REPUBLIC OF ALBANIA

MINISTRY OF FINANCE

Albania Public Finance Management Strategy

2014 - 2020

December 2014

ACRONYMS AND ABBREVIATIONS

ALL	Albanian Lek
AGFIS	Albanian Government Financial Information System
AGFMIS	Albanian Government Financial Management Information System
EAMIS	External Assistance Management Information System
CoM	Council of Ministers
DMFAS	Debt Management Financial Analysis System
DDPFFA	Department of Development Programming, Financing and Foreign Aid
EDP	Excessive Deficit Procedure
EU	European Union
GDC	General Department of Customs
GDP	Gross Domestic Product
GDT	General Department of Taxes
GFS	Government Financial Statistics
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
EPSAS	European Public Sector Accounting Standards
IPS	Integrated Planning System
MTBP	Medium Term Budget Programme
MTBO	Medium-term Budgetary Objectives
NSDI	National Strategy for Development and Integration
OBL	Organic Budget Law
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SIGMA	Support for Improvement in Governance and Management
SGP	Stability and Growth Pact
TSA	Treasury Single Account

Contents

ACKNOWLEDGEMENTS

The Public Finance Management Strategy 2014-2020, is the result of successful cooperation between the Ministry of Finance, the national and international partner institutions, and civil society active in the field of public finance.

This document, bears a significant importance, as it not only paves the ground for reinstating the public finances in the long-term sustainability trajectory, thus creating the prerequisites for economic growth, but also constitutes an obligation arising from agreements with international partners, in particular the World Bank, International Monetary Fund and the European Union.

For the successful completion of this process, extremely important for the country, the Ministry of Finance would like to thank the members of the Parliamentary Commission of Economy and Finance, the Minister of European Integration, Minister of Economic Development, Trade and Entrepreneurship, Minister of State for Local Issues for comments and valuable suggestions in the field of anticorruption and decentralization, the Department of Development Programming, Financing and Foreign Aid at the Prime Minister Office, the Supreme Audit Institution of the for its contribution and as an important component of this strategy, the Department of Public Administration , the Public Procurement Agency, and finally the staff of the Directorate General of Taxation and the Directorate General of Customs.

A particular acknowledgment goes to international partners, particularly the World Bank and the International Monetary Fund, European Commission, SIGMA and the EU Delegation in Tirana, for their expertise and contribution to the finalization of this important document for public finances in Albania.

Finally, we would like to thank the representatives of civil society active in the field of public finance, for their valuable suggestions.

We hope to continue our partnership in the context of the effective implementation of the planned reforms.

Overview of the PFM reform strategy

The vision of the PFM reform strategy is to ensure a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development.

Safeguarding macroeconomic stability and sustainability is this Government's top priority as it will help unlock Albania's significant untapped growth potential. To ensure stability, the Government will strengthen the overall fiscal framework, create mechanisms to ensure that forecasting is realistic and tighten the three-year MTBP preparation process. This Government will never allow a breakdown of fiscal discipline like the one that led to the build-up of arrears in recent years. Safeguards against a new build-up of arrears have already been put in place, and are further being enhanced. The Ministry of Finance has already adopted the Arrears Prevention and Clearance Strategy in 2014, which envisages clearing the existing stock by end 2017, and specific measures to prevent new build-up of arrears. In this regard, other important measures regarding commitment controls are being further developed as planned in this document. As from January 2014, all procurement orders for goods, services and investments must be controlled for compliance with the procurement plan submitted to the Treasury and must be stamped by the district Treasury branch before procurement can proceed. Multi-year limits for investment projects and other longer term contractual arrangement will be introduced in the mid-term budget document for 2015 and beyond, and these limits will be approved by Parliament as a part of the annual budget law. Severe sanctions will be applied to those entities and officers not respecting these provisions.

The overall fiscal framework will be ensured by a range of legislative measures that will provide clarity and certainty regarding the steps that must be taken. We acknowledge, however, that legislative amendments in and by themselves will not be insufficient to ensure discipline. It also requires strong political commitment and leadership to ensure compliance with existing and new legislation and enforce management responsibility and accountability across the whole public administration.

Efforts will continue to strengthen revenue management, by revising tax policy and reforming the tax and customs administrations to increase its efficiency in the collection of revenues, decrease the tax gap, fight tax evasion and the informal economy. Debt and cash management will be improved.

But it is also of paramount importance that public spending is structured in a way that maximizes the positive impact on the national economy. Priority will be given to projects and programs with a strong impact on economic growth and employment. To improve the quality and effectiveness of government spending in general and capital investment projects in particular, the administration's capacity to appraise projects and to carry out broader sector reviews will be enhanced.

More emphasis will be put on monitoring the government programmes. And the reporting to Parliament and the public will be greatly improved, in terms of content as well as access. Discussion will be held with Parliament on how to enrich the reviews of the MTBP and its execution and how to hold individual ministers clearly accountable for the programmes for which they are responsible.

A prerequisite for good reporting is good accounting. Over the present plan period, accounting standards will be gradually revised with the ambition of eventually becoming fully compliant with the EPSAS accounting standards, as they are finally defined, which is likely to be only in the next plan period. The internal control systems in central and local government institutions will be strengthened to ensure compliance and propriety but also as a means to enhancing the effectiveness and efficiency of the public sector. In parallel with the efforts of the Government, external audit by the High State Control will be strengthened with the objective of aligning its role, set-up, and modus operandi with the standards set by INTOSAI. Actually, the high State Control has been actively involved in the preparation of the Strategy, and is a key member of the PFM Reform Steering Committee, which will, inter alia, monitor progress of the measures and formal commitments that are given in the Strategy.

Modern financial management requires modern and well-integrated systems support. Considerable resources will, therefore, be devoted to designing and implementing an integrated financial management system, an IFMIS supporting all major processes involved in the management of the government's finances and operations. A unified command for developing the conceptual design for the IFMIS, for coordinating, and for financing the different activities involved in implementing the IFMIS will be set up in MoF. The Government will solicit basket funding from its partners for the purpose.

But laws, regulations and IT-systems are not sufficient for achieving our vision of a professionalized public financial administration. Besides political commitment, it will in the end depend on the integrity, competence and dedication of the public servants that will be responsible for the different functions at the core PFM institutions as well as in the line ministries and spending units. Much effort will therefore be put into developing the capacity of the government staff and in particular budget users both at central and local level through systematic training. Programmes to increase capacity in the PFM area will need to be, and will be, supported by measures to modernize the management culture, giving more authority to line managers while strengthening the mechanisms to ensure accountability.

This government has a zero tolerance for laxity and corruption. The existing PFM legislation, including provisions for sanctions to be meted out when there is a breach of the provisions in the law will be applied to the letter. Outright cases of corruption will be brought to court. When and where weaknesses in the legislation are discovered, weaknesses that create opportunities for corrupt behaviour, the Government will prepare and present to Parliament the necessary new legislation or amendments to the existing one to close the gap. The recent passing of the *Law on late payment in contractual and commercial relations* is a case in point.

To ensure that the ambitious reforms spelt out in this document are actually carried through, the Government will set up a three-tiered management structure that will guide and monitor the reform actions carried out by the respective responsible entities. A PFM Reform Steering Committee, chaired by the Minister of Finance with high-level participation from the main government institutions concerned plus the High State Control and Parliament, will provide the overarching guidance of the implementation process and will decide on any reorientation and restructuring of it. The Steering Committee will be supported by a Secretariat. Pillar Co-ordination Committees will co-ordinate the components of the respective pillars and Component Leaders will drive the implementation of the reforms in each component. In parallel to the activities of the three-tiered management structure, each budget user will be required to identify potential for freeing up resources by highlighting existing shortcomings in terms of meeting its objectives such as technical capacities of staff in its directorates, duplication of activities across directorates, duplication of responsibilities across budget users, identifying obsolete or non-priority directorates etc.

Albania's external partners have an important role in the development of the country's public financial management system. Not least through its financial support for the substantial investment needed in IT and human capacity, but also through the experience and technical expertise that they can provide.

Not all planned reforms can be carried out at once; financial and human resources are limited and creating an understanding of their necessity may take time. They will therefore be implemented in a phased manner over the plan period.

Most urgent is putting in place a legal and procedural framework that will ensure the short- and long-term sustainability of the public finances. The Government will therefore prepare amendments to the *Law No.9936 from 2008 on the Management of Budgetary System in the Republic of Albania*, the Organic Budget Law (OBL) for short that will provide safeguards against short-term political expediency jeopardizing the long-term sustainability of Albania's public finances. The law will be presented to Parliament by mid-year 2015 with the objective of having it passed before the end of the year.

The other reforms spelt out in this strategy, such as those concerning budget documentation, accounting principles, reporting, performance management, and the design and implementation of the IFMIS, will be phased and implemented over the whole plan period.

Chapter I: The present state of PFM in Albania

The economic context

Albania weathered the global economic and financial crises relatively well. Recession was avoided, but real growth rates slowed down from an average of 6 per cent per year between 1998 and 2008 to less than 3 per cent in the period 2009-2012. In 2013, it was less than 1 per cent. A failure to adequately adjust expenditure to the slow-down in government revenue growth led to bigger than planned budget deficits and an increase in Albania's public debt, partly in the form of arrears. The legal ceiling of 60 per cent for the debt/GDP ratio had to be removed and the ratio reached over 72 per cent in 2014. Systemic overly optimistic GDP and revenue forecasts, in addition to failures adjust management behaviour to a reduction in available funding has considerably undermined the planning and budgeting processes in recent years. Reversing these trends is an overarching priority for the Government, as specific measures for tightening the fiscal framework and increasing responsibility, and accountability for the effective and efficient use of public financial resources are clearly envisaged in this strategy.

Growth is expected to rebound to 2 per cent in 2014 and the IMF considers the medium–term outlook to be generally favourable. Economic growth should gradually reach about 4.5 per cent over the medium term, which however, is below the growth rate achieved prior to the crisis. But the risk that this scenario will not materialise cannot be neglected. A protracted period of slower European growth could spill over through trade and remittances channels, hurting growth and external and financial sector stability. And, it hinges on an effective fiscal consolidation and good progress on structural reforms to boost investor confidence. In this context, it is this government's purpose to reverse the increasing trend of the debt to GDP ratio, by settling it down at sustainable levels for a developing country, thus not hindering long term sustainability. Fiscal policies will focus on public expenditures efficiency, prioritisation of spending policies with major impacts, opening new perspectives for private sector investments, promoting efficiency gains, economic growth and employment.

The present state of PFM in Albania

Ministry of Finance's analysis

In 2005, Albania introduced the Integrated Planning System (IPS), a broad framework of policy planning, budgeting and monitoring. The framework aims to ensure coherence, effectiveness and harmonization on strategic planning, public finance and policy monitoring. Specifically, the IPS shall ensure the coherence of the National Strategy for Development and Integration (NSDI), the long term sector and cross-sector strategies and the Medium Term Budget Program (MTBP).

Introducing MTBP as an instrument for aligning the budget with the general and sector policies of NSDI represents one of the main achievements of the PFM reform 2007-2013. The MTBP process helps ensuring the sustainability of public finances by introducing a medium-term perspective to the public expenditure planning exercise. Efficiency gains have also been achieved as a result of the implementation of the Automated Government Financial Information System (AGFIS). However, overoptimistic forecasts of revenues have undermined the positive impact of these improvements on the national budgeting process, by creating an unanticipated urgent need for adjustments in revenue and expenditure plans.

The inter-governmental fiscal relations have become more transparent since the introduction of formula-based allocations of the unconditional transfers in 2002. However much remains to be done to strengthen the management of the local government including fiscal risks..

A modern legal framework for the management of public debt has been created, including Law no .9965, dated 18.12.2006, "On State Borrowing, State Debt and Guarantees of the Republic of Albania", for the central government, and Law no. 9896, dated 04.02.2008 "On Local Borrowing" for local government. The implementation of a debt management and financial analysis system (DMFAS) has streamlined accounting and management of Albania's external public debt.

Customs have been reformed and are considered a well-functioning administration working toward EU accession standards. The Tax administration has not come as far in its process to modernize its operations, but, technical assistance is being provided from the IMF and WB to implement a new IT system, redesign tax administration processes, and implement a modern compliance risk management system. Tax evasion is still considered too high but steps have been taken and collection is improving. A new set of instructions have been issued to address internal controls and efficiency issues. Taxpayer registration is not optimal and insufficiently linked to other databases, but a risk-based approach to tax audit and fraud is being developed and tools acquired.

Payroll management is weak in absence of a full establishment list, directly linking the roster of public employees and the payroll. A new Civil Service law has been approved and its implementation on-going.

Over the past few years, the public procurement system in Albania has improved a great deal from a legal, institutional and practical point of view. E-procurement has been introduced. But the PPL is not yet fully aligned with the requirements of the *Acquis communautaire*. Procurement planning is compulsory but not done consistently in procuring entities. The Public Procurement Agency's website publishes forecasts, tenders and contract awards in a great amount of detail[1].

The pension system in Albania fulfilled its main functions during the transition period but now suffers acute problems, which make its reformation crucial. First of all, the pension scheme is running a very high deficit which makes it unsustainable. Secondly, even though all elderly people are covered by the scheme thanks to full employment during communism, a large part of the working age population is uninsured due to the design of the scheme, the high unemployment rate and the size of the informal sector.. Considering the importance of the

1 There are plans to upgrade the user friendliness of websites to improve access of public to information.

pensions for social protection and its weight in the budget, it is necessary to immediately reform the system. For this purpose a “Document for pension’s policies” has been drafted and an inter-institutional working group for “coordination and supervision of the process for preparing the reform in the pension’s field” has been set up.

The bulk of external funds put at the disposal of the Government of Albania (GOA) are not fully managed and controlled using national procedures and are not recorded in AGFIS. This limits the possibilities of effectively coordinating and managing the Government’s complete resource envelope. In the 2005 Paris Declaration on Aid Effectiveness, the donor community committed to using national procedures when these are effective and transparent. With the introduction of AGFIS and improvements in the area of procurement, internal and external audit, it is the Government’s opinion that these conditions are met. Since 2005, the GoA has experienced remarkable progress indifferent aid effectiveness indicators such as strengthening mutual accountability and reducing parallel project implementation structures.

Notwithstanding this, the joint OECD and UNDP Global Partnership monitoring framework - *Making Development Co-Operation More Effective: 2014 Progress Report*, notes that, only 10 % of donor financing was channelled through country systems. Only a few donor funded projects used national procurement rules and major funds disbursements were not executed through the national treasury system. This is also the case for other PFM aspects like auditing and financial control with regards of donor financing.

Recently requirements have been introduced for Line Ministries to include in their budget submissions, specific budget lines related to VAT reimbursement or co-financing for donor projects. This constitutes a first step towards full inclusion of foreign funding (whether grant or loan) in the budget.

In addition, DDPFFA has concluded the system design for the establishment of an External Assistance Management Information System (EAMIS). The main objective of EAMIS is to effectively manage development finance & implementation and to promote accountable and transparent use of resources.

Public accounting in Albania is presently done on cash basis for revenues and on a modified cash basis for expenditures. To complement, AGFIS includes modules that are used for the management of some of the Government’s assets, for commitment accounting, and for the management of debtors and creditors. One of the priorities of this strategy is to develop the accounting standards and extend the functionality of the AGFIS so as to turn it into a proper integrated financial management information system.

A key problem of the present PFM system in Albania is that internal controls are insufficiently complied with and that non-compliance is insufficiently reported and sanctioned. The financial management and control and internal audit laws will be revised to ensure that non-compliance is dealt with promptly. As capacity is a limiting factor, training will constitute a key component in the reforms aimed at improving the quality and impact of internal control and audit. The legal basis for internal audit will be revised raise the status of internal auditors.

The Supreme State Audit Institution, (also known as High State Control) (SAI) has developed a capacity development strategy and a twinning arrangement is planned. A new law to modernize its mandate and jurisdiction, in line with international standards, has been drafted and is currently being reviewed.

The legislative control on public finance management is exercised by the Economic Committee of the Parliament dealing with the economic, fiscal and budgetary policies of the State. It analyses the budget and the SAI reports. The Parliament hearings and debates are public.

External assessments

PEFA

The 2011 PEFA assessment concludes that PFM in Albania has improved considerably across a wide range of the performance indicators since the PEFA assessment carried out in 2006. Most progress has been made in the more technical aspects of public financial management. Overall PEFA scores are still implying weaknesses indicating as only thirteen out of twenty eight indicators improved, while indicator worsened and ten remain unchanged. Some indicators could not be rated, which was also the case in 2006. When it comes to indicators intended to capture the "outcome" of public financial management, the results were less positive. Aggregate revenue actually collected deviated substantially from the forecasted/planned collection and the composition of actual expenditure, deviated substantially and systematically from budgeted expenditure.

IMF

The IMF reports highlight a number of weaknesses in the current PFM system. Some of the weaknesses are being addressed through on-going reform activities. The Government acknowledged the existence of a large stock of unpaid obligations (hidden public debt) in September 2013. The Government has, now taken a number of measures to address the underlying problem and has developed a strategy to clear the arrears in a transparent and equitable manner over the medium term and to prevent the creation of new arrears. The payment process started in 2014. The estimate of total general government arrears (which includes the liabilities of social assistance funds and local governments) is approximately 5 per cent of GDP. In addition to these arrears, the government evaluated the arrears within the broader public sector, including state owned enterprises in the energy sector, which were netted in a separate process.

OECD/SIGMA

SIGMA, a joint initiative by OECD and the EU, prepares a yearly assessment of the development of public sector management in Albania. The observations following the Albania Assessment Report 2013[2] are summarized in the following:

- The independence of the Macro-Economic Policy Department is not guaranteed.
- Once this is guaranteed, to strengthen the accuracy of the MoF's fiscal forecasting, the

[2] OECD (2013), "Albania Assessment Report 2013", *SIGMA Country Assessment Reports*, 2013/14, OECD Publishing. http://dx.doi.org/10.1787/5jz2rqkbhqbq-en

MoF should instruct budget users on the use of an agreed policy change baseline for three-year expenditure forecasts;

- MoF should develop for Government approval training to key staff in all budget users on how to better plan and budget for expenditure programmes, using performance indicators and cost-benefit analysis, in order to develop throughout the public sector a more analytical approach to expenditure programmes and investment decisions throughout the public sector;
- MoF should work with budget users through regular communication and workshops, placing stronger emphasis on monitoring actual expenditure against the budget and actual outputs against targets;
- MoF should finalize the development of a system for better commitment controls, whereby spending units are required to register all commitments in the Treasury system before a contract is actually signed so that it can only be signed if the relevant revenue is available;

EU progress report 2014

In the progress report for 2014, EU notes that:

"The government continues to press for economic reform and for enhanced economic governance, in order to re-launch growth and increase competitiveness. A National Economic Council chaired by the Prime Minister with the participation of the business community has been set up to provide guidance and coherence in economic reforms. Macroeconomic stability continues to be enhanced by a sound monetary policy and inflation stays at low levels. The much-needed fiscal consolidation will be facilitated by the loan agreement concluded with the International Monetary Fund (IMF) and World Bank. It will enable the clearance of large accumulated payment arrears over the coming three years and foster substantial reforms related to public finance management, taxation, the pension system and the energy sector. Reforms have already resulted in increasing collection of revenues from taxation and customs duties and investigations into Value Added Tax (VAT) evasion and fraud schemes have been stepped up. The Economic and Fiscal Programme for 2014-2016 sets out the framework for supporting growth and macroeconomic stability and identifies necessary structural reforms in some key areas, including enhancing the rule of law, improving the business and investment environment and tackling labour market problems."

National Strategy on the Fight against Corruption

The Government is preparing a national strategy on the fight against corruption. The strategy will be built on three pillars:

- prevention,
- punishment and,
- awareness-raising

The Anti-corruption strategy will include initiatives and measures to:

- Improve citizens' access to information

- Improve public communication and consultation with the public in the process of drafting and approving regulatory acts (laws, decisions, etc.)
- Enhance transparency in planning, detailing, managing and auditing the budget funds
- Review and improve the system and mechanisms for the public's complaints
- Improve efficiency of internal audit and inspection
- Corruption proof legislation
- Improve efficiency and effectiveness of criminal investigations on economic and financial crimes (corruption)
- Improve international police and judiciary cooperation in the fight against economic and financial crime
- Encourage cooperation with civil society in conceiving, implementing and monitoring anti-corruption measures.

EU Integration

In the perspective of accession, Albania has adopted the EU principles for good public finance management and fiscal prudence, as expressed in the EU 2011 directive on budgeting. The Public Finance Management Reform vision of Albania is to comply with this directive so that its provisions will be met when Albania accedes to the EU. As in the case of a number of other EU countries, Albania may choose to target even lower bounds, provided that this is in line with national interests at the given point in time.

The programme with the IMF

Albania has entered into a program with the IMF for the period 2014 – 2016 under the extended fund facility (EFF) with access equivalent to SDR295.42 million. Programme disbursements are in the form of direct budget support. Performance under the programme is monitored through quarterly quantitative performance criteria and extensive structural conditionality. Over the programme period, emphasis will be on PFM, arrears prevention, addressing shortcomings of the pension system, and putting the energy sector on a sustainable footing. The current (2014) PFM-related structural benchmarks are the following:

- Publish a comprehensive arrears prevention and clearance strategy.
- Contract an external auditor with a mandate to conduct risk-based audits of arrears payments.
- Introduce multi-year commitment limits in the 2015 budget, and change the Procurement Law, the Financial Management and Control Law, and the Budget Law accordingly.
- The GDT to develop a corporate strategy for medium to long term capacity building.

Chapter II: The vision, policies and strategic purposes

The National Strategy for Development and Integration (NSDI) outlines Albania's long-term national development priorities. As part of NSDI, the Public Financial Management Strategy 2014-2020 spells out the vision, scope and strategic objectives for the country's public financial management and transforms them into a plan of prioritized actions. It specifies responsibilities for the implementation of the strategy and includes a set of indicators for monitoring of the outcomes.

Vision of the PFM strategy is to ensure a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development.

The overall objective of the PFM reform strategy is to achieve a better balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies.

The purpose of the PFM strategy document is threefold:

- Identify and address the challenges facing public financial management and suggest the PFM reforms required to support continuous robust growth and the development of the national economy;
- Promote policy coherence, set priorities and assign responsibilities for carrying out public financial management reform;
- Make more transparent to the Parliament, financial sector, business community, international partners and the broader public, the policies pursued and the efforts made by the Government to strengthen the PFM in the country.

The PFM reform strategy is for most of the areas of public financial management underpinned by more detailed strategies and action plans prepared by the respective responsible entities, such as the Arrears Clearance and Prevention Strategy, the Anticorruption Strategy, and the PAR reform Strategy. In addition, the Government's reform strategy is complemented by the constitutionally independent Supreme State Audit's strategy for raising the work of the institution to the standards of INTOSAI. For comprehensiveness and given the importance of external audit in PFM, the reforms in that area are also reflected in this document.

The Public Financial Management Reform strategy 2014 - 2020 will be oriented to provide a direct impact to public institutions and also to citizens to have tangible results and measurable indicators. It aims to be focused on the implementation enforcement, not just planning. For that reason, the definition of performance based monitoring indicators and respective targets, is considered to be a crucial phase that will guarantee the monitoring and evaluation of performance progress of Public Financial Management reform policy.

Main priorities over the medium term

The overall objective of the PFM reform strategy is to achieve a better balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies.

The main thematic priorities over the medium term can be summarized in the following bullet points:

- Prudent macroeconomic framework and fiscal policy with the objective to decrease the debt/GDP over the medium term;
- Elimination of arrears and prevention of their reoccurrence;
- Tightened commitment control, control of multiyear commitments and pre-commitments and an enhanced financial control system;
- A prudent, well-functioning multiyear budget process;
- Strengthened revenue collection, and compliance, with the objective to decrease tax evasion and the tax gap;
- A well trained and capable internal audit function;
- The HSC has agreed to fully operate in line with INTOSAI standards;
- Increased transparency and better accountability mechanisms;
- Efficient public procurement system improving the quality of public spending.

A number of priorities cut across the whole spectrum of reforms and the public administration:

- A professional public administration with improved skills in the management of public funds;
- Efficient enforcement of rules and procedures, well targeted training and capacity building, for strengthened administrative capacity in the public administration at central as well as local level;
- Full and uniform enforcement of sanctions for administrative violations in the area of public financial management;
- Effective fight against outright corruption in the public administration;

Instruments

The vision of a modern and efficient management of Albania's public finances will be achieved through the application of several instruments: legislation, capacity building, culture changes, IT-development, and process reengineering.

Legislative changes

Many of the reforms spelt out in this strategy will require amendments to the different laws that set the parameters for the management of Albania's public finances. Most importantly, amendments will need to be made in the Law No.9936 from 2008 on the Management of Budgetary System in the Republic of Albania, the Organic Budget Law (OBL) for short. A structural benchmark of the agreement with the IMF is that the Government will "introduce multi-year commitment limits in the 2015 budget, and change the Procurement Law, the Financial Management and Control Law, and the Budget Law accordingly".

To avoid having to change the OBL several times, the introduction of multi-year commitment limits will be introduced in the law as part of a package of amendments that will also include a change of the status and function of the MTBP and its preparation, an introduction of a fiscal procedural rule, the use of proceeds from privatization, responsibilities and procedures for preparing the fiscal forecasts, responsibilities for risk management, and the content of the budget documents. The amendments will also include changes necessary for the amendment of secondary PFM legislation.

It is the Government's intention to submit the draft amendments of the OBL by mid-year 2015, with the objective of having them passed by Parliament before the end of the year. The status of the OBL will be enhanced to that of "code" so that any future changes will require a qualified majority.

Capacity development

Progress in the PFM reforms will require a great deal of investment in human capacity. Building capacity will take many forms: continuous and ad hoc training programmes, skill transfers within the realm of twinning programmes with sister organizations in the EU, study visits, job rotation, etc. Qualification exams will be used to a greater extent in the recruitment of new staff. In particular the Government will seek support from its partners in the development and financing of many of the training programmes.

For some functions, it will be necessary, within the constraints set by the budget, to increase the number of staff to make it possible to deliver on the increased ambitions in many PFM areas. To the greatest extent possible, the new demands will be met by shifting staff from functions, which with improved IT-support, can be carried out with less human input or from functions that become irrelevant as a result of new legislation and/or new procedures. This will be the case, for example, in the Tax and Customs administrations.

Changes in processes and in management culture

Albania has embarked on a long journey that will shift the focus of public management from a focus on input to a focus on results. The conceptual and legal frameworks are largely in place, partly in the form of a law on Financial Management and Control from 2010 which encapsulates the notion of performance management. A five-year plan for implementing the FMC for the period 2011 – 2016 was developed. The approach of the plan was to test the various aspects of the new financial management and control system in central and local government pilot institutions for the duration of a single budget cycle. The implementation of the plan has, however, not lived up to the expectations. Before proceeding any further, a review of the experience to date and the constraints that have impeded the implementation of the intended management changes will therefore be carried out.

The latter review will provide an input to the implementation of other components of the PFM reform strategy as well as to the Public Administration Reform (PAR) Strategy now being drafted by the Department of Public Administration Reform (DoPA). An improved PAR strategic and management framework will support the PFM Strategy and vice versa. One important component of the PAR is putting in place a merit-based recruitment and promotion policy to strengthen the trust and loyalty on which managerial accountability depends.

Development of a full-fledged IFMIS

Achieving the vision of a modern and efficient system for public financial management will require substantial investment in an integrated financial management system, an IFMIS. Hitherto, the introduction of systems support for PFM functions in the public administration has been very fragmented. Individual functions have been computerized without an eye to the important interdependencies that exist between processes and entities.

The Government will set up a separate function within the Ministry of Finance to bring the development of an IFMIS under a unified command, including the conceptual design, procurement, and implementation of additional modules and/or reconfiguration of existing core modules. The scope of the future system is to include, as a minimum: planning and budgeting, programme and project management, contract management, intra-governmental transfers, expenditure management and control including payroll management, accounting, treasury management, and liquidity forecasting. The central IFMIS function will also be responsible for specifying and implementing interfaces with existing systems in the tax and customs administrations, in the Public Procurement Authority and with the system used for debt management.

The Government will invite its external partners to contribute to a basket fund to finance the development and implementation of the future IFMIS.

Chapter III: Policy objectives and main outputs

The PFM reform strategy is organized in 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 financial reporting.
5. Effective internal controls
6. Effective external oversight of the public finances

Each pillar is divided into a number of components. For each component there is a discussion of the context followed by the objective of the reform, indicators to measure the outcome and the different actions that will be taken to achieve the intended objective(s). For each action is listed its priority, in which year it is to be completed, the deliverables of the action, its cost implications, the responsible entity/entities, and the risk factors that may impede its execution.

All actions, by pillar and component, are brought together in an Action Plan in Appendix 3.

Pillar 1 - Sustainable and prudent fiscal framework

The Government will reinforce the fiscal management framework by:

- Establishing legally binding procedural rules that will seek to eliminate the risk of systematic optimistic biases in the forecasts of GDP and budget revenues, forecasts that, in the past, have led to unsustainable expenditure budgets;
- Establishing a fiscal rule that will guide fiscal policy toward long-term sustainability of public debt, leaving reasonable room for counter-cyclical fiscal policy to smooth strong economic cycles and shocks;
- Restricting the use of privatization proceeds to retiring debt and/or to capital investment;
- Establishing legal rules that, in the years of parliamentary elections, will prevent early exhaustion of approved deficit and borrowing limits;
- Strengthening fiscal risk monitoring and management.

Forecasting

Context

In recent years, the planning and budgeting processes have been undermined by systematic overly optimistic GDP and revenue forecasts. The unrealistic forecasts were driven by political pressures to justify and maintain the growth of spending in general, and investment programs in particular, at rates that were possible in the good years of the last decade. At present such pressures are contained by the programme with the IMF, but the Government considers it as a necessity to create, for the future, an institutional and/or procedural framework for forecasting that reduces the risks of biased forecasts.

Objective

Unbiased and realistic forecasts of GDP and revenue growth

Outcome indicator

- Percentage deviation of actual revenue growth from projected revenue growth.

Action 1: Review different options for ensuring unbiased GDP and revenue forecasts

The Government will explore different options and measures to ensure unbiased forecasting.

One option would be to set up a Fiscal Council reporting to Parliament. The council would be a professional body, the head of which could be nominated by the Economy and Finance Committee and appointed by the Parliament for a period of four years with the support of at least three fifth of its members. The budget for the Council would be set directly by Parliament and all recruitments of technical staff for the Council would be advertised and the evaluations documented. The Council would be charged with preparing the forecasts upon which the MTBP and the annual budget, and any revisions thereof, are based. The Council would also prepare the long-term forecasts for future NSDIs.

A second option would be to set up a Fiscal Council through the process outlined above, but to limit is mandate to commenting on the forecasts prepared by MoF, including comparing them with forecasts prepared by other institutions such as the Bank of Albania, the IMF, the World Bank and the EC. It would, furthermore, be mandatory for the Government to publish these forecasts alongside the MoF forecasts in the annual budget documentation so that any differences would be obvious before the Budget is adopted by Parliament.

A third option could be to make it mandatory for the Government to base the MTBP/three-year budget on “consensus forecasts”. Consensus forecasts could be computed as an average of point projections prepared by official organizations which make regular projections of macroeconomic indicators such as the MoF, BoA, the IMF, the WB and the EC.

Action 2: Legislate on and implement measures to ensure unbiased GDP and revenue forecasts

Regardless of the route chosen, the OBL will need to be amended to reflect the change in procedures and responsibilities and institutions will need to be set up and/or strengthened.

Action 3: improve forecasting methodologies

Regardless of whether forecasting is outsourced to an independent institution or still primarily the responsibility of MoF, the methodologies used for forecasting need to be improved. The Government will request technical assistance to provide input into this process.

Implementation

Priority:	1
Completed in year:	2015
Deliverables:	An assessment of options and a decision on the way forward

	Amendments of the OBL Setting up the Council - if that is the option chosen Documented methodologies to be used in forecasting
Cost implications:	Financial costs related to the establishment of the fiscal council Cost of TA born by external partners Operating costs of the Fiscal Council, if set up
Responsible entity:	PFM Reform Technical Committee
Risk:	Delays in creating the institutional/operational framework

National accounts

Context

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.

Objective

Reliable National Accounts

Outcome indicator

- Percentage deviation between first estimates of GDP and final GDP estimates

Action 1: Strengthen INSTAT’s capacity in the area of national accounts statistics

The Government will strengthen INSTAT’s capacity to produce reliable national accounts. This will inter alia entail:

- Improving the statistical sources and methodology for annual National Accounts estimations
- Improving the methodology for estimating of Non-Observed Economy GDP
- Improving the methodology for the compilation of supply-use tables (SUT) and symmetrical Input-output tables
- Improving the methodology for the compilation of the Quarterly GDP
- Improving the methodology for institutional sector accounts
- Creating capacity to estimate regional GDP data (NUTS II level) as per Eurostat standards
- Implementing ESA 2010
- Building up the capacity for compiling and presentation of data under the Excessive Deficit Procedure

The EU will provide assistance in this area.

Implementation

Priority:	1
Completed in year:	2019
Deliverables:	Training Methodologies

Cost implications:	Training costs
Responsible entity:	INSTAT
Risk:	INSTAT's technical and financial constrains

Fiscal rule

Context

In the years until 2009 when Albania had a programme with the IMF, the macroeconomic framework was negotiated with the latter institution and tended to be quite prudent. Actual GDP and revenue collection overshot the projections and the debt to GDP ratio was gradually reduced. When the programme with the IMF expired, this disciplining constraint on fiscal policy was removed. A combination of political pressures and the effects of the financial crises led to GDP and revenue growth coming in at substantially lower levels than projected and the deficit and the debt ratio shot up. Part of the public debt took the form of hidden arrears: invoices for work carried out but not presented to Treasury because it was made known to the suppliers that funds were not available to pay them. When these hidden arrears became apparent, the legally binding ceiling on the debt ratio of 60 per cent was removed by a simple majority vote in the Parliament.

Under the new programme with the IMF, the Government is committed to lowering public debt from 72 per cent of GDP at the end of 2014 to 69 per cent by the end of the programme with the IMF in 2016 and to well below 60 per cent by 2019.

In order to ensure that fiscal discipline is maintained after the end of the programme with IMF, and that the medium term debt targets for 2019 and beyond are reached, the Government will design, prepare legislation for and implement a fiscal rule. The fiscal rule will be underpinned by a tightened planning and budgeting process. (The reforms of the planning and budgeting processes are discussed in the next section.)

Just as the programme with the IMF, the fiscal rule will aim to reduce the debt/GDP ratio and establish stringent yet flexible mechanisms that will ensure that the surpluses/deficits of the annual budgets over time evolve in such a way that the debt ratio is lowered to a sustainable level.

Objective

A sustainable and prudent debt/GDP ratio.

Outcome indicators

- Difference between actual debt ratio and the initially (= at the beginning of the plan period) target debt ratio set for a particular year
- Difference between actual surplus/deficit and the target surplus/deficit set in the budget for the current year.

Action 1: Design the fiscal rule, introduce it in the Organic Budget Law and submit it to Parliament for approval

The fiscal rule will be designed in close collaboration with all relevant stakeholders and discussed in a broad consultation process in order to ensure that it has broad bi-partisan political support. The Government will endeavour to have the fiscal rule approved by a qualified majority in Parliament in order to lay a lasting, prudent foundation for the future development of Albania's public finances.

Implementation

Priority:	1
Completed in year:	2015
Deliverables:	Amendments to the OBL to establish a fiscal rule
Cost implications:	Non besides the time involved in designing the fiscal rule and preparing the amendments to the OBL and the consultative process associated with it.
Responsible entity:	MoF
Risk:	Pressures not to constrain expenditure

Restriction on spending in election years

Context

In earlier election years there has been a tendency of the outgoing administration to front-load expenditure causing an expenditure overrun for the full year.

Objective

Prudent public spending in election years

Outcome indicator

- Share of expenditure executed during each of the first three quarters of the election fiscal year.

Action 1: Restrict spending during the first three quarters of the electoral fiscal year

The OBL will be amended stipulating that not more than 30, 55 and 80 per cent of the budget can be executed respectively in the first three, six and nine months of the electoral fiscal year, except for urgent and unforeseen cases, in conformity with the legal framework in force.

Implementation

Priority:	1
Completed in year:	2015
Deliverables:	Amendments to the OBL
Cost implications:	No costs besides the time involved in designing the fiscal rule and preparing the amendments to the OBL and the consultative process associated with it.
Responsible entity:	MoF
Risk:	Pressures not to constrain expenditures

Restrictions on the use of proceeds from privatizations

Context

In the past, proceeds from privatizations have been used to finance the general operations of government, with no distinction being made between recurrent and capital spending. This has undermined the Government's asset position and increased budgetary pressures as recurrent spending was financed by "one off" revenues from privatization proceeds.

Objective

Ensuring that the Government's asset position is not worsened as a result of privatizations

Outcome indicator

- Change in capital expenditure beyond what would follow from a change in recurrent revenue - assuming that a change in recurrent revenue would be applied in the same proportions to recurrent and capital expenditure as in the previous year's budget (under the present modified cash accounting)[3]
- The Government's net asset position (possible to measure only after the move to full accruals)
- Funds are used for intended purposes (ie debt reduction, capital investment)

Action 1: Amend the OBL to ensure that proceeds from privatization can only be used for retiring public debt and/or capital investments.

In future, windfall revenue resulting from privatization and other forms of financial transactions will only be used for debt reduction and/or for public investments of national and socio-economic interest.

Implementation

Priority:	2
Completed in year:	2015
Deliverables:	Amendment of OBL
Cost implications:	None
Responsible entity:	MoF
Risk:	Capacities/resources needed for managing the process in time.

[3]For example: assume that recurrent revenue increases by 1 billion. If expenditure in the previous budget year is divided 70 % recurrent and 30 % capital and the proportion is assumed to apply in the new year, that would mean that capital expenditure should increase by 300 million. If in addition there is an increase in capital revenue of 500 million but capital expenditure and amortisation increases by only 600, 200 million of the extra 500 million capital revenue has gone to finance recurrent expenditure.

Fiscal risk management

Context

Albania, as any country, faces a number of risks to its 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. The high debt/GDP ratio comes with substantial rollover, interest, and exchange rate risks, risks that are exacerbated by the low level of government revenue in relation to GDP. The technical and financial problems in the companies responsible for electricity generation and distribution and the government's *de facto* responsibility for ensuring adequate electricity supply constitute, at present, another important fiscal risk in the short and medium term. The ruling of the European Court of Human Rights on the compensation of owners of land confiscated during the communist era may also have a serious impact on the budget in the long term.

Objective

Adequate capabilities within the government in general and MoF in particular to detect, monitor and propose measures to mitigate the different fiscal risks facing the government.

Outcome indicators

- Deviation between actual and budgeted expenditure for specified risk-prone expenditures.
- Evolution over time of specified risk-prone expenditures

Action 1: Strengthen the risk management function within MoF for assessing and advising on fiscal risks

The risk management function will be strengthened for assessing and proposing measures to mitigate fiscal risks. This unit will prepare risk assessments for inclusion in the budget documentation, advice MoF on risk mitigation actions and monitor risks. Debt-related risk will continue to be assessed and managed by the Debt Department.

Implementation

Priority:	2
Completed in year:	2017
Deliverables:	Good quality risk assessments in the annual budget submissions to Parliament Advice on measures to take to mitigate the assessed risks
Cost implications:	Additional staff cost
Responsible entity:	MoF
Risk:	Inadequate financial and human resources to staff the risk management function(s)

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

Strategic policy development and review

Context

The Integrated Planning System (IPS) and the Medium Term Budget Programs (MTBP) provide a conceptual and procedural framework that ought to generate realistic and sustainable budgets in line with the political priorities of the Government. A key element of the IPS is the sectoral strategies that should guide the MTBP and the annual budget. These strategies shall be translated into preparatory expenditure ceilings for the MTBP to be communicated to the respective authorizing officers and subsequently serve as the basis for medium term budget programme requests.

In practice, the sector strategies have not had this guiding function as they have tended to be free-standing, one-off documents with little reference to assessments of what financial and human resources could possibly be available to implement the strategies. The slow-down in the growth in government revenues in recent years has reduced the relevance of the strategies even further.

The government will restore the intended role of sector strategies by, from the outset, framing them in a prudent macro-fiscal framework and predetermined sectoral expenditure ceilings.

The National Strategy for Development and Integration 2014-2020 (NSDI), along with sector strategies, cross-cutting strategies, master plans and action plans form the framework of the comprehensive strategic development for the country. They define the priorities and vision and in the same time define the overall objectives and specific objectives by medium and long timeframes. These documents and also expenditure ceilings for the MTBP will serve as a guide for monitoring the implementation of the Government's reforms, by setting benchmarks of achieving goals.

Objective

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

Outcome indicators

- The equivalent of PEFA indicator PI-2 but analysing the rolling variance between planned and actual expenditure for the full MTBP period

Action 1: Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure

The Government will, for future NSDIs, develop costed core sector strategies that fit within expenditure envelopes that would be allowed to grow at the rate of projected revenue growth. The strategies will, in the MTBP, be translated into sectoral ceilings for the triennium. Measures to ensure the relationship between priorities as laid out in the sector strategies and budget allocations will be taken.

Action 2: Create the capacity to carry our in-depth sector reviews as needed

When warranted because of a change in policy or in the external environment, in-depth sector reviews will be carried out to support the reorientation of the sector strategies. This will require a strengthening of the analytical capacity, in numerical as well as competence terms, particularly in MoF but also in some key sector ministries.

Implementation

Priority:	2
Completed in year:	2018
Deliverables:	Amendments to the OBL (2015) Enriched MTBP documents including information on strategy, priorities, outcomes and any changes in strategy Instruction on how to prepare sector strategies Sector reviews
Cost implications:	Increased staff to do the additional work involved
Responsible entity:	MoF in cooperation with CoM and line ministries
Risk:	Financial and HR capacity constraints

Capital investment planning, appraisal and inclusion in budget

Context

The National Strategy of Development and Integration (NSDI), the apex document of the IPS, and the sector strategies should also, in principle, set the policy parameters for the government's capital investments and the MTBP the financial constraints. In practice the process for initiating, appraising, prioritizing, and approving, and eventually contracting for capital investment projects has been much less orderly than intended and what would be desirable.

Capital investment projects are and should be integral parts of budgetary programmes and contribute to achieving the objectives defined for these programmes. However, some projects, particularly infrastructural projects, are of such size and importance to the economy and take up so much of the government budget that yet more stringent procedures must apply to preparing, appraising, prioritizing and eventually approving and including these projects in the government budgetary programme.

Objective

Strengthened processes and institutional capacity for initiating, appraising, prioritizing, and approving capital investment projects

Outcome indicator

- Actual social return on government capital investment projects
- Deviation between approved and actual cost of projects is reduced

- Annual disbursements for major (>€5m) investment projects are at least 70% of planned disbursements
- Project output and impact indicators are achieved in 90% of major projects

Action 1: Include a section in the OBL on the principles for the preparation, appraisal and approval of government capital investment projects

The OBL will be amended to include articles summarizing the principles to apply and the procedures to follow in preparing, appraising and approving major government capital investment projects. The details of these public investment management procedures will be spelt out in separate regulations. The regulations will, in order to stamp out the habit of entering into informal agreements with contractors that the government eventually is forced to honour, specify sanctions to apply to the responsible authorizing officer. This will require stiffening the existing sanctions of the OBL as well as prompt and appropriate enforcement.

Action 2: Strengthen the public administration's capacity to appraise the socio-economic return of capital investment projects

The government will strengthen, in numerical as well competence terms, the capacity to carry out socio-economic cost-benefit analysis of capital investment projects. This analytical capacity will also be applied to assessing, ex post, the socio-economic return on the implemented investment projects. Support to build up the required capacity will be sought from Albania's external partners. The institutional responsibilities for carrying out these appraisals will be reviewed.

Action 3: Create a computerized repository for financial as well as substantive information on investment projects

The Government will, as a part of the future IFMIS, set up a computerized repository for financial as well as substantive information on investment projects. In a sub-ledger the details of the different contracts that are associated with a particular investment project will be recorded. The responsibility for recording the information will, when the IFMIS is rolled out fully, be the responsibility of budget institutions managing the respective investment projects. The data stored in the two linked databases will be used in the preparation of the MTBP and for monitoring and reporting on the execution of capital investment projects.

Implementation

Priority:	1
Completed in year:	2017
Deliverables:	Amended OBL (2015) Special regulations on the preparation and appraisal of government capital investment projects A decision on institutional responsibilities and designated staff A capital projects repository
Cost implications:	The time involved in preparing the amendments of the OBL and preparing the regulations. The government will request TA to assist in the drafting Increased staff costs Implementation and licence costs for projects repository module

Responsible entity:	Ministry of Economy and Ministry of Finance
Risk:	Budgetary and HR constraints

Medium Term Budget Programme

Context

The major steps in the preparation of the MTBP are presently:

1. The macroeconomic and budgetary assessment and forecast, including proposals for preparatory expenditure ceilings for the following years
2. The budget preparation instruction, including preparatory ceilings for the MTBP
3. The submission of MTBP requests by the authorizing officers of general government units
4. Review by MoF and consultations on the requests by the government units
5. Preparation of the draft MTBP
6. Approval by Council of Ministers of the MTBP
7. Submission of the MTBP for information to the National Assembly

While this process, in principle, ought to ensure a realistic budget in line with stated priorities, in practice it has not. In every year since 2009, the total volume of the expenditure has had to be adjusted downward mid-year and the actual composition of expenditure has substantially deviated from the budgeted composition. As MoF during the past years have had to take on the primary responsibility for adjusting the budget mid-year, the line ministries' faith in the MTBP process has suffered. The preparatory budget ceilings are not respected and the quality of the budget requests has declined.

Therefore, as a complement to the measures to tighten overall fiscal framework, the government will take measures to restore and tighten the process of preparing and approving the MTBP thereby effectively transforming it into a rolling three-year budget. For the first time the 2015 budget proposal submitted to the Parliament for approval, contained budgetary ceilings not only for 2015, but also for 2016 and 2017. 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 LM will now have a much more stable resource framework, where to base their medium term plans.

The MTBP will also be deepened by gradually implementing the stipulations of the OBL in relation to the substantive underpinnings of the programme budgets: descriptions of goals, objectives, indicators and targets, outputs and outcomes achieved, etc.

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 and delivers desired results within sustainable financial resources for three future years

Outcome indicator

- relative budget allocations over time to priority sectors (i.e. ability of the MTBF to produce more strategic allocations)

- total budget allocations per line ministry compared to MTBP-estimate t+1 from previous year (measuring the quality and predictability of the estimates)

- Revenue and expenditure ceilings are the same as the total of costed priorities in the NSDI and sector strategies plus administrative overheads for all years of the MTBP

- Changes in aggregate ceilings and ministry budget estimates only arise from approved parameter adjustments, revisions to NSDI and sector priorities and urgent, high priority and unforeseen events at the time of the previous budget.

- Sectoral composition of expenditure out-turns compared to original planned sectoral composition for year t+3 in the MTBP

Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process

Preliminarily, and inter alia, the proposed amendments would:

- Empower the Parliament to vote on and approve the MTBP
- Make the ceilings for the three years of the MTBP binding
- Require that MTBP requests clearly show which funds are effectively already committed and which are new expenditure under the ceiling
- Promote line Ministers/Head of central budget institutions accountability towards the Parliament, throughout the entire budget cycle
- Effectively implement and manage Gender-based budgeting (2014-2020)
- Include the policy objectives, on institution/program level, in the Annual Budget Law (2016-2020)

Empower the Parliament to vote on and approve the MTBP ceilings at programme level

Today, MTBP is approved by the Council of Ministers and the Parliament only receives it for information as background to the Annual Budget on which it votes. The government will propose legal changes that will empower the Parliament to vote on and approve the MTBP ceilings at programme level.

Make the ceilings for the three years of the MTBP binding

The government will propose changes to the OBL that will make the ceilings of the MTBP binding rather than merely preparatory. A global expenditure ceiling as well as sectoral ceiling will be set for the new third year of the MTBP period. The sectoral ceilings set for the third MTBP-year will be set in a consultative/negotiated process. The sectoral ceilings set in the previous budgeting round will be broken down into programme ceilings for the new second year of the MTBP period.

Require that MTBP request clearly show which funds are effectively already committed and which are new expenditure under the ceiling

In the MTBP requests, the government units will be required to show contractual obligations for each of the three years of the new MTBP period. In addition they will be required to show baseline recurrent wage and non-wage expenditure, i.e. the recurrent expenditure that would result in each of the three years maintaining the existing staff complement and the existing level of activity. Finally, the MTBP request shall show and justify in detail the application of any "uncommitted" fiscal space under the ceiling.

Ensure the line Ministers/Head of central budget institutions accountability towards the Parliament, throughout the entire budget cycle

Amending the OBL in order to clearly define the responsibility of each Minister or Head of Central Budget Institution would be accountable throughout each stage of the public expenditure management cycle.

Include the policy objectives, on institution/program level, in the Annual Budget Law (2016-2020)

Providing for amendment in the Annual Budget Law.

Effectively implement and manage Gender-based budgeting (2014-2020)

Related LMs plan, monitor and report gender-based objectives and outputs.

Implementation

Priority:	1
Completed in year:	2015-2018
Deliverables:	An amended OBL
Cost implications:	None
Responsible entity:	MoF
Risk:	Organisational difficulties to make major procedural changes

Multi-year commitment controls

Context

Until now, 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 programme with the IMF, the government is 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 is one of the measures.

Objective

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

Outcome indicators

- The deviation in each year of actual multi-year contracts in relation to budgeted multi-year contracts[4]
- The deviation of actual capital spending in relation to budgeted capital spending
- Expenditures on multi-year projects do not exceed approved budgets for those projects
- All commitments are recorded in the Treasury system within 3 days of contract signature
- All major projects are pre-committed in the Treasury system based on estimated disbursement schedules approved in the Budget process before procurement action commences
- No payment arrears are recorded on multi-year capital investment project activities

Action 1: Introduce multi-year commitment control for multi-year expenditures

For each year of multi-year capital investment projects and for recurrent expenditure contracted for more than one year, a pre-commitment will be made for the planned level of expenditure in that year. These pre-commitments, which may go beyond the three years of the MTBP, will be recorded in a pre-commitment registry in the AGFIS. In the MTBP preparation process, the record of these commitments will serve as input into, and a cross-check against the requests by the responsible government entities. (See above) It will also be used for debt management and cash planning. At the request of the responsible government entity, the time profile of these multi-year pre-commitments may be amended in the MTBP preparation process.

Action 2: Tighten up the approval process for multi-year capital projects

A capital project will only be approved for inclusion in the MTBP if the planned expenditure fits under the ceilings for each of the three years of the MTBP.

Implementation

Priority:	1
Completed in year:	2015

[4]The equivalent of PEFA PI-2, but for multiple years.

Deliverables:	Amendments to the OBL Enhancement of the AGFIS to allow recording and controlling against multi-year commitments
Cost implications:	The cost of modifying the AGFIS to handle multi-year commitments and controlling against them
Responsible entity:	MoF
Risk:	Financial and capacity constraints

PFM in local government

Context

In the last ten years Albania has registered some progress in terms of increasing fiscal and financial autonomy of local government entities. 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.

Since 2002, intra-governmental transfers have been based on a transparent formula and clear objectives and criteria. During this period, important regulatory measures have also been implemented to improve financial management at the local government level; for example by introducing a Medium Term Expenditure Framework for planning and budgeting.

Many weaknesses in local government public financial management however remain and the Government will initiate a number of reforms to strengthen PFM process at local level.

To begin with, a territorial reform will be implemented following the next local election in January 2016. Its main objective is to increase the efficiency and effectiveness of public funds by local government. The number of municipalities and communes will be reduced radically, which is expected to reduce the fixed administrative costs of the local government by about 35-40 per cent. The savings will be used to increase public investment by local government..

The law on the territorial reform will be accompanied by a law specifying the functions and competencies of local government as well as by a special law on local finance and measures to increase tax and non-tax revenues, accruing to local government.

Objective

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

Outcome indicators

- No more than 10 percent of local governments have expenditures that exceed revenue from central government and own sources by more than 5 percent
- No more than 10 percent of local governments collect less than 80 percent of locally imposed taxes.

- No more than 10 percent of local governments have capital budget expenditures that are less than 80 percent of amounts approved in the budget
- No more than 10 percent of local governments do not publish audited annual financial reports within 6 months of the end of the financial year
- All relevant performance indicators of the PEFA rating system[5]

Action 1: Draft the law on local government financing

The new law on local government financing will clarify the fiscal relations between the central and local government, and strengthen coordination and the consolidated Management of general government operations.

• Rules for the financial management by local government of the conditional and unconditional of transfers made by central government;
• The formula for calculating unconditional transfers;
• The principles of shared taxes and will address the problem of service tariffs over the medium - long term;
• The content of yearly report on local finances to the central government;
• Procedures of programming and implementing the local budget;
• Reporting requirements concerning contracts and creditors as a measure to prevent against a build-up of arrears;
• Criteria for capital investment planning, appraisal and inclusion in budget;
• Criteria for the management of actual capital & current expenditures, and other transition issues;
• Procedures and problems of accounting and internal and external audit;
• Rules and procedures of transparency, accountability, etc.

The AGFIS will be implemented even at the local level, in order to integrate revenues and local expenditures, at the national level, by increasing the speed and availability of information. All the guidelines and procedures for the engagement of the funds and the respective control at the central level shall be unified.

Action 2: Draft, consult and submit for approval the new law "On the Organization and Functioning of Local Government"

The new organic law on the Local Government will specify the functions and competences of the newly created (merged) Municipalities. The process may well go into two phases. The first phase, estimated to be completed by the end of 2014 (max beginning of 2015) will be the partial harmonization of the existing provisions of law 8652, as amended with the new concepts and changes introduced by the law 115/2014 "On territorial division» and also some other laws enacted during 2014 by the Parliament such as that "On the public consultation", "On the right to Information". The second phase foresees drafting and approval of a complete new law on the Local Government, an integrated version in the context of the new Territorial and Administrative Reform (TAR) and other relevant legislation.

[5]The Government will carry out two PEFA reviews focused on local government, one at the beginning of the plan period, and another one towards the end.

Action 3: Strengthen the implementation of the new laws enacted in regard to PFM practices

Efficient enforcement of rules and procedures, well targeted training and capacity building, for strengthened administrative capacity across the entire public administration to ensure sound financial management on central and local level;

Action 4: Harmonize and further consolidate the legislation which impacts both Local Government and PFM

The local government is regulated by a series of legislative acts. From the implementation of the decentralisation reform during the last decade, there have been identified some fields, particularly the shared functions, including financial and fiscal ones, where the legislation could be perceived as contradictory or there is an overlapping on the functions. This legal framework shall be analysed to identify the aspects that create obstacles for the fiscal decentralisation. The analysis shall identify the future actions for the harmonisation of this legislation.
A special part of this analysis shall be the careful assessment of ratified conventions of the Albanian State in the field of decentralisation and local governance, in order to better reflect their principals in the legislation that shall be reviewed in order to have a better harmonisation. The establishment of a legislative calendar for this purpose shall orient better this process by prioritising the acts that need harmonisation/improvements in order to avoid the inconsistencies and in order to effectively involve the parliament in this process (without taking the risk to make further improvements after their approval). An important part of this process shall be Preventing Corruption Risk in Legislation (*corruption proofing legislation*).

Action :. Introducing a performance based system of general grant transfer to LGUs

The new law on local government financing will introduce an appropriate mechanism/system where general grant transfer to LGUs will be based on performance criteria. Performance indicators shall be set and revised by a central-local government committee on local government financing. The performance criteria and indicators will be part of a broader performance monitoring system of local government units.

Implementation

Priority:	1
Completed in year:	2016
Deliverables:	Law on local government financing Fully operational IT system for local government transfers
Cost implications:	Costs of setting up the IT system for intra-governmental transfers + LG revenues module as part of the IFMIS project Preparatory costs for discussions, trainings and setting up the unit and human capacities in the MoF
Responsible entity:	MoF and the State Minister for Local Government Issues
Risk:	Financial and capacity constraints

Pillar 3- Efficient execution of the budget

Tax administration

Context

The fiscal consolidation that is at the core of the programme with the IMF relies heavily on an increase in government revenues. This will require changes in tax policy as well as a strengthening of the tax administration. In the latter context, the Government will analyse and weigh the pros and cons of merging the tax and customs administrations.

As regards tax policy, the government will:

- Prepare new legislation on corporate income tax and on personal income tax;
- Align the legislation on indirect taxation with the EU regulations;
- Reform the property tax;
- Review rates on the basis of budgetary needs and economic developments.

Objective

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

Outcome indicators

- Actual collection is within 5% of / approved budget estimate for taxes and customs
- improved Arrears / assessed tax liabilities
- Collection cost per collected ALL
- Customer satisfaction measured through periodic surveys
- Transparency increase through the publication of information on important matters on the website, such as legislation, regulations, rulings, collections, administrative costs, handling of appeals, penalties imposed (and other matters considered important by taxpayers that will emerge also from surveys).

Action 1: Reengineer and computerise core tax administration processes

GDT is in the process of implementing a new tax administration IT-system that will manage taxpayer registration, returns filing, revenue payments, tax refunds, tax arrears collection, audit, and taxpayer appeals. The new system will allow a simplification of processes and reduce the opportunities for fraud and corruption. Taxpayers will no longer be required to pay at a bank situated in the region where the taxpayer is registered but will be able to do it through any bank in Albania.

A comprehensive program for training the GDT staff in the new system and the new procedures has been initiated.

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

As the amount of manual processing will be sharply reduced, personnel can be switched to more value-adding activities such as taxpayer services, audit, and tax fraud investigations.

Responsibilities will also be shifted across regional offices to make better use of available staff, centralising to fewer sites key activities such as tax arrears enforcement. GDT is, presently, working on the new organization in order to full exploit the potential of the new IT-system and to align it with the amended legislation.

Action 3: Implement compliance risk management of tax collection

The compliance risk management implemented will be aligned with the model advocated by the IMF, the OECD, and the EC. The GDT will make use of a broad spectrum of methods (e.g. media and compliance marketing, cooperation with industry group representatives, taxpayer education and services, audit, and arrears enforcement) in order to over time increase voluntary compliance. Tax services will be improved to make it easier to comply. To facilitate the implementation of the CRM model, the tax administration has established a high-level Compliance Committee to guide reform efforts and a Risk Management Unit has been set upto help identify and prioritize risks. The new CRM strategy will focus on whole industries and specific taxes or processes where there are obvious risks, rather than on individual taxpayers.

Action 4: Strengthen audit capacity

The professional capacity of the tax inspectors will be enhanced through continuous training. Their efficiency will be increased by providing them with IT equipment for accessing the new tax administration system when in the field. New applications to monitor the flow of excised goods will be implemented. To further enhance audit capacity, routines will be set up for a systematic exchange of information with the other sectors of the public administration that impact on the assessment and collection of taxes.

Action 5: Revise the system of the fiscal cash registers and encourage their use

DoGT is revising the system of fiscal cash registers to make it possible to capture the fiscal information in real time. To encourage citizens to ask for payment checks at the time of purchase, a lottery based on fiscal coupons is being set up. The first draw will be made in April 2015.

Action 6: Establish a fiscal cadastre of properties

In order to lay the information basis for the new property tax, a fiscal cadastre will be established. The purpose of the cadastre will be to consolidate all existing data on land, buildings and owner/occupants, and to calculate the annual tax obligation associated with each property. Each property will be assigned with a unique property identification number and either the legal owner, if known, or the occupant, along with the national ID number for that person or entity. The unit responsible for the cadastre will not have the authority to resolve conflicting legal claims or verify ownership.

Action 7: Strengthen the professional capacity of the GTD staff trough continuous training

A Training Centre for Tax and Customs Administration has been established under the auspices of the Ministry of Finance. The centre will provide training tailored to the evolving needs of the two authorities. The Centre will also support merit-based recruitment of new staff through qualification exams, which will become mandatory for all prospective employees of the tax and customs administrations. GTD has developed the training strategy for different fiscal areas and target groups for the period 2014-2015 and beyond.

Implementation

Priority:	1
Completed in year:	Implementation of new tax administration system and organizational structure – 2015 Cash registers –end 2015 Fiscal Cadastre - 2017 Training – on-going
Deliverables:	New tax administration system installed Reengineered processes Laptops for auditors to access the new tax administration system when in the field
Cost implications:	Cost of IT system. The “E-Taxation” Project is financed by a soft loan from the of Austrian Development Co-operation
Responsible entity:	GDT
Risk:	Technical (IT-system) Resistance to reorganization

Customs management

Context

The new Customs Code was adopted by Parliament in July 2014. Implementing it will require action in a number of areas.

Objective

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

Outcome indicators

- Actual collection is within 5% of / approved budget estimate for customs’ revenues
- improved arrears/assessed customs liabilities
- Collection cost per collected ALL
- Customer satisfaction
- Increased transparency

Action 1: Eliminate procedural ambiguities to create a clear framework for the interaction between the private sector and the Customs Administration

Guidelines are, and will continue to be, issued on customs requirements and the obligations of companies. The objective is to improve the dialogue with the businesses and to standardise to the greatest extent possible all operations.

Action 2: Make service delivery at the border-crossing checkpoints more efficient

A single wicket and 24/7 services at the border posts to will be introduced to speed up customs clearance

Action 3: Unify of a number of important rules and practices into a coherent set of guidelines

The New Customs Code unifies certain important rules and practices which, until now, could have been applied on a case by case basis. A coherent set of guidelines for applying the new Code will be prepared.

Action 4: Introduce customs procedures for Authorized Economic Operator

The New Customs Code introduces the concept of Authorized Economic Operator (AEO). For companies granted this status the clearing process will be considerably simplify through a reduction of controls by customs authorities, access to the centralized clearance procedure, on-line verification of an individual's authority to file a customs declaration, a simplified declaration process, self-assessment, deferral of payments, etc.. The GDC will prepare specific regulations regarding the AEOs

Action 5: Expand opportunities to appeal decisions by the customs authorities

The New Customs Code provides for two appeal mechanisms depending on the type of decision to be appealed. The GDC will create the concrete institutional and procedural framework for importers and exporters to use those mechanisms.

Action 6: Define the rules for the use of a single guarantee covering many transactions

The New Customs Code creates the possibility for operators with AEO status to use global guarantees. The specific rules applying to these guarantees will be developed.

Action 7: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.

As per the Kyoto Convention, a customs declaration may be filed before the expected introduction of goods at customs. The Customs Administration will offer this facility to speed up the release of goods.

Action 8: Take measures to stamp out fraud

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

Action 9: Improve IT systems and procedures at central and local levels of GDC

The GDC will continue to develop the IT support for its operations with the objective of gradually moving to a fully computerised, paperless clearing process. Furthermore, GDC's risk management module will be implemented in all local GDC offices, and interoperability with similar EC systems will be ensured. A disaster recovery system will be implemented at a remote site for back-up and to ensure continuous operations.

Action 10: Establishment of the National Valuation Database

A National Valuation Database will be established at the GDC to provide a basis for risk-based transaction analysis.

Implementation

Priority:	2
Completed in year:	2018
Deliverables:	24/7 service at border posts Appeal mechanisms implemented Guidelines to the new Customs Code prepared Implementation of pre-declarations Introduction of global guarantees for AEOs Enhancement of IT support for GDCs operations Disaster recovery site set up National valuation database in place
Cost implications:	Costs of IT development
Responsible entity:	MoF, Customs Administration
Risk:	Availability of resources, availability of trained staff to perform new functions, resistance to change

Expenditure control

Context

The introduction of multi-year commitment control was discussed above but the government will also take a number of other steps to tighten expenditure control. AGFIS is, at present, used by five budget institutions, the budgets of which make up approximately 20% of the state budget. These institutions can encumber funds when a procurement order is issued to make sure that the public funds are not used for purposes other than those budgeted for. For budget entities not connected to the system, encumbrances have to be kept track of manually (Excel). With the extension of the AGFIS to the bulk of budget entities, the use of this control mechanism will be much facilitated.

Objective

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

Outcome indicators

- Total value of invoices to be paid from the following year's budget in relation to the total value of invoices received.

Action 1: Gradually make AGFIS available to all major budget entities

AGFIS will gradually be made available to all major budget entities. The plan is to roll it out as follows:

- Up to 15 institutions by 2015 (responsible for 60% of the state budget)
- Up to 50 institutions by 2018 (responsible for 90% of the general budget)
- Up to 100 until 2020 (responsible for 95% of the general budget).

Action 2: Implement stricter internal controls in AGFIS at the phase of pre-commitment of public funds

In order to prevent the creation of arrears, additional internal controls at commitment phase will be designed within AGFIS. The available funds will be frozen at the pre-commitment phase (when a procurement order is issued) to make sure that the public funds are not used for other purposes rather than those planned for. In addition tracking the operational expenses with specified project code in AGFIS will facilitate the cash forecasting, contract management and budget monitoring process (actually only investments can be monitored by project codes).

Action 3: Configure AGFIS so as to allow tracking operational expenditures by project code

The full process of encumbrances, commitments, and payments can presently be monitored only for investment projects. Reconfiguring the AGFIS so as to allow extending this possibility to all non-personnel expenditure will facilitate cash forecasting, contract management and budget monitoring.

Action 4: Analyse the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenditures.

Currently, an expenditure order is registered in the AGFIS at the time when the budgetary institutions submit an order of payment to the Treasury. Time lag between the receipt of invoice by the BIs and submission of invoice to the Treasury causes delays in accounting for the incurred public expenditures. The Government will look into the possibility of introducing electronic invoices in order to reduce this delay and thereby improve cash management.

Implementation

Priority:	1
Completed in year:	2016-2020
Deliverables:	Access to AGFIS Enhanced coding structure for non-investment expenditure Pre-commitment controls implemented in AGFIS Capacity to receive electronic invoices
Cost implications:	License costs and trainings
Responsible entity:	MoF, NAIS and LM,
Risk:	Financing and professional capacities

Debt and cash management

Context

At present the Government pays invoices when cash is available because of limited possibilities of meeting short-term fluctuations in revenue inflows and payments. This rationing of cash has negative effects on the efficiency of government operations and pushes up costs because suppliers compensate, through the price charged, for the risk of being paid late. Poor cash forecasting compounds the problem. With better information on future month-on-month fluctuations in cash requirements, the financial instruments that do exist could be used more proactively to meet the swings.

Part of the government's debt presently takes the form of arrears. A strategy for clearing the arrears has been adopted and is being implemented. Measures to avoid incurring new arrears will be taken and are discussed in other parts of this strategy.

Objective:

Minimized costs for meeting Government funding needs for a chosen level of risk and given Albania's credit rating

Outcome indicator:

- Difference between the average interest paid by Albania on its public government debt and the average interest rate paid by countries with the same credit rating[6]
- Risk assessment
- Interest cost for debt compared with optimal cost (based on analysis of cash usage and timing of payments for the previous year)

Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management

The Government will review the current institutional arrangements, internal organization, and staff resources in order to achieve a better integration of debt and liquidity management

Action2: Develop a comprehensive debt management strategy

The Government will develop a comprehensive debt management strategy to guide its borrowing operations in future, balancing the cost of borrowing and risk.

Action 3: Develop a strategy for Government securities market development

Ministry of Finance will conduct a comprehensive analysis of primary and secondary markets of public debt including an analysis of desirable set of benchmarks, i.e., maturities, target sizes and number of lines via issuance simulations, and international benchmarking. It will design and provide implementation support for the issuance strategy to support benchmark building, reduce fragmentation, and improve transparency and predictability in the primary market, and stimulate secondary market liquidity. It will finally conduct an analysis to assess market readiness/need for a Primary Dealer (PD) Programme and review/propose changes to the regulatory framework (if needed) for implementation of a PD-programme

Action 4: Integrate the debt management system with AGFIS and the future AFMIS

The Government will review the options available for ensuring an optimal integration of the debt management, liquidity forecasting and accounting functions and systems.

[6]Standard & Poor's foreign currency rating for example

Action 5: Improve liquidity forecasting

Ministry of Finance will review the present routines and methodology for liquidity forecasting with a view to improving the forecasts and thereby creating the basis for more efficient cash management.

Action 6: Seek agreement with the external partners to channel all grant and loan funds through the TSA

The Government will approach its external partners with a request to, in future, channel all grant and loan funds through the TSA rather than through separate bank accounts.

Action 7: Create interfaces with the tax and customs management systems

See further the chapter on the Integrated Financial Management Information System.

Implementation

Priority:	2
Completed in year:	2017
Deliverables:	Organisational review Debt management strategy Strategy for developing the market for government securities Interface of DMFAS with AFMIS (or replacement with corresponding AFMIS module) Documented improved routines for cash flow forecasting Agreement with donors on the use of the TSA Interface between AFMIS and the tax and customs management systems
Cost implications:	
Responsible entity:	DSDC / MoF
Risk:	Donors willingness to adopt national procedures for fund flows

Management of external funds

Context

Most donor support to Albania continues to be managed outside the Government's PFM system despite the commitments made in the Paris Declaration (2005) and the Busan Partnership (2011). In the 2011 PEFA assessment the two applicable donor related performance indicators were scored as Ds, the first one, related to budget support was not scored since there was no budget support at the time. The Government will approach its external partners with a request to, in future, channel grant and loan funds through the TSA rather than through separate bank accounts. As regards EU funds management, Albania has already established authorities, structures and regulated relations among them for ensuring effective functioning of management and control systems. An Audit Authority has also been established according to the requirement of EU.

As regards other donors, the DPFFA has set up a donor database with information on commitments and disbursements by all active donors. While all the donors in principle provide estimates of disbursements sufficiently early so as to fit with the Government's budget calendar, they do not follow the format and the timeframe for the reporting on disbursements and payments that would be consistent with the classification used by the Government. For this reason, Albania intends to increase the use of country systems and integrate donors' flows into the government's system AGFIS/AFMIS in a coherent way.

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 indicators

- Proportion of functions related to EU funds management (from budgeting to auditing) integrated /executed into the government's system AGFIS/AFMIS.
- Proportion of aid that is managed by use of national procedures (PEFA indicator D-3)
- Disbursements of EU funded projects under Decentralized management mode, according to the DM Decisions for IPA 2014-2020,

Action 1: Integrate the management of external funds through the AGFIS/AFMIS.

The government will create the conditions for planning, budgeting, executing, and accounting of EU and other donor funds in the government's system AGFIS/AFMIS. In addition, DDPFFA has concluded the system design for the establishment of an External Assistance Management Information System (EAMIS). The main objectives of EAMIS are to effectively manage development financing and report on its application. The system will serve as a reliable and credible source of information linking the external support to sector priorities, program objectives, targets and outcome indicators. It will include a projects database that Albania's external partners can up-date and query. An interface with the future AFMIS will be created in order to combine budget and accounting information with project specific financing and substantive information. The planned EAMIS will also include a document repository for documents like the NSDI, sector strategies, the Government's donor strategy, different donors' strategy for Albania, policy reform dialog papers, etc.

The management of EU funds shall be made in accordance with Financial Agreements under Decentralized mode. This will be possible under PRAG rules and shall be reflected in the government system from the programming phase.

Action 2: Increase the predictability of donor flows

The government will seek multi-year commitments of external support, including budget support, to be able to plan and budget the three years of the MTBP.

Action 3: Transparent and effective management and control systems of EU funded projects under IPA programs in Decentralized mode

The GoA has established authorities, structures and regulated relations among them for ensuring effective functioning of management and control systems. A proper internal control system for management of EU funds has been established, tested and has been accredited from the EC. An Audit Authority has also been established according to the requirement of EC. Further efforts to improve capacities will be undertaken.

Implementation

Priority:	2
Completed in year:	2014-2020
Deliverables:	Agreements with individual donors Channelling of external funds through the TSA
Cost implications:	System development and trainings
Responsible entity:	DDPFFA for Donors and NAO For EU Funds
Risk:	Donors willingness to adopt national procedures for fund flows Absorption capacity for EU funds by Albanian institutions

Public Procurement

Context

Following the amendments made to the PPL in 2012, there are two main entities involved in regulating public procurement. The central body responsible for public procurement policy is the Public Procurement Agency (PPA). It has also formally been given responsibility for concessions. The Public Procurement Commission (PPC) is now responsible for providing the complaints review mechanism. In 2013, a new law (No. 125/2013) on concessions and public private partnership (PPP) was adopted, which does foresee for the first time rules on PPPs.

Objective

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

The principal priorities and objectives for the development of the public procurement system are:

- Developing the policy making and co-ordination functions within the public procurement and concession systems in terms of administrative capacity and the establishment of effective mechanisms for co-ordination and consultation;
- Further developing and alignigig the legislative framework, including the defence directive, with the *Acquis* (including the new EU directives) and EU good practice;
- Strengthening the institutional capacities of key actors within the public procurement and concession systems;
- Improving the operational capacity and the functionality of the public procurement and concession systems;
- Putting stronger focus on achieving “value for money” based on fair and open competition.

Outcomes indicators

- PEFA indicator PI-19 Competition, value for money and controls in procurement

- Transparency, comprehensiveness and competition in the legal and regulatory framework
- Use of competitive procurement methods
- Public access to complete, reliable and timely procurement information
- Existence of an independent administrative procurement complaints system

Complemented by indicators to measure:

- Coherent and united views among the main stakeholders on the development and functioning of the procurement and concession systems;
- Extent and degree of co-ordination and consultation on policy issues and regulatory development;
- Extent and nature of "*Acquis*"- discrepancies;
- Extent of savings and lower transaction costs in the procurement system;
- Extent of satisfaction among the main stakeholders with the functioning of the procurement and concession systems (based on surveys);
- The quality, transparency and efficiency of the complaint system. Extent and nature of complaints and review decisions;
- Extent of training for contracting authorities and economic operators, and information campaigns provided.

Action 1:Prepare amendments to the PPL, and to the supporting regulations

Amendments to the PPL and existing government regulations will be prepared with the objective to:

- Establish efficient mechanisms for policy-making, co-ordination and consultation in order to establish coherence in view of the strategic direction of the public procurement and concession systems.
- Implement an organizational structure that is capable of handling existing responsibilities as well as any expansion of the PPA and the functions assigned to it.
- Ensure the institutional independence of the PPC which is now subordinated to the Council of Ministers. (Different models for ensuring the impartiality and independence of the PPC will be analysed, including how PPC members are appointed and how Parliament exercises its control)
- Implement an appropriate organizational structure as well as internal regulations to manage concessions/PPPs.

Action 2: Further align the public procurement and concession laws with the Acquis (new EU directives) and with EU good practice and implement the defence and security directive.

Alignment with the new EU public procurement Acquis will be done gradually and achieved fully in the mid- term. The reforms will be based on the principles of good international practice in the field of public procurement and take into consideration the difficulties and shortcomings that were revealed in implementing the existing legislative framework. The EU Defence and Security Directive will be incorporated into Albanian law. The Concession Law will be amended in the mid-term to ensure full harmonization with the new Concessions Directive.

Action 3: Strengthen the review and remedies system to ensure legality, transparency, coherence and effectiveness.

The review mechanism established by the PPL follows largely the Remedies Directives. However, several provisions of the new Remedies Directive 2007/66/EC have not been included in the PPL and need to be transposed.

The further development of the review and remedies system will, in addition to the issue of independence, focus on the legality, transparency and effectiveness of the review process and the overall PPC's service quality.

Action 4: Further improve the functionality of the public procurement system

A number of measures will, over the plan period, be taken to strengthen the public procurement system:

- Encourage a wider use of framework agreements among procuring entities by the issuance of necessary secondary legislation, implementing guidelines, piloting and training.
- Establish a central purchasing body (CPB) and other coordinating arrangements
- Enhance the e-procurement system to make it capable of handling framework agreements and CPB operations as well as meeting the new requirements under the new EU directives
- Continually train procurement staff and strengthen the procurement function in contracting authorities
- Support economic operators in their participation in public tenders
- Strengthen monitoring and control of the execution of public procurement contracts.

Action 5: Establish mechanisms to control the availability of funds prior to procurement

A budget control will be implemented so that no procurement can be initiated unless there are funds available under the ceiling for the current year, and, in the case of multi-year contracts, for each of the out-years of the MTBP. An interface between the PPS and the AGFIS will be created in order to make it possible for those institutions connected to AGFIS to check on-line whether there are budgetary funds available before a tendering process is initiated.

Implementation

Priority:	1
Completed in year:	2016-2020
Deliverables:	Revised procurement and concession legislation A documented improved review and remedies system An established central purchasing body Documented procedures for monitoring and controlling the execution of contracts A connection created between the procurement system and AFMIS (alternatively an implementation of an AFMIS procurement module Development of the institutional structures for PP system
Cost implications:	Human resources, systems
Responsible entity:	PPA, PPC, CoM, relevant bodies within the concessions/PPP area,

	MoF, NAIS
Risk:	HR capacity, financing

Asset management

Context

The principles underlying the government's budgeting and accounting systems are presently not the same. Budgeting is cash based only, while the state accounting and reporting is, when it comes to expenditure, presently done on a modified accrual basis.

The cash focus in the budget and in the budgetary accounts has contributed to a very strong emphasis on new investment. Not sufficient is paid to the need to maintain these assets - so that they can deliver intended services not just today but for the foreseeable future. The realization of the importance of managing not just payments but also the use of assets is leading governments around the world to move toward to accrual based accounting and budgeting. One of the major hurdles to, but also benefits of, introducing accrual counting is identifying and valuing existing assets.

Under the frame of the fiscal decentralisation is stipulated an assessment of the level of the implementation On the Law for Transfer of Public and Immovable Properties, encountered problems and the government shall work on drafting and approving the amendments of the necessary legislation.

Objective

Complete asset registry including values and depreciation rules

Outcome indicators

- Estimate of the portion of assets that is captured in public accounts

Action 1: Initiate and complete the process of full public assets inventory in General Government institutions and Local Government

During year 2015 the new administrative territorial reform will result in the creation of new territorial communes and the closure of the existing ones. This will imply a transfer of property and property rights from the old to the new communes. To do this in an orderly fashion an inventory all communal assets will have to be carried out and instructions for how to do this will need to be issued. Later in the plan period this exercise will be carried out in central government institutions as well. 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. This will initially be done as per GFS 2001 and ESA 2010 classification and eventually as per EPSAS when that framework is complete and Albania has implemented it.

Action 2: Further complete the process of public assets transfer to the Local Government

The Government will assess the level of implementation of the law "On the Transfer and Immovable Public Properties", the encountered problems and potentially will draft and approve the necessary legal amendments. It shall be reviewed the basic of the property tax.

Gradually shall be introduced the tax based on the objective assessment of the value of the property. The priorities shall be:

- Better implementation and/or improvement of the law On the Transfer of Immovable Public Properties.
- Transfer of the properties to newly established LGUs.

Implementation

Priority:	2
Completed in year:	2020
Deliverables:	Asset register in local and central government
Cost implications:	Human resources, systems
Responsible entity:	MoF, General Office of Land Registry, All Institutions
Risk:	HR capacity, financing

Public administration payroll management

Context

Well managed human resources is a sine qua non for effective public financial management. But staff also makes up the bulk of the government's expenditure. The payroll must therefore be properly budgeted and properly managed in order to ensure correct payments of wages and benefits at as low a cost as is reasonable taking in consideration risk.

Objective

Efficient and transparent human resources management, budgeting of personnel expenditure and processing of the government payroll.

Outcome indicators

- PEFA indicator PI-18 Effectiveness of payroll controls
  - Degree of integration and reconciliation between personnel records and payroll data
  - Timeliness of changes to personnel records and the payroll
  - Internal controls applied to changes to personnel records and the payroll
  - Existence of payroll audits to identify control weaknesses and/or ghost workers

Action1: Make the electronic system for payroll management fully functional and establish an interface with AGFIS.

A Human Resources Management Information System (HRMIS) will be implemented in phases until 2017 by which time most central and local budget entities should have access to the system. An interface will be created with the AGFIS/AFMIS for budgeting, cash flow forecasting, budget control and accounting purposes.

At every new LGU shall be established the Database for the Management of Human Resources, a part of the Human Resources Management Information System (HRMIS). HRMIS will be related with the Informative Financial System of Government (Treasury), under the frame of the integration of government database, ensuring an effective management of the public finance system in the payment field at the local level.

The establishment of the new municipalities of a determined size, will offer the financial preconditions to implement a competitive system of payments, in order to keep the professional staff i the newly municipalities. This shall include:

- Preparation of the model of work descriptions/mission for each of typical unit of the new municipality administration.
- The establishment of a permanent "help-desk" and giving sustainable help to municipalities in the process of the reorganisation (after local elections of 2015)

Implementation

Priority:	2
Completed in year:	2017
Deliverables:	Access to the HRMIS by budget entities
Cost implications:	Development and implementation cost, licenses
Responsible entity:	DoPA, MoF, NAIS
Risk:	Technical, managerial and financial

Pillar 4- Transparent government reporting

Budget documentation

Context

The budget documents -the MTBP and the annual budget law–submitted to Parliament, are very terse documents focusing mostly on the financial side of the budget, and with little information on the substance of the government budget programme. More ample information on the wider economic context and the Government's fiscal policies and priorities has been presented in the Economic and Fiscal Programs. But the latter document has, hitherto, only been produced in the first quarter of the fiscal year and thus has not served to inform the Parliament's process of assessing and deciding on the budget.

Objective

A budget document that, in an accessible format, provides ample information on the macro-fiscal framework, the Government's general policies, sector policies, spending priorities, and descriptions, past results and future objectives of government programmes as well as the ceilings for the out-years of the MTBP and the detailed appropriations for the coming years for these programmes.

Outcome indicator

- Open Budget Index produced by the International Budget Partnership, relating to information in the budget is increased to be higher that the level of 60

Action 1: Improve the information content and quality of the budget documents that go to Parliament

The existing OBL stipulates that the draft annual budget, for each central government unit, shall include inter alia:

a) the mission or goals of the central government units;
b) a description of programs and activities of this unit;
c) a presentation of programme policies, programme policy goals, programme policy objectives;
d) policy standards that shall be achieved by each unit and each programme;
e) an explanation of how each of the programme's outputs contribute towards the achievement of the relevant policy objectives and goals;
f) the actual indicators for the two previous budget years, budgetary funds planned for the current budget year, adjustments made by reallocations, approved requests for additional funds, and
g) the distribution of the total amount of medium term budget programme expenditure ceilings by program for each of the next three budget years.

For the MTBP (the three-year budget), the government will compile this information and present it as a complement to a description of the macro-fiscal framework and any past and possible future deviations from it. The document will also include a summary of the Government's overarching and sector policies as well as a strategic overview of policy initiatives and new major investment programs and their impact on the public finances.

Action 2: Improve the information content and quality of the local government budgets

Under the frame of Administrative and Territorial Reform, the newly municipalities shall be assisted at the process of compiling annual budgets through "Budget Guidelines for Local Government", improved and that takes into consideration the new contexts, established from the new administrative division.

Action 3: Prepare a Citizens' Budget Guide

The Government will prepare a simplified Budget Guide that uses non-technical language and accessible formats to facilitate citizens' understanding of, and engagement with, the government's plans and actions during the budget year. The Budget Guide will be published at the time the budget is tabled in Parliament.

Furthermore, a "Simplified Budget Guideline on Local Government" will be prepared to be used by local stakeholders and citizens. The aim will be to enable them better involvement in the budgeting process and provide them with better understanding both on the budget approval and implementation phases. The Guide will also include a reformation and presentation with improved rules and practices regarding the consultation process of the Budgets and Fiscal Package (local taxes and tariffs), in the newly created environment with Municipalities having to provide services for more subjects, covering more extended areas.

Implementation

Priority	2
Completed in year	2015
Deliverables	Budget document template, comprehensive budget document Citizens' Budget Guide
Cost implications:	Recruitment of additional staff necessary for preparing the enhanced budget document
Responsible entity:	MoF
Risk:	Human and financial resource constraints

Accounting

Context

Traditionally public administrations have set their own standards for accounting and financial reporting. Accounting by General government institutions in Albania is currently done on a cash-basis, but with some accrual elements relating to receivables and payables. The financial reporting to parliament is focused on the execution of the budget.

International standards for public sector accounting and reporting are, however emerging. The standards, which are set by the International Public Sector Accounting Standards (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.

Recently the European Commission decided to develop the European Public Accounting Standards, (EPSAS) based on IPSAS. The conceptual framework of EPSAS is foreseen to be in place by 2016 and most of the standards by end of 2020. The EPSAS might become obligatory for all EU member states starting from year 2021.

Giving these latest developments in the EU, the Albanian government has planned to revise gradually the existing rules, starting from the conceptual framework based on the EUROSTAT calendar in order to be prepared for adoption of EPSAS starting from 2021. Although, the timeframe of the actual strategy is until 2020, preparatory measures will be taken in order to gradually adopt these international standards. In the same time we will take into consideration feasibility constraints in Albania and the degree of their implementation by other the European countries.

Long term Objective beyond 2020

Accounting and reporting is done in compliance with EPSAS.

Specific Objective:

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 EPSAS framework. Reporting actual versus budget in a comparative basis (tentative IPSAS 24);
- The number of standards implemented.

- General government entities defined in compliance with ESA 2010.
- National guide, the related arrangements and the long term action plan for transition from the existing modified accounting basis to the accrual basis of accounting
- Presentation of financial statements as per EPSAS framework. Reporting actual versus budget in a comparative basis (tentative IPSAS 24).
- Daily desegregation of accounting data through Interface between AGFIS and Tax IT system.
- General Government institutions accessing AGFIS directly shall be able to execute their budget and perform financial reporting
- Financial Capacities increased and financial officers well trained.

Action 1: Establish a separate accounting function within MoF

The government will establish a separate accounting function in MoF responsible for the oversight of accounting in the government in general and the transition to EPSAS-based accounting in particular.

Action 2: Prepare financial reports as per the ESA 2010 Integrated government finance statistics manual

To meet the immediate reporting requirements in the EU accession context, the Government will early on in the plan period start preparing financial reports following the principles and the formats of the ESA 2010 Integrated Government Finance Statistics manual. The Government will seek external technical assistance to assist in this endeavour.

Action 3: Gradually implement European public sector accounting and reporting standards (EPSAS)

In preparation for EU membership, the government will gradually revise the accounting principles and the reporting standards in step with the development of EPSAS with the long term objective of complying fully with the finally established EPSAS.

In order to implement EPSAS a number of steps will be taken, including:

- Delineation of general government for accounting and financial reporting purposes
- Preparation of secondary legislation on accounting and reporting
- Development of manuals and training material
- Modification of the accounting system(s) and softwares
- Asset inventory and valuation
- Decision on the nature of budget controls on an accrual setting
- Development of reporting templates

The government will prepare a separate, detailed transition action plan and a road map for the move to EPSAS

Action 4 Design and implement the web portal for AGFIS users and the document management system (digital archive) for online AGFIS budget users

The extension of AGFIS for use of budget institutions will be accompanied, as precondition, with the necessary infrastructure in terms of ensuring online asses and real time performing for selected institutions and also creating facilities to managers and financial departments to circulate electronically the financial documentation (in all stages from generation (if possible) to final approval) related to transactions, archiving and possibilities of retrieving documents in case of ex-post controls. After several discussions and analyses it is agreed that the web portal and the document management system can fulfil these requirements. They are foreseen to be designed and fully implemented by end of 2016, as prerequisite for further extension of AGFIS in other budget institutions.

Implementation

Priority:	1
Completed in year:	2015 -2021
Deliverables:	Amended OBL, Secondary legislation on accounting and reporting Accounting function, 2015 Web portal to access AGFIS and Document Management System implemented, 2016 ESA 2010 GFS compatible reports, 2017 EPSAS implementation when feasible after 2021
Cost implications:	Additional staff costs, costs of modifying accounting system(s) Licence costs, Software and Hardware costs
Responsible entity:	MoF , NAIS and LM
Risk:	HR constraints Upgrade of existing AGFIS Hardware

Financial and performance monitoring and reporting

Context

Performance monitoring and reporting in Albania is regulated by the Organic Budget Law, and the Instruction of the Minister of Finance no.2, dated 6.2.2012, “On the standard procedures of budget execution” as well as a yearly updated MoF Instruction “On the execution of the annual budget”. In addition, 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 is in charge of capital spending programming and monitoring in Albania.

Based on the rating criteria used in the PEFA methodology, Albania scores reasonably well (B) 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, 46 out of a 100, in the Open Budget Index.

The present 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 in the 2015Budget Proposal, as regards the informative report sent to the Government and the Parliament, which now 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 information.

Under the frame of RAT, the amendment of Law No. 8652/2000 “On the organisation and functioning of local power”, aims to, among many other things, increase the administrative power of the mayor to approve the organisational structure of the municipality administration, and the appointment of administrators where they were once operating “Communes”, interior work regulations, determination of staff functions, etc. (with the existing law 8652, amended, these functions are attributed to Municipality Council, in the majority of them). In this context, STAR Project will compile a new working methodology (guide), which will be given the heads of the new municipalities, where there will be specific definitions, especially regarding to financial reporting and monitoring at the local level of governance.

Objective

Timely, ample and accessible financial and substantive reporting on the execution of the budget

Outcome indicators

- The International Budget Partnership’s Open Budget Index relating to information in the government reports

Action 1: Improve procedures and formats for in-year budget implementation reporting

Line Ministries and the Ministry of Finance currently prepare four quarterly monitoring reports per year. These reports are regularly published at MoF and LM website, and thus are accessible to the public. The reports are also sent for information to the Parliament, if and when requested. However, the main focus of reporting is still financial information regarding performance of expenditures against the plan. The government will improve procedures and templates for in-year reporting by combining financial information from the accounts with substantive information on activities and outputs in relation to plan and budget. In addition, the reporting system will be fully implemented in the future IFMIS rather than paper based, and will be accessible by all line ministries.

Action 2: Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information

The MoF prepares the yearly budget execution report, which is sent for approval to the Parliament together with the “law on the annual budget”. The report contains a large amount of financial and quantitative information. But it lacks substantive qualitative information on how each of the programme’s outputs contributes towards the achievement of the relevant policy objectives and goals. The Government will therefore develop a new format, for a comprehensive yearly budget execution report. This report will contain contextual, financial and substantive information related to the NSDI and the execution of the budget. The report will be presented to the Parliament no later than end of July of each year, and will be published on the MoF website.

Minister of State for Local Affairs, in coordination with the MF and the new municipalities established, as direct stakeholders (61), under the frame of offering assistance to RAT, shall advance improving and unification of the budget format, at the local level governance.

Action 3: Improve access to data on the government’s finances and operations

Currently the MoF publishes electronically information regarding macroeconomic and fiscal policy, including detailed and updated information on budget execution and public deficit and debt indicators, as well as information on arrears payments data and procedures. Nonetheless, to further improve accessibility and transparency, the government will make available data on its finances and operations through a “Transparency portal” open to the public. Through the portal it will be made accessible an array of pre-defined, downloadable reports on the public finances tailored to the needs of different categories of users: the political bodies, media, the general public and Albania’s international partners. In a second step, there will be functionality for more flexible searches and drill-downs into financial and substantive data stored in a data warehouse for flexible and rapid access.

Good practices of the Information Technology and innovative solutions shall be implemented even for LGUs services. Development and implementation of an integrated electronic system of information management, for all the functions of local power and ensuring the approach of the new municipalities in the information systems of MF, Treasury, and such structures as IPRO, AKPT and the Tax System, will be one of the priorities of the strategy in this field.

Implementation

Priority:	2
Completed in year:	2015-2020
Deliverables:	Reporting templates for in-year and annual budget monitoring reports Actual reports Monitoring module of the IFMIS Web portal
Cost implications:	Cost for systems development/implementation Cost of additional staff to compile the data and the reports
Responsible entity:	MoF, NAIS, CoM
Risk:	Financial and HR constraints

Investment project tracking and reporting

Context

In past years, large investment projects have tended to run unchecked even when the financial resources of the government fell much shorter than expectations. In other cases investment projects have been initiated and budgeted for without a proper analysis of the implementation capacity of the responsible entity and/or the contracted implementer. And the knowledge of the actual pace of implementation has often come late to the decision makers for lack of a proper project tracking and reporting system.

Objective

Efficient execution of large investment projects in line with available financial resources and existing implementation capacity.

Outcome indicator

- The ratio between the weighted deviation between actual and budgeted spending on large investment projects at mid-year and the weighted deviation between actual and budgeted (as per the revised budget) at year-end[7]

Actions 1: Develop routines for and IT-support for the tracking and monitoring large investment projects

The government will implement a module in the future IFMIS for tracking and monitoring capital investment projects and establish routines for the responsible entities to input the required information in the system and for the information to be effectively used in the preparation of the mid-year supplementary estimates.

Implementation

Priority:	1
Completed in year:	2017
Deliverables:	Routines and IT-support
Cost implications:	License cost for the module
Responsible entity:	MoEDTE and MoF
Risk:	HR and financing constraints

[7] The rationale for this indicator is that if the monitoring of the execution of the projects is effective, it should lead to a reallocation of resources from projects that for different reasons are not being executed at the rate planned to those that have a capacity to do more that initially planned. This would be reflected in a ratio between the two deviations of less than 1, and the smaller the better.

Pillar 5 -Effective internal control

Financial Management and Control (FMC) at Public Institutions

Context

The function of the financial management and control in Albania has historically been to check that the budget funds have been used only for the purposes provided for by the relevant legislation. This requirement will remain in force but more emphasis will be placed on managerial accountability within the framework of a performance based budgeting, which will make the system more output oriented.

The legal framework for the introduction of Public Internal Financial Control (PIFC) is set out in the MBS, the Law on Internal Audit 2007 (as amended) and the Law on Financial Management and Control 2010. These laws provide an adequate legal framework for the implementation of the three pillars of PIFC, namely Financial Management and Control (FMC), a functionally independent Internal Audit (IA) and Central Harmonization Unit (CHU) for developing methodologies and standards for FMC and IA. The key role and responsibility for the development and implementation of PIFC rests with the Ministry of Finance, which fulfils its role through the operations of the Central Harmonization Unit of Financial Management and Control (CHU/FMC), the Central Harmonization Unit of Internal Audit (CHU/IA) and the Financial Inspection Service in co-operation with units in the budget institutions.

Ministry of Finance since 2011 has been implementing a 5-year plan for FMC. However, the main role of FMC to lead to better performance, more transparency, more efficiency and effectiveness, in terms of spending public money is not yet fully understood by all public units. Still there is low awareness starting from the top management on the benefits of a sound internal control system for the managerial accountability.

In the coming years, the various aspects of the financial management and control system will be tested in central and local government pilot institutions for the duration of a single budget cycle. This phase is going to be associated with the revision of the legal and bylaw basis of public finances and the training curricula associated with practical cases/experience shall be developed (2014-2015). In this regard, CHU/FMC unit will be assisted by a Twining project, between Ministry of Finance of Austria and Ministry of Economy and Finance of France, financed by EU, which main focus would be implementing FMC in seven pilot institutions. In the future the experience gained through the pilots will be used by CHU/FMC for the roll out process in all public institutions.

Regarding local governments, the municipality's Councils organise and conduct the interior controls. Under the frame of TAR and the organisation of LGUs in 61 municipalities, after the coming local election, it is foreseen a restoration and empowerment of controlling functions, pursued by Municipality Council on the municipality administration, especially regarding financial management (budget, projects, tax collection, etc.)

Objective

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

Outcome indicators

- The number of budget entities using performance budgeting and showing objectives and results
- The percentage of total expenditure where performance budgeting is applied and objectives and results are published

Deliverables

- Revised legislation of FMC and the legal framework consistent with the FMC requirements. EU annual progress report for Albania;
- Adoption of sub-legislation concerning the organization, role and required capacities in financial units;
- Higher capacities of financial and operational managers – measured against the number of trained managers, performance defined indicators reported from Treasury and Budget MoF;
- Raised awareness among top management as regards managerial accountability, and final responsibilities for budget proceeds, through workshops;
- Risk management introduced in all government institutions. Personal Declaration on internal control systems from Authorizing Officers, SAI reports, IA reports;
- Internal Control System plan for every unit with clear description of the key controls, the audit trail and the reporting lines;
- Establish a sufficient and standardised information and communication system in every entity that provides all the necessary information needed for all employees to fulfil their role in the organisation;
- Monitoring performance of internal control systems of governmental units – measured against the performance of the internal control system over the past years for the Ministries, municipalities and regions. PIFC Annual Report of MoF sent to Parliament and published. Revised legislation of FMC and the legal framework consistent with the FMC requirements. EU annual progress report for Albania;
- Restoration and controlling capacities shaping of the Municipality Council for the new municipalities' finances.
- Training of counsellors (economy-finance commissions), after the coming local elections, on the new models of financial management, that will be installed in the new established municipalities, and a presentation with the new legal framework for PFM.
- Compiling of statuses and model regulations of the new municipalities, with a special focus in pursuing controlling functions from the institutions of the municipality council.
- Improvement of the reporting systems from the new administrations of 61 municipalities,
- Improvement of IT solutions, aiming their effective use and unification from municipality staffs (administration and the Council).

Action 1: Monitor the implementation the legal framework for FMC

The legal basis for FMC has been implemented over a three-year period. During this time, the CHU/ FMC monitored the process, taking notes of all problems/ issues discovered during the process or raised by the budget institutions. These issues will be discussed during a revision process involving experts from the Austrian and French ministries of Finance (under a twining project financed by EU) as well as stakeholders throughout the pilot ministries and local government institutions. The issues reviewed are mostly related to the segregation of duties between authorizing officers, financial managers, and other operations managers within the organization, delegation of competencies, reporting lines between subordinated units and the central body, etc.

After intensive discussions and evaluations the twinning experts are in compliance with the assessment of SIGMA and DG Enlargement that the main problem is the implementation of the existing laws and not the law itself, if necessary at all only minor changes were recommended.

So far the monitoring takes place mainly by self-assessment and the evaluation of the annually questionnaire answered by the AO. The Twinning experts will support CHU/FMC to establish a monitoring system with on the spot controls to verify the provided information. This will be done in close cooperation with the Internal Audit units of the organisation which have to audit the performance of the organisation and the functioning of the Internal Control according to their audit plan.

Action 2: Implement a modern FMC system in three line ministries and four municipalities, based on the experience gained from the previous pilot project.

The implementation process will require (i) changes to managerial structures within the organization including a revision of the status of the heads of the finance; (ii) determination of rules and relations between the main officials responsible for financial management (head, authorizing employee, head of finance and other managers) (iii) revision/harmonization of three laws and bylaws, the budget law, the law on FMC and the law on state administration; (iv) introduction of the risk management in budget planning and execution, (iv) provision of necessary training, specifically for the heads of public institutions.

Action 3: Prepare sub-legal act on the organization, role and required capacities in financial units.

The process of revision of the status and increasing capacities of the financial units within public institutions will require close collaboration between CHU/FMC, Budget Department and DoPA. This process may have also financial implications in terms of additional staff required for the finance departments, shortage of finance staff in very small subordinated units, level of salary has to be revised, etc.

Action 4: Provide broad-scale continuous training of financial and operational managers in collaboration with ASPA

The CHU/FMC will organize training for several target groups on FMC issues, finance basics, etc. The curriculum is developed by CHU with foreign technical assistance and will be updated and further developed under the new assistance programme financed by the EU. In Cooperation with the National School of Public Administration a number of training programmes have been organized during the last two years and it is envisaged that they will be repeated provided funds are available.

Action 5: Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"

Managerial accountability is the base for the efficient and internal control system in public entities. This concept refers to the obligation of all managers in all public sector organizations to take responsibility for the implementation of the principles of sound financial management and legitimacy in the management of public funds. According to the Financial Management and Control Law managerial accountability is the obligation of the managers of the organizations to exercise all activities observing the principles of sound financial management, compliance with legality and, and account for their actions and the results

In order to raise awareness on this concept seminars and workshop on performance management in public institutions will be organized for key officials in line ministries and departments.

Action 6: Further implementation of risk management process and other FMC practices in all public institution. .

The budgeting process will be improved by introducing risk identification and evaluation from the planning stage. As part of this endeavour, budget draft negotiated with the ministry of finance will account for the risks associated with the objectives.

Action 7: Monitor the performance of budget entities and nominate the 10 best-performing public units in terms of internal control

The methodology for monitoring the performance of public institutions was approved by the Minister of Finance in May 2013. Measurable indicators are defined by each department and reported once a year to the CHU/FMC, which prepares the annual report on the quality of internal control systems in general government institutions. This report is sent to SAI, Parliament, DG Budget, EC and published in the MoF web site. This approach will continue in the future and will be improved over time.

Implementation

Priority:	2
Completed in year:	2020
Deliverables:	Legislation revised and implemented. Direct assistance and training of financial officers and operational managers
Cost implications:	Cost of training
Responsible entity:	MoF and all public institutions
Risk:	HR and financing constraints

Internal audit

Context

Internal Audit (IA) concept as an independent activity, supporting and advising management and providing reasonable assurance that the financial management and control systems have been established in compliance with the generally accepted rules and standards, is regulated by Law no. 9720, dated 23.04.2007 "On internal audit in the public sector".

Currently there are100 IA units established in line ministries, central government institutions, local governments and some other partially owned public entities. The Central Harmonization Unit for Internal Audit (CHU/IA), established within Ministry of Finance, is in charge of developing and implementing IA methodology and standards.

While positive steps have been taken over the past few years, many of the actions were legislative or regulatory in nature. This provided a basis for IA but implementation of the IA law and secondary legislation lagged behind. In the period 2010-2013 the CHU/IA focused mainly on certification of internal auditors and reviewing the work of IA units. Around 1 800 people have obtained a certificate in internal auditing. Three hundred fifty of them are working as internal auditors in the public sector. The modernisation of the internal audit function has been slow, however. IA units are still carrying out transaction-based compliance audits. The system based audit approach, described in the IA manual, is not followed by most IA units, mainly due to a lack of support by the CHU/IA (continuous training). Management still requests IA to carry out activities related to financial inspection, although to a lesser degree than in previous years. All in all, the development of the IA function in the public sector in Albania has stagnated after 2010.

A revitalization of the IA function is needed focusing on strengthening IA units by means of developing the professional skills of its IA staff, rather than certifying new internal auditors. The CHU/IA as the co-ordinating entity will have to play an important role in this process. But as the CHU/IA, in 2013, was downsized from 14 to 5 staff members it will be necessary to review and prioritise the tasks that it can realistically undertake.

Objective

Well-functioning and efficient IA function in the public sector

Outcome indicators

- Percentage of implemented internal audit findings;
- Number of participants on trainings for continuous professional development of internal auditors per year versus number of participants on trainings for certification programme;
- IA reports address weaknesses in internal control systems;

- The annual CHU/IA report on internal audit development demonstrates progress in the quality of internal audit;

Action 1: Review desirable future development of the IA function and amend legal and methodological framework

The future development of the IA function in the public sector and the desirable development of the internal audit function will be analysed. The result of this analysis will provide input to a revision of the IA law. In any event, clauses related to CHU/IA, to the functioning of the Audit Committee, and the certification of internal auditors will have to be amended. Consequently, secondary legislation such as the Internal Audit manual, the regulations for certifications and continuous training, and quality assurance reviews by the CHU/IA will also have to be revised.

Action 2: Professionalize IA function

The Internal Audit function needs to be further professionalized. Based on the revised law the CHU/IA will revise existing IA methodology and/or draft new guidance material.

The certification training process will be simplified and made fully transparent. Trainers will need to have theoretical and demonstrable practical experience in internal auditing.

The Internal Audit units need to be educated in system based auditing, reporting and communication of audit results to management. The CHU/IA will annually set up a continuous professional development (CPD) programme based on these and other training needs of head of internal audit units and internal auditors and new developments in internal auditing. For Heads of IA units a special module will be developed (first level). The second level will be for other internal auditors working in public sector organizations. All internal auditors are obliged to take part in the CPD programme for to be determined numbers of training hours a year. Not fulfilling the annual CPD requirement may lead to losing the IA certificate.

The quality of the IA function will be reviewed from time to time by the CHU/IA according to a new to be developed Quality Assurance guideline.

The CHU/IA will set up a network of Heads of Internal Audit units. The Heads of Internal Units are supposed to share experiences and is a tool for the CHU to identify practical problems and solutions, which could form input for the annual CPD programme. The network is meant to meet regularly. The Heads of the Internal Audit units own the network. In the starting up phase the CHU/IA will be the initiator of meetings, but after some time it will only facilitate the network.

Action 3: Strengthen the capacity of the CHU/IA

The CHU/IA will need to be strengthened in order to be prepared on the new tasks. The analysis under action 1 will determine the need for extra staff. The CHU/IA staff should have IA experience and communication skills. The current staff will be trained in new tasks.

Implementation

Priority:	1
Completed in year:	2018
Deliverables:	An analysis and a decision on the way forward Amendments of the IA law Documented new methodologies for IA New Certification programme Annual CPD programme Setting up a Network for Heads of IA units
Cost implications:	No immediate besides the time involved Cost of TA born by external partners
Responsible entity:	CHU/IA
Risk:	Lack of HR and insufficiently trained staff in CHU/IA

Public Financial Inspection

Context

The PFI law was approved in 2010. Inspections are carried out by external public financial inspectors who are employees of the public administration. They are selected by the Minister of Finance and are assigned case by case (Ad-hoc). This approach has not resulted to be very effective because differences in financial inspectors' experience and capacities. The Ministry of Finance proposes a centralised PIFD structure within MoF to carry out financial inspections. However these developments do not constitute an undervaluation of the internal audit function, but it has to be considered as an upgrading and raising effectiveness of the existing PIFD function.

Objective

An effective public financial inspection function.

Outcome indicator

- Corruption Perception index evaluations for Albania,

Action 1: Review of legal basis and draft new sub legal acts

The Government will review the legal basis for the public financial inspection and draft a manual on procedures and standards for carrying out financial inspections of the use of public funds; (state funds, local funds, EU funds and other donor funds).

Action 2: Increase skills of the public inspectors

The EC will support capacity building activities to strengthen the coordination of anti-fraud activities and the inspectors' capacity to detect irregularities in the management of public funds (including state and EU funds) in Albania

Action 3: Extend the AFCOS network to cover all public funds

The Government will analyse the possibility of extending the Anti-fraud coordination service (AFCOS) network and irregularity reporting to cover all public funds.

Implementation

Priority:	1
Completed in year:	2018
Deliverables:	Amended legislation related to PI Training Review of AFCOS network
Cost implications:	No immediate besides the time involved Cost of TA born by external partners
Responsible entity:	CHU/IA
Risk:	Lack of HR and insufficiently trained staff in CHU/IA

Pillar 6 - Effective external oversight of the public finances

External audit

Context

The High State Control, also known as The Supreme State Audit, is an independent body subordinate only to the constitution. It is thus outside the control of the Government. Part of its reform agenda is, nonetheless, presented here and included in the strategy as external audit is a crucial component of PFM. The HSC is a crucial member of the PFM Strategy's Steering Committee. The development of the HSC into a professional audit institution came to a standstill in 2009 after a twinning project came to an end. In 2012 however, after the change of leadership, the process to turn the HSC into a professional, well-respected audit institution was revitalized. This new plan resulted in a new Strategic Development Plan 2013-2017 (SDP). The SDP aims to modernize the institution and to bring its activities in full compliance with INTOSAI standards.

The objectives of the plan are to:

- develop HSC's institutional capacity;
- enhance the audit capacities and the quality of audit;
- increase the number and quality of performance audit;
- develop and consolidate IT audits;
- increase the use of IT technology in the audit process;
- strengthen the anti-corruption role of the HSC; and
- develop the co-operation with other relevant actors within and outside the country

The HSC officially submitted to the Parliament the amendments to its basic law no. 8270, dated 23 December 1997 (as amended) in November 2012 and in September 2013 again to the new elected Parliamentarians. The amendments have been discussed extensively in the

Parliament's Economy and Finance and Law Committees and were adopted before the end of 2014. They define new responsibilities in the field of audit; specify the rights and obligations of the institution based on INTOSAI standards, as well as the organisation and structure of the HSC, personnel status, the certification process of the financial statements for the auditees, etc. The changes align the Albanian legislation with the INTOSAI fundamental declarations of Lima and Mexico, and the ISSAIs. Due to a delay in the adoption of the amendments to the HSC law by Parliament, the implementation of the SDP stagnated in 2013 and 2014.

At the beginning of 2015 the HSC will be supported in its development by a Twinning project for 24 months. Except for activity 1, all below are parts of the twinning project.

Objective:

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

Outcome indicators

- PEFA indicator PI-26 and its components:
    - Scope and nature of audits performed including adherence to auditing standards
    - Timeliness of submission of audit reports to legislature
    - Evidence of follow-up on audit recommendations
- Complemented by:
    - Proportion of audit reports published on the HSC website compared with total audit reports adopted
    - Percentage of audit recommendations accepted and implemented by auditees over the past three years
    - Timeliness of audit reports by comparing the number of HSC reports adopted within the individual deadlines set by the SAI internal rules with the number of planned reports for the year.

Action 1: Improve legal framework

The adoption of the HSC law is a condition for the implementation of several elements of actions 2 – 5.

Action 2: Align audit approaches to international standards (ISSAIs)

The HSC will align its audit approaches to the International Standards of Supreme Audit Institutions (ISSAIs).

The amendments to the HSC law mean that the HSC will have to submit an annual report to Parliament containing its opinion on the final budget declaration of the Republic of Albania. The HSC will review of its financial audit manual, including the guidance material on audit opinions and reporting. Auditors will be trained in this field.

Performance audit is in its early days in Albania. Improving the quality of performance audits specific methodologies is necessary. To achieve this, the HSC will focus on the selection of institutions, functions, and activities to subject to performance audits, performance audit planning, audit techniques and data collection, as well as on specific issues related to the objectives, quality control, reporting and recommendations of performance audits.

The HSC will revise its approach to compliance audit. This new approach will be risk-based and will focus on systemic issues rather than on individual audit findings. A manual for compliance audit in accordance with ISSAIs 4000 - 4200 will be developed and training will be organised. The new approach to compliance audit is expected to have a greater impact on the operations of the auditees than the old approach while saving time and resources for the HSC. These savings will be allocated to Financial Audit and Performance Audit.

With Albania now being an EU candidate country and with increased EU funding and technical assistance, the HSC will need, to but will also have the possibility, through systematic training programmes, to strengthen its capacity to audit the management of EU funds.

The HSC will, in future, base its annual audit programme on a risk analysis and will prepare a special guide to the programme reflecting the scope of the audit and listing public entities subject to the HSC audit.

Action 3: Adapt the organizational structure and internal regulations to the new audit approaches

After the approval of the amendments to the HSC law, the institution will, where needed, re-structure its organisation and re-draft its internal regulations.

Action 4: Increase training and the use of Information Technology in tandem with the introduction of the new audit approaches

The individual audit capabilities of the HSC staff will be strengthened through a continuous professional training programme. And an internal certification procedure will be put in place. Methodologies for IT audits and the use of IT in audits will be developed.

Action 5: Improve the communication with key clients such as Parliament, the Government, media and the citizens in order to increase the impact of the audit work.

The HSC will develop and implement a new communication strategy, emphasizing its relations with the public and Parliament, as well as including other partners at the national and international levels.

Besides developing and professionalizing audit approaches HSC will improve the structure of its audit reports, introducing an executive summary and using graphical methods and clearer language to present the audit findings selectively.

The HSC aims to intensify communication with the Parliament of Albania by institutionalising its co-operation with the Committee of Economy and Finance.

In May 2012 the HSC signed a Memorandum of Understanding (MoU) with the Ministry of Finance. This MoU primarily aims to foster the cooperation with internal audit structures. The HSC will encourage and support internal audit, as well the use of internal audit work.

Implementation

Priority:	1

Completed in year:	2017
Deliverables:	Approved HSC laws Documented new methodologies for Financial Audit, Performance Audit Compliance Audit, IT Audit and Reporting Adjusted internal regulations Developed and implemented internal certification programme and annual Continuous Professional Development programme Communication Strategy Protocol for co-operation with the Parliament's Economy and Finance Committee
Cost implications:	No immediate besides the time involved Cost of TA borne by EU (Twinning project)
Responsible entity:	HSC
Risk:	Delay in start of Twinning project Insufficient HSC support to Twinning project Insufficient capacity available for implementing activities of the SDP 2013-2017 to be carried out by HSC

Capacity development

In Albania, there are already a number of Capacity Development initiatives, funded through several channels: IPS, PPF, WB, IMF (including EU pool fund), and other projects. They cover a broad range of activities and competences and provide a mix of technical assistance, assessments and trainings.

The structure of the PFM reform, through pillars and components, will help aligning these initiatives to the public finance management reform and directing all future support to where it is most needed.

The Government is preparing a list of on-going activities and planned technical assistance and institutional support for public finance management and will use it to prepare a detailed strategy for capacity building and for a dialogue with donors on future support in this area.

Integrated Financial Management System

The government will, as a first step to developing the future IFMIS, do a comprehensive review of existing systems support for key public financial management functions (functionality, technological platforms, degree of integration, etc.). In a second step, a conceptual design for the future IFMIS will be prepared based on an assessment of needs and the potential for efficiency gains offered by modern off-the shelf integrated Government Resource Planning systems.

The Government will set up a separate function within Ministry of Finance to bring under a unified command the conceptual design, procurement, and implementation of additional modules and/or reconfiguration of existing core modules of the future IFMIS, including, as a minimum: planning and budgeting, programme and project management, contract management, intra-governmental transfers, expenditure management and control including payroll management, accounting, treasury management, and liquidity forecasting. The central IFMIS function will also be responsible for specifying and implementing interfaces with existing systems in the tax and customs administrations, in the Public Procurement Authority and with the system used for debt management. A web portal will be developed to make available to the public a broad spectrum on information on the public finances and on the outputs produced and the outcomes achieved from public spending.

The capacity of the hardware on which the present AGFIS is running is becoming a constraint to the implementation of new functionalities and for opening up the system to more users. Substantial investment in servers and other hardware will need to be made in the next few years.

The Government will invite its external partners to contribute to a basket fund to finance the development and implementation of the future IFMIS.

Chapter IV: Financial resources and costing

The majority of the reforms included in this strategy are policy reforms. The work of formalizing these reforms in the form of new and/or modified legislation and regulations will not require additional financial resources. Existing staff of the institutions involved in the implementation of the reforms will be responsible for taking necessary steps to bring the measures envisaged under this strategy document to successful fruition. The Government will seek financing from its external development partners for part of the expenditure associated with systems implementation and capacity building. Budget support will, to the extent it is sustainable, be used to finance some of the recurrent costs associated with the reforms.

Detailed planning of activities and costing

The team leaders are responsible for developing logical framework (justification and detailed objectives, activities, time frame, costing, milestones and indicators), and to prepare annual work-plans detailing annual activities. The work plans will be submitted for review to the Steering committee and once approved by the Steering Committee will serve for performance monitoring.

Summary of estimated outlays and financing

Actions in PFM Reform Strategy 2014-2020 **In thousand Euro**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Responsibl e Institution**
Pillar 1: Sustainable and prudent fiscal framework								
Forecasting								
Action 1: Review different options for ensuring unbiased GDP and revenue forecasts	0	500	0	0	0	0	0	MoF
Action 2: Legislate on and implement measures to ensure unbiased GDP and revenue forecasts	0	500	500	100	100	100	0	MoF
Action 3: Improve forecasting methodologies	0	500	300	100			100	MoF
National accounts	0	0	0	0	0	0	0	
Action 1: Strengthen INSTAT's capacity in the area of national accounts statistics	0	1500	1000	500				INSTAT
Fiscal rule	0	0	0	0	0	0	0	
Action 1: Design the fiscal rule, introduce it in the Organic Budget Law and submit it to Parliament for approval	0	0	500	500	0	0	0	MoF , CoM, Parliamentary Committee on Finance and Economy
Restriction on spending in election years	0	0	0	0	0	0	0	
Action 1: Restrict spending during the first three quarters of the fiscal year	0	0	0	0	0	0	0	MoF
Restrictions on the use of proceeds from privatizations	0	0	0	0	0	0	0	

Action 1: Amend the OBL to ensure that proceeds from privatization can only be used for retiring public debt and/or capital investments.	0	0	0	0	0	0	0	MoF
Fiscal risk management	0	0	0	0	0	0	0	
Action 1: Set up a special risk management function within MoF for assessing and advising on not debt-related fiscal risks	0	100	100					MoF
Pillar 2: Well integrated and efficient planning and budgeting of public expenditure								
Strategic policy development and review								
Action 1: Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure	0	1000	1000	1000	1000	1000	1000	CoM, DDPFFA
Action 2: Introduce rolling reviews and updates of the overarching NSDI and sector strategies in the MTBP process	0	300	300	300	300	300	300	MoF , CoM, Parliament
Action 3: Create the capacity to carry our in-depth sector reviews as needed	0	1000	1000	1000				MoF
Capital investment planning, appraisal and inclusion in budget	0	0	0	0	0	0	0	
Action 1: Include a section in the OBL and submit to Parliament specific regulations regarding the preparation, appraisal and approval of government capital investment projects	0	1000	500					MoF
Action 2: Strengthen the public administration's capacity to appraise the socio-economic return of capital investment projects	0	1000	1000	500				MoF
Action 3: Create a computerized repository for financials well as substantive information on major investment projects	0	500	1000	500	500	500	500	MoF
Medium Term Budget Programme	0	0	0	0	0	0	0	
Action 1: Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process	0	500	500	100	0	0	0	MoF
Multi-year commitment controls	0	0	0	0	0	0	0	
Action 1: Introduce multi-year commitment control for multi-year investment projects(SEETS)	already fineced by SETS project							MoF
Action 2: Tighten up the approval process for multi-year capital projects	0	100	100					MoF and MZHETS
PFM in local government	0	0	0	0	0	0	0	
Action 1: Draft the law on local government financing	0	100	500	0	0	0	0	MoF, Ministry for local government, CoM, Parliament
Action 2: Strengthen implementation of the new law and PFM practices	0	0	0	500	500			MoF
Pillar 3: Efficient execution of the Budget								

Tax administration								MoF
Action 1: Reengineer and computerize core tax administration processes	0	6000	6000	100	100	100	100	MoF
Action 2: Overhaul the tax administration's organizational structures and staffing at headquarters and at field level	0	500	300	300	300	300	300	MoF
Action 3: Implement compliance risk management of tax collection	0	500	300	200	200	200	200	MoF
Action 4: Strengthen audit capacity	0	1000	500	500	300	300	300	MoF
Action 5: Revise the system of the fiscal cash registers and encourage their use	0	200	100	50	50	50	50	MoF
Action 6: Establish a fiscal cadastre of properties	0	10000	10000	10000	2000	2000	2000	MoF
Action 7: Strengthen the professional capacity of the GTD staff trough continuous training	0	1000	1000	1000	500	500	500	MoF
Customs management	0	0	0	0	0	0	0	
Action 1: Eliminate procedural ambiguities to create a clear interaction framework between the private sector and the Customs Administration	0	300	100	0	0	0	0	MoF
Action 2: Make service delivery at the border-crossing checkpoints more efficient	0	5000	3000	1000	500	500	500	MoF
Action 3: Unify of a number of important rules and practices into a coherent set of guidelines	0	500	100	0	0	0	0	MoF
Action 4: Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance	0	2000	5000	3000	1000	1000	1000	MoF
Action 5: Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency	0	100	100	100	50	50	50	MoF
Action 6: Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions	0	0	500	200	0	0	0	MoF
Action 7: Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis.	0	0	1000	1000	200	100	100	MoF
Action 8: Take measures to stamp out fraud	0	500	500	500	300	300	300	MoF
Action 9: Improve IT systems and procedures at central and local levels of GDC	0	2000	1000	1000	500	500	500	MoF
Action 10: Establishment of the National ValuationDatabase	0	500	1500	1000	1000	500	500	MoF
Expenditure control	0	0	0	0	0	0	0	
Action 1: Expand the use of pre-commitments / encumbrances for the control of the execution of the budget	0							MoF
Action 2: Intensifying the internal controls in AGFIS at the phase of pre-commitment of public funds	0							MoF
Action 3: Gradually make AGFIS	0		230	230	230	530	650	MoF

available to all major budget entities								
Action 4. Configure AGFIS so as to allow tracking operational expenses by project code			7					
Analyse the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenses					1000			
Debt and cash management	0	0	0	0	0	0	0	
Action 1: Review current institutional arrangements, internal organization, and staff responsible for debt and cash management	0	1000	500	500	500	500	500	MoF
Action2: Develop a comprehensive debt management strategy	0	100	0	0	0	0	0	MoF
Action 3: Develop a strategy for Government securities market development	0	500	0	0	0	0	0	MoF
Action 4:Integrate the debt management system with AGFIS and the future AFMIS	0	500	300	0	0	0	0	MoF
Action 5: Improve liquidity forecasting	0	100	100	100	100	100	100	MoF
Action 6: Seek agreement with the external partners to channel all grant and loan funds through the TSA	0	100	100	100	100	0	0	MoF
Action 7: Create interfaces with the tax and customs management systems	already fineced by SETS	100						MoF
Management of external funds	0	0	0	0	0	0	0	
Action 1: Execute all procedures for the management ofexternal funds through the AGFIS/AFMIS.	0			700	300			MoF, Treasury System, DDPFFA
Action 2: Increase the predictability of donor flows	0	100	100	50	50	30	30	EU managemnet structures (NAO, CFCU, NF)
Public Procurement	0	0	0	0	0	0	0	
Action 1: Prepare amendments to the PPL, and to supporting regulations	0	1000	500	0	0	0	0	PPA, PPC, CoM
Action 2: Further align the public procurement and concession laws with the Acquis (new EU directives) and with EU good practice as well as the implementation of the defense and security directive.	0	1000	500	0	0	0	0	PPA, PPC, CoM
Action 3: Strengthen the review and remedies system to ensure legality, transparency, coherence and effectiveness.	0	500	200	100	100	100	100	PPA, PPC, CoM
Action 4: Further improve the functionality of the public procurement system	0	500	200	100	100	100	100	PPA, PPC, CoM
Action 5: Establish mechanisms to control the availability of funds prior to procurement	0	100	100	0	0	0	0	PPA, MoF, NAIS
Asset management	0	0	0	0	0	0	0	
Action 1: Initiate and complete the process of full public assets inventory in General Government institutions	0	1000	500	500	0	0	0	MoF
Public administration payroll management	0	0	0	0	0	0	0	

Action1: Make fully functional the electronic system for payroll management and establish an interface with AGFIS.	0	500	1500	500	500	500	500	DoPA, MoF
Pillar 4: Transparent government reporting								
Budget documentation								
Action 1: Improve the information content and quality of the budget documents that go to Parliament	0	100	100	100	100	100	100	MoF
Action 2: Prepare a Citizens' Budget Guide	0	50	50	50	50	50	50	MoF
Accounting	0	0	0	0	0	0	0	
Action 1: Gradually implement European public sector accounting and reporting standards (EPSAS)	0	1000	500	500	500	500	500	MoF
Action 2: Establish a separate accounting function within MoF	0	200	200	100	100	100	100	MoF
Action 3. Design and implement the web portal for AGFIS users and the document management system (digital archive) for online AGFIS budget users								
Financial and performance monitoring and reporting	0	0	0	0	0	0	0	
Action 1: Develop procedures and formats for in-year budget implementation reporting	0	500	100	100	0	0	0	MoF
Action 2: Develop a format for a comprehensive government yearly budget execution report including substantive as well as financial information	0	0	500	500	100	0	0	MoF
Action 3: Improve access to data on the government's finances and operations	0	0	500	200	100	100	100	MoF
Investment project tracking and reporting	0	0	0	0	0	0	0	
Actions 1: Develop routines for and IT-support for the tracking and monitoring large investment projects	0	2000	300	300	100	100	100	MoF and MZHETS
Pillar 5: Effective internal control								
Financial Management and Control (FMC) at Public Institutions								
Action 1: Monitor the implementation the legal framework for FMC	0	500						MoF
Action 2: Implement a modern FMC system in three Line Ministries and four municipalities, based on the experience gained from the previous pilot project.				0	0	0	0	MoF, selected institutions
Action 3: Prepare sub-legal act on the organization, role and required capacities in financial units.	0	500		0	0	0	0	MoF
Action 4: Provide broad-scale continuous training of financial and operational managers in collaboration with ASPA	0	1000	1000	500	500	500	500	MoF. ASPA
Action 5: Increase the awareness of public units about the benefits of implementing the concept of "managerial accountability"	0	500	500	500	500	500	500	MoF, CHU/FMC
Action 6. Further implementation of risk management process and other FMC practices in all public institutions.	0	500	500	500	500	500	500	MoF, CHU/FMC, Budget, and all public

Action 7: Monitor the performance of budget entities and nominate the 10 best-performing public units in terms of internal control	0	500						MoF, CHU/FMC, Budget, Treasury (Central+TDO), CHU/IA
Internal audit	0	0	0	0	0	0	0	
Action 1: Review desirable future development of the IA function and amend legal and methodological framework								MoF, CHU/IA
Action 2: Professionalize IA function		1000	1000					MoF, CHU/IA
Action 3: Strengthen the capacity of the CHU/IA	0	500	500	200	200	200	200	MoF, CHU/IA
Public Financial Inspection	0	0	0	0	0	0	0	
Action 1: Review of legal basis, draft new sub legal acts and increase skills capacities of the public financial inspectors.		300	400					MoF/PFID
Pillar 6: Effective external oversight of the public finances								
External audit								
Action 1. Improve legal framework		100	100	100	100	100	100	SAI
Action 2. Align audit approaches to international standards (ISSAIs)	0	0	0	0	0	0	0	SAI
Action 3. Adapt organizational structure and internal regulations to new audit approaches	0	100	100	50	50	50	50	SAI
Action 4. Adapt secondary processes such as Training and Information Technology to new audit approaches	50	300	300	300	300	300	300	SAI
Action 5. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.	0	50	50	50	50	50	50	SAI
Sub- Total All Pillars		**55.500,0**	**50.837,0**	**31.980,0**	**15.630,0**	**13.310,0**	**13.430,0**	
GRAND TOTAL OF ESTIMATED EXPENDITURES		**55.500,0**	**50.837,0**	**31.980,0**	**15.630,0**	**13.310,0**	**13.430,0**	
Albanian Government National Budget		**33.300,0**	**30.502,2**	**19.188,0**	**9.378,0**	**7.986,0**	**8.058,0**	
International Donors		**22.194,0**	**20.329,8**	**12.787,0**	**6.248,0**	**5.321,0**	**5.369,0**	
Funding Gap		**6,0**	**5,0**	**5,0**	**4,0**	**3,0**	**3,0**	

Chapter V - Roles and responsibilities for implementing, monitoring and updating the strategy

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

Within the Ministry of Finance, the Working Group for PFM reform strategy was already created and put in charge of preparing, drafting and discussing with different stakeholders the PFM reform strategy for 2014-2020 including a framework for its implementation and monitoring. During PFM implementation, the technical committee members will serve also as component leaders.

Moreover, to ensure the effective implementation of the reform strategy and to facilitate coordination of efforts, a steering committee has been established by the Prime Minister Order no. 202 dated 25.8.2014. Team leaders for the six pillars as well as for the components under them will be appointed by the steering committee. An external review group will be set up to monitor progress. A sectoral working group on PFM reform is headed by the Prime Minister Office to ensure that it is dedicated the necessary attention. Both Ministry of Finance and Prime Minister Office recognise the importance of a fruitful and efficient dialogue with donors.

Preliminarily this management and monitoring framework for the PFM reforms will consist of the following elements.

PFM Reform Steering Committee

The PFM Reform Steering Committee is the oversight committee with responsibility for directing and monitoring PFM reform activities. It will be chaired by the Minister of Finance, and its membership will be as follows:

- The Deputy Ministers for Finance,
- The Secretary General of the Ministry of Finance,
- The Minister of State on Local Issues
- The Deputy Minister of the Ministry of European Integration,
- The Deputy Minister of the Ministry of Economic Development, Trade and Entrepreneurship ,
- The Deputy Minister of the Ministry of Social Welfare and Youth;
- The Secretary General of the State Supreme Audit Institution
- One Representative from the Economy and Finance Committee of Parliament
- The Head of the Public Administration Department

- The Head of the Procurement Agency
- The Head of Public Procurement Commission
- The Director General of Tax Administration
- The Director General of Customs Administration
- The Director General of the Social Insurance Institution

The Secretary General of MoF will serve as a Secretary to the Steering Committee. The Committee will meet every six months to review the progress of the reforms. The PFM Reform Steering Committee may invite any other persons to the Steering Committee from time to time.

Responsibilities of the PFM Reform Steering Committee include the following:

- Appoint the head of the PFM Reform Secretariat
- Appoint team leaders for the different pillars of the reform strategy
- Appoint the component team leaders based on proposals by the Pillar leaders.
- Monitor the implementation of the action plan against targets and outcome indicators.
- Ensure appropriate feedback to the DDPFFA monitoring mechanism.
- Resolve any coordination issues arising between stakeholders and facilitate the policy dialogue with DDPFFA.
- Within the budget constraints set by the MTBP, review and approve proposals for annual work plans and component budgets
- Review work plans and progress reports from the PFM Technical Committees
- Propose, as necessary, reallocations between components
- Receive and review progress reports from different PFM Sub-Committees
- Dialogue with Donors on the reform progress, support and scope

PFM Reform Secretariat

The Steering Committee will be supported by a PFM Reform Secretariat. The secretariat will be responsible for compiling work plans and six-monthly summary reports on actions, deliverables and outcomes to the Steering Committee and for overseeing the implementation of its decisions

PFM Reform Technical Committee

A Technical Committee will be established to catalyse the reform activities. The PFM Reform Technical Committee will comprise:

- ✓ The Secretary General of MoF
- ✓ Pillar and component Leaders:
- ✓ The Directors of Budget Department, the Treasury Department, the Directors of Fiscal Policies and Public Revenue Department
- ✓ The Directors for Taxes and Customs and the Procurement Agency
- ✓ A representative of the DDPFFA from the PMO

The Secretary General of Ministry of Finance will chair the Committee. The Committee will meet when required, but at least four times a year. The Committee will be supported by a secretariat headed by Director of the Budget Planning and Programming Department. The Technical Committee will propose persons to be responsible for the different components under each pillar.

Pillar Co-ordination Committees

Six Co-ordination Committees, one for each pillar, will be set up. Each Co-ordination Committee, will be headed by the Pillar Team Leader appointed by the Steering Committee, and include the team leaders for each component of the respective pillars. If and when appropriate, other technical staff can be seconded to the Technical Committee meetings. The Technical Committees will co-ordinate and monitor the implementation of the actions under the different components of the respective pillars. The team leaders of the different pillars will compile work-plans detailing deliverables and deadlines and prepare summary reports on reform execution. The Pillar Co-ordination Committees will meet every quarter.

Component Leaders

The component leaders will be responsible for driving on a continuous basis the concrete reform actions under each component, including preparing work-plans and financing proposals for and reports on progress of the actions and its deliverables.

External partners

The existing IPS Support Group, Sector Working Group for Public Financial Management, or any possible successor to it, will be used as a forum for dialogue and feedback from Albania's external partners on the reform strategy and its implementation. Meetings dedicated to the PFM reforms will be held on a six-monthly basis.

Future external technical reviews, such as those underlying the Article IV consultations with the IMF, Public Finance Reviews and other relevant reviews by the World Bank, the monitoring reports by SIGMA, and possible future PEFA reviews, and IT's OBI will provide input to the dialogue in the SWG and to the deliberations by the PFM Steering Committee.

An important input into the PFM reform strategy and the action plan 2015-2020 are the extensive public consultations with civil society, academics and donors that were conducted during the autumn of 2014. The consultation intended to capture and reflect on comments and concerns about the content and priorities of the strategy and the action plan.

Risk assessment

The strategy covers many elements and there are many factors that could affect the outcomes and make it difficult to achieve the objectives. This section identifies the key risks for the strategy as a whole, for the pillars and for individual activities and proposes mitigation actions to ameliorate the risks. The PFM Steering Committee will be responsible for monitoring risks and updating this analysis regularly during implementation.

At the strategy level, the main risks include sustainable commitment to the PFM reforms. The will and commitment will, in turn, be influenced by wider factors relating to national and international economic and social factors, which are outside the control or the strategy's implementers.

Within the pillars, the adequacy of human and financial capacity, cooperation and coordination between organisations and institutions will be key factors affecting results.

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

Appendix 1 – PFM Monitoring Indicators

Indicator	Baseline / 2013	Aim 2017	Aim 2020
Public debt to GDP ratio, in percentage	70%	65,5%	56,7%
Difference between actual debt ratio and the initially (= at the beginning of the plan period) target debt ratio set for a particular year	2%	1%	0.5%
Difference between actual surplus/deficit and the target surplus/deficit set in the budget for the current year.	1%	0.5%	0%
Percentage deviation between first estimates of GDP and final GDP estimates	1.6%	1%	1%
Public revenue trend as a percentage of GDP;	24%	27.7%	27.8%
Budget credibility: Percentage deviation of actual expenditure growth from projected expenditure growth.	10%	5%	4%
Budget credibility: Percentage deviation of actual revenue growth from projected revenue growth.	5%	4%	3%
Percentage deviation of actual collection is within defined % of / approved budget estimate for tax and customs revenues	5%	4%	3%
Increased revenue collection as a result of improved administrative performance of tax and customs authorities, in percentage	2.2%	1.6%	1%
Tax collection effectiveness: Actual collection / assessed tax liabilities exceeds 95%	90%	95%	95%
Deviation between approved and actual capital expenditures figures.	10%	7%	5%
Public Investment trend – capital expenditure as a percentage of GDP	4.8%	4.5%	4.5%
Budget Index produced by the International Budget Partnership, relating to information in the budget is increased;	46th place[8]	60th place	70th place
Public Administration employees registered in the HRMIS, in percentage	0,5 %	50%	90%
Arrears clearance, in ALL billions;	72,75	0	0

[8] The latest ranking of refers to Year 2012.

Appendix 2 – 2006 and 2011 PEFA scores

Indicator	Description	2006	2011
	A. PFM OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	B	D
PI-4	Stock and monitoring of expenditure payment arrears	D	NR
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	C	B
PI-7	Extent of unreported government operations	D+	A
PI-8	Transparency of Inter-Governmental Fiscal Relations	C+	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C+
PI-10	Public Access to key fiscal information	B	B
	C. BUDGET CYCLE		
	i) Policy-based budgeting		
PI-11	Orderliness and participation in the annual budget process	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C+
	ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	NR	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	NR	B
PI-15	Effectiveness in collection of tax payments	NR	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	B+
PI-17	Recording and management of cash balances, debt and guarantees	B	B+
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Competition, value for money and controls in procurement	D+	B+
PI-20	Effectiveness of internal controls for non-salary expenditures	C+	C+
PI-21	Effectiveness of internal audit	C+	C+
	iii) Accounting, Recording and Reporting		

PI-22	Timeliness and regularity of accounts reconciliation	B	A
PI-23	Availability of information on resources received by service delivery units	D	C
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	B+	A
	iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+	C+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	C+	A
	D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	D	NA
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	C	D+
D-3	Proportion of aid that is managed by use of national procedures	D	D

Appendix 3 – PFM Strategy Action Plan – 2014-2020

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
Policy Objective	**Pillar I- Sustainable and prudent fiscal framework**										
O . 1 Unbiased and realistic forecasts of GDP and revenue growth	**Forecasting**	1	MoF , CoM and Parliamentary Committee on Finance and Economy	1.1 Review different options for ensuring unbiased GDP and revenue forecasts 1.2 Legislate on and implement measures to ensure unbiased GDP and revenue forecasts 1.3 improve forecasting methodologies	2015			• Percentage deviation of actual revenue growth from projected revenue growth	Delays in creating the institutional/operational framework	The Ministry of Finance provides forecasting of public revenues	• Amendments of the OBL to enhance the way forward unbiased forecasting, through a Fiscal Council • Documented methodologies to be used in forecasting
O . 2 Reliable National Accounts	**National accounts**	1	INSTAT MoF	1.4 Strengthen INSTAT's capacity in the area of national accounts statist		2018		• Percentage deviation between first estimates of GDP and final GDP estimates	NSTAT's technical and financial constrains		• Improved statistical sources and methodology • Implemented ESA 2010
O . 3 A sustainable and prudent debt/GDP ratio	**Fiscal rule**	1	MoF , CoM and Parliamentary Committee on Finance and Economy	1.5 Defining concrete features of the fiscal rule in Organic Budget Law. 1.6 Preliminary discussions for an appropriate fiscal rule, utilising also the presence of the IMF, EU and WB, and eventually envisage approval of the fiscal rule by Parliament with a qualified majority	2015 end of 2014			Fiscal rule defined in OBL approved by the Parliament with a qualified majority. Difference between actual debt ratio and the initially (= at the beginning of the plan period) target debt ratio set for a particular year Difference between	Deficit produced by energy and water supply, pension scheme. These risks and the mitigation are addressed in separate strategies for each sector. Pressures not to constrain expenditure		• The approval of the fiscal rule with qualified majority. • Reduction of public debt as a ratio of GDP below 56.7% of GDP in 2020

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
								actual surplus/deficit and the target surplus/deficit set in the budget for the current year.			
O . 4 Prudent public spending in election years	**Restriction on spending in election years**	1	CoM MoF	1.7 Restrict spending during the first three quarters of the fiscal electoral year				• Share of expenditure executed during each of the first three quarters of the fiscal electoral year	Pressures not to constrain expenditure		Amended OBL stipulating that not more than 30, 55 and 80 per cent of the budget can be executed respectively in the first three, six and nine months of the electoral year
O.5 Ensuring that the Government's asset position is not worsened as a result of privatizations	**Restrictions on the use of proceeds from privatizations**	2	CoM MoF	1.8 Amend the OBL to ensure that proceeds from privatization can only be used for reducing public debt and/or capital investments	2015			• Funds are used for intended purposes (ie debt reduction, capital investment)	Capacities/resources needed for managing the process in time		windfall revenue resulting from privatization to be used for debt amortization and for capital investments, of national and social-economic interest
O.6. Adequate capabilities to detect, monitor and propose measures to mitigate fiscal risks faced by the government	**Fiscal risk management**	2	MoF	1.9 Strengthen the risk management function within MoF for assessing and advising on non-debt-related fiscal risks		2017		• Accuracy of identification of risks and their likely impact, taking account of mitigation measures applied • Deviation between actual and budgeted expenditure for specified risk-prone expenditures.	Inadequate financial and human resources to staff the risk management function(s)		Good quality risk assessments in the annual budget submissions to Parliament Advice on measures to take to mitigate the assessed risks
Pillar II- Well integrated and efficient planning and budgeting of public expenditure											
O.2 strengthened	**Strategic policy development**	2	CoM, DDPFFA MoF	2.1.1 Develop the sector strategies of the NSDI as well as the MTBP on the basis of a prudent growth path for total expenditure	2015*	2018		• Sector strategies 2014-2020 approved by CoM	Financial and HR capacity constraints	Draft the NSDI by end 2014. Sector	• Amendments to the OBL (2015) • Enriched MTBP documents including

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
process for strategic policy development and review	**and review**			2.1.2 Create the capacity to carry our in-depth sector reviews as needed						strategies are under development	information on strategy, priorities, outcomes and any changes in strategy
Strengthened processes and institutional capacity for capital investment projects management	**Capital investment planning, appraisal and inclusion in budget**	1	Ministry of Economy and Ministry of Finance	2.1.3 Include a section in the OBL on the principles for the preparation, appraisal and approval of government capital investment projects 2.1.4 Strengthen the public administration's capacity to appraise the socio-economic return of capital investment projects 2.1.5 Create a computerized repository for financial as well as substantive information on major investment projects		2017		• Actual social return on government capital investment projects • Deviation between approved and actual cost of projects is reduced • Annual disbursements for major (>€5m) investment projects are at least 70% of planned disbursements	Budgetary and HR constraints		• Amended OBL (2015) • Special regulations on the preparation and appraisal of government capital investment projects • A decision on institutional responsibilities and designated staff • A capital projects repository
Improved resource mobilisation and allocation	**Medium Term Budget Programme**	1	MoF, CoM Parliament	2.2.1 Prepare and submit to Parliament proposals for amendments to OBL with the objective of tightening the MTBP process: 2.2.2 Empower the Parliament to vote on and approve the MTBP ceilings at programme level 2.2.3 Make the ceilings for the three years of the MTBP binding 2.2.4 Require that MTBP request clearly show which funds are effectively already committed and which are new expenditure under the ceiling		2016	2018	OBL amended and Annual Budget Law approved with MTBP ceilings 2015-2017. No cases of arrears occurrence in the future PFM cycles.	Organisational difficulties to make major procedural changes	Actually only annual ceilings are approved by the parliament	Increase of accountability and prevent creation of arrears for the government.
		2	MoF, CoM, Parliame	2.2.5 Include to the annual budget law the policy objectives, on institution/program level.	2015 on-going			An amendment in the Annual Budget Law	Organisational difficulties to make major		All LMs/BI Policy Goals and Objectives successfully achieved in

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			nt					Monitoring Budget reports	procedural changes		accordance with PFM cycle requirements.
		3	All Ministries	2.2.6 Effectively implement and manage Gender-based budgeting		2018		LMs and BIs plan and achieve successfully gender based policy goals and objectives	Organisational difficulties to make major procedural changes		Related LMs plan, monitor and report gender-based objectives and outputs.
		2	MoF, CoM Line Ministries	2.2.7 Design and Implement the Albanian Financial Management System to support MTBP and the annual budget process.		2019		All LMs effectively use AFMIS. AFMIS fully integrated with IPSIS, EAMIS and AGFIS	Complexity of the IT system; Need high professional capacity of budget users Upgrade of servers and other IT infrastructure	The work started, financed by IPS trust fund and State budget	A full-fledged AFMIS for Albania
Rigorously controlled Multiyear Budgeting Ceilings	**Multi-year commitment controls**	1	MoF, METE CoM, Parliament	2.3.1 Introduce multi-year commitment control for multi-year investment projects 2.3.2 Tighten up the approval process for multi-year capital projects 2.3.3 New AGFIS configurations to disaggregate multi-year commitments by individual year allocations.	2015			• Expenditures on multi-year projects do not exceed approved budgets • commitments are recorded in the Treasury system within 3 days of contract signature • All major projects are pre-committed in the Treasury system based on estimated disbursement schedules approved in the Budget process before procurement action commences • No cases of arrears occurrence in the future PFM cycles.	Financial and capacity constraints Deadlines depend on the Upgrade of AGFIS Hardware.	Only annual commitments are controlled by AGFIS	Amendments to the OBL Enhancement of the AGFIS to allow recording and controlling against multi-year commitments New AGFIS configurations to record multi-year commitments disaggregated in outer year basis

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
Prudent, effective, and efficient financial management of the local governments	**PFM in local government**	1	MoF, Ministry for local government, CoM, Parliament	2.4.2 Draft the law on local government financing 2.4.3 Draft, consult and submit for approval the new law "On the Organization and Functioning of Local Government" 2.4.4 Strengthen the implementation of the new laws enactedin regard to PFM practices 2.4.5 Harmonize and further consolidate the legislation which impacts both Local Government and 2.4.6 Introduce a performance based system of general grant transfer to LGUs	2015 Central Gov	2016 2017 Local Gov		• No more than 10% of LG have expenditures that exceed revenue from central government and own sources by more than 5% • No more than 10% of LGU collect less than 80%of locally imposed taxes. • No more than 10%of LGUs have capital budget expenditures that are less than 80%of amounts approved in the budget •	financial and capacity constraints TA needed	Actually the LGF requirements are part of the OBL	Law on local government funding approved and implemented Clarify the fiscal relations between the central gov. and local gov, Local gov to report on contracts and creditors as preventive arrears measure Local Gov to report at LM on use of public funds for delegated functions..
Pillar III-Efficient execution of the budget											
Revenue management	**Tax administration**		MoF GDoT GDoC	3.1.1. Reengineer and computerize core tax administration processes 3.1.2. install the new IT software at the central server site (NAIS) and commence testing 3.1.3. Overhaul the tax administration's organizational structures and staffing at headquarters and at field level	2015 End 2014 2015 2015			• Actual collection is within 5% of / approved budget estimate for tax revenues • improved Arrears / assessed tax liabilities • Collection cost per collected ALL • Customer satisfaction measured through periodic surveys • Transparency increase	Technical (IT-system) Resistance to reorganization Financial constrains		New tax administration system installed Reengineered processes amendments at the Structure of GDoT

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
Enhanced legal and regulatory framework				Implement compliance risk management of tax collection With the assistance of IMF staff, a new system of risk management system will be established		2017		Hit rate on high risk cargoes identified via the Risk Management Module of ASYCUDA			Legal/Bylaw amendments establishing the procedure Setting up a new risk management system aiming to increase revenue collection by improving taxpayer compliance and by deterring tax evasion and fraud
				Strengthen audit capacity GDT and GDC prepare an action plan to establish joint controls and audits of excisable taxpayers	2015 End 2014						
				Organization of a National Lottery for the fiscal coupons	2015	2016-2018		Lottery organised monthly		The data of each fiscal cash register are not transmitted in real time at DoGt IT server.	Encourage the citizens to ask for payment checks at the time they make purchases
		1	MoF, Parliament	Establish a fiscal cadaster of properties		2017		Operation system revised Lotary Monthly organized			Increasing of the property tax revenue
			MoF GTD	Assign to treasury the responsibility to pay tax refunds from the Treasury Single Account and to include tax refunds into its cash management plan Commence auditing tax refunds on a risk basis	End 2014 End 2014						

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
			MoF GTD	Establish within the Tax authority: (i) a dedicated central function to coordinate VAT refunds efforts on a country basis; (ii) dedicated functions at regional offices to undertake the operational functions related to VAT refunds	2015			Established functions			
			MoF GTD	Establish and commence operations of a permanent risk management unit (RMU) in GTD	2015			Established RMU			
			MoF GTD	Establish the required policies, instructions, management systems, and manuals to ensure proper handling of VAT refunds situations, including putting in place a performance management system	2015			System set up			
O.5 Improved financial discipline and Internal Control		2	MoF, Parliament	3.1.5 Drafting of two laws on tax on personal income and business income.	2016			New law on corporate tax approved New law on personal income tax approved			simple and clear procedures of tax and customs legislation; reduce of the number of disputes between tax authorities and business communities new provisions of the new fiscal realities of business development;
		1	MoF, Parliament	3.1.6 Exchange of information between the customs and tax administration	2015			Agreement for exchange of Information and procedures of the cooperation			Establishment of a close cooperation between both administrations.
Effective, efficient, fair and transparent management of customs revenues.	**Customs management**	2	MoF, Parliament	Eliminate procedural ambiguities to create a clear framework for the interaction between the private sector and the Customs Administration Make service delivery at the border-crossing checkpoints more efficient		2016		•Actual collection is within 5% of / approved budget estimate for customs' revenues •improved arrears/assessed customs liabilities •Collection cost per collected ALL •Customer satisfaction	Availability of resources, availability of trained staff to perform new functions, resistance to change		Effective and transparent management of Customs Revenues Trade Facilitation and approximation to the Acquis Improved performance by customs authorities

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								•Increased transparency			Ensure business continuity and cope with operational risks. GDC's risk management module will be implemented in all local GDC offices, and interoperability with similar EC systems will be ensured
		3	MoF GDoC	3.1.9 Alignment with the Acquis in the field of customs procedures and operation		2017		EU Customs blue-prints adopted and implemented.			
		2	GDC, MoF	3.1.10 Improvement of GDC IT systems and procedures at central and local levels		2016		Established a disaster recovery system			
				1.1.1. Unify of a number of important rules and practices into a coherent set of guidelines		2016					
				1.1.2. Introduce paperless customs management to simplify compliance as well as provisions that introduce customs procedures for Authorized Economic Operators ("AEO"), including centralized clearance		2016					
				1.1.3. Expand opportunities to appeal decisions by the customs authorities with a view to promoting fairness of treatment and transparency		2016					
				1.1.4. Define the rules applied to special regimes by enabling the use of a single guarantee for all the regimes covering many transactions		2016					

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				1.1.5. Ensure the prompt release of goods when the economic operator provides advance information necessary for conducting audits based on risk analysis		2016					
				1.1.6. Take measures to stamp out fraud		2016					
				1.1.7. Improve IT systems and procedures at central and local levels of GDC		2016					
				1.1.8. Establishment of the National Valuation Database	2016	2016		NVD established			NVD to bolster risk based analysis of transaction value

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
transparent recording and control of the government' spending and accrued financial obligations	**Expenditure control**	1 2 3 1	MoF, NAIS and LM	3.3.1. Expand the use of pre-commitments / encumbrances for the control of the execution of the budget 3.3.2. Intensifying the internal controls in AGFIS at the phase of pre-commitment of public funds 3.3.3. Gradually make AGFIS available to all major budget entities 3.3.4. Configure AGFIS so as to allow tracking operational expenses by project code 3.3.5. Analyse the possibility to introduce an electronic invoice (e-invoice) to foster timely recognition of expenses.	2015	2016 2018	2020 2020 2020	Total value of invoices to be paid from the following year's budget in relation to the total value of invoices received. Reconfiguring the AGFIS so as to allow extending this possibility to all non-personnel expenditure will facilitate cash forecasting, contract management and budget monitoring. Supplier electronically invoice (e-invoice) only for main taxpayers into AGFIS for the expense execution of the GGu which operate online in AGFIS. AGFIS of BI's online users able to record, freeze budget funds in the phase of their pre-commitments. No new arrears after 2015	Financing and infrastructure development regarding the system access Complex work and high impact on private sector daily work High. Condition: hardware upgrade	Operational expenses are registered and reported with no project code. Actually it is difficult to have information about operational expenses by projects	Access to AGFIS, strengthened internal controls on commitments All operational expenses will be tracked nd reported with specified project code Configuration of AGFIS to use specified project code for all non-personnel expenditures Receiving the supplier invoice electronically into AGFIS from GDT System immediately after the supplier declaration in GDT System for GGu which operate online in AGFIS GGUs accessing AGFIS directly shall be able to record, freeze budget funds in the phase of their pre-commitment
Minimized costs for meeting Government funding needs for a chosen level of risk	**Debt and cash management**		MoF, GDFS (debt dept),	3.4.1. Review current institutional arrangements, internal organization, and staff responsible for debt and cash management 3.4.2. Develop a comprehensive debt	2015			• Average interest on government debt compared with neighboring countries for comparable debt instruments • Risk assessment • Interest cost for debt compared with			

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
				management strategy 3.4.3. Develop a strategy for Government securities market development 3.4.4. Integrate the debt management system with AGFIS and the future AFMIS 3.4.5. Improve liquidity forecasting - Preparation of cash management methodology - Training of financial officers on cash forecasting 3.4.6. Create interfaces with the tax and customs management systems		2017 2017		optimal cost (based on analysis of cash usage and timing of payments for the previous year) • Increased secondary market liquidity • DEMFAS upgraded and interface with AGFIS established. Daily forecasting Cash forecasting based upon the cash plans provided by the general government unit		DEMFAS is old and needs software upgrade. No interface with AGFIS	Minimising costs for meeting Government funding needs and Improvement of debt management software system Better information on future monthly fluctuations in cash requirements will enable to use the existing financial instruments more efficiently to offset temporarily revenue and expenditure mismatches
use of the Albania's systems for all external funds, including EU funded projects under IPA programs in Decentralized mode.	**Management of external funds**		MoF, Treasury System, DDPFFA EU manage mnet structures (NAO, CFCU, NF)	3.5.1. create conditions for the management of external funds through the AGFIS/AFMIS 3.5.2. Increase the predictability of donor flows: ensuring that the disbursements of external assistance provided to the government sector are recorded on the state budget 3.5.3. Transparent and effective management and control systems of EU funded projects under IPA programs in	2014-2020	2017 integration within EAMIS / AFMIS the management of EU and other donor's funds	2020 for other donor funds	• Channelling of external funds through the TSA	Complexity of the system 2.Donors willingness to use of national systems	External Assistance using country PFM and procurement systems in Albania for year 2013, is 10%. OECD Grants partially reflected in the MTBP budget ceilings	Increase the proportion of scheduled disbursements recorded on budget Full integration of EU funds management within AGFIS (future AFMIS).

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
				Decentralized mode							
develop modern, sound and effective systems for public procurement and concessions while ensuring a gradual harmonization of the legal and institutional frameworks with the Acquis and EU standards and good practice	**Public Procurement**	1									
			PPA, PPC, MoF, CoM	Efficient mechanisms for policy making, coordination and consultation	2015			- Coherent and united views among the main stakeholders on the development and functioning of public procurement and concessions systems	Human resources capacity		Sound and effective systems for public procurement and concessions
			PPA, PPC, MoF, and relevant bodies	Development of the institutional structures for PP system	2015			The institutional set-ups within the public procurement and concessions systems strengthened, organisationally and operationally	Human resources capacity		Sound and effective systems for public procurement and concessions
			PPA	Further alignment of the public procurement and concession laws with the Acquis in these fields		2016-2018, partial approximation	2018-2020, full approximation	Alignment of the public procurement and concessions/public private partnerships laws with the Acquis	Human resources capacity	Existent public procurement and concessions laws need further amendments in order to fully approximate the Acquis in these fields	Good value for money, effective controls, and full transparency in public procurement
			PPA, PPC	Strengthening of the review and remedies system		2016-2018		Quality, transparency and efficiency of the complaint system	Human resources capacity		Enhancement of the effectiveness of review procedures
			PPA,	Improving the functionality of the PP		2016-		Extent of savings and	Human		Higher efficiency in

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
			CoM	system		2018		lower transaction costs in the procurement system	resources capacity		performing public procurement procedures
			PPA, MoF, NAIS	Establishment of mechanisms to control the availability of funds prior to procurement through communication between two information systems: PP electronic System and AGFIS for online AGFIS users.	2014 Analyses 2015 decision on how to precede	2016 functional for online users		Internal control in place No new arrears created from purchase of goods and services	M/ High Financing Might be realized through GoV Net, which is only in Tirana	The controls are done offline by treasury officers. No link with PP system	Prevention of new arrears for government institutions.
Complete asset registry including values and depreciation rules	**Asset management**	2	MoF, General Office of Land Registry, All Institutions	3.7.1 Initiate and complete the process of full public assets inventory in General Government institutions			2020	Estimate of the portion of assets that is captured in public accounts	HR capacity, financing constraints	The new administrative territorial reform will affect the financial reporting of local government institutions and the transfer of the property and rights.	Asset register in place
Efficient and transparent human resources management, budgeting of personnel expenditure, and processing of the government	**Public administration payroll management**		DoPA MoF-Treasury System, NAIS	Make fully functional the electronic system for payroll management and establish the interface with AGFIS.	2015 testing for line ministries	2016 link with AGFIS	2018 Including other local government institutions	Improved and enhanced payroll policy and budget planning for public administration. Automated financial operations regarding public administrations payroll processes	Depending on IT infrastructure for local institutions	The project started this year for HRMS	Increase efficiency and transparency in the payroll and budgeting process by expanding the benefits of interconnected automated AGFIS with Human Resources Management Information System.

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payroll.											
			DoPA MoF-Treasury	Enhancement treasury control of the public administration payroll by AGFIS	2015			Enhancement the payroll control AGFIS			Enforcement of internal controls related to payroll of civil servants and increase transparency
			DoPA MoF-Treasury	Payroll implementation in all line ministries	2015			Line ministries gets their payroll automated thorough treasury system		None	Automated payroll for more than 2000 staff of ministries.
			DoPA MoF-Treasury	Payroll implementation in subordinate institutions part of 'gov.net' infrastructure.	2015			Improvement including subordinate institutions that's gets their payroll automated thorough treasury system		None	Automated payroll for more than 8000 staff of institutions
			DoPA MoF-Treasury	Payroll implementation in independent institutions and other agencies.		2016		Quantity improvement including independent institutions that's gets their payroll automated thorough treasury system			Automated payroll for more than 50,000 staff including large systems
			DoPA MoF-Treasury	Enhanced HRMIS system design and development. This system should have very tight integration and special functionality to fulfil finance and treasury requirements.		2016-2017		Mostly small adjustments over existing base of institutions and pilots for Local Government Units			Finalizing terms of reference for the new extended HRMIS. Starting procurement process
			DoPA MoF-Treasury System Administrator	Enhanced HRMIS system deployment, Payroll implementation for quite all central and local government entities.			2018	Wide Range of system deployment and implementation over quite whole territory of Albania.			Automated payroll for more +90% of whole government employee's!

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		2	MoF	3.2.1 Consolidation of the budget implementation monitoring system		2016		Increased efficiency and transparency of public funds usage.			Objective: Improving budget monitoring system
		2	MoF	3.2.2 Strengthening the capacities of line ministries and budget institutions for monitoring and evaluation system		2017		Improved quality of budget monitoring reports and programming capabilities			Training on instructions and methodologies for budget monitoring and programming.
Pillar IV- Transparent Government Reporting											
O.1 **A budget that is in an accessible format provides ample information on the macro-fiscal framework and the Government's general policies.** **O. 3** **Timely, ample**	**Budget documentation**	2	MoF	4.1.1 Improve the information content and quality of the budget documents that go to Parliament 4.1.2 Prepare a Citizens' Budget Guide	2015			Open Budget Index relating to information in the budget is increased to be higher that the level of 60	Human and financial resource constraints	The budget documents - the MTBP and the annual budget law– submitted to Parliament, are very terse documents focusing mostly on the financial side of the budget, and with little information on the substance of the government budget	• Budget document template, comprehensive budget document. • Citizens' Budget Guide

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
O.2 Accounting and reporting done in compliance with EPSAS	Accounting and reporting	1	MoF MoF, NAIS and LM	4.2.1 Establish a separate accounting function within MoF. 4.2.2 Prepare financial reports on the basis of ESA 2010 4.2.3 Gradually implement European public sector accounting and reporting standards (EPSAS) 4.2.4 Design and implement the web portal for AGFIS users and the document management system (digital archive) for online AGFIS budget users	2015 2021 5 budget users et	50 budget users	150 budget users	• Reporting actual versus budget in a comparative basis (tentative IPSAS 24); • The number of standards implemented. • WP and DMS implemented	HR constraints Depends on server upgrade Upgrade of existing AGFIS Hardware	Accounting by General government institutions is currently done on a cash-basis, but with some accrual elements relating to receivables and payables. The financial reporting to parliament is focused on the execution of the budget. The project will be financed by EU under SETS	Amended OBL, secondary legislation on accounting and reporting Web portal to access AGFIS and Document Management System implemented
	Financial and performance monitoring and reporting Investment	2	MoF	4.3.1 Improve procedures and formats forin-year budget implementation reporting. 4.3.2 Improve formats for a comprehensive government yearly budget execution report including substantive as well as financial information 4.3.3 Improve access to data on the government's finances and operations	2015 2015			Open Budget Index relating to information in the government reports	Human and financial resource constraints	The present focus of reporting by budget entities to the superior levels of government and by the Government to Parliament is mostly financial	Document template, comprehensive budget monitoring report format Document template, comprehensive budget report format Reporting templates Monitoring module of

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
	project tracking and reporting	1	MoE	4.4.1 Develop routines for and IT-support for the tracking and monitoring large investment projects		2017		Weighted actual spending of investment projects in relation to budgeted spending	HR and financing constraints		Routines and IT-support
O.1 strengthening managerial accountability in local and central governance units, accompanied by appropriate monitoring and feedback mechanism.	**Pillar V- Effective internal control**										
	Financial Management and Control at Public Institutions	1	MoF, selected institutions	5.1.1 Revision of legal basis and sub legal acts for FMC and legal framework intervening with FMC requirements, such as OBL, Inspection Law.	2014 revision of FMC law	2015 revision of sublegal acts also in comparison with EU rules for EU fund management.	2018 improvements based on FMC rules for EU fund management.	The number of budget entities using performance budgeting and showing objectives and results The percentage of total expenditure where performance budgeting is applied and objectives and results are published	low	Legal basis exist from 2010 and needs to be revised	
		1	MoF, selected institutions	5.1.2 Implementation of a modern FMC system, direct assistance and close monitoring of 3 Line Ministries and 4 municipalities, based on the experience gained from the previous pilot project.	Start September 2014	End 2016		Internal arrangements revised and approved, budgeting process improved by introducing the risk management techniques, number of staff trained	Related to change management (many actors involved)		Improvement of internal control system and implementation of risk management in selected BI: Internal regulation, list of processes, audit trails on specific processes, risk register linked with objectives of organization

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		1	MoF, DoPA, CoM	5.1.3 Revision of the status and capacities of the Financial units within public institutions through preparation of a standard sub legal act on the organization, role and required capacities in financial units.	2015			Sub legal basis on Standard requirements for Financial units in terms of professional education, segregation of duties.	DoPA and Budget have to agree with changes proposed (state budget cost related and review of salary grid))	Law on FMC and Law on State Administration have regulated the hierarchical status of Finance Directors.	Clearly segregation of roles within the finance units. Status of finance units within the general governance units Revised.
		2	MoF, ASPA	5.1.4 Providing broad-scale continuous training of financial and operational managers in collaboration with ASPA and/or other institutions.	2014		2020	Upgraded professional and managerial capacities of the financial and operational managers-measured by number of trained managers and performance defined indicators reported from Treasury and Budget MoF	Risk Lack of participation from the right target group	This process has already started with short trainings	Significantly improve the professional capacities of financial officers and operational managers.
		2	MoF, CHU/FMC	5.1.5 Increasing awareness on the “managerial accountability on outputs and outcomes” concept for all public institutions.		2015	2019	High level top management- aware of the MA concept measured by submission of declarations on Internal Control, IA reports, CHU/FMC reports etc.	Risk Lack of participation from the right target group	Work in process	Promotion of managerial accountability and monitoring in the internal control systems of local and central governance units
		2	MoF, CHU/FMC,Budget, and all public institutions	5.1.6 Further introducing and implementation of risk management process and other FMC modern techniques in all public institutions.		2016 risk registers prepared	2020 Follow up on minimizing risks. RBM.	A risk based internal control system which provides management with reasonable assurance that the organisation meets the legal requirements and political priorities for the central and local units.	HR constraints	Some techniques of risk management are introduced.	Budgeting process improved by introducing risk identification and evaluation from the planning process – Draft budget negotiated with MoF based on risks associated to objectives.
		2	MoF, CHU/FM	5.1.7 Continuous monitoring and yearly promotion of 10 best public	2014		2020	Monitoring the level of the internal controls	HR constraints	The process	Annual report on the quality of IC systems and budgetary

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
O.2 Well-functioning and efficient IA function in the public sector			C, Budget, Treasury (Central+ TDO), CHU/IA	units based on the quality of internal control systems and their performance on budget execution process.				systems of local government units – measured with the tendency of the quality of PIFC over the years, for the line Ministries and big municipalities /communes.		started in 2014 based on MoF instruction	performance of institutions.
	Internal Audit	1	MoF, CHU/IA	5.2.1 Review desirable future development of the IA function and amend legal and methodological framework	2015 IA situation analysis and revise IA law 2015 sublegal acts			Legal and sub legal IA framework improved Full coverage and increase quality of the Internal Audit Function	Lack of HR and insufficiently trained staff in CHU/IA	IA law in place, however further improvements are needed	• An analysis and a decision on the way forward • Amendments of the IA law • Documented new methodologies for IA • New Certification programme • Annual CPD programme • Setting up a Network for Heads of IA units
			MoF	5.2.2 Strengthen the capacity of the CHU/IA	2015			Train CHU staff in existing and new CHU tasks	Insufficiently trained staff in CHU/IA		CHU/IA performing efficiently the required tasks
			MoF	5.2.3 Professionalize IA function through setting up a continuous professional development (CPD) programme based on the training needs of head of internal audit units and internal auditors and new developments in internal auditing	2014			Number of participants on trainings for continuous professional development of internal auditors per year versus number of participants on trainings for certification programme;	Lack of HR and insufficiently trained staff in CHU/IA	A continuous professional development programme standardized for years	A professionalize IA function reflected in the increased quality of audits.

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
		1	MoF, CHU/IA	5.2.4 Drafting new Certification programme based on new law requirements	2015			Training process regulated	Lack of HR and insufficiently trained staff in CHU/IA	Training based on the existing law	New Certification programme approved
		1	MoF, CHU/IA	5.2.5 Drafting new MoF regulations for certification of internal auditors, continuous professional training, and quality assurance methodology in accordance with changes in IA law.	2015 Revision of regulations.	2016 preparation of QA methodology		Increase of professional levels of certified IA.	Lack of HR and insufficiently trained staff in CHU/IA	Regulations do exist but need for further update. No QA methodology in place	Regulations revised and published QA methodology approved
		2	MoF, CHU/IA	5.2.6 Update IA manual		2016		Percentage of implemented internal audit findings;	Lack of HR and insufficiently trained staff in CHU/IA	The IA manual focuses on financial areas and does not contain practical information on how to carry out a systems audit.	IA manual revised and published. Provide more practical guidance to IA units
		2	MoF, CHU/IA	5.2.7 Set up training programmes TP for certification and continuous training	second half year 2015			Curricula's developed according to IA needs	Lack of HR and insufficiently trained staff in CHU/IA	TP exist based on present law requirements	Training programmes approved
		3	MoF,	5.2.8 Start new certification process and evaluate certification and		Starting certification and	Evaluation of TP during	Develop the skills of the auditors to perform audits according to	Lack of HR and	Number of IA certified	Increase professional level of Internal Auditors

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
An effective public financial inspection function.			CHU/IA	continuous training programmes		TP January 2016	2018	international standards Scope and nature of audits performed including adherence to auditing standards	insufficiently trained staff in CHU/IA	based on existing procedures	
		3	MoF, CHU/IA	5.2.9 Start new quality assurance methodology		1st quarter of 2017		Follow up on IA recommendations	Lack of HR and insufficiently trained staff in CHU/IA	Actual QA not efficient	IA units coached on doing an efficient work.
		3	MoF, CHU/IA	5.2.10 Set up a network of Heads of IA units and evaluate functioning network of Heads of IA units	2015	Evaluation during 2017		Frequency and Distribution of Audit Reports	Lack of HR and insufficiently trained staff in CHU/IA	No network in place	Gather IA units heads in discussing periodically common problems.
	Public Financial Inspection	1	MoF/PFID	5.3.1 Revision of legal basis and sublegal acts. 1. Financial inspection will be performed by PFID structure, with a certain number of inspectors, (specialists by profession; economists, financiers and lawyers. 2. Specification/clarification in inspection law of the AFCOS legal basis (if needed).	2014			Corruption perception index i for Albania	moderate	PFI low in place. Inspections are carried out with the engagement of the external public financial inspectors, who are employees of public administration,	FIP low and sublegal acts revised. Capacity and professional inspection and complete monitoring work by the legal authorities in the field of public financial inspection

Relation between Components and Outcomes	Components	Priority	Responsible Entity	Key Actions	2014 - 2015	2016 - 2018	2018 - 2020	Outcome Indicator	Risks related to objectives	Baseline Value	Target
										selected by the Minister of Finance, which are assigned case by case (Ad-hoc	
		1	MoF/PFID	5.3.2 Drafting the manual on the procedures/standards for carrying out the financial Inspection on use of public funds (state funds, local funds, EU funds and other donor funds).	2015 In cooperation with IPA 2012			Public financial guidance for inspectors on public financial inspection procedures.	medium	No PFI-manual in use.	Manual revised and published.
		2	MoF/PFID	5.3.3 Increasing of professional capacities for the public financial inspectors.	2016			Credibility of public financial inspection increased toward the entities and individuals that signal cases of fraud and corruption.	high		Increase professional level of financial inspection service.
		2	MoF/PFID. OLAF	5.3.4 Capacity building activities to be supported by the EC for strengthening anti-fraud coordination and irregularity management of public funds (including state and EU funds) in Albania. Analysing the possibility/design and implement the AFCOS network/software also for other public funds.			2020	Implementation plan approved for all public funds. Cooperation with OLAF established. AFCOS network established. AFCOS system in use also for state and other donor funds.	High Depending on foreign technical assistance	AFCOS requirement is established by the law on public financial inspection	Improvement of anti-fraud and irregularity management sytem for public funds

Pillar VI. Effective oversight of Public Finances

O.8 **Strengthened Oversight Function Institutions and better mechanism to adopt recommendations**	**6.1 Effective and comprehensive external audit**	1	SAI, Parliament, other institutions	**6.1. Improve legal framework.** **6.1.1.** Lobbying for the amendments to be approved by the Parliament	During 2014			New Law approved in compliance with audit standards		Law no. 8270 date 23.12.1997 need to be revised	Institutional development in line with INTOSAI standards	
		1	SAI	**6.2. Align audit approaches to international standards (ISSAIs)** 6.2.1 A manual for compliance audit in accordance with ISSAIs 4000 - 4200 will be developed and training will be organized. 6.2.2. Review of financial audit manual, including the guidance material on audit opinions and reporting. Auditors will be trained in this field 6.2.3. Improving the quality of performance audits 6.2.4. Increase the knowledge and capacity of HSC' auditors in the area of management of EU funds.	December 2015 October 2015 Ongoing activities October 2015	ongoing		The New Manual of Compliance Audit approved and trainings delivered The New Manual of Financial Audit approved and trainings delivered Specific methodologies focusing on the selection of subject's procedures to conduct a performance audit, performance audit planning, audit techniques and data collection, as well as on specific issues related to the objectives, quality control, and reporting and performance audit recommendations. New methodology and guidelines on EU funds auditing. Auditors Trained under this topic. Guidelines on risk based auditing and planning approved	Moderated	There isn't any Compliance Audit Manual in place The existing FA Manual has to be revised The Manual of Performance Audit is under development	Increase quality of compliance audits Increase financial audits quality and prepare the ALSAI's annual report to the Parliament on the final budget declaration of the Republic of Albania Increase number and quality of performance audits Enhance knowledge and build up audit capacities of ALSAI in carrying out completely the audit of EU funds management. Preparing the annual program of ALSAI based on a risk analysis of auditees. Continuous professional development of auditors	

				6.2.5. Developing a special guide for the annual audit programme, based on risk assessment. 6.2.6. Strengthening audit capacities and increase the audit quality 6.2.7. Peer Review from a partner SAI 6.2.8. Developing guidance for specific audit materials 6.2.9. Certification and continuing professional development of SAI's auditors	Ongoing activity Decembe r 2015 June 2015 and on-going	March 2016 Within 2016 and ongoing ongoing		Training programs on new methodologies, guidelines and other audit procedures introduced over the time. Reformation and modernization of the institution in compliance with INTOSAI standards PEFA indicator Scope and nature of audits performed including adherence to auditing standards Regulation update, follow-up of recommendations scheme, reporting model to the Parliament Set of Regulations and Procedures for Certification Program approved. Implementation of Certification Program and Training of continuing professional development		There is no EU Audit Methodolo gy in place. Few training on IPA Projects Auditing have been trined until now There is a annual Training Program followed by continuous training	Professional evaluation of the ALSAI's audit work in compliance with ISSAI 5600 "Peer Review Guideline
		1	SAI	**6.3 Adapt organizational structure and internal regulations to new audit approaches** 6.3.1. After the approval of the amendments to the HSC law, the institution will, where needed, re-	June 2015			New organizational structure approved and entered into vigour. New internal reregulation	Moderated		

				structure its organization 6.3.2. Reviewing and adopt internal regulations to new audit approaches and organizational structure		2015 and ongoing		approved and entered into vigour.			
		1		**6.4. Adapt secondary processes such as Training and Information Technology to new audit approaches.** 6.4.1. Development of a methodology for IT audit. 6.4.2. Enhance of IT Audit capabilities through increased knowledge of individual staff.	First quarter 2015	Ongoing activity		IT Audit Manual approved Performing IT audits Auditors trained on IT audits and use of IT tools in auditing	Moderated		Expand the types of audit activities including IT audits and building a modern and updated IT infrastructure to support audit activities and other activities of ALSAI
		2	SAI, Parliament and civil society SAI, MF and Line ministries	**6.5. Improve communication relations with key clients as Parliament, Government, media and citizens in order to improve impact of audit work.** 6.5.1 Ddevelopment and implementation of a new communication strategy, emphasizing its relations with the public and Parliament, as well as including other partners at national and international level 6.5.2 Improving the impact of its		2016 2016		New Communication Strategy Introducing the formulation of an executive summary, presentation of findings selectively, using graphical methods and language. Institutionalizing co-	Low		Enhance the quality and ensure a better impact of communication between SAI and other stakeholders (Parliament, Public and Government) Increased effectiveness of audit activity in public sector. Better quality of public audit services

				products by reviewing its reporting structure of audit reports 6.5.3. Intensify communication with the Parliament of Albania 6.5.4. Fostering the cooperation with internal audit structures.	During 2015 March 2015	Ongoing ongoing		operation with the Committee of Economy and Finance. The HSC will encourage and support internal audit, as well the use of internal audit work. MoU between SAI and MoFreviwed.			