-ref-6)
7. [Albania Report 2018 - European Commission](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwi_x9DZ1Z7eAhXCFywKHVAqAvQQFjAAegQICRAC&url=https%3A%2F%2Fec.europa.eu%2Fneighbourhood-enlargement%2Fsites%2Fnear%2Ffiles%2F20180417-albania-report.pdf&usg=AOvVaw3hhV6N7jrRJpdDRYw7-CPG) (On Chapter 17 and 18) [↑](#footnote-ref-7)
8. This component is removed from pillar 1 to pillar 5, for this reason is written component 5.2 [↑](#footnote-ref-8)
9. <http://www.financa.gov.al/files/userfiles/Njoftime/E_FUNDIT_Strategjia_per_likuidimin_e_pagesave_te_vonuara.pdf> [↑](#footnote-ref-9)
10. <http://financa.gov.al/wp-content/uploads/2018/06/Udhezimi_Plotesues_nr.2_date_19.01.2018_-_Per_zbatimin_e_buxhetit_te_vitit_2018.pdf> [↑](#footnote-ref-10)
11. (European Union – Albania 8th Stabilization and Association Committee Brussels, 4 October 2017).

    [↑](#footnote-ref-11)
12. <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Albania.pdf> [↑](#footnote-ref-12)
13. PEFA Performance Assessment Report Albania, pg 29 [↑](#footnote-ref-13)
14. (European Union – Albania 8th Stabilization and Association Committee Brussels, 4 October 2017). [↑](#footnote-ref-14)
15. [↑](#footnote-ref-15)
16. This is a new component added in the Revised PFM Strategy for 2018-2022 [↑](#footnote-ref-16)
17. PEFA Performance Assessment Report Albania, pg 29 [↑](#footnote-ref-17)
18. <http://www.qbz.gov.al/botime/fletore_zyrtare/2017/PDF-2017/222-2017.pdf>

    <https://kryeministria.al/newsroom/vendime-te-miratuara-ne-mbledhjen-e-keshillit-te-ministrave-date-7-mars-2018/>

    <https://kryeministria.al/newsroom/vendime-te-miratuara-ne-mbledhjen-e-keshillit-te-ministrave-date-28-mars-2018/>

    <https://kryeministria.al/newsroom/vendime-te-miratuara-ne-mbledhjen-e-keshillit-te-ministrave-date-16-maj-2018/>

    <https://kryeministria.al/newsroom/vendime-te-miratuara-ne-mbledhjen-e-keshillit-te-ministrave-date-02-maj-2018/> [↑](#footnote-ref-18)
19. (European Union – Albania 8th Stabilization and Association Committee Brussels, 4 October 2017). [↑](#footnote-ref-19)
20. Jointly responsibility with Public Procurement Agency [↑](#footnote-ref-20)
21. The Public Procurement Commission is a new responsible stakeholder involved in this component. [↑](#footnote-ref-21)
22. Compliance Review 2018, Annex 5, page 17 [↑](#footnote-ref-22)
23. . (2017 PEFA report Pl 29, dimension 29.3 is scored with C. pg.112) [↑](#footnote-ref-23)
24. ; The World Bank-2017 Report on the Enhancement of Public Sector Financial Reporting, page 60 [↑](#footnote-ref-24)
25. The World Bank-2017 Report on the Enhancement of Public Sector Financial Reporting, page 35 [↑](#footnote-ref-25)
26. .The World Bank-2017 Report on the Enhancement of Public Sector Financial Reporting, pg. 57-58 [↑](#footnote-ref-26)
27. <http://www.financa.gov.al/raporti-i-mes-vitit-mbi-zbatimin-e-buxhetit-2018/> [↑](#footnote-ref-27)
28. 2017 PEFA Report. pg. 33 (9.1. Public access to fiscal information) [↑](#footnote-ref-28)
29. Compliance Review 2018, Annex 6, page.8 [↑](#footnote-ref-29)
30. Compliance Review 2018, Annex 6 page 13 [↑](#footnote-ref-30)
31. Compliance Review 2018, Annex 6 page 13 [↑](#footnote-ref-31)
32. Compliance Review 2018, Annex 6, page 8 [↑](#footnote-ref-32)
33. 2017 PEFA Report. PL 28 pg 141 and pg. 112 [↑](#footnote-ref-33)
34. ; OBI 2017.page 4 [↑](#footnote-ref-34)
35. Compliance review 2018, Annex 5, page 25 [↑](#footnote-ref-35)
36. Compliance review 2018, Annex 5, page 25 [↑](#footnote-ref-36)
37. 2017 SIGMA Assessment Report, page 150 [↑](#footnote-ref-37)
38. 2017 SIGMA Assessment Report, page 150 [↑](#footnote-ref-38)
39. Compliance review 2018, Annex 5, page 25 [↑](#footnote-ref-39)
40. Compliance review 2018, Annex 5, page 26 [↑](#footnote-ref-40)
41. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-41)
42. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-42)
43. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-43)
44. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-44)
45. 2017 PEFA Report, page 102-103 [↑](#footnote-ref-45)
46. Compliance review 2018, Annex 5, page 25 [↑](#footnote-ref-46)
47. Compliance Review 2018, Annex 5, page 26 [↑](#footnote-ref-47)
48. Compliance Review 2018, Annex 1, page 22 [↑](#footnote-ref-48)
49. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-49)
50. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-50)
51. 2017 SIGMA Assessment Report, page 155 [↑](#footnote-ref-51)
52. 2017 PEFA Report, page 116 [↑](#footnote-ref-52)
53. https://www.internationalbudget.org/wp-content/uploads/albania-open-budget-survey-2017-summary.pdf [↑](#footnote-ref-53)
54. 2017 PEFA Report, Pl. 31.2, page 118 [↑](#footnote-ref-54)
55. 2017 PEFA Report, Pl. 31.3, page 118 [↑](#footnote-ref-55)
56. Open Budget Survey 2017, page 4 [↑](#footnote-ref-56)
57. 2017 SIGMA Assessment Report, page 171 [↑](#footnote-ref-57)