



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 11-Feb-2021 | Report No: PIDC240508



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P176084		Low	Albania Strengthening Quality of Auditing and Reporting Project
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Albania	11-Feb-2021	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Finance and Economy	Ministry of Finance and Economy	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	2.79
Total Financing	2.79
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	2.79
Swiss State Secretariat for Economic Affairs	2.79

B. Introduction and Context

Country Context

- Over the past two decades, Albania has experienced strong growth while mitigating macro-financial vulnerabilities that emerged after the Euro-area crisis.** At the same time, per capita income remains at only a quarter of the EU average. Growth has been driven by domestic consumption, fuelled mostly by remittances, and domestic sources such as, strong growth in credit (till 2012) and the expanding fiscal deficit. The eurozone crisis slammed the brakes on Albania’s economic expansion. GDP growth declined to around 1.4 percent by 2013. Exacerbated by Albania’s close links to poorly performing



Greek and Italian economies, Albania's export volumes, remittances, and financial flows diminished. Following several years of measures to re-establish macro-financial stability, growth accelerated in 2018 to 4.1 percent, helped by electricity energy exports and tourism growth. However, growth is estimated at only 2.2% in 2019 affected also by the severe earthquake of November 2019. The COVID-19 situation is pushing all western Balkan Countries into recessions, with baseline scenario putting the expected GDP growth in Albania to a negative -5 percent.[1]

- 2. Despite recent reforms in the business regulatory framework, Albania still has further progress to make to modernize and improve its business environment and to ensure a proper enforcement of the improved regulatory framework.** The Government of Albania (GOA) has taken some measures to improve the overall business climate in the country by streamlining business procedures through e-government reforms and by undertaking comprehensive structural reforms to both improve relevant legislation in a variety of sectors and lower the fiscal burden on companies. In addition, the GOA aims to strengthen the quality of and increase confidence in corporate financial reporting, as well as to ensure the reliability of financial information provided by corporate entities, including state-owned enterprises. The commitment of the GOA towards EU accession is also an important driving force for enhancing corporate financial reporting and proper enforcement at various levels by all related parties. The development of confidence in corporate financial reporting has an important role in underpinning business confidence and is integral to achieving growth and developing the Albanian economy. It is a critical factor in supporting efforts to increase foreign direct investment (FDI) in Albania.

[1] Source: Western Balkans Regular Economic Report: Spring 2020:

<https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

Sectoral and Institutional Context

The 2019 WB Accounting and Auditing Report on Observance of Standards and Codes (A&A ROSC) update confirmed that Albania has made good progress in improving corporate financial reporting; however, it noted that further efforts are needed. The 2019 A&A ROSC Update noted that GOA should continue to work to close the gaps and converge its corporate financial reporting statutory framework closer with the EU's *acquis communautaire* relating to company law, financial reporting, auditing, financial market, and financial institutions. Based on the 2019 A&A ROSC recommendations[1] the Country strategy and Action plan (CAP) was revised in 2020 to include an extended reform agenda until 2023, setting out an updated strategy and action plan with a clear program of further reforms to enhance Albania's legal framework in line with *EU acquis*, institutions, accounting and audit profession, and the CFR in general (Annex E). The first CAP approved by the government in 2009 to Enhance Corporate Financial Reporting was conceived as a three-phase approach extended during a 10-year period. It was based on the recommendations of 2006 A&A ROSC[2] and its three phases included actions along three pillars: (i) Enhancing the Institutional Framework; (ii) Strengthening of the Institutional Capacity, and (iii) Raising Awareness on CFR. The Government of



Albania has implemented the first CAP and positively advanced CFR through the support of two Swiss State Secretariat for Economic Affairs (SECO) funded technical assistance projects, the Corporate Financial Reporting Enhancement Project (CFREP, P125591, 2011 – 2014), and Enhancing the Quality of Financial Reporting Project (EQFINREP, P152567, 2015-2019). Key results achieved under previous two projects are presented in Annex C.

Reform implementation in Albania is bringing important transformations throughout the CFR ecosystem, to the benefit of economic growth, financial stability and taxation. The key reform results achieved during 2011-2019 are: (i) Strengthened legal framework in line with EU *acquis* (audit law amendments, new draft law on Accounting); (ii) Enhanced capacities of National Accounting Council (NAC) to set standards and strengthened capacities of accountants to prepare better quality financial statements; (iii) Strengthened the Audit quality by improving the Audit Oversight System and raising capacities of the auditors and Public Oversight Board (POB); (iv) Enhanced transparency by improving filing and publication of financial statements; (v) Strengthened financial regulators capacities on IFRS and dealing with Audit Quality; (vi) Raised financial reporting understanding of tax inspectors & better reconciliation.

While CFREP and EQ FINREP covered a lot of ground and secured important results, important issues and priorities remain to be tackled and reforms initiated need to be advanced further in order to more fully achieve and sustain results. In order to address these issues and priorities the updated CAP explores several areas of attention:

- **Statutory framework:** While Albania has made good progress in developing the statutory framework for corporate financial reporting in recent years with amendment of the Audit Law in 2016 and enactment of the new Accounting Law in 2018, the GOA intends to continue to work to close the gap and fully converge its corporate financial reporting statutory framework with the EU legislation; this is generally a moving target as EU legislation is being permanently modernized, the priority of the Government is to be able to comply with the legislation in substance by the time of negotiations with the EU. The proposed project will continue assist the Government in the legislation convergence and build sustainable capacity for this process to continue when needed after the project completion;
- **Targeted Guidelines and Training:** New developments in the Albanian economy have highlighted the need to develop accounting guidelines and training addressing the requirements of specific industries, including SOEs and financial sector entities;
- **Research and Monitoring Capacity:** The National Accounting Council has established a technical capacity in producing financial reporting standards but does not retain capacity for researching market developments, monitoring the quality of application of required financial reporting standards and identifying existing gaps in financial reporting standards and in the capacity of the accounting profession to comply with them;
- **Accounting Profession:** The accounting profession in Albania has progressed but it is not yet in a position to secure critical mass of qualified accountants and deliver all services required and accommodate all needs of members. The creation of organisational capacities, training programmes and teaching materials are crucial for professional accounting organisations to be able to deliver high quality knowledge transfer and methodological guidance to their membership;



- **Oversight and Quality Assurance:** The Public Oversight Board has progressed terms of institutional and organisational maturity performing inspections for quality assurance of statutory audit, oversight of certification process of accountants, and oversight of accountancy organisations. More work is needed to establish discipline and investigation processes and procedures and to consolidate strong, transparent practices in this regard. Further assistance is needed to advance the program of quality assurance inspections, to set up internal procedures for facilitating the cooperation with other relevant national authorities and for improving institutional arrangements related to quality assurance review and the statutory auditor registration process;
- **Accounting Education:** Examination of theoretical knowledge needs further enhancement including aligning entry requirements with IES of IESBA; there is a need for improvement in the quality of teaching materials, transfer knowledge to strengthen education activities of professional accountancy organizations (PAOs), and enhance the quality of examinations from preparation of the exam papers to examination integrity and marking. Also, monitoring and recording of certified accountant candidates' fulfillment of professional experience requirements should be strengthened. An integrated support should be provided to POB and other relevant stakeholders to support the above;
- **Filing and publication of financial statements:** Support for initial steps in further improvement of public availability of financial statements through eXtensible Business reporting Language (XBRL) are needed;
- **Developing the market for export/outsourcing of accounting services:** Export of accounting services can be explored and facilitated by government, as a good employment opportunity. The profession could be supported to develop new skills in demand from international markets. Support in developing high quality training programs in IFRS and financial reporting with a focus on the industries open to outsourcing would be a sustainable instrument for building a stronger financial reporting capability in Albania;
- **Building capacity of judiciary system in financial reporting and auditing and forensic accounting:** Training for the Judiciary & Independent Financial Experts can enhance the capability of judges and independent financial experts in relation to CFR. There has been no significant input to develop the capacities of judges, prosecutors and officials of the judicial police. Their knowledge of accounting and financial reporting remains to be limited. A similar situation applies in relation to accounting and financial experts, who may be required to provide expert services to courts in terms of economic damages calculations, breach of contract, post-acquisition disputes such as earn-outs or breaches of warranties, bankruptcy, insolvency, and reorganization, securities fraud, tax fraud, money laundering, business valuation, as well as in cases of corporate scandals. The development of forensic accounting skills may be the most effective and efficient way to reduce and prevent accounting fraud and to assist the judicial system to improve its efficiency and effectiveness;
- **Further advance public awareness and understanding of sound financial reporting system:** There is a need for a strong public awareness program that would increase public demand for good CFR. Part of this raising of public awareness includes addressing key opinion formers covering the requirements of statutory audits and the advantages of compliance with rules and standards;
- **Building financial reporting capacity in the SOEs sector:** The SOE sector poses significant fiscal risks on the government, as it receives considerable direct budget subsidies, guaranteed debt, and budget



support in the form of loans for financing of investment projects and coverage of negative operating cash flows, as well as various forms of indirect support, that generate significant direct and contingent liabilities to the budget. Nonetheless, as mentioned in the recent World Bank analytical report,[3] existing SOE monitoring at the government level is insufficiently developed and audit and financial reporting capacities and practices at the company level, especially the smaller ones, are very weak. The government needs to improve the formal monitoring framework for state-owned enterprises. Capacity building is required to establish an effective SOE monitoring framework across the governmental units. Currently, the financial performance is not monitored in an effective and systematic manner.

The design of the proposed project reflects lessons learned from the previous two SECO funded projects and reinforces and sustains the achievements of 2020 updated CAP, thus contributing to the sustainability of the CFR ecosystem in Albania. The recommendations of an external evaluation (see Annex B for details) of the 2011-2019 CFR reform in Albania supported by CFREP and EQFINREP were considered in designing this project. The following lessons, as identified by the project team and an external evaluator have been incorporated into the design of the proposed project:

scope of reform

- ambitious reforms require a concerted shift in thinking;
- the availability of the ROSC and the CAP as authoritative reference documents for the CFR reforms has helped with the design of a successful approach to reform;

local stakeholders' involvement

- building wide support among all stakeholders is important; fostering strong relationship with local stakeholders representing various institutions, and encouraging their ownership of reform ensures maximum results;
- earlier engagement of beneficiaries, during the planning phase, accelerates preparation of the project activities and implementation;

implementation arrangements

- assistance must be targeted to achieve clearly defined results framework, including intermediary project outcomes;
- implementation time-frame must enable sufficient time to deliver sound project outcomes;
- being a cross-cutting theme, corporate financial reporting reform, provides good opportunities to leverage Banks' and other development partners' intervention in various areas;
- the division of the reform actions into components of a suitable size is a key contributor to effectiveness;
- the effectiveness of knowledge transfer (training) is enhanced when it is combined with technical assistance (templates, manuals, methodologies, new technologies);

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- the opportunity to train mixed groups of stakeholders can provide synergy through enhanced communication and networking among the participant groups reached;

risks

- recipient managed and beneficiary led actions are the optimal approach to secure the necessary commitment, address the risks and support from the political decision makers and from the beneficiaries;

monitoring and evaluation

- the World Bank presence is critical to provide the needed implementation support and policy advice due to experience of a specialized unit, the World Bank Centre for Financial Reporting Reform (CFRR)[4] and strong global knowledge on the basis of A&A ROSC program;
- national projects need adequate management and coordination structures, as well as clear written procedures about communication, reporting, and other responsibilities in support of project implementation;
- all activities and results aimed at creating sustainable mechanisms and institutions that can continue properly functioning after the assistance are completed.

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[1] <https://cfrr.worldbank.org/sites/default/files/2020-02/P169348%20Albania%20ROSC%20AA%20-%20Final%20for%20publication%20ENG%20%28clean%20-%20SECO%29.pdf>

[2] https://cfrr.worldbank.org/sites/default/files/2019-10/385950ENGLISH01er0ROSC1A1A01PUBLIC1_0.pdf

[3] World Bank Technical Assistance Report Recommendations for Monitoring of State-Owned Enterprises, April 2019

[4] <https://cfrr.worldbank.org/>

Relationship to CPF

The proposed project is in line with the 2015-2020 Country Partnership Framework (CPF) objectives,[1] and the priorities of the 2019 Update to the Systematic Country Diagnostic (SCD).[2] The CPF for 2015-20 supports Albania’s aspirations to achieve equitable growth and integration into the European Union. Its three key focus areas are (i) restoring macroeconomic balances, (ii) creating conditions of accelerated private sector growth and (iii) strengthening public sector management and service delivery. The proposed project supports focus area 2a “Establish a high-quality business environment to spur growth and jobs”. The proposed project is in line with the “Fostering Competitive Markets” priority area of the 2019 SCD update,



where low quality of the financial statements is mentioned as a factor holding back development of micro, small and medium enterprises.

[1] World Bank Group. 2015. Country Partnership Framework for Albania 2015-2019. World Bank, Tirana. © World Bank. <https://openknowledge.worldbank.org/handle/10986/23126> License: CC BY 3.0 IGO.

[2] P163666

C. Project Development Objective(s)

Proposed Development Objective(s)

The development objective of the proposed project is to strengthen the government and relevant stakeholder's capacity to improve, apply and enforce corporate financial reporting in line with good international standards and practices.

Key Results

Specifically, the project's expected results are:

1. Staff at NAC and POB are better and adequately equipped with knowledge and tools, including e-tools where applicable, and able to satisfactorily perform their duties required by the new legislation and EU standards and practices in the area of standards setting, monitoring and audit oversight.
2. The Albanian accountancy profession is better equipped to compete internationally in exporting accountancy services.
3. Capacities of justice sector stakeholders to manage CFR related cases is strengthened.
4. Accountability, controls and transparency of SOEs' operations are improved and SOEs' financial performance is better monitored.
5. Key actors involved in Albania's CFR ecosystem are able to continue reforms on sustainable basis after 2025.

In the longer-term, private and State-owned enterprises in Albania will benefit from an improved business environment, access to finance and better economic decisions due to higher transparency and high quality Corporate Financial Reporting following international standards and practices. In addition, it is expected that capacity building and training activities will involve 50% and more of women.[1] For instance, in the EQFINREP project, under the large training activity, out of 1013 participants that got certificates, 652 or 64.36%, were females.



[1] Specific gender issues are analyzed in all project components; a gender survey will be conducted, and recommendations implemented.

D. Preliminary Description

Activities/Components

- 1. Recipient Executed Activities (Euro 1.5 million including the applicable WB fee):** The RE activities are crucial to support the country systems, strengthen local capacity and promote country ownership of reform agendas. A number of stakeholders will be responsible for overall project management (the MoFE and its General Directorate for Financing and Contracting [GDFC], as well as Reform Implementation Group [RIG]). Some stakeholders have already been involved in phase I and phase II: the NAC, the POB, the Institute of Authorized Chartered Auditors of Albania (IEKA), as well as leading accountancy education institutions and professional associations. The proposed project will also have new stakeholders from the judiciary sector, i.e. Albanian Courts [District, Appeal, Supreme/High], the Administrative Court both District and Appeal, the General Prosecutor Office, officers of judicial police. Institutions have sufficient human resources to engage in the project implementation. Workshops and seminars will be supported under the proposed project to broaden the understanding of best practice settings and other countries.

Component 1: Strengthening Standards Setting, Oversight and Enforcement

1. The component 1 will focus on:
 - support for the standard setter and oversight of the accountancy profession, i.e. National Accounting Council and Public Oversight Board. It will provide support to NAC to develop and implement a risk based Financial Statements monitoring methodology. The Public Oversight Board will be supported to: further improve quality assurance inspections; improve its investigations and disciplinary action taking capacities; improve the system of monitoring the capacity of the professional accountancy organisations to deliver quality continuing professional development program for their membership. Where applicable and practical, implementation of e-tools and increase the use of technology will be supported by project activities;
 - Provision of IFRS training for Bank of Albania and Financial Supervisory Authority. The training will cover all relevant areas including prudential reporting based on IFRS, loan impairment and calculation of provisions in line with relevant standards for financial instruments, and building capacity for enforcement of financial reporting requirements of regulated entities and use of e-tool to review IFRS financial statements;
 - Support to further improve public availability of financial statements through feasibility assessment regarding eXtensible Business reporting Language (XBRL). From 1 January 2020 on, EU law requires companies to report their financial statements in the European Single Electronic Format (ESEF). This harmonised format makes reports (in XBRL format[1]) machine-readable. The EU relevant legal act is Regulation 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European



Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format. Local stakeholders will undertake initial steps for exploring XBRL as a new platform for IFRS based Financial Statements; this will involve the National Registration Centre, AFSA and BoA.

The proposed activities under Component 1 have an intervention logic based on results of earlier interventions through CFREP and EQFIREP and the activities are a logical continuation of previous reform and assistance efforts. In addition, increasing the capacity of accountancy, audit and financial regulators to monitor and enforce the application of IFRS will be considered through a combination of training and TA on financial statements review techniques. Use of technology, online tools and other specific software will help authorities and the profession to better accommodate in situations similar to COVID-19 pandemic.

All involved stakeholders would need to ensure that each main activity line foresees sustainability arrangements for continuation or repeating of activities as necessary after the project-end in 2025.

1. Proposed activities will include:

- TA and support for NAC to develop and apply a risk based financial statements monitoring methodology; implementation of an online tool to review IFRS financial statements will be considered and expanded to other regulators, such as FSA and BOA;
- TA and support for NAC in establishing a specialized structure within the institution, designing tasks, responsibilities and internal regulations and creation of a communication model between NAC and education organizations, which enables quick updates of accounting curricula to respond to market needs and triggers training programs for accountants;
- Provide capacity building (on-site) to NAC's staff on objectives, methodologies and research policies;
- Knowledge exchange activities and support knowledge transfer to NAC from other standard setting bodies, aiming also improving NAC ability to respond and accommodate market needs;
- TA and support for POB to develop and implement an efficient system of investigation and discipline including a review of existing regulations and manuals in place and propose improvements where necessary;
- Provision of on-job training and delivering QA inspections and supporting the follow-up phases and disciplinary procedures; support will also be provided to enhance capacity of POB to apply software that is widely used by audit oversight authorities around the world;
- TA and support for POB in development and enforcement of methodology to monitor QA of IEKA, including use of on-line tools;
- TA and support for POB to establish a system of monitoring the continuing professional development (CPD) program run by accounting professional organizations, including use of technology for CPD monitoring;
- Deliver IFRS training and financial reporting requirements enforcement to BOA and AFSA, covering aspects on use online tool to review IFRS financial statements;[2]



- Carry a feasibility study regarding XBRL as a new platform for IFRS based Financial Statements, including detailed analysis regarding the requirements for the new system based on XBRL.

Some activities under this component will potentially be implemented with Swiss or other partner organisations of audit oversight.

Component 2: Improving capacity to comply, Development of accountancy services and Public Awareness

1. The component 2 will focus on:

- Implementation of improvements in examination processes. The operation of effective examination requires processes that are in line with good international practice covering entry requirements, learning materials, syllabi relationship with competencies, examination development, examination integrity, examination transparency and monitoring arrangements and overall examination governance. Examinations are critical part of oversight focus and it is a continuation of the work started in the previous projects. CFREP and EQFinREP delivered a lot of activities on training and building capacity for the content of professional qualifications. The proposed activity aims to bring it to the next level by improving testing and examination capacity at the Examination Commission operated by the POB. In addition, use of technology and implementation of e-testing will help POB and the profession to better accommodate in situations similar to COVID-19 pandemic.
- Supporting the accounting profession to increase knowledge, know-how and capability in areas that provide the opportunity to export accounting services internationally, to the benefit of the profession and the economy. Key stakeholders are the Institute of Certified Accountants (IKM) and the Ministry of Finance and Economy.
- Carrying a public awareness campaign on the impact of good Corporate Financial Reporting, the importance of integrity, objectivity and competence, and the benefits for and impact on the formal and informal economy and on the importance of audit quality and the audit committee role. A gender survey will also be conducted. This will help to increase the public demand for good corporate financial reporting. Assistance will be offered to reach various stakeholder groups to inform and make ware on various aspects of corporate financial reporting. Key stakeholders are the business community, Reform Implementation Group, POB, MoFE.

1. Proposed activities will include:

- TA to support improvements in the examination process along all its sub processes and critical control points;
- Preparation of a manual covering the examination quality control processes including for security and integrity, and implementation of an e-examination system that can facilitate secure e-testing as part of future examination processes;
- Building on new syllabi for professional certification prepared under EQFINREP support, review and upgrade of learning program and preparation and delivery of a bank of questions and answers, and



provision and implementation of a system comprising secure examination question and answer inventories;

- Delivery of training to examiners and moderators (as identified by POB), including implementation and training on extensive use of technology and e-tools;
- Carry out research and assess the feasibility of exporting accounting services including a gap analysis of accounting skills regarding the standards of quality required for providing services internationally;
- Design a tailored training program based on the finding of the research covering services, expertise models, technology and markets, and support Institute of Certified Accountants (IKM) in delivery of training programme based on the findings of the research covering services, expertise models, technology and markets;
- Carry out a few pilot market testing and promotion visits and events in various countries;
- Identify opinion formers from the business community and deliver awareness events;
- Hold public promotion activities to raise public awareness on good corporate financial reporting and on the integrity, objectivity, competence, and professionalism of auditors and key stakeholders. The activity will also cover the importance of audit quality and the audit committee role.

The proposed activities under Component 2 have an intervention logic based on results of earlier interventions through CFREP and EQFIREP and this component is partially a logical continuation of previous efforts (examination system and public awareness), and partially involves new activities such as exploring export of accountancy services.

All involved stakeholders would need to ensure that each main activity line foresees sustainability arrangements for continuation or repeating of activities as necessary after the project-end in 2025.

Component 3: Strengthening accountancy profession and building capacity in the judicial system

1. Component 3 will focus on:

- Supporting a program of training to assist judges, prosecutors and judicial actors which will form an on-going part of their CPD training. This component will finance technical assistance to support training and supply of an e-learning system to support various stakeholders of the judicial system in order to enhance their understanding of accounting techniques, accounting legislation and accounting standards. Stakeholders for this component will include Albanian Courts [District, Appeal, Supreme/High], the Administrative Court both District and Appeal, the General Prosecutor Office, officers of judicial police.
- Support the accounting profession in establishing forensic accounting as a separate specialist service area for accounting organizations in Albania. Develop curricula, entry requirements, training materials, teaching schedule and other organisational aspects. Organise and implement a training program for accountants to increase theoretical knowledge and technical skills in forensic accounting



covering a wide and complex range of topics and themes. Stakeholders include the professional accounting and audit organisations. The proposed activity is designed considering the external evaluator's recommendations (see annex B).

1. Proposed activities will include:[3]

- Assessment report for calibration of needs, including review of court decisions and prosecutors office practices, identification and elaboration of international case studies;
- Preparation of case reference guide and a terminology guide;
- Preparation of a training programme including training materials on accounting techniques. Includes an initial acceleration workshop with target groups to plan training and initiate strategies within target groups regarding identification and selection of trainers to take things forward within the context of a train the trainer approach and to elaborate how an e-Learning system will feed into the consultant's approach;
- Delivery of training of trainer approach utilizing trainers selected from all institutions;
- Establishment of a functional e-learning environment as part of this support and all training materials uploaded on to an e-learning system supplied by the consultant. The system will enable an interactive communication between trainers and interested officials of all courts of law, attorneys and judicial police;
- Develop the forensic accounting certificate program (with a duration of 2-3 months) including development of curricula, entry requirements, training materials, teaching schedules and other organisation aspects;
- Deliver the forensic accounting training program.

The school of magistrate will be the main partner for capacity building activities for the justice system. All involved stakeholders would need to ensure that each main activity line foresees sustainability arrangements for continuation or repeating of activities as necessary after the project-end in 2025.

Component 4: Project management, strengthening reform capacity, and monitoring and evaluation

1. The component 4 will include activities related to project management, including the overall reform management and coordination, and project related fiduciary activities (procurement and financial management), as well as monitoring and evaluation (M&E) activities which would ensure the long-term sustainability of the reform results. It will provide quality assurance and monitor progress in implementation of the reform activities supported under the proposed project. This component will facilitate consideration of any further continuous reform steps that need to be undertaken by country institutions after project implementation. During all project life, the MoFE in collaboration with other stakeholders will work to ensure that each organisation prepares a sustainability plan on institutional development and maintaining efforts for improving quality of corporate financial reporting. An exit situation review of the CFR system will be completed towards the end of the project. This review will take account of any new developments and initiatives in relation to corporate financial reporting and make recommendations to be taken forward at national governmental level to address any gaps that



may apply at that time. The key beneficiaries of this component will be MoFE, National Steering Committee members. This component also contributes to the realization of all other components.

2. **World Bank executed activities: (Euro 0.8 million):** The Bank-executed activities will support the recipient executed components and include a heightened role of the WB team in providing implementation support and limited knowledge-related activities. These activities include providing policy advice to the beneficiaries, providing support and capacity building activities on improving monitoring of SOEs' financial performance; reviewing the project outputs and offering guidance and support on a needs basis. The planned activities are grouped into 2 sub-components as follows:

Sub-component 1: Support on improving SOEs financial reporting practices and monitoring of financial performance

This sub-component will provide support for the development of financial reporting practices in the SOEs and monitoring of financial performance by those charged with oversight, including:

- development of a methodology to monitoring SOE's financial performance, to be implemented by MoFE and MoIE;
- development of benchmark accounting guidelines and template financial statements for those SOEs that apply national accounting standards;
- TA and capacity building for SOE's, MoFE and MoIE relevant staff and management on applicable accounting and financial reporting framework (NAS and IFRS) and issues related to governance, financial accountability, controls and transparency.

The successful implementation of this specific action is based on the assumption that the government and stakeholders will support the implementation of the activity, the counterparts will provide adequate support, the support staff will have relevant and adequate experience and the support will be sustained and ongoing until tasks are completed. Key stakeholders include SOEs (central government owned), Ministry of Finance and Economy (MoFE), Ministry of Energy and Infrastructure (MoEI), POB, NAC, government training agencies and PAOs. All entities will be targeted for the proposed training programs, while targets for monitoring capacity will be central government institutions: 9 - SOEs owned by Central Government – subject to IFRS application; 24 – SOEs owned by Central Government – subject to NAS application (some of these are managing property/ assets inherited from old enterprises earning rental income); 8 – SOEs owned by Local governments – subject to NAS application; and 57 – SOEs (water utilities owned by Local government) but also monitored at the Central Government level – subject to NAS application.

Specifically, proposed activities will include:

- TA to support development of methodologies and tools, and provide capacity building to MoFE and MoIE to review, interpret and analyse SOEs', interim and annual financial statements, audit reports and recommendation letters;



- Development of a template accounting policy and model general purpose financial statements as a benchmark for those SOEs that apply NAS[4] taking account of the sector, size, structure, ownership and accountability arrangements;
- Design and delivery of a comprehensive training program for SOE's management and MoFE's and MoIE's relevant staff in cooperation with a national training agency, on financial monitoring, control environment, transparency and disclosure building on the (SOE) Leadership Training Toolkit;
- Delivery of a comprehensive training programme on NAS and IFRS based accounting and financial reporting for the SOEs' accountants and finance staff and nominated staff from MoFE and MoIE.

Sub-component 2: Supervision and implementation support. It will include following activities:

- project design and preparation in coordination with the GOA and donor;
- project management and administration at the trustee level, including organizing and participating in steering committee meetings and preparing progress reports for the donor;
- implementation support for all project components, including assisting beneficiaries in defining the scope of recipient executed activities and during activities execution, reviewing draft TORs for hiring consultants and technical specifications where required;
- providing strategic advice on international practices, including revision of quality of deliverables;
- provide policy advice on emerging areas of CFR reforms, including good international practices and further alignment of Albanian corporate financial reporting legislation with the EU *acquis*;

undertaking external evaluation and preparing the implementation completion and results report.

[1] ESEF IFRS consolidated financial reports must be prepared in eXtensible Business reporting Language (XBRL). XBRL is the open, international standard for digital business reporting. Free of license fees, the computer-based language enables the electronic communication of structured business data by providing a machine-readable tag.

[2] This project complements well with other World Bank projects providing TA to the AFSA. Project (P171065) is supporting AFSA to enhance its insurance supervision capacities while project P171066) is supporting the institution to strengthen its capital markets supervision capacities. The IFRS related activities planned under SQARP will support AFSA to strengthen its oversight on market subjects therefore contributing to the efficiency of AFSA in carrying it legal mandate.

[3] These activities will collaborate and coordinate with the IFC project funded by SECO in Albania, Debt Resolution and Business Exit (ID: 599428), which aims to facilitate the restructuring and reorganization of viable firms in financial distress, thus preserving viable businesses as a going concern and efficiently returning assets of unviable businesses back into productive use through a prompt and efficient liquidation. The scope of the Project included enhancing the knowledge, through a series of trainings, of magistrates, judges, prosecutors and bankruptcy administrators on the new Law on Bankruptcy and relevant bylaws and



regulations as well as drafting guidelines for the implementation of the National Bankruptcy Estate Administration Standards as well as drafting regulation on the Presentation of Accounts and Final Discharge of the Insolvency Representative. Training of judges and court experts on key accounting principles and techniques will be complementing the work done by the DRBE team.

[4] Article 5 of the Accounting Law requires application of the IFRS for large SOEs that exceeds two out of the following: (i) Reported total assets is above lek 750 million, (ii) total revenue above lek 1.5 billion; or (iii) Number of employees 250. Otherwise National Accounting Standards are applied.

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Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts
Environmental Risk Rating Low The project aims to strengthen capacities of GOA's government institutions, regulators, judicial system, and the accountancy profession in ensuring continuous improvement, application



and enforcement of corporate financial reporting framework. There are no activities that have an associated environmental impact or risk at this point in project preparation. The proposed environmental risk level for the project therefore is low. Social Risk Rating Low The project aims to strengthen capacities of GOA's government institutions, regulators, judicial system, and the accountancy profession in ensuring continuous improvement, application and enforcement of corporate financial reporting framework. There are no activities that have an associated adverse social impact or risk at this stage of project preparation. The proposed social risk level for the project therefore is low.

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