

OVERVIEW ON ALBANIAN PFM STRATEGY 2023-2030 AND THE ROLE OF THE TREASURY



THE PFM STRATEGY – IMPORTANCE AND OBJECTIVES

Importance

- An ambitious reform agenda for the entire government.
- One of the fundamental pillars for EU membership.
- General condition for accessing EU funds.

Objectives

- To identify and address the challenges faced by public financial management.
- To propose necessary reforms.
- To promote policy coherence.
- To set priorities and delegate responsibilities.

LINKAGE TO STRATEGIC DOKUMENTS & GOVERNMENT PROGRAMS

| | |
|--|--|
| National Strategy for European Development and Integration 2022-2030 | Good Governance Guide 2030 |
| Economic Reform Program 2023-2026 | National Plan for European Integration 2023-2025 |
| Public Administration Reform Strategy | Anti-Corruption Strategy |
| Official Statistics Program 2022-2026 | Local Governance and Decentralization 2030 |

**Sectorial
Strategy of
PFM
2023-2030**

| | |
|---|------------------------------------|
| Medium Term Revenue Strategy 2022-2026 | Customs Strategy 2023-2027 |
| Public Sector Accounting Strategy | Debt Management Strategy 2022-2026 |
| National Strategy of Public Procurement 2020-2023 | Supreme Audit Strategy 2023-2027 |

SECTORAL STRATEGY OF PFM 2023-2030

| <u>PILLAR 1</u> MACROECONOMIC PROGRAMMING AND RISK MONITORING | <u>PILLAR 2</u> INTEGRATED STRATEGIC AND BUDGETARY PLANNING, TRANSPARENT MONITORING AND REPORTING | <u>PILLAR 3</u> REVENUE MANAGEMENT AND MOBILIZATION | <u>PILLAR 4</u> ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT | <u>PILLAR 5</u> INTERNAL PUBLIC FINANCIAL CONTROL | <u>PILLAR 6</u> EXTERNAL OVERSIGHT |
|--|---|---|--|--|---|
| <ul style="list-style-type: none"> • Measured and realistic macroeconomic programming • Creation of comprehensive debt sustainability analysis • Fiscal Risk Management • Fiscal Council | <ul style="list-style-type: none"> • Integrated strategic planning • Medium- term budget planning • Public investment management • Local finances • Budget implementation reporting and monitoring | <ul style="list-style-type: none"> • Tax management • Property tax management • Customs management | <ul style="list-style-type: none"> • Government national accounts • Accounting • Public Procurement • Debt Management • Cash Management • Asset Management | <ul style="list-style-type: none"> • Financial management and control • Internal Audit • Public financial inspection and anti-fraud coordination services • Management of EU funds | <ul style="list-style-type: none"> • External audit • Parliamentary oversight |

PFM STRATEGY 2023-2030 VERSUS PFM STRATEGY 2019-2022 FROM TREASURY PERSPECTIVE

PFM STRATEGY 2019-2022

- Pillar 4: Efficient execution of the budget
 - Expanding the use of AGFIS
 - Multi-year commitment controls and accounts payable
 - Debt and cash management
- Pillar 5: Transparency of Public Finances
 - Accounting
 - Improved Assets management

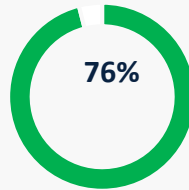
PFM STRATEGY 2023-2030

- Pillar 4: Accounting and budget implementation management
 - Accounting
 - Cash Management
 - Asset Management

PFM STRATEGY 2019-2022 ACHIEVEMENTS

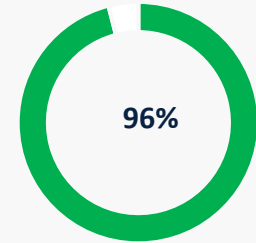
SPECIFIC OBJECTIVE 4- EFFICIENT EXECUTION OF THE BUDGET

Outcome's Achievement of SO4



- ✓ HRMIS-AGFIS integration has been completed for the 120 planned BI's.
- ✓ Web Portal for electronic archive was accessible to 300 new BI's.
- ✓ Migration of fixed assets data in AGFIS for 2 online Budget Institutions
- ✓ The rate of arrears as a percentage of total expenditure was decreased to 1.88% (achieved PEFA score A, below 2%)
- ✓ Liquidity forecasting improved
- ✓ Medium Term Debt Management Strategy 2022-2026 was approved

Overall PFM Strategy Level of Outcome's Achievement



PFM STRATEGY 2019-2022

Specific Objective 4- Efficient Execution of the Budget, Outcome Performance Indicators

| Outcome | Performance Indicator | Baseline | Fact Value FY 2019 | Fact Value FY20 | Fact Value FY2021 | Fact Value FY2022 |
|--|---|--------------------------|--------------------|-----------------|--|-------------------|
| XI) Efficient budget execution (through use of IT support) | XIa) Total volume of budget executed through AGFIS in relation to the total amount of budget executed by central government | 74% (2018) | 75% | 78% | 75.5% | 76.80% |
| XII) Arrears are minimized | XIIa) PEFA 22.1. Stock of expenditure (Arrears as a percentage of total expenditure of the fiscal year) | below 6% (B PEFA) | A | 4.40% | Below 3% (2.2%) | 1.87% |
| | XIIb) PEFA 22.2 Expenditure arrears monitoring (in AGFIS) | C (2017) | C | A | A (Data generated quarterly within four weeks of the end of each quarter) | A |
| XIII) Costs of borrowing is reduced and cash is available when needed | XIIIa) Stock of domestic debt re-fixed within one year | 56.7% | 50.90% | 46.7 | 48.0% | 49.0% |
| | XIIIb) The average maturity of domestic debt | 780 days | 787 days | 783 | 793 | 780 |
| XIV) Increasing the efficiency and transparency of procurement system | XIVa) The % in value of the procedures finalised with winner within first semester against total foreseen fund in the forecast register | 22% (2018) | 49.80% | 47,4% | 60.2% | 25.19% |
| | XIVb) The percentage of cases when the review body exceeds the legal maximum processing time | 54.7% | 16% | 22.10% | 10.8% | 10.10% |

OBSERVATIONS ON PREVIOUS PFM STRATEGY FROM TREASURY PERSPECTIVE

CHALLENGES/LESSONS LEARNED FROM PREVIOUS PFM STRATEGY

- Challenges on the expansion of AGFIS use to other Budgetary Institutions, because the lack of: (i) adequate financial resources for new AGFIS user license acquisition (high user license costs) and (ii) non-available services of specialized functional expertise/support of AGFIS. Hence, the government had to expedite the process of enrolling other major budget institutions into the AGFIS to further control spending and arrears.
- Other IT systems to be integrated with AGFIS not developed in time (customs IT System), which caused the failure of AGFIS integration with Customs IT System.
- New arrears were still generated. One of the reasons was because commitment controls were not de facto operational for all Budgetary Institutions (AGFIS off-line BI's cannot freeze available budget funds in the system at the procurement phase, as it is now for AGFIS online BI's, but when the contract is signed). So, the compliance with needed controls was reported low for BIs not accessing the system directly. Treasury does not analyze their contracts to ensure they fall within the MTBP limits.
- Lack of cooperation with major BI's related to the bottom-up cash forecasting. Strict rules need to be in place to enhance the cooperation on these regard and continuous training of BI's staff. Further enhancement of cash forecasting monitoring.
- Lack of instruments to invest excess TSA balance (cash).
- The methodology in place for cash buffer definition was too old and does not reflect what is happening in real practice.
- The complexity of accrual accounting (aligned with International Public Sector Accounting Standards) has slowed its implementation in Albania. Further efforts have to be undertaken in this regard to insure: (i) better understanding of all assets and liabilities, which is invaluable for effective medium-term financial planning; (ii) better managing current and contingent liabilities, including arrears; and (iii) implement proper asset management practices by assessing whether assets are currently used effectively and efficiently to deliver public services.

PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT – COMPONENTS&OBJECTIVES

COMPONENTS OF PILLAR 4

4.1- Government
National Accounts

4.2- Accounting

4.3- Public Procurement

4.4- Debt management

4.5- Cash management

4.6- Asset management

OBJECTIVES

- Increasing the level of support for Government Statistics according to the ESA 2010 methodology.
- Budget execution management practices have been strengthened, including the expansion and use of AGFIS.
- The implementation of International Public Sector Accounting Standards reforms facilitates the transition to accrual-based accounting.
- Procurement systems have been improved, and compliance with procurement legislation has been ensured.
- Debt and cash management practices have been further improved.
- Asset management systems have been improved.



PILLAR 4 ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.1: Government National Accounts

Measures

4.1.1: Further improvement of Government Financial Statistics (GFS) and tables of the Procedure for Exceeding the Deficit (EDP) in accordance with EU standards

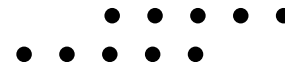
| Indicator | Base Value (year) | Target Value | | | |
|---|-------------------|--------------|------|--|--|
| | | 2023 | 2024 | 2025 | 2026 |
| The information exchange system (web service) created to facilitate data exchange between the Ministry of Finance, INSTAT and Central Bank. | - | - | - | The development of the information exchange system (web service) | The development of the information exchange system (web service) |
| Data on PPPs and concession contracts are included in the GFS | - | - | - | PPP and concession contracts are included in GFS | PPP and concession contracts are included in GFS |



PILLAR 4 ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.2: Accounting

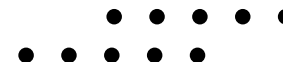
| MEASURES | ACTIVITIES |
|---|---|
| 4.2.1 Increasing access to and use of AGFIS | 1. Increasing access for budgetary institutions to the electronic archive module and AGFIS. |
| | 2. Automating the expenditure control process for budgetary institutions that do not have access to AGFIS. |
| | 3. Integrating AGFIS with the fiscalization system to improve internal controls and prevent arrears. |
| 4.2.2 The development of legal and regulatory framework for accounting reforms. | 1. Drafting and approving a new public accounting law. |
| | 2. Drafting of regulations /legal acts that cover all approved Accrual IPSAS |
| | 3. Preparing opening balances and implementing the new accounting framework.. |
| 4.2.3 Improving the functionalities of AGFIS to accommodate accounting reforms. | 1. Preparing the functional requirements document and improvement plan for AGFIS to accommodate planned accounting reforms. |
| | 2. Developing tests and implementing additional functionalities needed to ensure compliance with new legislation. |
| 4.2.4 The development of accountant' capacities to absorb accounting reforms. | 1. Developing a comprehensive capacity development plan, including mechanisms for systematic capacity development and certification of public sector accountants. |
| | 2. Preparing and delivering training and on-the-job support for all public sector accountants according to the plan. |
| | 3. Reorganizing the treasury branches and the structure responsible for the public sector accounting methodology. |



PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.2: Accounting

| Indicators | Base Value (year) | Target value | | | |
|--|----------------------|------------------------------------|----------|-------------------------|--------------------------|
| | | 2023 | 2024 | 2025 | 2026 |
| The additional number of budgetary institutions with access to AGFIS and the electronic archive. | - | 20 in AGFIS, 642 in WP | 86 in WP | - | - |
| Compilation of the regulatory and legal framework based on accrual IPSAS according to the plan. | - | Compilation of conceptual document | - | Legal framework drafted | Legal framework approved |
| The preparation of opening balances and the implementation of the new accounting framework. | - | | | | Completed |
| The percentage of government accountants who have completed IPSAS training. | - | 40% | 60% | 80% | 100% |



PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.3: Public Procurement

Measures

- 4.3.1: Improving the quality and efficiency of procurement procedures.
- 4.3.2: Designing and implementing green public procurement.
- 4.3.3: Increasing the efficiency of the complaints review system by enhancing decision-making speed.
- 4.3.4: Improving the legal and institutional framework for concessions and public-private partnerships.

| Indicators | Base Value (year) | Target value | | | |
|---|----------------------|--------------|------|------|---------------------|
| | | 2023 | 2024 | 2025 | 2026 |
| 1.The percentage of use of the evaluation criterion “Most Economically Advantageous Tender based on cost” in public procurement procedures. | 33.92% | | | | trend is increasing |
| 2. ISO 37001 ON “Anti –bribery management systems” implemented by public procurement authorities. | - | - | - | - | implemented |



PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.4: Debt Management

Measures

4.4.1: Strengthening reporting on debt management and investor relations.

4.4.2: Developing a comprehensive framework for providing guarantees and sub-loans.

4.4.3: Initiating the gradual development of assessments needed for new alternative financing instruments (Green, Social, Sustainable, or other instruments).

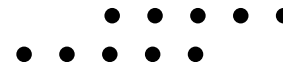
| Indicators | Base Value (year) | Target Value | | | |
|---|----------------------|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 |
| The annual borrowing plan and monitoring report of Strategic Debt Management were prepared and published. | - | Documents are published on official website of MF | Documents are published on official website of MF | Documents are published on official website of MF | Documents are published on official website of MF |
| The comprehensive framework for credit risk assessment. | - | - | - | - | Framework is developed and implemented |
| The development of the conceptual document on green/alternative financing instruments | - | - | - | Assessment Report prepared | - |



PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.5: Cash Management

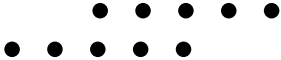
| MEASURE | AKTIVITIES |
|--|---|
| Measure 4.5.1 Improvement of cash management process | 1. Reviewing the process of preparing and submitting treasury plans by budgetary institutions. |
| | 2. Establishing a Technical Committee and organizing monthly technical meetings with major IBs, Tax Authorities, and Customs to obtain real-time important information. |
| | 3. Introducing a two-week notification mechanism before making large payments. |
| | 4. Utilizing a new “tool” developed by the IMF in Microsoft Excel for forecasting and data analysis. |
| Measure 4.5.2 The presentation of a comprehensive performance monitoring system for cash forecasting | 1. Measuring and monitoring deviations from updated monthly forecasts. |
| | 2. Defining key performance indicators (KPIs) for daily and monthly forecasts and presenting them to the Liquidity and Debt Management Committee. |
| Measure 4.5.3 Improvement of cash management instruments | 1. Improving monetary reserve policies. |
| | 2. Increasing the amount and duration of deposit investments at the central bank and introducing new investment instruments. |



PILLAR 4- ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.5: Cash Management

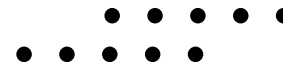
| Indicator | Base Value (year) | Target value | | | |
|---|-------------------|--------------|------|------|------|
| | | 2023 | 2024 | 2025 | 2026 |
| Monthly cash forecasting accuracy rate | 88% | 88% | 91% | 93% | 96% |
| Detailed components of inflows and outflows in the cash forecast included | 0 | 0 | 6 | 2 | 0 |
| Increase in the number of instruments for active cash management | 1 | 0 | 0 | 1 | 0 |



PILLAR 4: ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.6: Assets Management

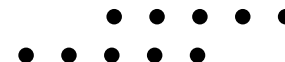
| MEASURES | ACTIVITIES |
|--|--|
| Measure 4.6.1: The finalization of reform for the registration of assets for accounting purposes | 1. Reviewing and revising the relevant asset management methodology in accordance with IPSAS requirements. |
| | 2. Continuing and completing the population of asset data in AGFIS by online budgetary institutions and conducting the necessary checks. |
| | 3. Public sector institutions conduct inventory and valuation of their assets |
| | 4. Preparing a consolidated asset register for central institutions at the control unit level |



PILLAR 4: ACCOUNTING AND BUDGET IMPLEMENTATION MANAGEMENT

Component 4.6: Assets Management

| Indicators | Base Value (year) | Target value | | | |
|--|-------------------|-------------------------|----------------------------|-------------------------------|----------|
| | | 2023 | 2024 | 2025 | 2026 |
| Establishment of a regulatory framework for the valuation and inventory of public assets. | - | Draft document prepared | Draft regulatory framework | Regulatory framework approved | - |
| The preparation of consolidated asset register in central institutions, at the level of control units. | - | Draft document prepared | Draft | Draft | Approved |





Thank You!