TIRANA

CITY

CAPITAL

Republic of Albania
Ministry of Finance

A Comprehensive Performance System for

Cash Flows Forecasting & Cash Management

TCOP Thematic Groups

November 04 - 06, 2024

1

Thematic Groups:

Evolution of the role and functions of Treasury
Cash Flows Forecasting & Cash Management

(Annex: Slide 44)

TSA

Cash is the KING
for Government business

AGENDA

- Performance - Cash forecasting processes

- Performance - Cash management

Performance - Cash Flows Forecasting

A more detailed information on these two subtopics has been elaborated in the previous events of TCOP
The last one was on 27-29 November 2023, Vienna.

Since 2015, there are done a lot of improvement, but the modernization of the treasury system is an endless process.

We must always be persistent in finding the optimal solution to provide sufficient cash for financing of government transactions in the right place, at the right time, also at low cost.

The recent improvement aims to get better performance and may be   summarized as follows:

As a guiding compass

To be oriented we have to know Opportunities Strengthen Weakness Threats

Ms. MIMOZA PILKATI (PEÇO)

Cash Flow Forecasting: The process to estimate future government cash inflows and outflows, with a view to taking action necessary to ensure that sufficient funds are always available to meet any net government cash requirements; and, in any period where there is a net cash surplus, to ensure that it is used to best advantage.
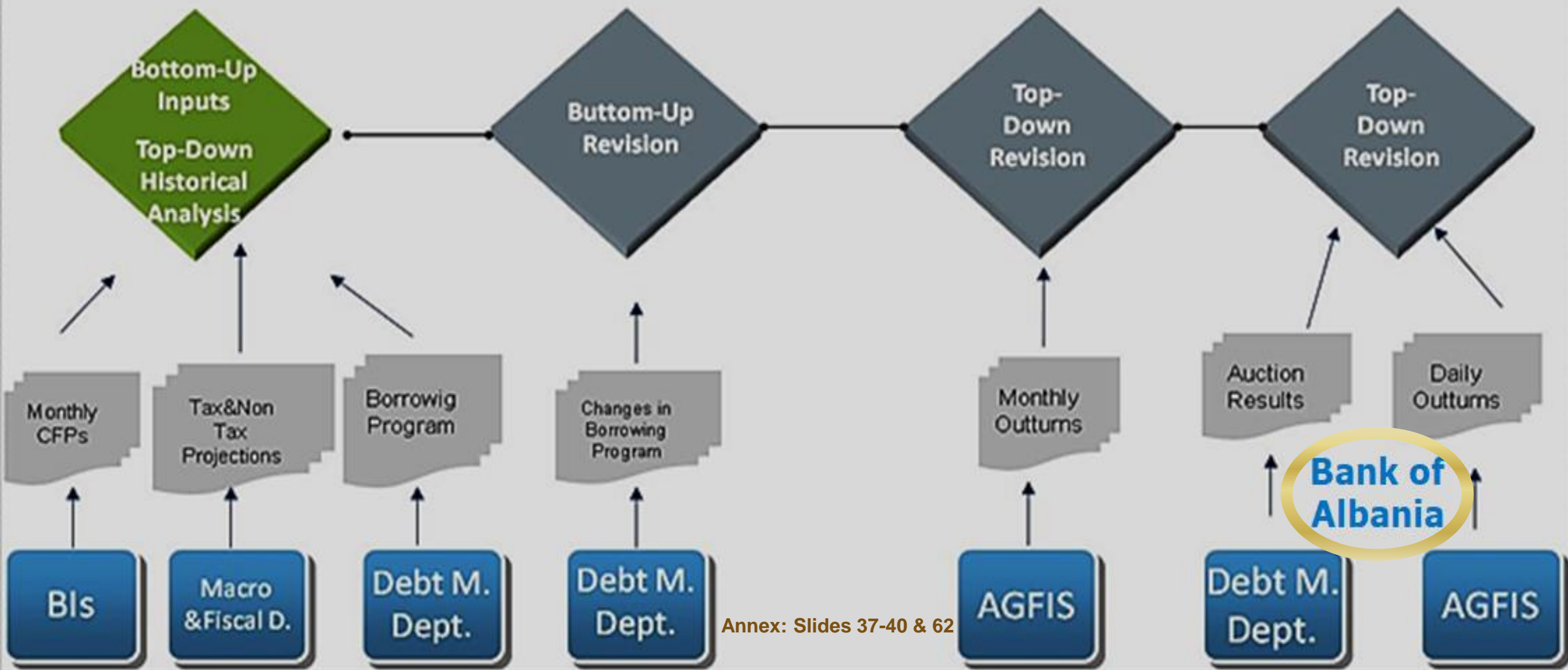
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THE RECENT IMPROVEMENTS

1. As per revised the **service level agreement** with Bank of Albania No. 3293, dated **March 11, 2024** "For some changes in the agreement on instruments offered by the Bank of Albania for liquidity management of the Ministry of Finance, dated 20.01.2015", results:

1.1- **Maximum amount** set as a **deposit in ALL**, at any time, will be 15 (fifteen) billion ALL.

1.2- There are no limits on the maximum amount for the **foreign currency** deposit.

1.3- It is changed the investment **term** on 2 months (it is increased).

1.4- **SWAP** instrument can **be used** Foreign Currency/ALL, but also ALL/Euro to manage the buffer of TSA in currencies.

Annex: Slides 37-40 & 62

Treasury should improve the quality of the forecasts by taking measures regarding the cash plan structure and processes of forecasting

THE RECENT IMPROVEMENT

2. The recent improvements of the cash flow forecasting consist in:

Daily forecasts are updated for the next quarterly period.

Monthly cash flows forecasts are produced for 12 months ahead and **rollover.**

Budget plans obtained from spending entities and historical data are an **input** for forecasts. In addition to the **top-down** forecasting approach, a **pilot ones** has been implemented with two line ministries (Education/Agriculture), Tirana Municipality and Tax/Customs authorities to complement the forecasting with **bottom-up** information.

The compilation of Minister's Order to establish the **Technic Group** on Cash Flows Forecasting and Management, with representatives from lines ministries with considerable budget funds, to accurate the monthly forecasting data, etc.

In order to improve the **accuracy** of forecasts and to minimize **deviations,**

a periodic evaluation of the accuracy of the forecast by GDT is performed.

It also has a more flexible approach to the amount of **cash buffer** it should hold.
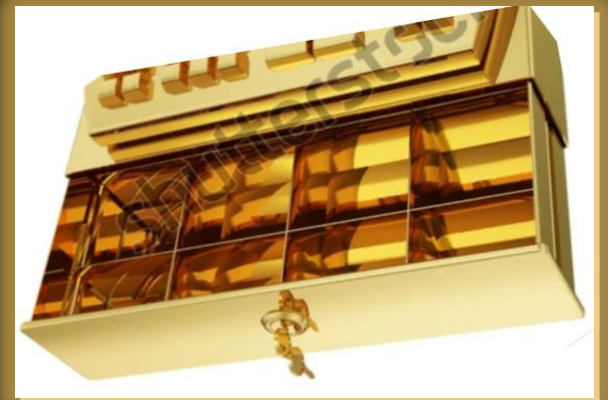
RECENT & UPCOMING IMPROVEMENT

3. Progress has been made in enhancing **regulatory framework** for cash management.

A key advancement is the formalization, in the Budget Instructions for 2023 (paragraph no. 77, page 18), of the requirement for pilot BIs to submit updated bottom-up cash forecasts on a monthly basis, due by the **25th of each month**. Additionally, cash forecasting templates have been included in the annex of these instruction.

4. Furthermore, an IMF Technical Assistance mission conducted in November 2023 provided **training** to MF staff responsible for Cash Management and pilot BIs' staff.

5. Moving forward, a new **cash forecasting tool** (CFAT) is being employed to prepare monthly forecasts and present data at the monthly meetings of the D&CMC. CFAT is using in parallel way with existing database in excel sheets.

A Technical Committee (TC) that established in 2017 had the mandate to catalyse the reform activities and to coordinate and monitor the implementation of the Outputs under the different Components of the respective Specific Objectives. Importantly the TC identified risks, planned their mitigation and alerted the SC to these matters accordingly. The TC was chaired by the General Secretary of MoF. The Committee's meetings was organised when required, but at least twice per year.

Currently, the nominated **Component Coordinators** will be responsible for driving on a continuous basis the concrete reform actions under each Component, including reports on progress and challenges of achievements or delays in the delivery of Outputs. They will continue to contribute to assess risks to the implementation of the Strategy, propose mitigating actions and undertake remedial action if required.

Fiscal Risk Declaration approved (next slide); Risk Management **Responsibility**:

- The general director of institution is responsible for policy development, approval and monitoring of the risk management strategy.
- Chief Financial Officer (CFO) is responsible for the implementation of Financial Management and control systems. CFO is the risk coordinator and is responsible for mitigating risk systems within the organization.
- All managers within a unit should be responsible for identifying, assessing, managing and documenting risk.

Liquidity risk – the risk refers the situations where the TSA account (liquid assets) diminishes quickly as a result of unanticipated cash flow obligations, decreases in revenues and/or a possible difficulty in raising cash quickly by borrowing.

MOFE has created Debt & Liquidity Management Committee in order to monitor and mitigate short term liquidity risk through:

➢ Continuous analysis, forecasts and assumption
➢ Strong coordination between Treasury and Debt Department

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MEASURES	ACTIVITIES
Measure **4.5.1** Improvement of CM process	**1.** Reviewing the process of preparing and submitting monthly cash plans by budgetary institutions. **T1-2024 to T4-2026**
	2. Establishing a Technical Committee and organizing monthly technical meetings with major BIs, Tax Authorities and Customs to obtain real-time important information. **T1-T4.2024**
	3. Introducing a two-week notification mechanism before making large payments. **T1-T4.2024**
	4. Utilizing a new "tool" developed by the IMF in Microsoft Excel for forecasting and data analysis. **T1-2024 to T4-2026**
Measure **4.5.2** Presentation of a comprehensive performance monitoring system for CF	**1.** Measuring and monitoring deviations from updated monthly forecasts. **T1-2024 to T4-2025**
	2. Defining key performance indicators (KPIs) for daily and monthly forecasts and presenting them to the Liquidity and Debt Management Committee. **T1-2024 to T4-2025**
Measure **4.5.3** Improvement of cash management instruments	**1.** Improving monetary reserve policies. **T1-2024 to T4-2025**
	2. Increasing the amount and duration of deposit investments at the central bank and introducing new investment instruments. **T1-2024 to T4-2025**

PILLAR 4

"ACCOUNTING & BUDGET IMPLEMENTATION MANAGEMENT"

Component 4.5
"Cash Management"
Activity 4.5.2.1
"Measuring & Monitoring deviations from updated monthly forecasts"

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

PI - Deviations to Cash Flows Forecast Data
January - July 2024

Deviance January - July 2024

Inflows	January	February	March	April	May	June	July
CF forecasting	39.90	33.55	39.39	39.93	49.61	43.44	43.43
DCMC forecasting	39.90	33.55	46.66	43.60	40.47	43.70	43.43
Actual	39.58	37.49	47.22	45.44	42.54	43.32	44.95
% Actual / DCMC	99%	112%	101%	104%	105%	99%	103%

Outflows	January	February	March	April	May	June	July
CF forecasting	43.25	34.41	38.37	41.01	46.18	46.33	46.53
DCMC forecasting	28.06	34.41	38.36	48.61	44.95	46.33	46.53
Actual	23.82	32.08	33.65	39.57	37.33	40.98	40.98
% Actual / DCMC	85%	93%	88%	81%	83%	88%	88%

TSA balance	January	February	March	April	May	June	July
DCMC forecasting	63.00	60.39	77.28	85.11	89.75	105.90	110.08
Actual	56.18	59.17	80.83	86.70	100.19	110.01	111.93
% Actual / DCMC	89%	98%	105%	102%	112%	104%	102%

Deviance of inflows

Deviance of outflows

TSA Balance

PILLAR 4 - ACCOUNTING & BUDGET IMPLEMENTATION MANAGEMENT
COMPONENT 4.5 - CASH MANAGEMENT & ACTIVITY 4.5.2.1
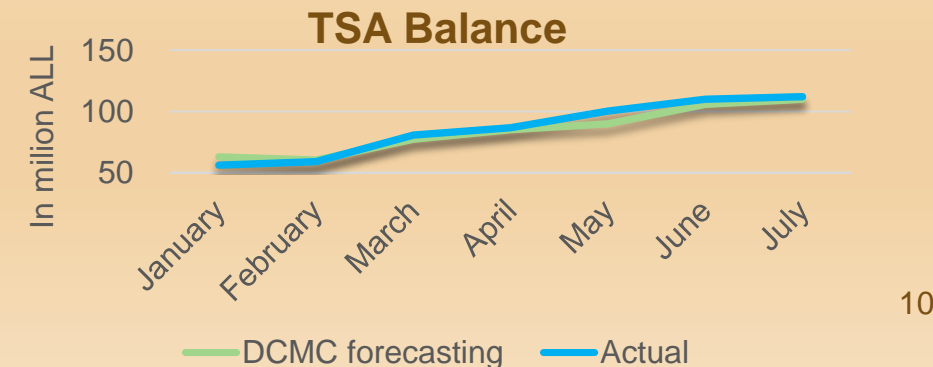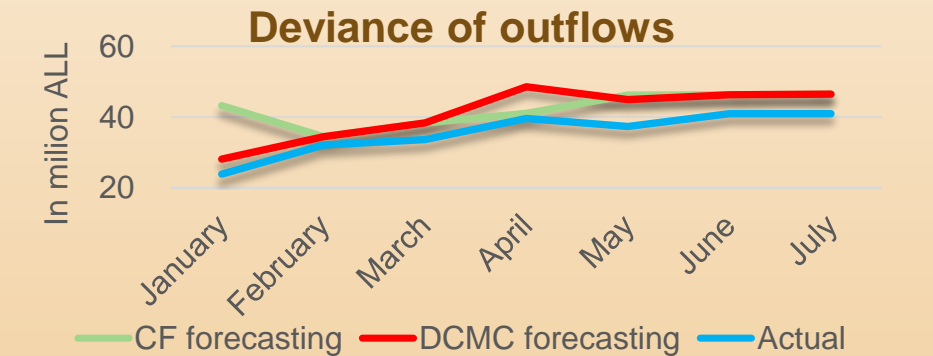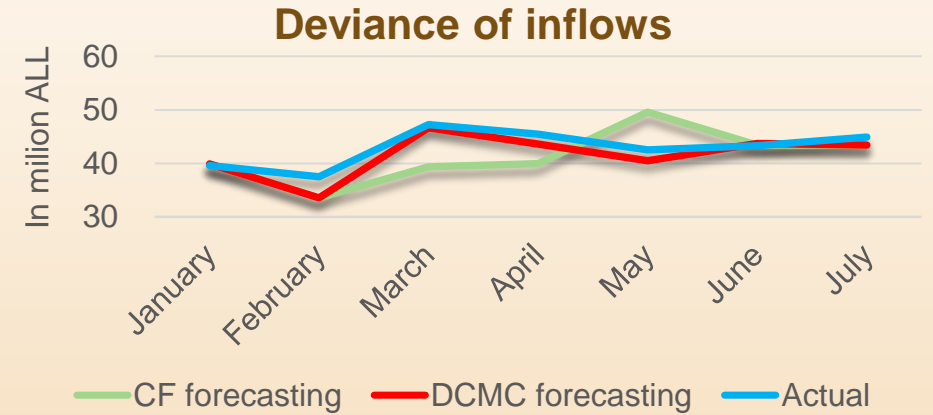
Fiscal Risk Declaration (FRD)

FRD is a document of Ministry of Finance that includes the collection, processing, analysis and deadlines for reporting fiscal risks. Its objective is to ensure that all major fiscal risks are identified, assessed, mitigated (when possible) and reported in a systematic and comprehensive manner, as an instrument at the service of the Government's decision-making.

FRD for the previous budget year is presented for information to the Council of Ministers, every year at the end of March and is published on the official website of the Ministry of Finance, in the form and measure determined depending on the decision-making and the relevant circumstances.

Fiscal risk is:

"The measure/probability of deviation of fiscal and budget forecasts, in the context of the budget year, as a result of some unforeseen events related to:

1. Macroeconomic developments
2. General income
3. General expenses and arrears
4. Public debt and **available monetary resources**,
5. Local finance

6. Concessions/PPP
7. Public enterprises with state capital
8. Contingent obligations (for example: Arbitration court decisions, decisions of the European Court of Human Rights in Strasbourg, etc.
9. Other unforeseen events, such as natural disasters, Etc.

FRU is responsible for coordinating the collection of information on fiscal risks from reporting units (general government units and public enterprises with state capital) and finalizing the FRD document, according to the approved deadlines.

Treasury submit to FRU the fiscal risk for availability of cash resources (**point 4** above) to get measures for financing all government transactions. It is responsible for the quality and compatibility of the information reported according to its respective areas of responsibility, by March 1 of each budget year. This information is based on and consistent with official data, generated in accordance with standards, and reported in accordance with approved formats.

The analysis and presentation of fiscal risks are subject to the policies and decision-making related to them, in the relevant budget year.

BACKGROUND
PERFORMANCE MANAGEMENT IN TREASURY

Transparency

Involvement

Accountability

Annex: Slide 47

Functional and methodological changes in treasury operations supported by the information **system-AGFIS, ensuring the centralize payments, accounting and reporting;** ensuring legislative support; the approach to cost-benefit analysis, approval workflows processes, unification of documents and processes, determination of final goals and optimization of business-processes; determination of final goals and optimization of business-processes; integration of international standards, linkage with public procurement and HRMIS.

The centralized approach has a number of advantages, including enhancement of quality and operational efficiency of reporting; creation of conditions for elimination of paper documents; facilitation of software maintenance and upgrade. However, centralization of accounting and reporting is associated with certain costs and is accompanied by social and human resource consequences, which require thoughtful approaches to risk management.

PERFORMANCE INDICATORS OF CASH FLOWS FORECASTS

Annex: Slides 41-42 & 51

Statement of Cash Flows

Cash Flow Statement

Cash in   Statement   Cash out

Ms. ALKETA BRAÇE

Performance indicators used in treasury

| 1 - Authorizing & Processing Payments | ← | **PIs By Operations** | → | 2 - Budget & Financial Reporting |
| 3 - Cash Management & Forecasting | ← | | → | 4 - Human Resources Management |

1- PI Name	Unit	Level of application	Reporting frequency	Source document	Target values	Target dt / period
1.1-Purchase Request is recorded in AGFIS before procurement process.	%	TS	Continuously	Law No.9936, dated on July 26, 2008 "For the management of the budget system in the Republic of Albania", amended. https://financa.gov.al/buxheti-6/	100%	Daily
1.2-Signed Commitment record in AGFIS within 3 working days.	%	TS	Continuously	The same as above	100%	Daily
1.3-Signed Invoices record in AGFIS within 30 days.	%	TS	Continuously	The same as above	100%	Daily
1.4-Expenditure transactions with wrong accounting classification.	%	TS	Continuously	Minister of Finance (MoF)'s Instruction No.9, dated on March 20, 2018 "On standard budget implementation procedures" https://financa.gov.al/thesari-3	100%	Daily
1.5-Timely reconciliation of nontax revenues between treasury and general government units.	%	TS	Continuously	Minister of Finance (MoF)'s Instruction No.9, dated on March 20, 2018 "On standard budget implementation procedures" https://financa.gov.al/thesari-3	100%	Monthly

Performance indicators used in treasury

| 1 - Authorizing & Processing Payments | ← | PIs By Operations | → | 2 - Budget & Financial Reporting |
| 3 - Cash Management & Forecasting | ← | | → | 4 - Human Resources Management |

2- PI Name	Unit	Level of application	Reporting frequency	Source document	Target values	Target date/period
2.1 Publication of budget performance data for consolidated fiscal indicators of general government timely / consistency of these data (cumulative/discrete; Millions of ALL/Month).	Term	HQ	Daily (not published) 2 Weeks Monthly	-Internal Regulation No.17029/1, dated on 10.12.2014 "On the terms of reconciliation, reporting and publication of data on the consolidated fiscal indicators of the government"	Published by approved **deadlines**	**12-14 of next month** preliminary version **End of next month** final version
2.2 Publication of data "The actual Budget of the year" as defined in Organic Budget Low (OBL)	-Term -Items	HQ	Yearly	-Law No.9936, dated on July 26, 2008 "For the management of the budget system in the Republic of Albania", amended. https://financa.gov.al/buxheti-6/ -The same Regulation as above	-Published by approved deadlines -OBL's items	May of next year
2.3.1 Accounting issues in General Ledger, inaccurate records, no accurate data in Cash/Accrual General Ledger Modules. **2.3.2** Human errors from workload/vacant post	No. of transactions	TS	Weekly,	The same Regulation as above (not published)	No outputs of **Monitoring Report** by AGFIS for irregular transaction	The same as point **2.1** above
2.4.1. Not respecting the reporting and reconciliation time (special funds, foreign financing out of TSA). **2.4.2-** Incorrect entries in AGFIS sent by the commercial banks on revenue collections. **2.4.3-.** Altered data after dissemination and publishing.	Millions of ALL	TS	Daily Monthly	The same Regulation as above (not published)	The same data by reconciliation with banking system, special funds, foreign financing projects	By a certain date during a certain period

Performance indicators used in treasury

1 - Authorizing & Processing Payments	←	**PIs** **By** **Operations**	→	2 - Budget & Financial Reporting
3 - Cash Management & Forecasting	←		→	4 - Human Resources Management

3- Cash Flows Forecasting PI Name	Unit	Level of application	Reporting frequency	Source document	Target values	Target date/period
3.1 Timely carry forward of multiyear commitments to the next budget year.	%	TDOs	Yearly	MoF's Instruction No. 31, dated on December 13, 2023 "On the procedures for closing the annual budget accounts for the year 2023" https://financa.gov.al/thesari-3/	100%	February of the next year
3.2-Inaccurate daily cash flows forecasting in the circumstances of a lack of funds available for payments.	In 000s of ALL	HQ	Continuously	- MoF's Instruction No.9, dated on March 20, 2018 "On standard budget implementation procedures" https://financa.gov.al/thesari-3/	Cash buffer's minimum level	Daily
3.3-Line ministries have not respected cash limit plans; hence a renegotiation is necessary for the change in the monthly cash plan **(*).**	-No. of revisions -In 000s of ALL	HQ	Continuously	The same MoF's Instruction as point **3.2** above	-Zero -Up to 10% of annual expenditures	During a certain period
3.4-Line ministries have not notified in time about large payments	Time of notification	HQ	Continuously	The same MoF's Instruction as point **3.2** above	10 days before the due payment execution day	By a certain date

Conclusion - Cash flows forecasting processes

To conclude, our focus has been as follows:

- One smart way to accelerate cash flow is by estimating our future inflows / outflows of TSA (3 years ahead). Cash flow forecasting (by scenarios) helps to recognize potential cash flow shortages and surpluses.

- We forecast on daily, monthly, quarterly, yearly basis and track key performance indicators to identify whether we have enough receipts / earnings to accomplish the following month's requirements.

- Higher cash flows forecasting quality/accuracy.

- Increase the granularity of the CMU top down cash flow forecast in order to project and monitor cash flows more effectively.

- Developing a systematic **performance monitoring mechanism** including analysis/KPIs reporting to CDMC, as appropriate.

- Minimizing the gaps of intra-day cash flows by better coordination between actors / performers.

We are aware of how we have performed, there are still areas for PFM improvement/innovation - crucial to the continuing success.

The ideal standards that are based on perfection are unattainable with the existing infrastructure and therefore discouraging for most treasurers.

Performance - Cash Management

It is not yet in place the dashboard to report to high management the realization of cash flows data in TSA.
It is reported manually on weekly / monthly basis.

Active Cash Management

Fine tuning – developing more active policies, drawing on a wider range of instruments or institutional options, to smooth more fully short-term changes in the TSA balance.

Daily DASHBOARD

Ms. Mimoza Pilkati (Peço)

CASH MANAGEMENT (CM)

CM is the process of managing cash inflows/outflows of TSA to help timing mismatches in cash flows and maintaining required cash balances; in Albania it is the **daily** administration of flows by **three payment sessions per day.** Cash is a key component of a government's financial stability. <u>Challenges</u> include inconsistent revenue, delayed payments, high overhead costs, poor forecasting, and economic fluctuations, which can strain financial stability.

The first step was establishing a **unified** structure of government bank accounts by a treasury single account (**TSA**) system to address the problems of fragmented government banking arrangements, which are an important factor in managing and controlling government's cash resources, they are critical for ensuring:

Annex: Slides 52-54

- ❑ All tax and non-tax revenues are collected, and payments are made correctly in a **timely** manner.
- ❑ Government cash balances are optimally managed to reduce borrowing **costs**, or to maximize **returns** on surplus cash.

II-We make every effort for TSA to have maximum **coverage** of government money.

III-Treasury has signed **SLA** with Central Bank and Commercial Banks.

Annex: Slides 60-61

AGFIS

PERFORMANCE - CASH MANAGEMENT

Effective use of cash:

- ➢ Real time payments (RTGS & AECH)
- ➢ Smoothness of the cash flow patterns
- ➢ Lower cost of instruments (zero value of SWAP 2023)
- ➢ More stringent control over risky payments (Slide 63)
- ➢ Maximum yield from liquidity management
- ➢ The interest income from treasury account deposits is not very high.

Measures to extend **coverage of TSA**:

- Closing bank accounts outside TSA

The revised Instruction of Minister of Finances No. 10, dated on July 12, 2024 "On the registration, use, reconciliation, reporting and publication of **foreign financing funds** in the framework of international agreements" has been approved, which results in including of the partial value of foreign financing funds for grants, which is currently deducted from the CF forecasting, so it should be considered in the outflows of cash forecasting.

Prime Authorizing Officer

Deputy Minister

General Directorate of Macro & Fiscal Policy

General Directorate of Budget / Public Debt

General Directorate of Treasury

C&DMC

Coordination

| Integrates efforts of employees | Unity of action | Ongoing process | Pervasive Function | Deliberate activity |
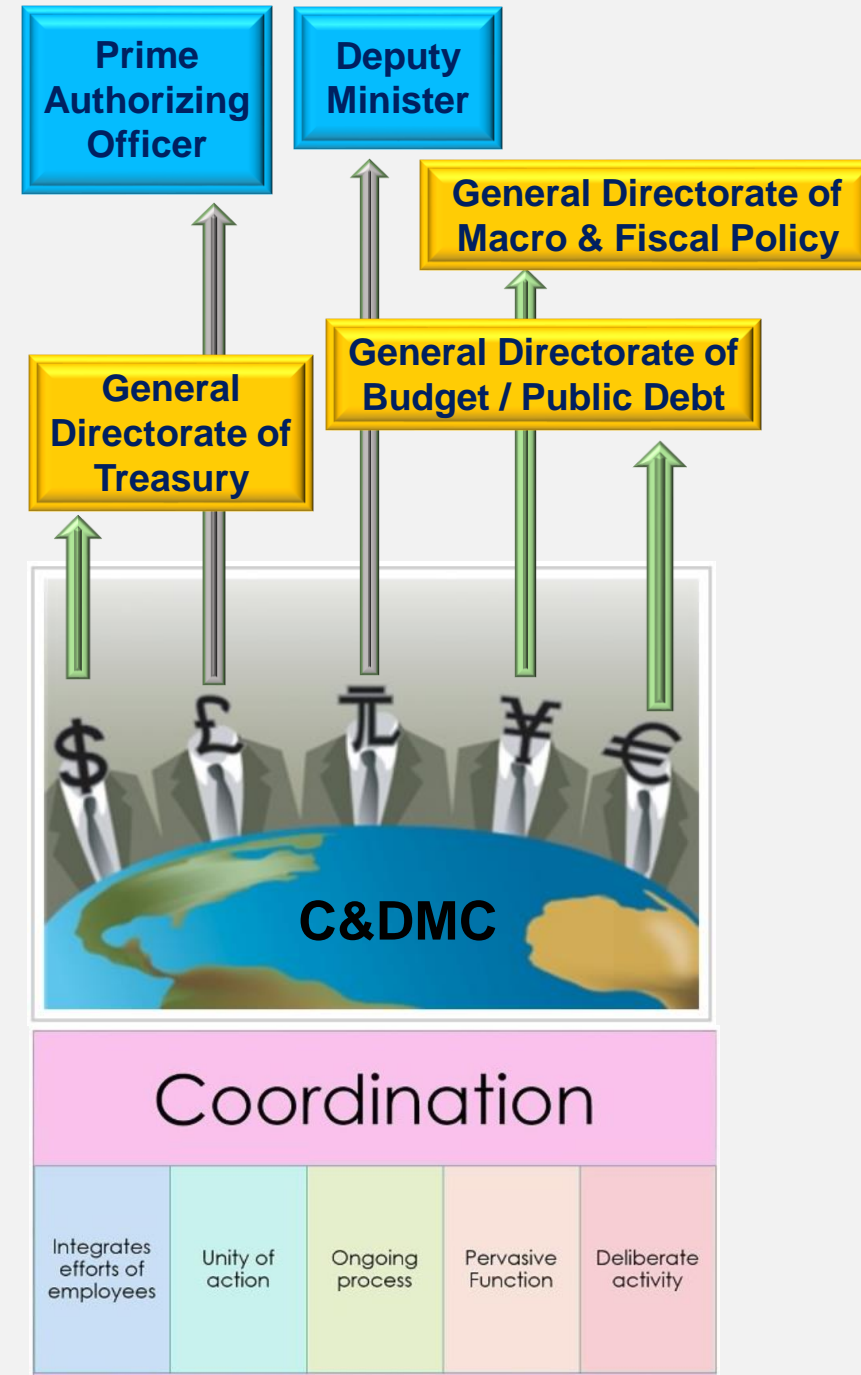
Performance - Cash management

About the elements of PIs for Treasury, there are in place:

- ❑ Guidelines **(Annex: Slides 46)**

- ❑ Templates of Performance Indicators reporting

- ❑ Communication and Technology Information tools for PIs such as AGFIS and treasury districts offices database

- ❑ Targets of PIs in PFM Strategy and organic budget law.

The frequency of tracking PIs by treasury operations is annual when we submit until May of next year the project law "On actual budget" to Prime Minister and then to Parliament.

Bank of Albania – Fiscal Agent of Government

Payable Management	Receivable Management	Information Management	Liquidity Management	Account Services
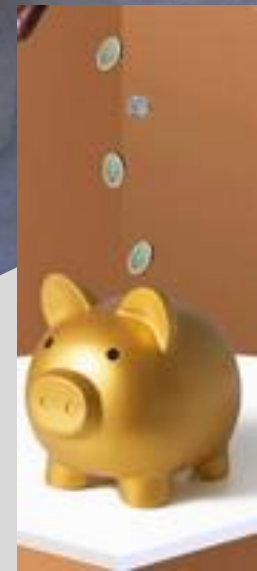
❑ The importance of CF management cannot be denied. After all, liquid money will enable government to pay liabilities easily and grow its business.

❑ Undoubtedly, CF management is essential because it helps government maintain positive liquidity and understand where and when its money is coming in and out, both now and in the future.

❑ This gives government control over cash flow, so it doesn't become a critical point when an unexpected expense pops up. It also provides insight into how government is managing the financial side of its business and whether or not there are areas where cuts could be made or investments should be made to grow government business further.

❑ Additionally, good cash flow management practices will help government stays on top of payments and spot any potential problems before they become too big to manage. Cash flow management allows for better forecasting for any future growth plans when everything is accounted for seamlessly (smoothly and continuously, with no apparent gaps).

❑ We already know that cash flow management is critical for budget execution, but it can also help protect from future cash flow issues. When we **done it correctly**, cash flow management can benefit the overall financial health of government business and streamline cash flow statements:

✓ **Monitor CF regularly** to ensure all the payments are done or made on time and that the expenses do not exceed the income.

✓ **Establish well-crafted contingency plans** for dealing with unforeseen circumstances or emergencies so it can remain financially secure.

✓ **Analyze Trends/**direction to gain insights into our performance relatively/in general will help us be more informed of the decisions regarding CF management strategies for the future.

✓ **Invest Wisely,** in high-return assets, can provide additional sources of income and help protect against potential losses due to market volatility or other unknown factors; it will help us maintain the necessary balance to support the operations over the long term.

Public Expenditures & Financial Accountability

2017 INDICATORS
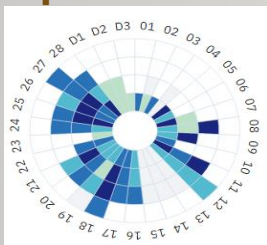
Overall Score

16. Predictability in availability of funds for commitment expenditures
17. Recording and management of cash balances, debt and guarantees
22. Timeliness and regularity of accounts reconciliation
25. Quality and timeliness of annual financial statements
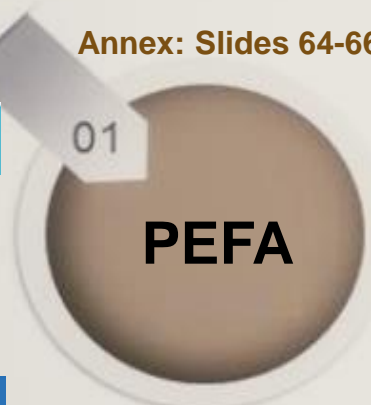
WORLD BANK GROUP

Annex: Slides 64-66

PEFA — 01
- C+
- B
- B
- B+

Annex: Slides 70-73

SIGMA — 02

Σ

Principle 24
The government supports budget implementation and service delivery by ensuring liquidity in the short and medium term.

Indicator 24. Budget implementation and service delivery is supported by cash availability in the short and medium-term.

2024 indicator Point

24.3. Treasury/cash management — **6/10**
24.4. The reliability of financial data is supported regular reconciliation of accounting information. — **2/5**
24.5. Cash Flow Management — **4/5**
24.6. Commitment controls are established — **8/10**

Debt Performance Indicators (DPI)
August 2024-SECO Project

DPI 11

11.1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts — **A**

11.2. Effectiveness of cash balance and liquidity management — **D**

Annex: Slides 67-69

DeMPA — 04

Annex: Slides 74-77

IMF Training — 03

1. **IMF** Training on **CFATools**
2. **Instruments** of CM & Cash **Buffers** Type
3. **Bottom Up** Approach (Minister Instruction)
4. **Service Level Agreements** with Banking System (Deposit, Outright, SWAP)
5. To use a more **granular** cash forecasting template. (November 2023)

A- High level of performance that meets good international practices

A — B — C — D

B- Sound performance in line with many elements of good international practices

C- Basic level of performance
D- There is insufficient information

23

CASH BUFFER
CURRENT DETERMINING

CASH BUFFER
UPCOMING DETERMINING

Min/max levels of CB is defined largely in relation to expenditure flows across a month (transactions). In paragraph 75 of the supplementary Instruction for the implementation of the 2024 budget, it is approved:

The **max** CB is defined as monthly average of planned expenses for the items: current personnel expenses / social expenses for economic assistance & unemployment; debt service payments are covered by central government securities auction issues. It is the max CB **at the beginning** of each month.

The **min CB** is determined on the basis of the forecast data of inflow/outflows of the TSA *(the pessimistic version of the Treasury)* in the amount of the average of the forecast of three days of the peak of the previous month.

(Total inflows - Total outflows) for 3 days of peak of month

3

CB of TSA balance will be determined by the combination of two components:

- ❑   Transactional "buffer" level (TCB),
- ❑   Security "buffer" level (SCB).

▪**TCB** will be determined up to 1% of the previous year's **Gross Domestic Product**.

▪**SCB** will be determined by the amount of external and internal **Debt Service** for the next three months.

▪The **overall CB** will set to be between 1% and 2% of the previous fiscal year's Gross Domestic Product.

CB can be flexible during implementation, according to the actual conditions. The defined levels serve as an orientation, but are not mandatory and can be adjusted according to the need and different unforeseen situations.

GDP of 2023 = ALL 2,312 billion

Performance Indicators

Cash Management

The process of collecting and managing cash flows.

Ms. ALDA GASHI

Performance indicators used in treasury

1 - Authorizing & Processing Payments	PIs By Operations	**2 - Budget & Financial Reporting**
3 - Cash Management & Forecasting		**4 - Human Resources Management**

3- Cash Management PI Name	Unit	Applicati-on Level	Reporting frequency	Source document	Target value	Target date/period
3.1 Failure to process payments in AGFIS at the appropriate time (technical issues).	Time of payments sessions	HQ	Continuously	- MoF's Instruction No.9, dated 20.03.2018 "On standard budget implementation procedures" https://financa.gov.al/thesari-3/ - The same as below (point 3.2)	09:30 12:00 14:00	Daily
3.2 Failure to perform payments in each payment session in AGFIS (insufficient balance of the TSA).	Number of payments sessions	HQ	Continuously	- The same as above (point 3.1) **-** MoF's Instruction No.43, dated on November 03, 2020 "On daily operations in AGFIS" https://financa.gov.al/thesari-3/	3 Payments Sessions / Day	Daily
3.3- Cash revenues collected by commercial banks not transferred in time to the Unified Treasury Account (TSA) in Central Bank in according to the bilateral agreement with the banking system (in daily bases).	Swept message's time from Commercial Banks to TSA	TS	Continuously	Service Level Agreement between Bank of Albania and Ministry of Finance No.716/3, dated on January 20, 2015 "For electronic communication between the Albanian government's financial information system (AGFIS) and the Bank's AIPS and AECH payment system" (not published)	Until 11:00 o'clock	Daily
3.4-Refused payments with errors from banking system.	Number of payments refused from banks.	TS	Continuously	-The same as point **3.2** above - MoF's Instruction No.43, dated on November 03, 2020 "On daily operations in AGFIS" https://financa.gov.al/thesari-3/	0%	Daily

Performance indicators used in treasury

| 1 - Authorizing & Processing Payments | ← | PIs by Operations | → | 2 - Budget & Financial Reporting |
| 3 - Cash Management & Forecasting | ← | | → | 4 - Human Resources Management |

4- PI Name	Unit	Level of application	Reporting frequency	Source document	Target values	Target date/period
4.1 Fair assessment of individual results by objectives of job description /approved internal regulation of Ministry of Finance.	X 1 Very good X 2 Good X 3 Satisfactory	TS	Six monthly	Law No. 152 / 2013 "For the civil servants", amended	X 2 Good	Two weeks after six-months
4.2 Criteria of professional skill & Work experience	Science Master & Years	TS	Continuously	Approval job description by Public Administration Department and Prime Authorizing Officer	Science Master in Finance/ Accounting/ Banking & 1-3 years	Continuously
4.3 Training adapted to specific objectives of job description	%	TS	Continuously	▪ Albanian School of Public Administration's program ▪ PEMPAL's program ▪ JVI's program ▪ CEF's program ▪ IMF courses, missions, etc.	▪ New appointed staff ▪ Less experienced staff	▪ In the beginning of appointment ▪ Continuously
4.4 Performing processes according to the approved workflow by AGFIS's manuals to avoid irregular transactions	Number of mistakes	TS	Daily	▪ Outputs of Monitoring Report by AGFIS ▪ AGFIS's technical manuals	Zero	Continuously
4.5 Human errors from workload / vacant posts	Number Of errors	TS	Daily	MoF's Technical Instruction No. 43, dated 03.11.2020 "For the implementation of daily operations in AGFIS" https://financa.gov.al/thesari-3/	Zero	Continuously

Human Resources

Treasury staff need to be more focused on performance and self management

Self Management

The core value:

IMPROVEMENTS IN THE FUTURE

Continuous monitoring of strategic and operational plans of general government units by the digital platform of performance assessment.

Business Treasury	Funding & Exposure	Risk Management	Capital & Liquidity	Investor & Bank Relations	Operations & Projects
Implementation e-contract by integration between AGFIS & System of Public Procurement for Cash Forecasts	**Inventory and Accounting of government assets in AGFIS; standard revaluation of asset ; Automating the control of budget funds when they are procured**	**Implementation of e-invoice to manage expenditure arrears . Digital Platform of CF data communication**	**Enhanced performance indicators to CF & CM and avoid arrears arisen.**	**Improved technologies for budget payment digitalization.**	**Accrual IPSAS implementation in GG units and Treasury role, reform impacts and challenges management.**

Prospective

To apply data science using advanced analytical techniques:

- To analyze financial data, to identify forecast trends,

- To identify TSA cash flow forecast scenarios,

- To have active cash management,

- To update/accurate TSA buffer,

- To optimize processes,

- Make decisions based on accurate/consistent data.

Visualization dashboard on cash flows forecasting's critical points/scenarios and cash management alerts daily (TSA buffer, etc.). Dynamic dashboard helps managers:

- To monitor the latest business process developments,

- To make more accurate decisions.

❖ Developing a sophisticated systems of IT for measuring of performance indicators.

Need:
More agility and adaptability
Ability to adapt swiftly
Stay ahead of the curve on dashboard…
Continuously improve cash flows data accuracy
Integrate user feedback

Aim:
Robust enhancement strategy
Innovative development of system
Commitment to user satisfaction on every aspect of our operations…

Annex: Slides 58-59

30

Prospective
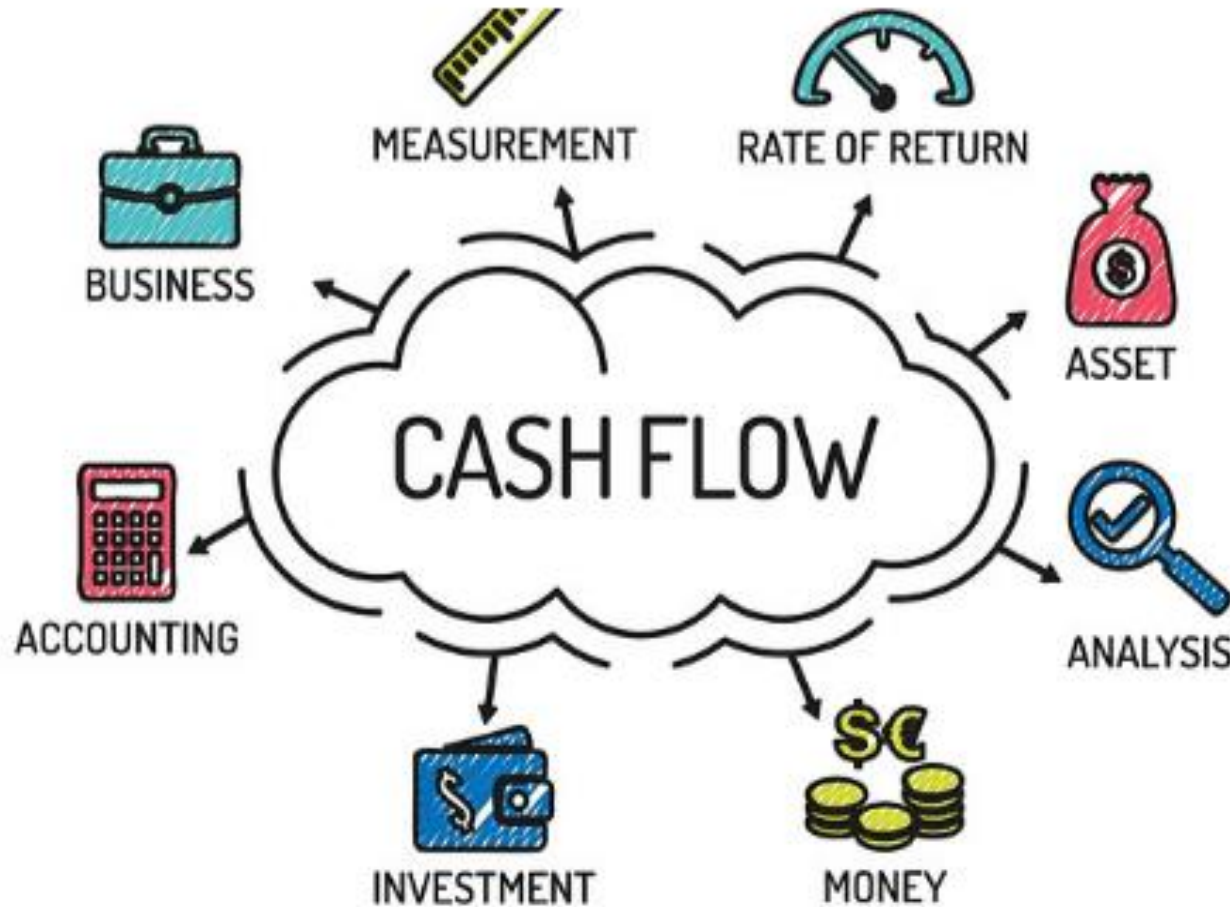
- Automatisation of the budget execution's processes (requisition, budget commitment and financial obligations),

  Annex: Slides 43 & 50

- Interoperability between isolated IT systems:
  - ❑ Procurement's system (e-contracts)
  - ❑ Tax 's system (e-invoices)

  Annex: Slides 48-49

- Developing of the Risk Management Software.

- Role of the Treasury in an accounting reform, the interoperability between responsible structure for accounting methodology and its execution. Report the data on **cash and accrual basis** from MoF in accordance with International Public Sector Accounting Standards (IPSAS) as strong basis for CFForcasts.

Priorities

Focus on the items we can control

Objective

The goal for future is to have advanced systems for daily cash flows forecasting and management to ensure efficient and effective treasury operations.

The priorities for the period 2023–2026 are:

- Improving the liquidity forecasting process;
- Creation of a comprehensive performance monitoring system for liquidity forecasting;
- Improvement of liquidity management instruments.

The priorities for the future are:

- Strengthen the fiscal discipline by digitalization of government transactions;
- Better understanding of all assets and liabilities, the complexity of accrual accounting (aligned with International Public Sector Accounting Standards, which is invaluable for effective medium-term financial planning; this will result in better managing current and contingent liabilities, including **arrears.**
- There are non-written procedures for shifting to accrual basis of accounting, as well as the lack of adequate IT systems. Strengthening managerial accountability/Raising the awareness of high level managers and other managers on the role of consolidated financial statements on accrual budgeting.

DO NOW — Items we need to get done immediately

PLAN — Items we need to get done soon, so put them in our agenda

DELEGATE — Items we can just get others to do for us

DROP — Items we can just forget about
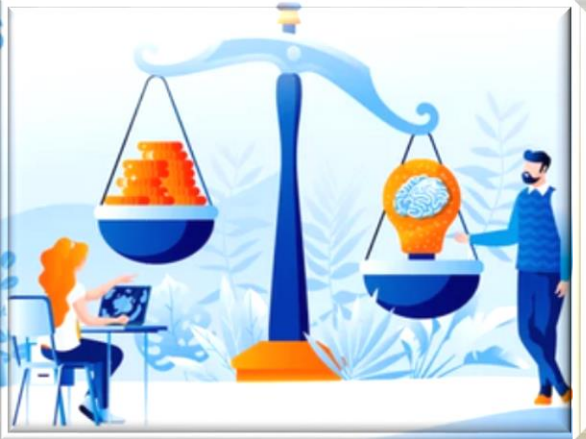
A Comprehensive Performance System for Cash Flows Forecasting & Cash Management

REMINDER

As we come to the end of our presentation, I would like to remind:

"No one fit way for cash management"

Thank you

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A Comprehensive Performance System for
Cash Flows Forecasting & Cash Management

ANEXES

Legal Basis:

- Law No.9936, dated July 26, 2008 "For the management of the budget system in the Republic of Albania", as amended by Law No.57/2016.

- Law "On Financial Management and Control", No.10296, dated 08.07.2010, as amended by Law No.110/2015, dated 15/10/2015;

- Law No. 152 / 2013 "For the civil servants", amended.

- Service level agreement with Bank of Albania No.3293, dated March 11, 2024 "For some changes in the agreement on instruments offered by the Bank of Albania for liquidity management of the Ministry of Finance, dated 20.01.2015",

- Service Level Agreement between Bank of Albania and Ministry of Finance No.716/3, dated January 20, 2015 "For electronic communication between the Albanian government's financial information system (AGFIS) and the Bank's AIPS and AECH payment system"

- Internal Regulation No.17029/1, dated 10.12.2014 "On the terms of reconciliation, reporting and publication of data on the consolidated fiscal indicators of the government".

- Instruction No.9, dated 20.3.2018 "On standard procedures for the budget implementation".

- Instruction No.43, dated November 03, 2020 "On daily operations in AGFIS".

- Instruction No.9/1, dated 20.03.2018 "On budget execution procedures for central and local government that use Government Financial Information System (AGFIS)"..

- Instruction No.31, dated December 13, 2023 "On procedures for closing annual budget accounts for the year 2023".

- Instruction No.10, dated July 12, 2024 "On the registration, use, reconciliation, reporting and publication of foreign financing funds in the framework of international agreements"

- Order No.89, dated 28.12.2015 "On the approval of the methodology for monitoring the performance of public entities";

- Instruction No.16, dated 20.07.2016 "On the responsibilities and duties of FMC and risk coordinator in public units";

- Instruction No.21, dated 25.10.2016 "On Executing Officers of All Levels";

- Order No.108, dated 17.11.2016 "On the approval of the Financial Management and Control Manual".
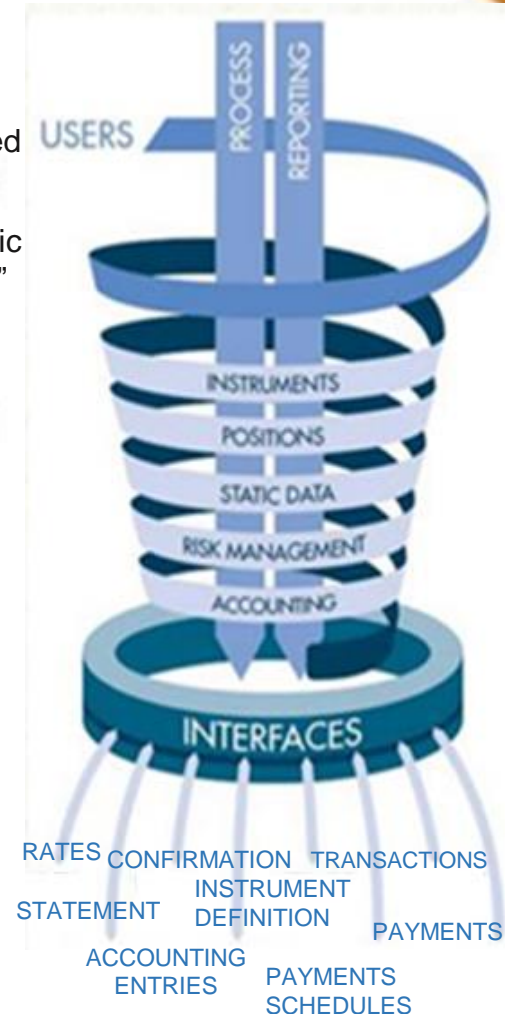
THE OPERATIONS' RISK

- Financing and Risk Management to align with PFM Strategy.

- Policy translates strategy into tangible goals and directives.

- Mode of operation defines courses of action for the resulting scenarios.

- Treasury system is the "brain" of Treasury, connecting all data flows.

- Dealing in financial markets executes all financial transactions.

- Effective control ensures compliance at all times.

- Processing and administration settles and documents in a cost efficient manner.

Pyramid levels (top to bottom):
- Strategy
- Policy
- Operating Model
- Treasury Systems
- Financial Market / Cash & Risk Management
- Treasury Control & Accounting
- Treasury Processing & Administration

13

Performance Indicators_Fiscal Framework

In milion ALL

		520,051.9	553,427	585,412					
		572,859	596,164	610,352					
		540,609	554,427	586,412					

No.	I T E M S	2024 AN	2025 PBA	2026 PBA	2027 PBA	2028 draft-PBA	2029 draft-PBA	2030 draft-PBA	2031 draft-PBA
	TOTAL REVENUE	714,067	739,136	780,560	822,775	861,421	902,026	943,420	986,185
I.	Grants	16,957	16,500	16,300	16,100	16,150	16,150	16,150	16,150
	from which: budgetary support from EC	1,957	1,000	1,000	1,000	1,050	1,050	1,050	1,050
	from which: donations for earthquake reconstruction								
	from which: earmarked to projects	15,000	15,500	15,300	15,100	15,100	15,100	15,100	15,100
II.	Tax Revenue	655,699	696,836	738,060	782,175	820,521	861,016	902,350	945,025
II.1	From tax offices and customs	459,221	485,948	515,281	545,500	571,874	600,012	628,767	658,415
	V. A. T	213,806	227,404	241,256	255,569	267,932	281,391	294,920	308,914
	Profit Tax	59,719	64,300	68,216	72,195	75,687	79,489	83,311	87,264
	Excise Tax	64,375	66,673	70,668	74,790	78,407	82,150	86,100	90,185
	Personal Income Tax	64,438	68,930	73,060	77,321	81,062	84,931	89,014	93,149
	National Taxes and others	47,555	49,493	52,459	55,518	58,204	60,982	63,853	66,819
	Custom Duties	9,328	9,148	9,623	10,107	10,581	11,070	11,569	12,083
II.2	Revenues from Local Gov.	37,114	40,774	42,931	46,575	49,305	52,094	54,871	57,769
	Local Taxes	30,303	32,163	34,295	37,084	39,415	41,789	44,133	46,580
	Propety tax (bildings)	6,811	8,611	8,637	9,491	9,890	10,305	10,738	11,189
	Small Business Tax								
II.3	Social Ins. Contributions	159,364	170,113	179,847	190,100	199,342	208,909	218,713	228,842
	Social Insurance	137,367	146,942	155,314	164,241	172,268	180,577	189,093	197,891
	Health insurance	21,091	22,266	23,533	24,859	26,074	27,332	28,618	29,948
	Revenue for owners compensation	905	905	1,000	1,000	1,000	1,001	1,002	1,003
III.	Nontax Revenue	41,412	25,800	26,200	24,500	24,750	24,860	24,920	25,010
	Profit transfered from BOA	0	0	0	900	900	950	950	970
	Budgetary institutions revenue	13,300	13,300	13,350	13,350	13,400	13,450	13,500	13,550
	Revenue from high education system	3,000	3,000	3,000	3,000	3,000	3,150	3,150	3,160
	Non-tax revenue form local government	3,000	3,000	3,200	3,200	3,400	3,500	3,600	3,700
	Other revenue from budgetary institutions of CG	7,300	7,300	7,150	7,150	7,000	6,800	6,750	6,690
	Divident	300	300	300	300	300	300	300	300
	Revenue form services tariffs	3,700	3,800	3,900	4,000	4,100	4,100	4,100	4,100
	Other revenue	8,212	8,400	8,650	5,950	6,050	6,060	6,070	6,090
	Other out of ceiling revenues	2,600	2,800	2,900	3,000	3,100	3,200	3,300	3,400
	Other	5,612	5,600	5,750	2,950	2,950	2,860	2,770	2,690
	Profit from Social Insurance Institute	15,900	0	0	0	0	0	0	0

No.	I T E M S	2024 AN	2025 PBA	2026 PBA	2027 PBA	2028 draft-PBA	2029 draft-PBA	2030 draft-PBA	2031 draft-PBA
	TOTAL EXPENDITURE	771,348	801,873	828,611	854,719	890,443	930,060	968,123	1,005,707
I.	Current Expenditures	617,337	651,699	676,233	706,107	734,474	757,580	792,343	818,277
I.1	Personnel expenditures	120,287	125,900	130,869	135,610	145,684	146,834	157,457	157,907
	Wages	92,676	106,500	107,000	107,507	108,357	108,907	109,357	109,607
	Social insurance contributions	15,211	18,000	18,100	18,834	19,134	19,634	19,834	20,034
	Special wage fund	400	400	500	500	500	500	600	600
	New wage policy	11,000	0	0	3,500	7,000	7,000	11,000	11,000
		0	0	4,269	4,269	9,693	9,693	15,567	15,567
	Universities from own revenues	1,000	1,000	1,000	1,000	1,000	1,100	1,100	1,100
I.2	Interest	64,328	73,460	76,234	79,828	84,006	89,157	97,386	105,076
	Domestic	34,494	42,896	45,385	47,875	50,430	53,970	59,506	65,119
	Foreign	24,414	24,924	24,998	24,953	26,076	27,187	29,580	31,457
	Contingency for interest rate and other shocks' impact on debt	5,420	5,640	5,850	7,000	7,500	8,000	8,300	8,500
I.3	Operational & Maintenance	72,234	69,870	71,221	71,785	72,385	73,735	74,835	76,345
	of central government (operation & maintenance)	68,634	66,070	67,321	67,785	68,285	69,485	70,485	71,885
	High Education	1,000	1,000	1,000	1,000	1,000	1,050	1,050	1,060
	Other extra limit	2,600	2,800	2,900	3,000	3,100	3,200	3,300	3,400
I.4	Subsidies	1,905	1,850	1,850	1,850	1,850	1,850	1,850	1,850
I.5	Social insurance outlays	248,877	261,238	272,243	287,544	296,264	305,729	315,133	324,944
	Social insurance	178,038	187,793	198,138	208,738	216,838	225,423	233,927	242,938
	New pentions policies	4,137	4,163	4,253	4,953	4,973	5,103	5,403	5,703
		3,650	3,750	3,800	3,850	3,900	4,000	4,100	4,200
	Health insurance	58,052	62,532	63,052	64,003	64,553	65,003	65,503	65,903
	Compensation in value to owners	5,000	3,000	3,000	6,000	6,000	6,200	6,200	6,200
I.6	Local Budget	79,377	88,431	92,416	97,041	101,185	105,874	110,681	116,455
	Grants from Cent.Gov. to Loc.Gov	36,785	42,157	43,785	44,766	45,840	47,680	49,511	52,186
	Unconditional grant	24,343	25,577	26,905	28,286	32,340	33,740	35,171	37,046
	Special grant	10,942	13,080	13,380	13,480	13,540	13,940	14,340	15,140
	Transfers for civil emergencies	1,500	3,500	3,500	3,000	0	0	0	0
	From own revenues	37,114	40,774	42,931	46,575	49,305	52,094	54,871	57,769
	From other separate taxes	1,478	1,500	1,500	1,500	1,600	1,600	1,700	1,800
	From own non-tax revenue	3,000	3,000	3,200	3,200	3,400	3,500	3,600	3,700
	Reform of decetralisation	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
I.7	Other expenditures	30,329	30,950	31,400	32,450	33,100	34,400	35,000	35,700
	Unemployment insurance benefits	800	800	800	800	900	900	1,100	1,200
	Social assistance	26,129	26,500	26,700	27,350	27,800	28,000	28,300	28,700
	Compensation for the political persecuted	1,200	1,400	1,600	2,000	2,000	3,000	3,000	3,000
	Birth bonus	2,200	2,250	2,300	2,300	2,400	2,500	2,600	2,800
II.	Reserve fund/contigency	3,500	4,000	2,000	8,000	10,000	16,000	16,000	19,000
	Reserve fund of Counsel of Ministers	3,500	2,000	2,000	6,000	7,000	10,000	11,000	12,000
	Elections costs	0	2,000	0	2,000	0	2,000	0	2,000
	Social aid for COVID	0	0	0	0	0	0	0	0
		0	0	0	0	3,000	4,000	5,000	5,000
III.	Capital expenditures	150,511	146,174	150,378	140,612	145,969	156,481	159,781	168,430
	Domestic financing	100,481	106,674	107,966	82,312	83,172	87,184	90,984	100,133
	Contingency for domestic financed CapEx	0	0	0	0	0	0	0	0
	High educaiton from its own revenues	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	Foreign financing	40,030	36,500	39,412	55,300	57,797	61,297	60,797	60,297
	From which: electricity sector	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	Expropriations	0	0	0	2,000	4,000	7,000	7,000	7,000
	Earthquake reconstruction fund:	9,000	2,000	2,000	0	0	0	0	0
	Financed from state budget	9,000	2,000	2,000	0	0	0	0	0
	Financed from grants	0	0	0	0	0	0	0	0
	Financed from loans	0	0	0	0	0	0	0	0

No.	I T E M S	2024 AN	2025 PBA	2026 PBA	2027 PBA	2028 draft-PBA	2029 draft-PBA	2030 draft-PBA	2031 draft-PBA
	OVERALL DEFICIT	-57,280	-62,737	-48,052	-31,944	-29,022	-28,034	-24,703	-19,522
	DEFICIT FINANCING	57,280	62,737	48,052	31,944	29,022	28,034	24,703	19,522
I.	Domestic	61,397	60,966	49,127	19,633	31,217	15,876	24,066	78,364
	Privatization receipts	0	0	0	0	0	0	0	0
	Domestic Borrowing	50,000	45,000	45,000	30,000	30,000	45,000	42,000	35,000
	Others, from which:	11,397	15,966	4,127	-10,367	1,217	-29,124	-17,934	43,364
	Change of liquidity stock in TSA	1,397	15,966	4,127	-10,367	1,217	-29,124	-17,934	43,364
	Change of deposit of Soc&Health insurance fund	10,000	0	0	0	0	0	0	0
II.	Foreign	-4,117	1,771	-1,076	12,311	-2,195	12,159	637	-58,842
	Long-term Loan(Drawings)	26,030	87,280	25,112	106,480	98,097	47,197	101,097	46,197
	Project related	25,030	21,000	24,112	40,200	42,697	46,197	45,697	45,197
	For earthquake reconstruction	0	0	0	0	0	0	0	0
	Eurobond	0	65,280	0	65,280	54,400	0	54,400	0
	On-lending (Local Gov.)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	Chang. of stat. Account	0	0	0	0	0	0	0	0
	Repayments	-45,379	-103,461	-37,068	-105,049	-100,292	-35,038	-100,460	-105,039
	Eurobond	0	-39,930	0	-70,720	-65,280	0	-65,280	-70,720
	Redemption	0	-39,930	0	-70,720	-65,280	0	-65,280	-70,720
	Buyback	0	0	0	0	0	0	0	0
	Budgetary support (loans from IMF, WB, EU, etc.)	15,232	17,952	10,880	10,880	0	0	0	0
	MEMO:								
	Overall balance	-57,280	-62,737	-48,052	-31,944	-29,022	-28,034	-24,703	-19,522
	Current balance	93,230	83,437	102,326	108,668	116,947	128,446	135,078	148,908
	Primary balance	7,047	10,723	28,182	47,884	54,984	61,123	72,683	85,554
	Liquidity stock in TSA (stock)	47,022	31,056	26,929	37,296	36,079	65,203	83,137	39,774
	Public debt NET of liquidity stock in TSA (stock)	1,370,951	1,443,688	1,494,739	1,528,784	1,557,930	1,586,090	1,610,918	1,630,564
	GROSS Public Debt (stock)	1,417,973	1,474,744	1,521,668	1,566,079	1,594,009	1,651,293	1,694,055	1,670,338
	Public Debt from the budget (stock)	1,367,273	1,414,044	1,457,968	1,500,279	1,528,084	1,585,243	1,627,880	1,604,038
	Domestic (stock)	775,399	820,399	865,399	895,399	925,399	970,399	1,012,399	1,047,399
	Foreign (stock)	591,874	593,645	592,569	604,880	602,685	614,844	615,481	556,639
	Extra-budgetary public debt (stock)	50,700	60,700	63,700	65,800	65,925	66,050	66,175	66,300
	Local governent (stock)	900	900	900	1,000	1,000	1,000	1,000	1,000
	Guaranteed public debt (stock)	49,800	59,800	62,800	64,800	64,925	65,050	65,175	65,300
	Nominal GDP	2,434,311	2,557,740	2,690,518	2,828,616	2,964,035	3,104,027	3,247,060	3,394,641

Promotion

KPI

A measurable objective that provides a clear indication of service center capability, quality, customer satisfaction, etc.

Key Performance Indicators (KPI) are increasingly used by government to measure progress towards organizational goals using a defined set of quantifiable measures. For the Government, KPIs will become an essential part of monitoring of compliance with management accountability framework.

A **consistent approach** has been currently identified as a requirement for measuring the performance of government **(Financial services delivery, etc…).**
Once finalized, the development of a KPI framework will constitute a key tool for assessing departmental performance **(Budget, Macro, Debt, Treasury etc.)**

TREASURY system is required to set standards/measure progress to the goal of **budget execution** with efficiency/transparence, using primary criteria such as:

➡**Timeliness** ➤ The time required to generate the financial reports, payments to economic operators/individuals.

➡**Access** ➤ How much accessible is TS/the information to its users?

➡**Outcome** ➤ Did the client receive what was needed?

➡**Satisfaction** ➤ Overall client satisfaction with the service/product request.

Common high-level service standards include:

■ Fully monthly database within 10th of each month.
■ Publications of budget performance fiscal indicators in preliminary version on 12-14 of each month / within January of next year.
■ Time of the payments within one day.
■ Daily reconciliation with the banking system.
■ Publication of Annual Financial Statements (by each standards) within May of next year.

Common challenges in defining and tracking performance indicators:

Encouraging culture of performance is a high priority in introducing PI's

Performance indicators are underused in forecasting negotiations

In PI's implementation has **unclear policy/program objectives** that make it difficult to set performance measures and targets

Poor quality or lack of accurate/timely **information/data** on performance

7th stages of expenditures transactions for payments to beneficiary's bank account

- REQUISITION
- COMMITMENT
- LIABILITIES
- EXPENDITURES
- PAYMENTS

Stage 1
Decision to Purchase- Pre-commitment

→ Requisition Stage- Likely to involve tendering processes based on the value of goods and services to be purchased

Stage 2
Purchase Order (legal obligation)

→ Funds Control/Budget Commitment- Sets aside funds so that money can not be spent for other purposes

Stage 3
Goods or Services Delivered

Stage 4
Correctly Rendered Invoice received

Liability Recognised- (financial obligation)

→ Accrual - Accounts payable - Invoice matched to purchase order/commitment

Stage 5
Payment Pending in Accounting Systems based on Due date

Stage 6
Payment Made on the Due Date

Yes → Payment made on due date recognised both on an accrual and cash basis

No →

Stage 7
Budget Arrears Payments are overdue

43

Operations by functions

Budget executor
1. Ex-ante controller
2. Recorder
3. Authorizer

Single cash manager
1. Forecaster of cash flows
2. Preparatory of payments
3. Manager of liquidity

Government's Accountant
1. Data eliminator
2. Data consolidator
3. Data reconciliatory

Functions of Treasury

Data disseminator
1. Generator of financial reports
2. Generator of Gov Statistics data

Control of TDOs/MDAs

Controller as:

➕ Budget executor:

1. Ex-ante controller
2. Recorder
3. Authorizer

➕ Single cash manager:

1. Forecaster of Cash Flows
2. Endorser of Payments
3. Manager of liquidity

Instruction No. 9, dated March 20, 2018
"On Standard Budget Implementation Procedures"

Control of the destination

Checks if the expenses incurred according to the documents attached to the spending order are expenses of the same nature as the funds approved for this purpose and if they are covered by the unspent funds of the general government unit for each category of expenses (AGFIS reject automatically, Treasury monitors respecting of due date of the payment).

Formal control

Checks whether the expenditure order is completed in accordance with the approved format in all extremes and fields. Verifies the signatures with the deposited specimens and the accuracy of the seal of the public entity (avoid by implementation of e-spending order; electronic archive).

Documentary control

Checks whether for the expenses listed in the spending order, sufficient original documents have been attached that prove the spending according by legislation, the connection with the commitment of the spending unit previously registered in the system to frozen funds and the references of the spending order (avoid by implementation of e-contract; e-spending order generated by AGFIS).

Control overspending against monthly cash plans (automated).

Treasury role is to ensure cash is available rather than rationed; exception in rare cases: If the amount of spending orders is greater than available liquidity, then payment is authorized according to the order of priorities determined by the Minister responsible for Finance and emergency payments proposed by the spending unit. (Not "Real time", **one day delay** from registration day). Just in time cash management.

Arrears Performance Indicators Content

1. Unauthorized Procurement Orders from Treasury

2. Submission of contracts to AGFIS timely

3. Number of contracts cancelled during the year

4. Timely delivery of payment bills to the TDOs

5. Expenditure Orders refused by the treasury

6. Timely report of nontax revenues

Indicator content:
- TDOs Code
- BI Code
- Cumulative no.of tendering order (TO) of BI (requisition) during the reporting period.
- Number of TO unauthorized by Treasury.

Indicator content:
- TDOs Code
- BI Code
- Cumulative no.of Purchase Orders (contracts) of BI during the reporting period.
- Number of PO dated before (>)3 days compared with the date of recording in AGFIS

Indicator content:
- TDOs Code
- BI Code
- Closing status of PO <> from "Open"
- Total signed amount (in ALL) of PO by BI during the reporting period.
- The reason of PO rejection/closing before the date or not paid fully.

Indicator content:
- TDOs Code
- BI Code
- Cumulative number of invoices of BI during the reporting period.
- Number of invoices dated before (>)30 days compared with the date of recording in AGFIS.

Indicator content:
- TDOs Code
- BI Code
- Cumulative number of invoices of BI during the reporting period.
- Number of refused invoices from TDOs before accounting in AGFIS.

Indicator content:
- TDOs Code
- BI Code
- Cumulative number of days of reporting delay during the year.
- The number of days of reporting delay during the period.

Indicator value:
$$I_{Requisition} = \frac{TO\ unauthorized}{Total\ No.of\ TO}\ \%$$

Indicator value:
$$I_{Contracts} = \frac{PO\ dated\ >3\ days}{Total\ No.of\ PO}\ \%$$

Indicator value:
$$I_{RejectedPO} = \frac{No.\ of\ rejected\ PO}{Total\ No.of\ signed\ PO}\%$$

Indicator value:
$$I_{Invoice} = \frac{Invoices\ dated\ >30}{Total\ No.\ of\ Invoices}\ \%$$

Indicator value:
$$I_{Refused\ Invoices} = \frac{Invoices\ dated\ >30}{Total\ No.\ of\ Invoices}\ \%$$

Indicator value:
$$I_{Nontax\ Reporting} = \frac{No.\ of\ days\ in\ delay}{Cumulative\ No.\ of\ days\ in\ delay}\ \%$$

Actual benefits of automated public finance systems
(AGFIS, PPS, Tax, Customs, DMFAS)

➤ PFM rules are technically translated into the Systems, hence ensures that transactions execution and their accounting can only be made in line with the applicable rules.

➤ Transparency throughout budget execution (what, by whom, when).

➤ Almost real time information on budget execution (expense execution, revenue collection, etc.).

➤ Time saved on financial consolidation process and financial reporting preparation of State Budget (prebuild consolidation formulas and FSG reports in AGFIS).

➤ Transparent tendering process of public funds using the information system of Public Procurement (PPS).

➤ Accurate information and time saved on public debt management process-DMFAS (foreign and domestic debt).

Integrated Planning System (IPS 2)

The diagram shows all information systems used in public finance in Albania and their interoperability

The integration of AGFIS
with the Public Procurement Agency's
System
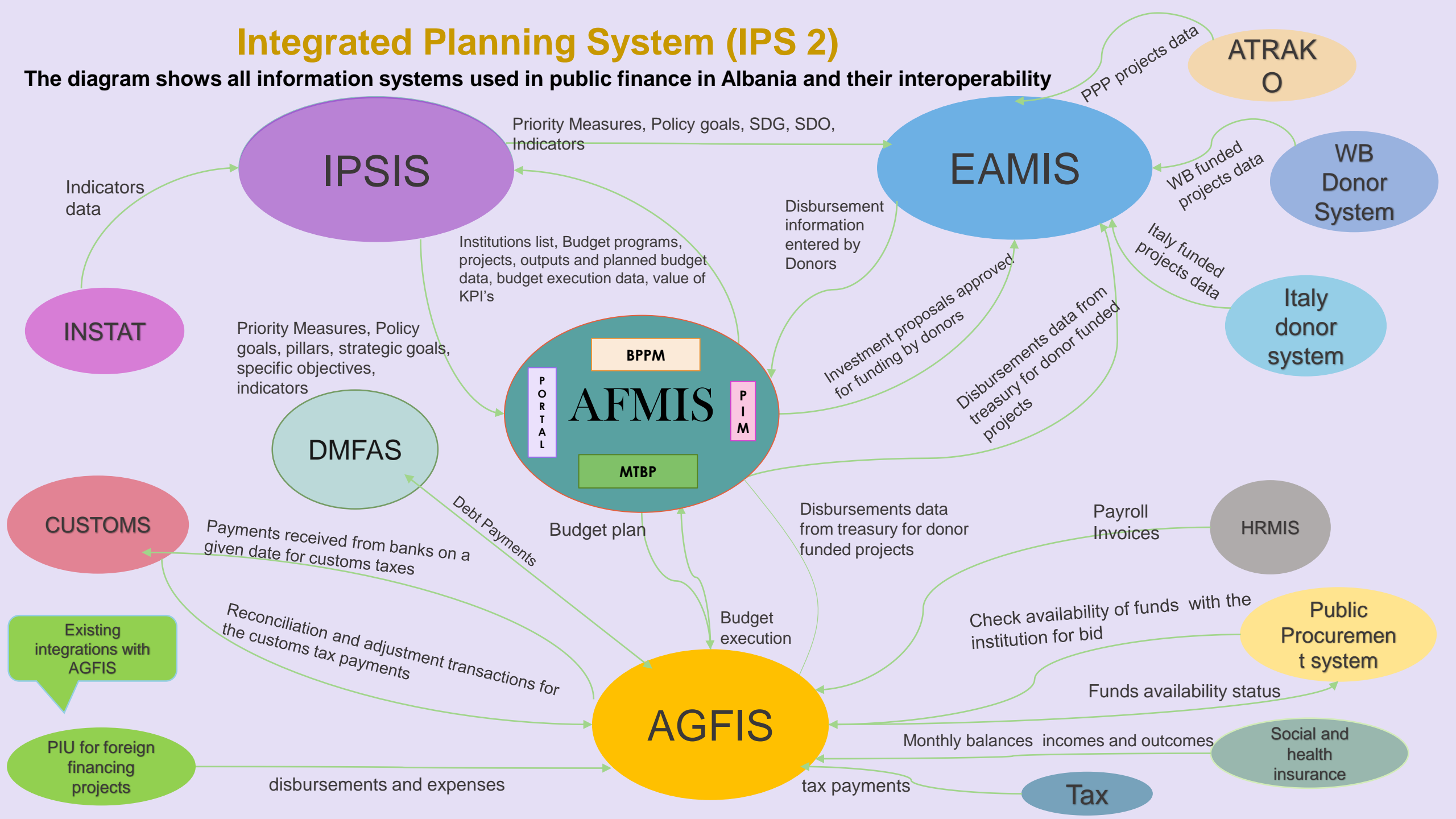
AGFIS integration (in) with several systems

The integration of AGFIS
with the C@T's System "e-payments"
of General Directorate of Taxes

2019

The integration of AGFIS
with the banking system

2015

2019

2010

2019-2022

Approved budget
amounts from MTBP
(in beginning of the year)

2011-2023

Integration of AGFIS with HRMIS of Department
of Public Administration (AFMIS)
122 institutions

Final Acceptance (design & test)

2006

Implemented live - September 2010

Expansion of SIFQ:
Until 2022 to 15 spending units,
During 2023 to 5 new spending units.

Upgraded in 2013-R12 Oracle Version

AGFIS SYSTEM ARCHITECTURE (Oracle)

PURCHASING

Commitments

PO – Invoice matching

PAYABLES

Bank Reconciliation

Expenditures, Payments

Asset Addition

CASH MANAGEMENT

FIXED ASSETS

Bank Reconciliation

Capitalization Transfers, Depreciation, Retirements

RECEIVABLES

(Non-Tax) Receivables, Receipts

EXTERNAL SYS

Bank Statements
Tax and Custom Revenues,
Fixed Asset Journals off line
Budgetary Institutions
Inventory Journals,
PIU Reports
Health and Social Institute reports

GENERAL LEDGER

Reviews & Inquiry

Appropriation registration
Budget Revisions

BUDGETING

Financial Reports

Journal Inquiries

Balance Inquiries

THE OPERATIONAL RISK EVENTS

Government entities:
- Central Government & Special Funds
- Local Government

01 Objective: Cash flows forecasting

- Line ministries have not respected the limits of the sources of financing from Budget. A negotiation is necessary for the change in the monthly cash plan.
- Not having a specific legislation and AGFIS manuals during the forecasting/recording of the cash plan in AGFIS.
- Inaccurate determination of the daily cash flows forecasting in the circumstances of a lack of funds available for payments.

Objective: Cash Management 02

- Failure to record the limit at the appropriate time and extent for each payment session in AGFIS.
- Non-collection of daily swifts by banks in the Unified Treasury Account (TSA) in accordance with the bilateral agreement with the banking system.

Workflows Risks Identification

04 Objective: Ex-ante controller

- The nature of transaction is not fitted with approved destination by appropriation, unauthorized Procurement Orders from Treasury,
- No submission of contracts to AGFIS timely,
- No timely delivery of payment bills to the TDOs,
- Transactions are not submitted by right category and due flex fields combination.

03 Objective: Information is timely, accurate, consistent, reconcilable, compliant, reliable, related, by standard methodology.

- Not Reporting within the set deadlines of data.
- Incorrect entries in AGFIS by the banking system.
- Accounting issues in AGFIS, inaccurate records, no proper data in cash/accrual General Ledger.
- Altered data after dissemination and publishing.
- Not respecting the rules of consolidation standards.
- Workload/vacant post and human errors.

Payment – Albanian Centralized Model

General Government Units

Line Ministries

Foreign financing projects implementation units

MINISTRY OF FINANCE

Local Government Units

Treasury District Office

Cash forecast/budget allocations

Request for payment

Cash forecast/budget allocations

Money transfer information

Payment orders

Special Funds

Bank of Albania

Commercial Bank

Receipts

Financing

Payment orders

Receipts
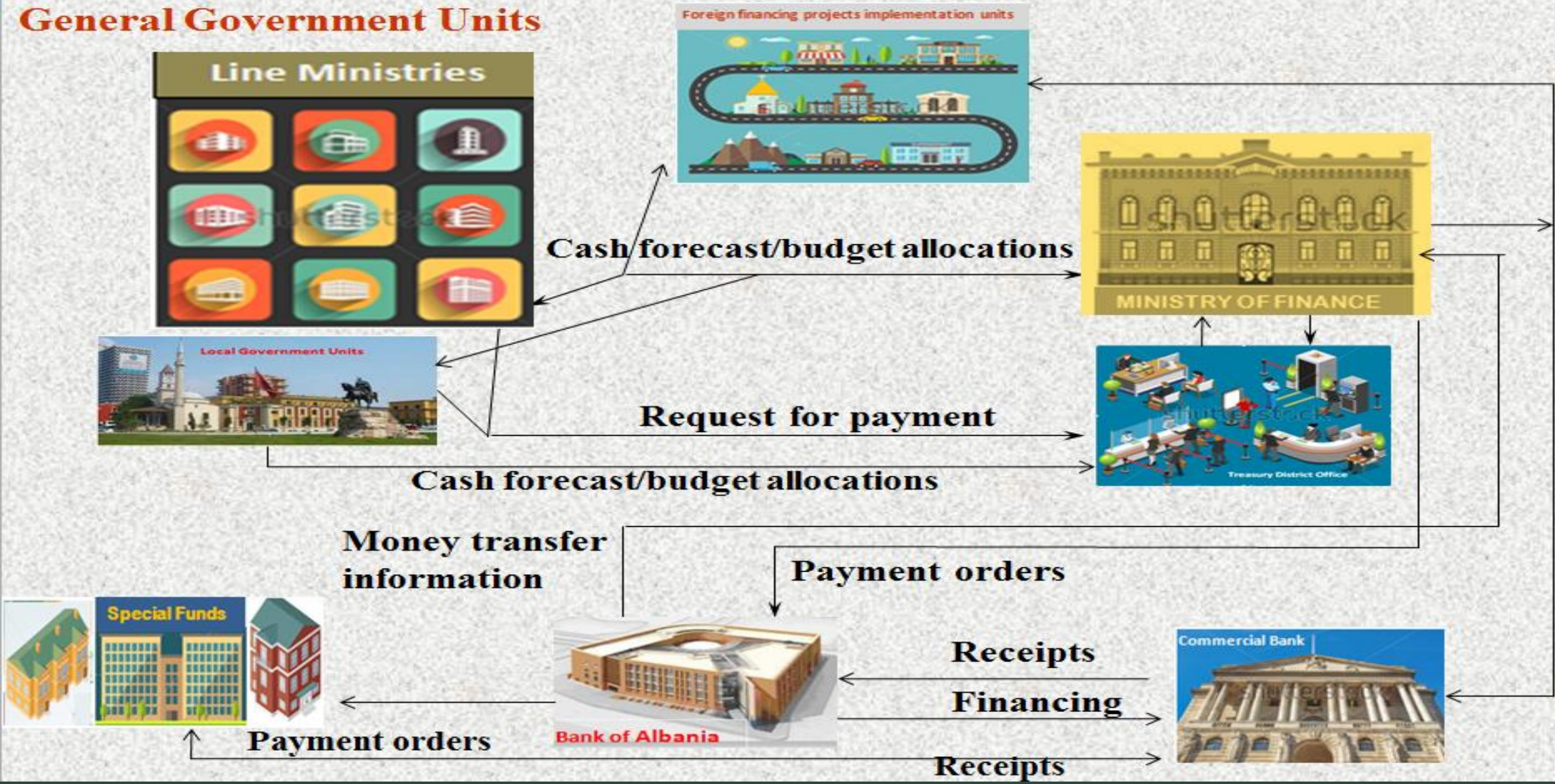
TREASURY SINGLE ACCOUNT-TSA COVERAGE TREASURY SYSTEM

SEPARATE BANK ACCOUNT OUT OF THE SYSTEM

GENERAL GOVERNMENT OF ALBANIA

CENTRAL GOVERNMENT

LOCAL GOVERNMENT

SPECIAL FUND

EXTRA BUDGETARY FUND

LINE MINISTRIES

MUNICIPALITIES

SOCIAL HEALTH

REGION COUNCILS

FORMER OWNERS COMP/RESTITUTION

SP

SP

SP

SP

SPENDING UNITS (SP)

Framework

- Functions

Albanian TSA is a set of linked bank accounts through which the government transacts all its receipts/ payments and gets a consolidated view of its cash position at the end of each day. While it is necessary to distinguish individual cash transactions (e.g. a typical revenue and/or expenditure transaction of a government unit) for control and reporting purposes, these objectives are achieved through the accounting system and not by holding and/or depositing cash in specific individual bank accounts. This enables the Treasury to delink management of cash from control at a transaction level.
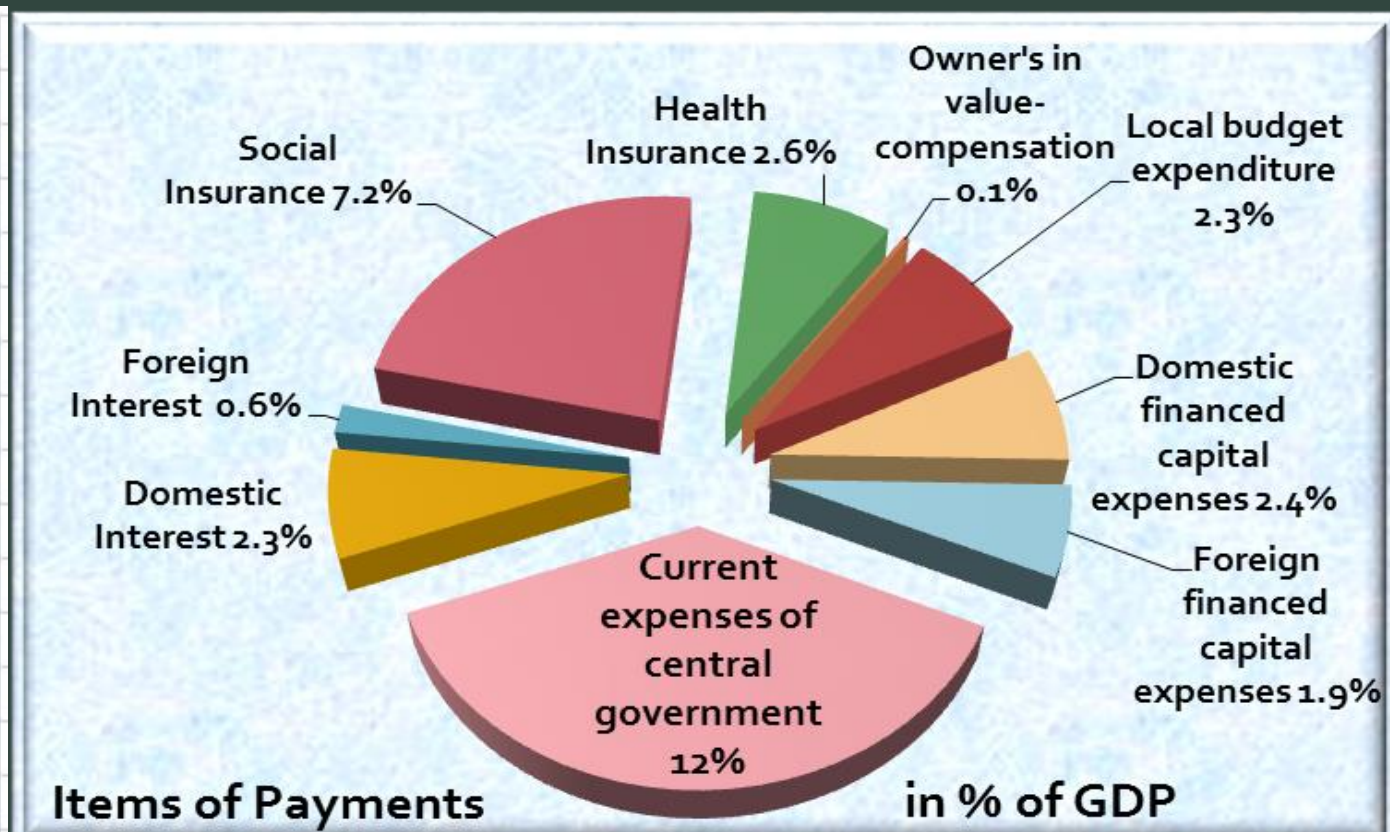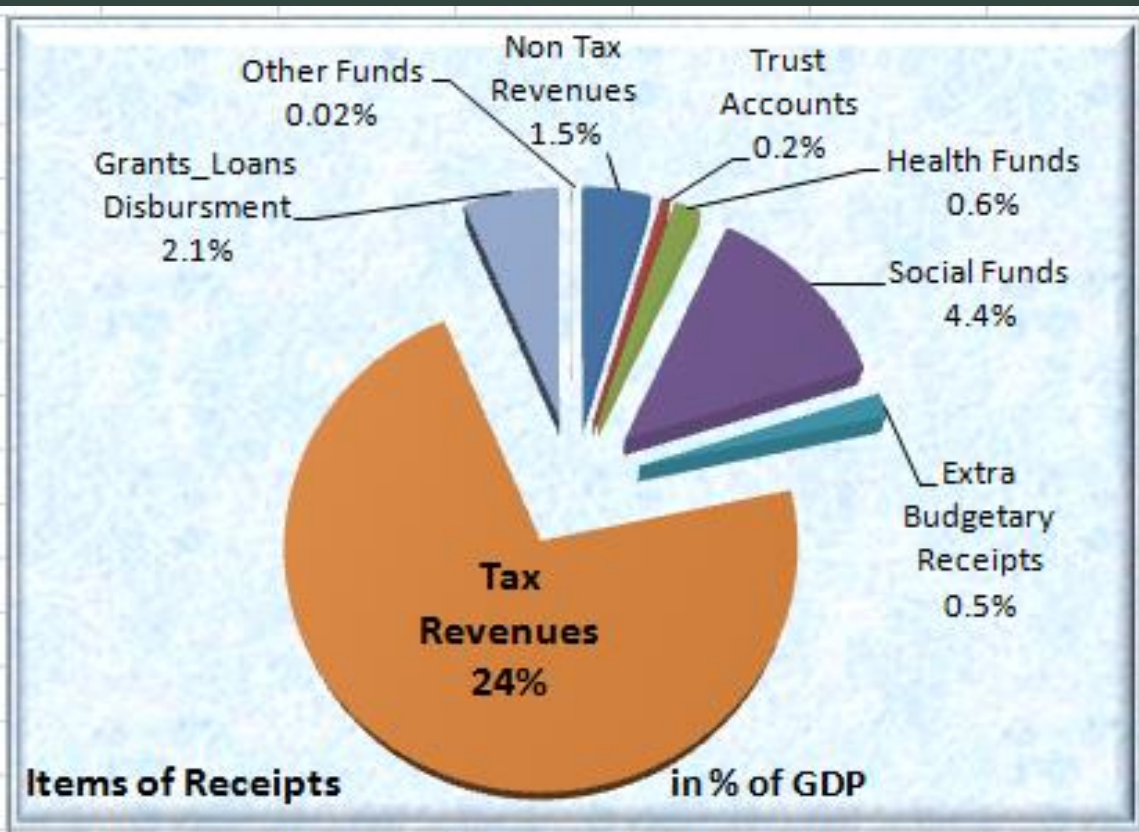
DMS LINKAGE WITH FISCAL POLICY

Cost and risk of debt portfolio

Fiscal Policy
- Aggregate government spending and taxation
- Microeconomic impacts of tax and spending policies

Fiscal Risks

DMS
- Structure of debt
- Cost and risks of debt portfolio

Primary balance and financing need

Public Debt Management's Department

Front Office	Middle Office	Back Office
3 experts	2 experts	2 experts

Debt is responsible to minimize the operational risk of debt, to coordinate debt management activities with monetary and fiscal policies, to prepare and improve the medium-term debt management strategy in line with the goal of achieving targeted objectives.

THE ISSUANCE

How is the short term issuance program developed? Is it linked to cash balance forecasts?

DMS IMPLEMENTATION/LINKAGES

MONETARY POLICY
(Open Market Operations)

Government borrowing affecting liquidity

OMOs and other market interventions affecting liquidity

DMS
(Instrument Mix, Demand, Portfolio Targets)

Guidance on market-based borrowing

Feasibility and result of market-based borrowing

STRATEGY IMPLEMENTATION
(Borrowing Plan)

DMS OBJECTIVES
(Secure Financing, Balance between Cost/Risks, Market Development)

Refinance existing securities and finance remaining gap

Short-term borrowing to fill financing gap; cash cushion and prefunding for large refinancing

CASH MANAGEMENT
(TSA, Short-term borrowing)

Treasury is responsible to perform centralized payment execution within the cash limit, managing the daily projections for cash guarantee, updating and establishing of the database for monthly/annual financial reporting and accounting.

SWOT ANALYSIS

INTERNAL

POSITIVE

NEGATIVE

STRENGTHS S

- Established procedures
- Automated systems
- Scientific forecasting
- Experienced/consistent staff
- Donor support

W WEAKNESSES

- Weak ownership
- Fragmented processes
- No excess capacity
- No audit trail
- Structure of TSA
- Manual processing

OPPORTUNITIES O

- Reduce fragmentation
- Effectiveness & Efficiency
- Increased empowerment
- Enhanced transparency
- Coverage of TSA

T THREATS

- Available funding
- Banking system's interoperability
- Empirical forecasting/lack of analysis
- Lack of agreement

EXTERNAL

Liquidity Management Risk (RM)

RESERVES

As protection tools

As indicators for risk management purposes (Basel)

The **volume** of the necessary reserves depends mainly on:

- the volume of the assets to be protected
- the volatility of the markets and market behaviour and specialities
- the reliability of the forecasts
- the time necessary from the recognition to the decision making and for the implementation of actions
- tools available for the implementation of actions
- time needed from the activation of the corrective actions to exercise their impact.

Albanian current reserves:

- Budget related contingencies and reserves
- Stand-by facility for liquidity management purposes kept at BoA

1.

2.

3.

4.
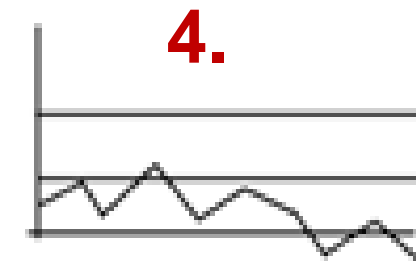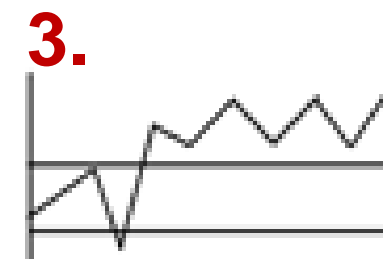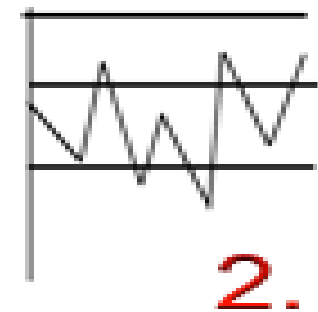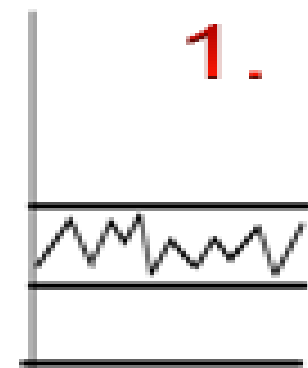
Perspective

- Strategies for overcoming the issues

➤ **The introduction of electronic transaction processing (e-invoice) and payment systems facilitates of the TSA establishment.** Modern payments processes rely increasingly on electronic transactions, centralizing receipts and payments through a limited number of agents, and processing government transactions with a minimum of intermediate handling steps. This avoids unnecessary use of cash, thus reducing operational risk.

➤ Further optimization of the process of revenue collection and administration by the Government of Albania.

➤ Good cash management system is of fundamental importance. Such system must recognize the time value and the opportunity cost of cash; be an enabling instrument of expenditure planning for line ministries; be forward looking – anticipating macroeconomic developments, be capable of accommodating significant macroeconomic changes and minimizing their adverse effects on budget execution.

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14

Perspective

- Future Reforms of the TSA (after 2020 year)

- The TSA coverage should be comprehensive by including all government-funded entities, including the autonomous and statutory government bodies as well as extrabudgetary funds (EBFs) and special accounts.
- The donors should be encouraged to integrate their funds with the TSA or, as a minimum, to route final payments through the TSA.
- Inclusion of social security funds and other trust funds in the TSA could be considered, provided that the accounting system is well developed and adequate safeguards exist to prevent the abuse of trust fund resources.
- Organic budget law amendment to modified accrual accounting for revenues
- Centralization of revenues collection
- AFMIS
- Developing liquidity forecasting programme.
- Improve TSA's interaction with other policy areas

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2. The documentations of the arrangements

Legislation

-Law no. 8269, dated on December 23, 1997, "On Bank of Albania" (revised)

-Law no. 9665, dated on December 18, 2006, "On state borrowing, debt and public debt's guarantees in Republic of Albania" (revised)

-Law no. 9936, dated on June 26, 2008, "On management of budget system in Republic of Albania" (revised)

SLA Framework

-On electronic communication between AGFIS and BoA's payments systems: AIPS (RTGS) and AECH,

-On BoA's instrument for management of the government liquidity,

-On the transfer of BoA's net profit to MoF (TSA) and coverage of BoA's losses,

-On management of the special bank accounts in BoA which are ordered by MoF,

-On organization of government securities' auctions, settlement of the transactions and keeping government securities register

Others

-Formal committees and working groups

-Protocols on operations

Detail any issues or lessons learnt from the arrangements

- The arrangement are helpful when both parties respect the rules and timeliness of handling the relevant transactions (e.g. as fiscal or settlement agent)
- SLAs are needed:
  - To avoid idle cash balance outside TSA
  - To avoid the volatility of the money market
  - To consider the management of operational risk
  - To standardize the accounting and business processing
  - To respect the timelines of the periodic reconciliation and financial reporting
  - To define the audit tracks of financial transactions

Liquidity by treasury

- The strategy's implementation for clearing the arrears and reduce the outstanding debt have improved the cash management on the volatility of liquidity's needs. The good performance of fiscal indicators has been the criteria to get the budget support, which has been very helpful for managing cash more actively.

- The liquidity forecasting is enhanced through daily reporting of tax revenues collection by AGFIS interfacing with C&TS of GDT.

- It's linked the monthly cash flow forecasting with the monthly target of budget plan to:
  - monitoring cash balances,
  - maintaining cash buffer,
  - to handle both volatility and unanticipated outflows,
  - to be revised the budget in time.

- Coordination between government debt and cash management functions results in more active borrowing and gives tools to protect expenditures plans from cash flow volatility.

- It's minimizing the volume of idle balances held in foreign financing projects' bank accounts, which are aggregated in TSA.

- Since January 2017, it's shifted the control of invoices against liquidity plan from registration's time to payments' processing, allowing to report the invoices without liquidity plan with the aim to get the source of financing by due date of the payment.

Expenditures control

- It is set up the new functionality of AGFIS to record procurement orders against budget plan (to frozen funds) and to record the obligations (contracts) matched with procurement orders. In respect of this enhancement and rolling out of AGFIS the ex-ante control in the requisition phase is done from 8 additional budgetary entities reaching to 15 entities, which have full access to the system. So the public funds for capital expenditures are used by their approval destination in the project level and it's prevented the new arrears' arising.

- It's not allow undertaking of any new commitment if that exceeds the limit of the budget appropriation.

- In the ex-post phase the unrealized amount of the obligation is reconciled with spending units and is inherited in the next year or the contract is finally closed by the suppliers confirmation. The multiyear commitments are inherited against medium term budget in three years ahead and the rest in the fourth year without checking against the budget plan.

PEFA – "The Public Expenditure and Financial Accountability" ASSESMENT

PEFA's performance measurement framework is the gold standard for assessing PFM performance"

One of the PEFA's seven pillars is "Predictability & Control in budget execution" and "Accounting Reporting"

PEFA has given us a realistic check of how we have been performing and where the areas of PFM improvement remain"
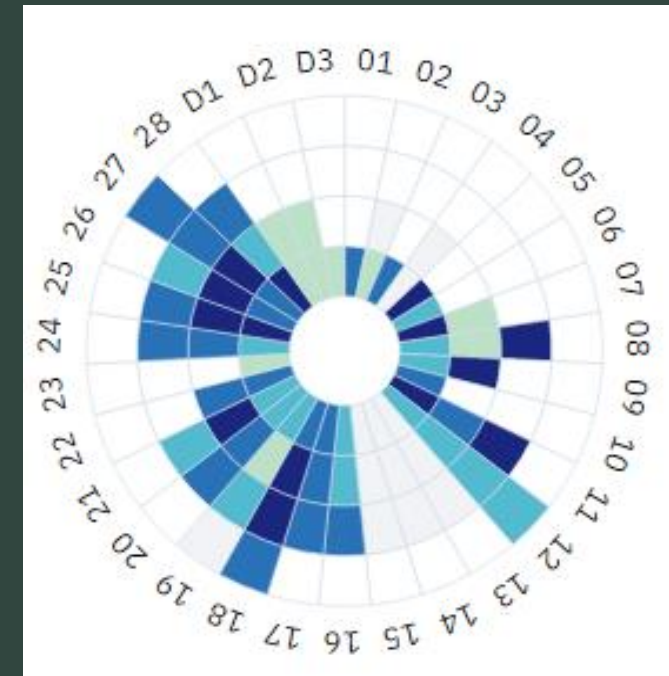
The PEFA report provides a general understanding of PFM performance and aspects of the system in need of improvement and will contribute to the design of the Government Public Finance Management Reform Strategy"

PEFA – "The Public Expenditure and Financial Accountability" ASSESMENT

IV. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION	SCORES BY DIMENSION	OVERALL INDICATOR SCORE
16. PREDICTABILITY IN THE AVAILABILITY OF FUNDS FOR COMMITMENT OF EXPENDITURES		C+
INDICATOR		
16.2 Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitments	C	
16.3 Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	C	
16.1 Extent to which cash flows are forecast and monitored	B	
17. RECORDING AND MANAGEMENT OF CASH BALANCES, DEBT AND GUARANTEES		B
INDICATOR		
17.1 Quality of debt data recording and reporting	B	
17.2 Extent of consolidation of the government's cash balances	B	
17.3 Systems for contracting loans and issuance of guarantees.	B	

PEFA – "The Public Expenditure and Financial Accountability" ASSESMENT

V. ACCOUNTING, RECORDING AND REPORTING

	SCORES BY DIMENSION	OVERALL INDICATOR SCORE

INDICATOR

22. TIMELINESS AND REGULARITY OF ACCOUNTS RECONCILIATION

B

INDICATOR

22.1 Regularity of bank reconciliations — **B**

22.2 Regularity of reconciliation and clearance of suspense accounts and advances. — **B**

25. QUALITY AND TIMELINESS OF ANNUAL FINANCIAL STATEMENTS

B+

INDICATOR

25.1 Completeness of the financial statements — **A**

25.2 Timeliness of submission of the financial statements — **A**

25.3 Accounting standards used — **B**

~~*~*~*~*~*~*~*~*

III.2. Summary of Performance Assessment (August 2024-SECO Project)

Debt Performance Indicator		Score 2023	Score 2010
DPI-10	10.1. Loan Guarantees: Issuance of central government loan guarantees	C	C
	10.2. On-lending: Management of On-lending Operations	C	C
	10.3. Derivatives: The use of Derivatives	N/A	N/A
DPI-11	11.1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	A	C*
	11.2. Effectiveness of cash balance and liquidity management	D	*

- Coordination between debt and cash management takes place mainly through the **Debt and Cash Management Committee** (D&CMC) comprising of the representatives of all stakeholders; established in 2017. The D&CMC meets monthly and is an important information sharing channel (BoA participates as a non-member) – see DPI 11. In 2010 there were not weekly forecasts of overnight cash balances, showing that improvements have been effectively put in place. Considering the granularity and time horizon of cash flow forecasting and monthly monitoring of forecasts, the score is an "**A**". Considering that TSA balances are not remunerated, there is no investment policy for government cash balances, and no formal cash buffer, the score is a "**D**"

- Albania has not conducted any **derivative transactions**, except for currency swaps with BoA. Agreement No. 716/5, dated 20.01.2015 "On liquidity management instruments offered by the Bank of Albania to the Government of Republic of Albania", last amended in June 2022, regulates these transactions. The existing arrangement was created to allow BoA providing foreign currency within the same limit (but not exceeding the annual FX debt maturity).

- The decisions on entering into these derivative transactions are deliberated in the monthly meetings of D&CMC. Transactions are properly documented through correspondences exchange between MoF and BoA and registered at Albania IFMIS according to existing procedures manual.

DeMPA ASSESMENT

Summary of DeMPA findings 2023

There have been recent improvements on cash flow forecasting process, however more attention id required in relation to improving its accuracy, and on cash management.

Monthly cash flow forecasts for 12 months ahead and daily for the upcoming three months are produced, based on budget plans received from spending entities, and historical data. Besides the top-down approach, a pilot with three-line ministries and tax and customs authorities has been implemented to complement the forecast with bottom-up information. While treasury Department has dedicated efforts to periodically assess the accuracy of the forecast and take measures to improve it, forecasting errors do not show a tendency to improve. On the cash management side, cash balances in the TSA (are remunerated for a limited amount) through deposits provided by BoA and a loose cash buffer policy.

Figure 9 - Deviation of fact from cash flow forecast in 2022

Arrears for improvements:

- Daily cash forecasts cover only total aggregated inflows and outflows and do not include detailed revenue and expenditure items by economic classification (top-down approach)
  - Need to improve coverage.
  - Analysis of the deviations should lead to improvements in forecasts, and forecasting errors should be reducing over time.
- There is a cash target balance (buffer) for the TSA defined in the instruction of budget implementation, but i) it doesn't consider debt maturities, ii) it's not respected and may be inefficient.
- There is a limit range of instruments that can be used to manage the cash position of the budget
- Cash balances of TSA are nor remunerated (just the deposits up to the limit)

Strengthens

- A **rolling forecast** of cash flows is available for weeks and days extending three months ahead
- There is a coordination committee (**Debt and Cash Management Committee**) comprising of the representatives of all stakeholders

DeMPA ASSESMENT

DPI 11 - Cash Flow Forecasting and Cash Balance Management

The D&CMC where Treasury acts as secretary, meets monthly and work as a **forum** for sharing information on and evaluation of the forecast and discusses the necessary financing (auction calendars).

Figure 8 - Albania: Cashflow forecast - September-December 2023 (ALL Millions)
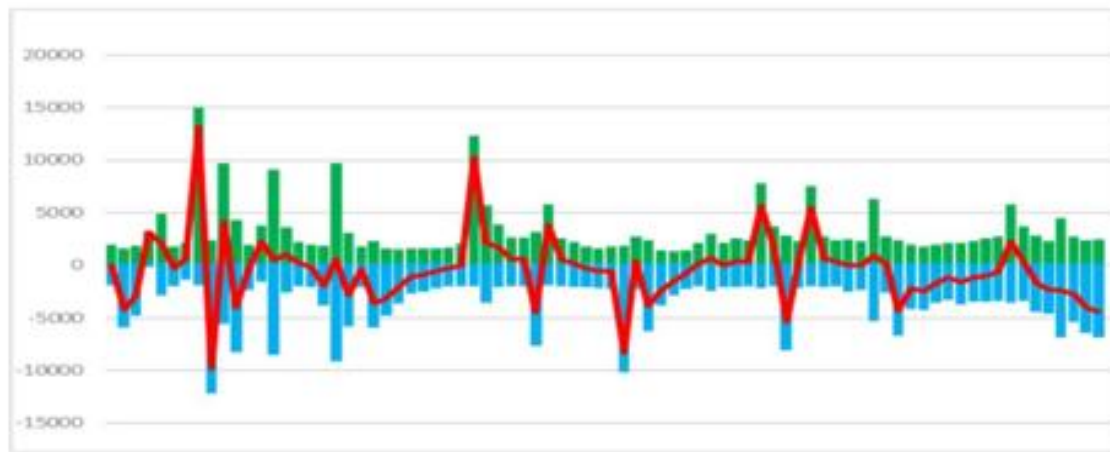
Cash forecasts are **compared with actual** expenditures monthly, and any deviations are analyzed and discussed regularly in the C&DMC monthly meetings. According to the authorities, revenues estimates are highly accurate (above 98%, whereas expenditures are more challenging to estimate due to their volatile nature.).

They also noted that during the analysis period many procurement processes failed or were delayed due to the global rise in raw material prices. As a result, expenses were significantly lower than forecasted from January to November, while a substantial portion of planned expenses occurred in December 2022 and January 2023 to meet annual budget targets.

✳~✳~✳~✳~✳~✳~✳~✳~✳~✳~✳

SIGMA
Creating Change Together

A joint initiative of the OECD and the EU,
principally financed by the EU

Principle 24	The government supports budget implementation and service delivery by ensuring liquidity in the short and medium term.

Summary

Budget preparation in Albania is orderly and benefits from a comprehensive medium-term fiscal framework and budget programme. The programme links fiscal policy to sectorial priorities, and sets expenditure ceilings to guide the annual budget, while establishing clear fiscal rules and targets. However, the **credibility of medium-term forecasts remains low**, resulting in weak links between the medium-term budget programme and the annual budget due to substantial deviations. **The quality of forecasts could be further improved by prioritising fiscal discipline,** with a review by an independent body. Large capital investment decisions generally lack an independent and transparent appraisal of costs and benefits, which is likely to put further strain on the budgeting process in future years.

Liquidity management performs reasonably well, with adequate cash management and cash flow forecasting. Despite the realistic planning of tax revenues and the low cost of tax collection, the effectiveness of the latter is undermined by the high level of tax arrears (42%).

A commitment control system is in place, but it is not fully complied with, as shown by the high number of central government bodies with payment arrears (34%). Persistent problems with the accuracy of data on arrears are also an issue. A debt management strategy has been published but focuses on central government debt with no reporting on the debt of local and state-owned enterprises (SOEs).

The credibility of the annual budget has improved in recent years at the aggregate level, compared to higher deviations in 2018-2019. However, while fiscal targets are set, there are notable deviations between planned and actual debt and deficit figures. **Improved capital expenditure reporting and fiscal risk monitoring are in place,** but SOE reporting remains inadequate. Legislation allows for in-year budget adjustments to reallocate funds between programmes not exceeding 10% of the total funds approved for the programme, but more rigorous rules should be put in place. **Annual financial reporting is timely, but has received a qualified opinion from the State Supreme Audit Institution (SSAI)**, indicating that uncertainties exist related to the Government's financial statements.

Recommendations

1. The Ministry of Finance (MoF) should further develop the medium-term budget as a strategic document, improving the quality of medium-term revenue and expenditure forecasts and ensuring that expenditure ceilings for spending ministries are respected, to enable them to more efficiently implement policies and objectives.

2. The Government should propose the establishment of an independent authority, or the assignment of this function to other mandated authority, to ensure the independent assessment of fiscal policy, thus increasing the credibility of fiscal projections and the sustainability of public finances in the medium term.

3. The MoF should ensure that the debt reporting of SOEs covers all their debt and borrowing, and that regular reporting is enabled, to provide a more comprehensive picture of public debt and mitigate fiscal risks arising from SOEs debt.

4. The MoF should improve the availability and accuracy of data regarding payment arrears, and address the high level of arrears by increasing the effectiveness of and ensuring compliance with the commitment control system.

5. The MoF should make further efforts to complete the accounting reform and ensure that annual financial reporting is done in line with international standards.

ASSESMENT

Indicator 24. Budget implementation and service delivery is supported by cash availability in the short and medium-term	2024 indicator value	60/100
Sub-indicators		Points
1. Efficiency of tax collection		10/10
2. Effectiveness of tax collection		10/20
3. Treasury/cash management		6/10
4. The reliability of financial data is supported regular reconciliation of accounting information		2/5
5. Cash flow management		4/5
6. Commitment controls are established		8/10
7. Management of expenditure arrears		0.3/10
8. Debt management		7/10
9. Government debt risk mitigation		7.1/10
10. Reporting on public debt		6/10

Sub-indicators 3-4-5-6

The **Treasury Single Account** (TSA) has been established and is operational, with daily transfers from entities collecting revenues and consolidating the balances on a daily basis. However, the TSA does not cover all central government budget organisations, with 21 budget organisations, including several ministries and agencies, having an account outside the TSA. The reconciliation of **accounting information** to ensure the reliability of financial data is executed daily through the Albanian Government Financial Information System (AGFIS), and monthly for other entities not operating through AGFIS.

The MoF prepares aggregate **cash-flow forecasts** for each fiscal year based on the monthly expenditure and revenue forecasts provided by the first-level budget organisations. However, the cash-flow forecasts do not include monthly profiles for each of these organisations, broken down into pay, non-pay current, capital and own resources.

Commitment control is executed through the AGFIS. In theory, spending units must register a commitment before a payment can be approved within approved ceilings, and payments above budget ceilings are automatically prevented. However, despite a decrease in recent years, the level of arrears is still substantive (1.9%) indicating weaknesses in the system. Expenditure arrears are monitored by the budget risk unit of the MoF, but the SSAI remains critical of the management of expenditure arrears and the reliability of the data.

The SSAI report has identified deficiencies in the **arrears data** report of the MoF as compared to the data of the Government's financial information system (SIFQ). These are due to limitations in the accounting system.

IMF - Recommendations

Strengthen top-down forecasting through:

Recommendation 1.1

- Continue developing the cash forecasting capacity of the CMU team, cross training members to improve resilience and developing a **practical manual** for team members.

Recommendation 1.2

- Increase the **granularity** of the CMU top down cash flow forecast in order to project and monitor cash flows more effectively.

Recommendation 1.3

- Provide CMU with **a daily tax and custom revenue forecast** at the beginning of the year and update monthly for the remainder of the year using outturns and produce at least one tax and custom update in-year using outturns to date and updated economic data.

Improve bottom-up cash forecasting by:

Recommendation 1.4

Develop an **advance notification** mechanism where BIs give at least 10 working days' notice (though ideally one month's notice) for any change in **timing** or **value** of material forecasted flows and any new flows not previously forecasted, as well as inform CMU when calls on guarantees are increasingly likely.

Recommendation 1.5

Continue working with pilot BIs to encourage greater compliance on providing **rolling three-month daily profile cash forecast returns** on a monthly basis through:

- Increasing their **understanding** as to the purpose of the cash forecasts, the differences to the budget process and developing a proportionate approach to the cash forecast returns.

- Developing a systematic **performance monitoring mechanism** including analysis and KPIs reporting to Cash & Debt Management Committee (CDMC) as appropriate.

- Provide cash outturn figures to compare the forecast and give **performance feedback to pilot BIs within 10 working days** of the end of the month to help improve future performance.

Recommendation 1.6

Invite the largest spending ministries of Ministry of Health and the Ministry of Infrastructure and Energy to the CDMC to inform discussions or **hold a working group/technical** level meeting between these largest ministries and CMU with **a separate working** group/technical level meeting between GDT & Customs to discuss tax outturn and forecast. Use these working group/technical levels meetings to inform the discussions in the CDMC meetings including feeding into **alternative scenarios modelling** upside and downside cash management **risks** presentations to the CDMC and developing solutions to manage pinch points.

IMF - Recommendations

Recommendation 2.1

Start to present to the CDMC the daily cash balance projections in comparison with the **target cash buffer level.**

Recommendation 2.2

Set a buffer policy comprising both **transactions and safety buffer** components based on the thorough analysis of the cash and debt management needs and risks.

Recommendation 2.3

Start to manage the daily cash balances in full compliance with the identified target band.

Recommendation 2.4:

Finalize the negotiation with the BoA for extending the limit on the total stock of **term deposits** and gradually improve the flexibility for the investment of Treasury cash balances by extending further the limits on the term deposits both in terms of **size and maturity**.

Recommendation 2.5:

Establish a plan and issuance strategy for the more active **utilization of 3-month T-bills** for cash management purposes.

IMF

Cash Forecasting		Indicative Timeline
1.1	Continue developing the cash forecasting capacity of the CMU team by: • cross training members to improve resilience; and • developing a practical manual for team members.	June 2024
1.2	Increase the granularity of the CMU top down cashflow forecast in order to project and monitor cash flows more effectively	January 2024
1.3	Provide CMU with a daily tax and custom revenue forecast at the beginning of the year and update monthly for the remainder of the year	January 2024 and onwards
1.4	Develop an advance notification mechanism where BIs give at least 10 working days' notice (though ideally one month's notice) for any change in timing or value of material forecasted flows and any new flows not previously forecasted as well as inform CMU when calls on guarantees are increasingly likely	January 2024 and onwards
1.5	Continue working with pilot BIs to encourage greater compliance on providing rolling three-month daily profile cash forecast returns on a monthly basis through: • increasing their understanding as to the purpose of the cash forecasts, • developing a systematic performance monitoring mechanism including analysis and KPIs reporting to CDMD as appropriate, and • providing cash outturn figures to compare to forecast and give performance feedback to pilot BIs within 10 working days of the end of the month to help improve future performance.	January 2024 and onwards
1.6	Invite the largest spending ministries of Ministry of Health and the Ministry of Infrastructure and Energy to the CDMC to inform discussions or hold a working group/technical level meeting between these largest ministries and CMU with a separate working group/technical level meeting between GDT & Customs to discuss tax outturn and forecast.	January 2024 and onwards

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Cash Balance Management		Indicative Timeline
2.1	Start to present to the CDMC the daily cash balance projections in comparison with the target cash buffer level.	January 2024
2.2	Set a buffer policy comprising both transactions and safety buffer components based on the thorough analysis of the cash and debt management needs and risks.	January 2024
2.3	Start to manage the daily cash balances in full compliance with the identified target band.	Jan 2024 onwards
2.4	Finalize the negotiation with the BoA for extending the limit on the total stock of term deposits and gradually improve the flexibility for the investment of Treasury cash balances by extending further the limits on the term deposits both in terms of size and maturity.	January 2024 and onwards
2.5	Establish a plan and issuance strategy for the more active utilization of 3-month T-bills for cash management purposes.	March 2024