

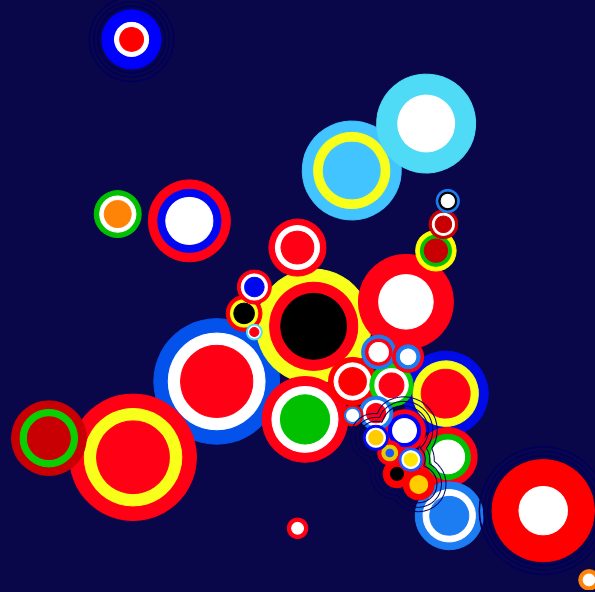


## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

### ALBANIA

#### Sector Reform Contract for Public Finance Management

ensure



#### Action Summary

Support to public finance management (PFM) reforms in order to ensure fiscal discipline, more prudent financial management towards efficient public service delivery.

Some of the expected results are: realistic formulation of the medium-term budget program; enhanced controls on multi-year financial commitments; strengthened fiscal cash registration; strengthened public procurement review function; effective internal control system including functional anti-fraud and anti-corruption mechanisms; strengthened oversight of the budget by the parliament and the external audit institution; greater transparency of the budgetary process *vis-à-vis* civil society organizations and the public opinion.

With a solid PFM system, Albania will be able to properly face EU macro-economic surveillance mechanisms and benefit from EU budget support in other key sectors relevant for the pre-accession agenda during the 2014-20 financial framework.

<b>Action Identification</b>	
<b>Programme Title</b>	IPA 2014 Action Programme for Albania
<b>Action Title</b>	Sector Reform Contract (SCR) for Public Finance Management (PFM)
<b>Action Reference</b>	IPA2014/032813.01 /AL/Sector Reform Contract for Public Finance Management
<b>Sector Information</b>	
<b>ELARG Sectors</b>	Democracy and governance
<b>DAC Sector</b>	15111 - Public Finance Management
<b>Budget</b>	
<b>Total cost (VAT excluded)<sup>1</sup></b>	EUR 42 million
<b>EU contribution</b>	EUR 42 million (40 million for budget support and 2 million for technical assistance)
<b>Management and Implementation</b>	
<b>Method of implementation</b>	Direct management
<b>EU Delegation in charge</b>	Albania
<b>Implementation responsibilities</b>	Ministry of Finance (MoF) Deputy Minister Erjon Luci Email: <a href="mailto:Erjon.Luci@financa.gov.al">Erjon.Luci@financa.gov.al</a>
<b>Location</b>	
<b>Zone benefiting from the action</b>	Albania
<b>Specific implementation area(s)</b>	n/a
<b>Timeline</b>	
<b>Deadline for conclusion of the Financing Agreement</b>	At the latest by 31 December 2015
<b>Contracting deadline</b>	2 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation
<b>End of operational implementation period</b>	5 years following the date of conclusion of the Financing Agreement

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1 The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

## **LIST OF ACRONYMS:**

AGFIS – Automated Government Financial Information System - Treasury System of the Albanian Government

CHU FMC: Central Harmonization Unit for Financial Management and Control of the Ministry of Finance

CHU IA: Central Harmonization Unit for Internal Audit of the Ministry of Finance

CIT: Corporate Income Tax

DG ECFIN: Directorate General for Economic and Financial Affairs of the European Commission

ECOFIN: Economic and Financial Affairs Council of the European Union

ESA 2010: European System of Accounts

GDT: General Department of Taxes of the Ministry of Finance

GFS 2001: Government Finance Statistics

HIDAACI: High Inspectorate for Declaration and Audit of Assets and Prevention of Conflict of Interest

HSC: High State Control / Supreme Audit Institution

IMF: International Monetary Fund

INTOSAI: International Organization for Supreme Audit Institutions

IPS: Integrated Planning System of the Albanian Government

ISSAI: International Standards for Supreme Audit Institutions

MoF: Ministry of Finance

MTBP: Medium Term Budget Program

NIPAC: National IPA Coordinator – Minister of European Integration

NSDI: National Strategy for Development and Integration

OBI: Open Budget Index of the International Budget Partnership

PAF: Performance Assessment Framework

PAR: Public Administration Reform

PEFA: Public Expenditure and Financial Accountability program

PFM: Public Finance Management

PIFC: Public Internal Financial Control

PIT: Personal Income Tax

PP: Public Procurement

PPC: Public Procurement Commission

SIGMA: Support for Improvement in Governance and Management – EU-OECD joint initiative for public administration reforms

SRC: Sector Reform Contract

SWG: Sector Working Group

WB: World Bank

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Albania needs to address shortcomings in its PFM system, which has led to a surge in the public debt-to-GDP ratio from 54.7% in 2008 to 70.2% in 2013 and to a significant accumulation of budget arrears due to unpaid bills from Government's contractors, as well as unpaid obligations stemming from VAT refunds, disability benefits and pending liabilities with state-owned energy companies. The overall stock of arrears is close to a global amount of over EUR 500 million, equivalent to 5.3 % of the GDP<sup>2</sup>. The **accumulation of arrears** is undermining public confidence in the Government's fiscal policy and its ability to meet its future payment obligations. It is also contributing to the build-up of non-performing loans in the banking system. Indeed, the Government's failure to respect contractual obligations produces spill-over effects for productive firms and their capacity to honour credit liabilities with the banking sector.

The **shortcomings of the current PFM system** include, among others: over-optimistic public revenue forecasting coupled with lack of appropriate fiscal adjustment measures and controls leading to accumulation of arrears, non-operational medium-term budget planning; lack of statistical systems to monitor public expenditure outputs and outcomes (problem compounded by the lack of underlying sector strategies and action plans based on realistic cost analysis); inadequate treasury functions limiting cash management and budget execution; weak internal control systems and limited supervision by the external audit institution; weak performance of the tax administration<sup>3</sup> against a background of a considerable informal economy and significant tax evasion.

With the economy in a weak cyclical position and with little room for further fiscal or monetary stimulus, Albania has turned to the IMF and World Bank and secured support for a bold arrears clearance programme that aims at a front-loaded repayment of these obligations, worth 5.3% of GDP, over 2014-2016. In February 2014 the IMF approved a 3-year loan of EUR 330 million under the Extended Fund Facility arrangement while two WB development policy loans, with a combined amount of USD 220 million, were granted in May 2014.

Furthermore, additional reform measures are being developed in the energy sector, which operates below cost recovery and has so far regularly required substantial public subsidies, thus increasing the exposure of the fiscal deficit.

In parallel, the EU is funding an external audit to ensure that all bills paid under the arrears clearance and prevention strategy reflect effective delivery of procurement service, supply and works. Technical assistance on taxation and revenue management is provided in cooperation with the IMF. Some other related elements of PFM reform receive EU assistance, such as the functioning of the treasury management, strategic budget planning and financial management and control systems across the administration. Additional support is on the way for external audit capacities of the High State Control (HSC).

The on-going support by the EU and other development partners would clearly benefit from a **comprehensive, sequenced and prioritised overall PFM reform strategy**, based on a time bound action plan – so would economic growth and private sector development. The PFM reform strategy for 2014-20 is a response to this need.

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<sup>2</sup> As reported at the end of 2013 by a survey commissioned by the Ministry of Finance to Deloitte

<sup>3</sup> At the national level, the tax administration function is the responsibility of both the General Department of Taxes and the Customs, which manages excised duties and levies VAT on imports.

## RELEVANCE REGARDING THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The Sector Budget Support Programme for PFM mirrors a number of policy objectives described in a series of Commission documents:

- The **Commission's Progress Report for Albania** confirms that the development of a sound PFM system will also lead to a more effective public service delivery and to a more efficient public administration, which is considered a key priority for Albania in view of the opening of accession negotiations.
- The **Commission's Enlargement Strategy for 2013-14** identifies economic governance as one of the key challenges for the Western Balkans countries on their path towards EU accession. The Strategy encourages governments to undertake structural reforms to enhance competitiveness, to support fiscal consolidation, to generate employment and to foster economic growth. Albania, as candidate country, is invited to develop annual national economic reform programmes. Consolidation of PFM institutions is considered among those reforms, which are fundamental to strengthening economic governance and to meeting the economic criterion of a functioning market economy. The implementation of the strategy is to contribute to more sustainable macroeconomic policies and improvements in the public service delivery. Functioning PFM institutions are a pre-requisite for monitoring and reducing the fiscal deficit and public debt. In addition, good planning of public finances will allow line-Ministries to design and put in action credible sector policies, supported by the annual budget and the medium-term budget plan (MTBP).
- The **Country Strategy Paper for Albania (2014-20)** states under the heading 'Democracy and Governance' is reporting:

*"Public finances are managed efficiently and sustainably, following implementation of a sequenced public financial management reform programme covering revenue collection and administration, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit"*

In general terms, sound PFM will play a key role when it comes to the new sector approach of IPA II as well as multi-annual sector programming. Within the 2014-20 financial framework IPA II assistance is to increasingly support the implementation of national sector strategies and action plans, through a more systematic use of budget support. PFM systems enable the Government to implement sector policies and to properly manage IPA resources supporting sector policies.

Regarding the monitoring of the strategy's implementation from the EU perspective, the SAA structures, specifically the sub-committee on Economic and Financial Affairs and Statistics, will provide an appropriate platform. The periodic assessments of the annual economic reform programme by DG ECFIN and the ECOFIN Council will provide a further opportunity in assessing Albania's progress in implementing the strategy.

## SECTOR POLICY ASSESSMENT

The Albanian Ministry of Finance has developed a comprehensive PFM reform strategy for 2014-20 and a relevant action plan. With the Ministry of Finance in the lead, various Government departments and agencies (Office of the Prime Minister, Tax Administration, Treasury, Customs, Department of Public Administration, Public Procurement Agency and NIPAC Office) have contributed to shaping the strategy, which will be formally adopted by the Council of Ministers before the end of the year. The High State Control, which is the external audit institution of the country, and the Economy and Finance Committee of the Parliament, which scrutinizes the annual budget of the Government, have contributed to formulating the strategy, as they have a key role to play for the external oversight of the budget. The European Commission and SIGMA have contributed with their expertise; so have the IMF and the WB to ensure that the PFM strategy reflects the structural reforms and short term measures agreed with the Government under their respective programme.

As a result of an in-depth screening of the existing PFM arrangements and related weaknesses, the strategy has identified **six main pillars of intervention**:

- 1) Sustainable and prudent fiscal framework;
- 2) Well-integrated and efficient planning and budgeting of public expenditure;
- 3) Efficient execution of the budget;
- 4) Modern Accounting and Reporting System;
- 5) Effective system of internal control of budget spending units;
- 6) Effective oversight of public finances.

Each pillar covers a wide spectrum of sub-policy areas. For each sub-item, the strategy outlines (i) the current state of play; (ii) the objectives to achieve; (iii) some outcome indicators for measurement; and (iv) specific actions to implement.

The **action plan of the strategy** predominantly focuses on the reform measures for 2015. It will be updated on an annual basis and will include a policy performance assessment framework (PAF), which will enable the effective monitoring of the implementation of the strategy, bringing together in a synchronized matrix policy objectives, expected outcomes and indicators with sources of verification. The Prime Minister Office will ensure the coherence of the PFM PAF with the overarching planning framework of the National Strategy for Development and Integration (NSDI) for 2014-20, which spells out the long-term vision for the development of the country.

Regarding the monitoring structures for the implementation of the strategy a **PFM Reform Steering Committee**, composed of representatives of the relevant departments of the Ministry of Finance, the Prime Minister Office, the Department of Public Administration, the NIPAC Office, the High State Control and the Economy and Finance Committee of the Parliament, will regularly meet to assess the level of progress in the implementation of the annual action plan of the strategy. In addition, the Government will set up a high level **PFM Sector Working Group** (SWG), which will be the policy dialogue structure for all donors active in the sector. Through this government-donor dialogue structure, the EU, IMF and WB will be in a position to pass common and streamlined messages in terms of policy guidelines.

## **SECTOR BUDGET SUPPORT READINESS**

In line with the standard approach to EU sector budget support, the eligibility criteria for this aid modality are:

- **Macroeconomic stability:** There is a credible and relevant programme to restore and/or maintain macroeconomic stability.
- **Public financial management:** There is a credible and relevant programme to improve public financial management.
- **Budget transparency:** The government has published either the Executive's Proposal or the Enacted Budget within the previous or current budget cycle.
- **Public policy:** There is a credible and relevant national/sector development strategy.

Under this operation, the eligibility criterion for budget support related to PFM, i.e. a credible and relevant programme to reform the management of public finances, coincides with the public policy the Sector Reform Contract intends to support. Therefore, the analyses related to public finance management and to public policy provide both a number of elements to ascertain the relevance and credibility of the PFM reform strategy for 2014-20.

### **MACROECONOMIC STABILITY**

Albania has managed to avoid recession throughout the global financial and economic crisis that has heavily affected its main EU trading partners and spilled over through trade, remittances and investment links. Nonetheless, average **annual growth** between 2009 and 2012 slowed to below 3 %

and decelerated further in 2013 to an estimated 1.4 %. As a result of the weakening economy, the trend of poverty reduction has reversed while unemployment has risen to around 18 %. Per capita GDP in purchasing power standards stood at 30 % of the EU-28 average in 2013. Annual growth for 2014 is estimated at around 2%. The main contributors to GDP are: agriculture (22.5%), industry (11.4%), construction (10.5%) and services (56%). Albania's main exports are minerals and fuel (40.4%), textiles and footwear (28.2%) and construction materials and metals (14.7%). The main trading partner is the EU with a traditional surplus in favour of the EU (EUR 2.5 billion imports against EUR 1.0 billion exports in 2012). Albania has a long-standing current account deficit, reflecting weak competitiveness and a narrow production base, which has contracted from 15% in 2008 to 10.2% of GDP in 2012 in the context of the growth slowdown but is forecast to rise again once domestic demand picks up.

**Public debt**, including arrears, reached over 70% of GDP in 2013. The budget deficit has widened, rising to 4.9 % of GDP in 2013 (exceeding the initial target of 3.5%), as a result of declining revenues from taxation and increasing social transfers due to growing unemployment, which has exceeded 17% at end-2013. Tax evasion, wide scale informality and fraud are also undermining the sustainability of the revenue collection. Large accumulated arrears have also revealed systemic PFM weaknesses.

**Macroeconomic stability** is ensured by a sound monetary policy operating under an inflation targeting regime. Low inflationary pressures created room for further monetary policy easing: the Central Bank undertook several cuts in the key interest rate during 2013 and the first half of 2014, bringing it down to a historic low level of 2.5%. However, the pass-through of the stimulus to the economy remains limited due to banks' high risk aversion amid a large share of non-performing loans on their balance sheets.

Albania's revenue and spending-to-GDP ratios (24% and 28.9% respectively in 2013) are low by regional standards, as is the overall tax efficiency<sup>4</sup>. The burden of the necessary budgetary adjustment should therefore primarily fall on revenues, including tax policy reforms and the strengthening of tax administration and tax collection.

*Against this background and according to the EU assessment, as well as the latest IMF Article IV review from March 2014 and the first IMF programme review from May 2014, the Albanian authorities pursue a credible and relevant stability oriented macroeconomic policy aiming at restoring fiscal stability and sustainability. Fiscal performance was in line with targets in the first and second quarter of 2014 and arrears clearance is progressing according to schedule. The authorities remain committed to further fiscal consolidation in 2015 in order to begin to reduce public debt, as envisaged under their macroeconomic programme.*

### **PUBLIC FINANCE MANAGEMENT**

There have been a number of detailed reviews of the Albanian PFM system in recent years, including two PEFA assessments in 2006 and 2011, an OECD budgeting review in 2013, a World Bank public finance review in 2014 and the annual SIGMA assessments in the areas of public procurement, financial management, internal and external audit.

Albania has engaged in public finance reforms for a considerable period of time. Following the PEFA assessment of 2006, the Government launched the PFM strategy 2007-2013 and the subsequent PEFA assessment of 2011 has shown improvements mainly in the treasury system and control in budget execution. For 14 out of 31 indicators the assessment yielded higher score, two were decreased and eleven unchanged (four were not able to be assessed either in 2006 or 2011).

Despite said improvements, the following weaknesses have been revealed in recent years:

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<sup>4</sup> Measured as (tax revenue/GDP) / tax rate.

- **Macroeconomic forecasts** require considerable improvement to ensure prudent fiscal and financial planning. Overoptimistic revenue forecasts and liberal spending plans, which had been approved during budget preparation but not cut back during the budget year when the revenue collection felt short, have negatively impacted multi-year commitments and led to a substantial accumulation of arrears and ultimately to the rise of public debt.
- **Medium-term budgeting** and budget ceilings are not sufficiently linked to the annual budget process, budget execution is constrained by the limited treasury functions for recording multi-year commitments made by line-ministries and other spending institutions.
- **Tax administration** is weak both in terms of administration capacity and IT systems, resulting in both relatively low tax collection and high tax evasion. The tax revenue to GDP ratios is low (22.9% for 2012, 22% for 2013, 24% projected for 2014) compared to the European average<sup>5</sup>. The implementation and enforcement of tax legislation requires significant improvements.
- The **public procurement system** is affected by limited institutional capacities of key actors, lack of efficient operational capacity of the contracting authorities, weak remedy functions, low quality of public spending and limited focus to achieve “value for money”.
- **Financial reporting** is not in line with GfS 2001 and ESA 2010 standards.
- A sound system of **public internal financial control** (PIFC) is not yet in place. While the legal framework is appropriate, the financial management and control standards, including risk management are not systematically applied across the administration. Centralized ex-post complaint driven financial inspections are not conducted on a regular basis. Internal audit staff lacks capacities, audit engagements are not systematically risk-based and the audits performed by the internal audit units within line-ministries and other spending institutions are still transaction-based rather than systems audits.
- **Corruption and fraud** are widespread across the administration and affect public service delivery, undermining the potential impact of any PFM reform and ultimately the efficient use of public resources. Corruption and inefficiency in the judiciary further weakens the enforcement of rule of law in respect of mismanagement and abuse of public funds. The government has put clear emphasis on fight against corruption, which is also targeted in the framework of the PFM strategy and the sector budget support.
- With respect to external audit, at present, the High State Control (HSC) is not operating fully in line with INTOSAI standards. Hence, a revision of the institutional framework governing the HSC has been adopted by the Parliament in November 2014, which will align the mission and functions of this external audit institution with INTOSAI standards. It is now necessary to adopt the necessary administrative provisions to fully implement the revised HSC law. The new law will allow the HSC to carry out the full range of audits which goes considerably beyond the current focus on financial/regularity audits. This will lead to a major improvement to the current situation where the focus still is on single financial transactions which do not address systemic causes of non-compliance.

The Government has developed a PFM strategy for 2014-20 and a related action plan, whose goal is to improve the enforcement of rules and procedures and the prudent management of public funds, as well as strengthen transparency and accountability mechanisms in a sustainable way.

The strategy is *relevant* because it addresses crucial PFM areas, defines the key areas of weaknesses and other existing shortfalls, and presents the reform measures to address the problems. It is a synthesis of on-going reforms – by consolidating policy actions and strategies already under way in

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<sup>5</sup> IMF report A Tax Reform Strategy for Consolidation and Growth, and the IMF's Country Report 14/211 of July 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr14211.pdf>



other key PFM components, notably the current engagement to address the accumulation of the arrears under the parallel IMF and World Bank programmes.

The strategy is *credible*, because it has been consulted with major stakeholders before adoption by the Albanian government before the end of December. There is high level political commitment under the leadership of the Ministry of Finance, which is going to coordinate the implementation and monitoring structures in the context of a formal monitoring framework. The action plan will be updated on an annual basis in order to ensure appropriate sequencing of actions and establish a well-developed policy performance assessment framework.

*Against this background the eligibility criterion to improve public financial management is considered to be met.*

### **BUDGET TRANSPARENCY AND OVERSIGHT**

Information regarding Albania's budget transparency and oversight is generally available. There are a number of weaknesses, though, that need to be tackled before achieving full budget transparency and oversight.

The main challenges regarding full budget transparency are:

- The most recent **Open Budget Index (OBI)** for Albania in 2012 shows that the country has scored 47 out of 100, which indicates that the Government provides the public only with “some information” on the national government’s budget and financial activities during the course of the fiscal year.
- Many budget documents produced for internal use while they could be used for improving comprehensiveness of information published.
- A **Citizens’ Budget Guide**, or simplified versions of budget documents using non-technical language and accessible formats, would facilitate citizens’ understanding of, and engagement with, government’s plans and actions during the budget year.
- While the MTBP provides detailed information on sector programs, there is no strategic overview of policy initiatives and major investments and their impact on public finances. Another deficiency in analytical procedures is the lack of distinction in the budget process between existing commitments and new policy initiatives.

The main challenges regarding oversight are:

- Year-end audited financial statements should be submitted to the High State Control (HSC) by April 30th of the following fiscal year, i.e. 4 months after year-end. This deadline in the past years has not been met. The most recent Audit Reports published in the website of the HSC are the ones for 2012 and 2011.
- The existing legislation and procedures do not establish any fixed deadlines for the review of the audit reports by the Parliament. As a result, Parliament pays limited attention to HSC reports. The approval process for the HSC’s report follows the same procedure as budget approval, but with fewer opportunities for input from the public.
- The impact of the HSC reports is low. There is no dedicated parliamentary committee: the Committee on Economy and Finance handles budget analysis, HSC reports and other topics.
- According to SIGMA assessment, the HSC has a certain level of operational and functional independence. The legislative framework governing the institution has been revised by the Parliament in November 2014 to make it fully compatible with INTOSAI standards and EU best practices. The revised framework will now require the necessary implementation arrangements in order to ensure that the mandate of the HSC is fully respected by budget spending units.
- The procedure for establishing the budget is not optimal and the available resources do not allow the HSC to deal with the high number of entities under its remit.
- A modern system of public internal financial controls (internal controls in budget spending units, centralized inspections from the Ministry of Finance and functioning internal audit units) should be fully and effectively implemented. This will require a certain period of time.

- The Parliament Committee on Economy and Finance has limited advisory and technical capacity to fully exercise its control powers and scrutiny over the budget and the use of public funds.

Despite said challenges, budgetary information is available to the general public on the website of the Ministry of Finance (<http://www.financa.gov.al/>), notably the approved budget law, including the budget tables, as well as related Decisions of the Council of Ministers published in the Official Journal (<http://www.legjislacioni.gov.al/>). Budget information is available for the past 12 years' period 2003-2014, including detailed information on the medium-term budget plans (MTBP) as from 2001. The published budget documentation include: a Pre-Budget Statement, Executive's budget proposal, the Enacted budget and In-Year Reports. The Government produces Audit Reports, which are published in the website of the High State Control - Supreme Audit Institution (<http://www.klsh.org.al/>). The annual budget for 2014 was discussed and approved by the Parliament in December 2013. After its approval, the annual budget has been published in the Official Journal.

*Against this background the eligibility criterion on budget transparency is considered to be met.*

### **PUBLIC POLICY**

The objectives and actions of the PFM strategy are well designed to tackle the challenges inherent in the current PFM system. To further fine-tune and sequences the planned measures the strategy's action plan will be updated in the course of the first semester of 2015, including a complete policy assessment framework (PAF).

With respect to **relevancy**, the following targets under each pillar require particular monitoring by the PFM Steering Committee in order to ensure that concrete changes are introduced in Albanian PFM procedures and practices and weaknesses are addressed.

**Pillar 1 - Sustainable and prudent fiscal framework** - safeguarding macroeconomic stability ranks is a top priority. By maintaining a sound fiscal framework the Government aims to unlock Albania's significant growth potential. This part focuses on enhanced forecasting, improved national accounts statistics, design of a fiscal rule, increased capacities for fiscal risk management, and restrictions on spending in election year and on the use of proceeds from privatisation. Reforms under this pillar may be affected by political pressure to adopt the most optimistic economic forecasts in order to enable more spending.

**Pillar 2 - well-integrated and efficient planning and budgeting of public expenditure** – under this pillar high priority is assigned to the restoration of the integrity of the three years MTBP process and enhancement of its role as an umbrella framework for the annual budgeting exercise. Upcoming MTBPs should take into account the limited fiscal space available in the medium term for new investments and general public spending, if the strategy is to be considered reliable with respect to the objectives of solving the problem of accumulated arrears and reducing the public debt over time. Multi-year commitment control is a key target to establish full budgetary control over future payments and investment obligations, as already foreseen in the arrears prevention and clearance strategy<sup>6</sup>.

**Pillar 3 - Efficient execution of the budget** – the pillar covers a number of key PFM sub-policy areas (e.g. revenue administration, expenditure control, debt and cash management, use of external funds including IPA under indirect management, public procurement, assets management), where the administration needs to achieve real progress in the implementation of the relevant *acquis*-compliance legislation. In most of these sub-policy areas, the legal framework is already developed but needs to be underpinned by more functional internal administrative procedures and processes, upgraded IT infrastructure and increased professionalism of the public administration. This is particularly relevant

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<sup>6</sup> Including VAT and CIT arrears.

for the tax collection system, for which the administration requires between headquarters and regional offices, modern IT mechanisms and professional civil servants to fight tax evasion and fraud. The Ministry of Finance aims to increase the effective use of fiscal cash registers, enhance the audit activities and set up the fiscal cadastre to enhance collection, compliance and fight tax evasion.

With respect to public procurement, the full development of the institutional structures for e-procurement, concessions system and public-private partnerships is fundamental in view of increasing effectiveness and transparency in the allocation of public funds. The target related to the interface between e-procurement and the Automated Government Financial Information System - AGFIS – is going to be a key measure to pre-check availability of funds for the tendering process, thus avoiding the occurrence of arrears.

**Pillar 4 – Transparency and financial reporting system** requires the adoption of GFS 2001 and ESA2010. The strategy foresees the upgrading of the Treasury System and its gradual online extension to all line-ministries and budget spending units, which is going to have a key role also in the improvement of the accounting and reporting standards. Another key target is the preparation of the "Citizens' Budget", which will allow an increased participation and insight for business organizations, trade unions and civil society organizations in the overall budget formulation and implementation. Progress under this pillar will also be achieved through the implementation of the road map for budget transparency, with particular reference to availability of budget documentation and the outcome indicator relating to the Open Budget Index.

**Pillar 5 - Effective system of internal control of budget users** - the full implementation of a modern Public Internal Financial Controls (PIFC) framework, is one of the most important challenges set out by the strategy and considerably relevant with respect to *acquis* compliance under chapter 32 on Financial Control. The target of effective managerial accountability and modern management control practices across the administration is a long and challenging process that will be achieved by progressive steps, implying first of all increased professionalism of senior officials and a change in management culture. In this respect, this pillar will be underpinned by a specific accompanying technical assistance measure, i.e. an IPA twinning, which is already operational. It is already considered rather appropriate that the Ministry of Finance has committed itself to undertake a comprehensive work load assessment regarding key PIFC offices within the Ministry: (i) the Directorate for Financial Inspection, (ii) Internal Audit Central Harmonization Unit, (iii) Financial management and Control Central Harmonization Unit and (iv) Audit Authority for EU funds under indirect management. During the first and second year of the implementation of the strategy, the four offices are to be adequately staffed, trained and equipped. This will turn into more effective controls across the administration and increased capacity of internal audit units within line ministries and other budget users.

**Pillar 6 - Effective oversight of public finances** - the strengthening of the external audit function is going to enhance the transparency, effectiveness and efficiency of public expenditure for central and local government institutions. The law governing the function of the High State Control has been reviewed to make it fully compatible with INTOSAI standards. This was a key target and pre-condition for further actions in this sub-policy area, which also falls under the *acquis* chapter 32 on Financial Control. To undertake its full role in an INTOSAI compatible manner, the High State Control requires capacity development support, which has already been foreseen with the launch of a twinning project. On the other side, external oversight of public finances will be ensured with a more active role of the Parliament and civil society organizations. The Parliament Committee on Economy and Finance has to proceed with a systematic review of the external audit reports. MPs should rely on the reports of the HSC to launch parliamentary enquiries and identify weaknesses in PFM institutions and arrangements. A specific accompanying technical assistance measure has been foreseen under this Sector Reform Contract for strengthening the capacities of the Parliament and civil society organizations to effectively carry out their functions related to the oversight of the budget (see paragraph on complementary support). The supporting measure will become operational in the course of 2015.

With respect to **credibility**, the Government has expressed strong political will to address the weaknesses in existing PFM institutions. Since 2013, a number of improvements have taken place. In the area of arrears prevention and clearance strategy, the Ministry of Finance has started paying back pending liabilities, progressively reducing the overall stock of arrears. According to the World Bank, 70% of central Government arrears as of end-December 2013 will be cleared by end-December 2015. An external, EU-funded audit of the arrears clearance process is on-going to review a sample of arrears that reflect effective delivery of service, supply and works. Specific measures to strengthen financial discipline and expenditures controls have been put in place, including:

- Recording of all procurement orders for goods, services and investments issued during the year in a new register within the Treasury, which will counter-check the availability of public funds and seal the commitment.
- Preparing the amendments to the law on the management of the budget system in order to strengthen medium-term fiscal planning (i.e. the formulation process of the Medium Term Budget Program) and to increase controls over multi-year commitments.
- Prioritizing investment projects within approved budget ceilings, which will ensure that poorly prepared projects are not financed.
- Monitoring the financial pre-engagement phase through the gradual extension of the Automated Government Financial Information System – AGFIS – to all line ministries and budget spending units.
- Requiring the local governments to report on contracts and loans.
- Reshaping the 2015 budget exercise: line-ministries and other budget spending units have been notified that commitments for 2015 to 2017 cannot exceed more than 30% of the medium-term fiscal ceilings for current expenditures and 50% for domestic capital expenditures.

These positive developments in the current PFM policy give further assurance that the upcoming PFM strategy will be underpinned by sufficient political will and institutional capacity of the Ministry of Finance to properly implement the envisaged reform measures.

*On the basis of the assessment carried out, the PFM strategy for 2014-20 is considered relevant and credible as underlying sector development strategy for this Sector Reform Contract.*

#### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

As described above, the EU has already and is currently providing assistance in a number of PFM sub-policy areas:

- expenditure management procedures have been strengthened in the framework of the SETS project (Support to the Extension of the Treasury System);
- strategic budget multi-annual planning (link of sector policies with the MTBP process) is currently being improved in the context of the Integrated Planning System (IPS);
- the Public Internal Financial Controls (PIFC) framework (financial and management controls across the administration, internal audits and centralized inspections) is currently under review in the framework of an IPA twinning project;
- tax administration and IT systems are currently reviewed with IMF assistance mobilized under the IPA regional programme.
- an external audit has been launched to validate paid bills and verify the arrear clearance strategy, including a forensic or due diligence audit to distinguish the claims which are considered questionable;

Additional technical assistance and capacity building measures are foreseen to start in the first semester of 2015:

- A twinning for the High State Control to increase its external auditing capacities in accordance with INTOSAI standards and good European practice
- The accompanying technical support of this Sector Reform Contract, which aim at increasing the capacity for the PFM reform implementation, upgrading the oversight function of the Parliament and civil society organizations.

In parallel, the IMF and WB are providing financial support and technical advice in the context of the arrears prevention and clearance strategy, tax administration, debt management.

The main lesson learnt from the support provided and planned so far is that actions have been taken in the absence of a long-term strategic vision and an overarching and systematic reform programme. Projects addressed specific problems and were prepared by small groups of specialists within government institutions; this often resulted in poor institutional ownership because little attempt had been made to involve a broader community of experts and highlight the relevance of projects with national policy agendas. The objectives formulated by IPA I planning and programming documents were often too general to assess either the results or the impact of individual projects by means of evidence-based indicators.

Therefore, even though these actions have produced relevant improvements in some PFM sub-policy areas, the overall outcome has not led to the construction of a solid and sound PFM system.

The 2014-20 strategy is a response to this need of a comprehensive PFM reform programme, whose implementation the SRC aims to support. The underlying policy dialogue, which will feed the implementation of the strategy, will also be a unique opportunity for enhanced coordination across donors, most specifically the EU, IMF and WB, and harmonized policy guidance to the Albanian PFM institutions.

## 2. INDICATIVE INTERVENTION LOGIC

### DESCRIPTION OF MAIN RESULTS AND ACTIVITIES

The objective of the Sector Reform Contract is to strengthen the Albanian PFM system for an efficient process of budget planning, execution and oversight with a view to reinforce fiscal discipline, streamline the allocation of resources according to policy objectives and upgrade public services delivery.

By supporting the implementation of the PFM strategy for 2014-20, the Sector Reform Contract will achieve the following targets:

- 1) **Improved legal and fiscal framework** governing the Medium Term Budget Program (MTBP) process in preparation for the introduction of a fiscal rule;
- 2) **Improved planning and budgeting of public expenditures** with an enhanced MTBP framework which includes alternative macro-fiscal assumptions, fiscal risks assessment, revenue projections and medium term expenditure ceilings, as well as a sound medium term investments framework;
- 3) **Enhanced expenditure controls** with the elimination of the stock of arrears and the introduction of multi-year commitments control into and extension of online access to the treasury system;
- 4) **Improved tax administration** through increased use of fiscal cash registers to fight tax evasion, increased audit capacities and the establishment of a fiscal cadastre;
- 5) **Strengthened public procurement systems** with an effective and sufficiently independent review function;
- 6) **Strengthened transparency and financial reporting** in line with GFS 2001 and ESA 2010 compliant standards and the publication of the Citizens' budget;
- 7) **Enhanced application of public internal financial controls** by strengthened structures in the Ministry of Finance for financial management, financial inspections and internal audits for enforcing effective financial and management controls across the administration;

- 8) **Enhanced anti-fraud and anti-corruption mechanisms** by an increased cooperation between the High Inspectorate for Declaration and Audit of Assets and Prevention of Conflict of Interest (HIDAACI) and the General Department of Taxes (GDT);
- 9) **Strengthened external audit** function by introducing and applying INTOSAI standards and enhance awareness of its role in fight against corruption and fraud.

The reform targets are further described as part of the IPA 2014 Financing Agreement and are related with the performance indicators the Government is expected to fulfil in order to obtain the disbursement of the fixed and variable tranches of this Sector Reform Contract.

#### **SECTOR BUDGET SUPPORT POLICY DIALOGUE**

The PFM dialogue has been launched in July 2014 with a high-level meeting between ELARG Director General Danielsson and the Albanian Minister of Finance Cani.

Since then continuous sessions of policy dialogue has taken place between DG Enlargement / EU Delegation and the Ministry of Finance, Parliament, High State Control, Public Procurement Agency as well as meetings with IMF, World Bank, SIGMA and selected civil society representatives, on the finalisation of the PFM strategy, action plan, and the preparation of the sector budget support program.

The dialogue will continue to monitor the adoption of the strategy by the end of the year and the launch of the implementation and to further negotiate the finalisation of the matrix of performance indicators used for disbursements of the variable tranches, which will be later translated into the IPA 2014 Financing Agreement.

#### **RISK MANAGEMENT FRAMEWORK**

The risk profile of Albania concern (i) political issues and rule of law, (ii) macroeconomic policies, (iii) public financial management, (iv) Government effectiveness and (v) corruption.

For the better understanding of all risks, it is useful to consult the annual Commission's progress reports as well as the EU enlargement strategies. Furthermore, when Albania was granted the candidate status in June 2014, it was clarified that a sustained, comprehensive and inclusive implementation of key priorities is needed, notably concerning the reform of the public administration and the judiciary, the fight against organised crime and corruption, the protection of human rights and anti-discrimination policies including in the area of minorities and their equal treatment, and implementation of property rights. Subsequently, road maps have been prepared for each priority issue which should be implemented and are followed up by a high level political dialogue with the EU. The road maps and the High Level Dialogue on the key priorities is therefore an important context in which the present SRC operates.<sup>7</sup>

<b>Risk</b>	<b>Level</b>	<b>Mitigation measures</b>
<b>Political</b>		
Lack of commitment from the Government in undertaking targeted reforms for rule of law and respect of fundamental rights. Shortfalls in cross-party cooperation on key EU-related reform issues, political cooperation and the effective functioning of independent institutions.	Moderate	Continuous policy dialogue in the context of the High Level Dialogue and EU support for the implementation of the road maps concerning the key priorities in view of the opening of accession negotiations. Guidance from EU through political dialogue on cross-party work on EU integration. EU

<sup>7</sup> See documentation at [http://eeas.europa.eu/delegations/albania/eu\\_albania/progress\\_reports/index\\_en.htm](http://eeas.europa.eu/delegations/albania/eu_albania/progress_reports/index_en.htm) and [http://ec.europa.eu/enlargement/countries/strategy-and-progress-report/index\\_en.htm](http://ec.europa.eu/enlargement/countries/strategy-and-progress-report/index_en.htm)

		support to the Parliament to fulfil its oversight role and to independent institutions to strengthen their monitoring role.
<b>Macroeconomic</b>		
Further increase of public debt to unsustainable levels; fiscal risks posed by an unreformed energy sector; non-completion of arrears clearance strategy and accumulation of new arrears; balance of payment vulnerabilities stemming from a large current account deficit slow potential growth in case of delayed structural reforms.	Moderate	The Government to maintain stability oriented macro-economic policy, which will be monitored under this SRC.  The IMF and World Bank programmes are expected to act as an anchor for enhancing macroeconomic stability and implementing growth-boosting reforms, including liquidation and prevention of new arrears.
<b>Public Financial Management</b>		
Lack of commitment from the Government to ensure transparency of the budget; enforce controls in revenue collection and budget execution; review the public procurement system and respect the mandate of and cooperate with the High State Control (HSC).	Moderate	Continuous dialogue with the Government on public finance policy issues and PFM reforms, use of the budget support conditionality and complementary capacity building to facilitate and embed the reforms for budget transparency, revenue collection and budget execution and public procurement system.  Continuous dialogue with the Government, Parliament and HSC on the mandate and function of the external audit institution. EU to support HSC with twinning project in order to ensure compliance with international standards of external audit.
<b>Government effectiveness</b>		
Lack of HR institutional capacity of the Government to increase overall effectiveness of public service delivery.	Moderate	Under the strategy for public administration reform, the Government to ensure the launch of merit-based recruitment processes; continuous and ad hoc training programmes, increased number of staff according to needs, skill transfers within twinning programmes with sister organizations in the EU, study visits, job rotations and qualification exams.  EU to support this exercise in the framework of the PAR special group.
<b>Corruption and fraud</b>		
Political resistance to implementing anti-corruption measures and increasing public sector transparency	Substantial	Continuous dialogue with the Government to apply rigorously the anti-corruption legislation and rules, as well as monitoring of corruption cases and their legal consequences, including fight against corruption in this SRC programme through indicators for variable tranches.  Better engagement of all stakeholders (non-state actors, High State Control, Parliament) to create more demand and pressure for change.  Implement roadmap for key priority on anti-corruption. Government to enhance efficiency of investigations through legal changes in the Criminal Procedure Code.  EU to consider support to enhance the capacity of law enforcement agencies through sufficient resources and training.  Government to enhance inter-agency cooperation and effectively implement the anti-corruption strategy and action plan with possible EU support.

## COMPLEMENTARY SUPPORT

The accompanying technical assistance will strengthen the capacities of the Ministry of Finance to effectively implement the strategy, monitor the implementation and report on results via the PFM Steering Committee and its Secretariat. Furthermore, the assistance will support the coordination of development partners, including organising meetings of the PFM sector working group. External control bodies such as parliament and civil society organisations will receive capacity building support to effectively carry out their functions.

The expected **results of the accompanying technical assistance** support are:

- Capacities enhanced through training and coaching of relevant MoF staff to coordinate and implement the PFM policy, legal and regulatory reforms;
- Capacities strengthened for monitoring the implementation of the PFM reform policy and reporting on progress via the PFM Steering Committee, its Secretariat and the PFM sector working group;
- Capacities strengthened for national oversight bodies and mechanisms to effectively carry out their functions (parliament and civil society organizations).

## 3. IMPLEMENTATION ARRANGEMENTS

### ROLES AND RESPONSIBILITIES

#### Institutional arrangements

Under the direction of the Deputy Ministry of Finance the **PFM Reform Steering Committee** shall be formally established as a result of the adoption of the strategy by the end of the year. The following institutions and actors will take part in the Committee:

- relevant departments of the Ministry of Finance<sup>8</sup>;
- Office of the Prime Minister;
- Ministry of European Integration;
- Ministry of Economic Development;
- Ministry for Innovation and Public Administration;
- Public Procurement Agency;
- High State Control (Supreme Audit Institution);
- Economic and Finance Committee of the Parliament;
- Other stakeholders may be considered, also on an ad-hoc basis.

The Steering Committee, chaired by the deputy Minister of Finance, will be the main decision making body for the implementation and oversight of the PFM Strategy. It will be supported by a **PFM Reform Secretariat** for the formulation of work plans and annual reports on actions, deliverables and outcomes. Reforms under each pillar will also be supervised by coordination committees. The EU and SIGMA and other partners will provide support in the form of advice, assistance and funding for capacity building.

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<sup>8</sup> As required, the Secretary General and the following Departments: Budget; Financial Treasury; Fiscal Policies; Public Revenue; Taxes; Customs; the Central Harmonisation Unit for Financial Management and Control and the Central Harmonisation Unit for Internal Audit.



The PFM Steering Committee shall be assisted by a Technical Committee with a Secretariat which shall ensure the timely preparation of the annual report and additional supporting documents collection of reports, statistics, related the implementation of the strategy and for the disbursement requests related to the fixed and variable tranches under this Sector Reform Contract.

The participation of the Economy and Finance Committee of the Parliament in the implementation and monitoring structures is key since a range of reforms envisaged in the PFM strategy requires *ad hoc* pieces of legislation to be adopted by the Parliament. Consequently, the members of the Economy and Finance Committee can liaise between the Ministry of Finance and the Parliament for a timely initiation of parliamentary procedures. The participation of the High State Control is equally relevant since the strategy provides for an *ad hoc* pillar on effective oversight of public finances.

In addition, the Government will set up an high level **PFM Sector Working Group (SWG)**, which will be the policy dialogue structure for all donors active in the sector. Through this government-donors dialogue structure, the EU, IMF and WB will be in a position to pass common and streamlined messages in terms of policy guidelines. The SWG will strengthen the working relations between the three main donors involved in budget support for PFM reforms and will lead to joint missions by HQ structures and joint progress analysis. On its side, the Government is expected to ensure coordination and coherence between the on-going implementation of the IMF/WB-driven arrears prevention and clearance strategy and the PFM strategy and other sub-sector specific implementation.

## **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

### **Disbursement of sector budget support**

The **IPA 2014 Financing Agreement** constitutes the legal commitment between the Commission and the Republic of Albania, which gives rise to payments under this Sector Reform Contract, without the conclusion of additional legal commitments.

The general criteria for disbursement of all tranches are as follows:

- maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information ;
- satisfactory progress in the implementation of the Albania Public Finance Management Strategy 2014-2020 and continued credibility and relevance of that or any successor strategy.

The indicative list of performance indicators used for disbursements are described in Annex 1 and 2. The chosen triggers for the disbursement of the variable tranches will apply for the entire duration of this Sector Reform Contract and will be specified in the IPA 2014 Financing Agreement.

In **duly justified circumstances**, the Deputy Minister of Finance, in coordination with the National IPA Coordinator, may submit a request to the Commission for the triggers to be changed. Similarly, the geographical AOSD Director may propose changes to the list of triggers. The agreed changes shall be authorised by exchange of letters between the two parties.

Funds under this this Sector Reform Contract will be channelled into the Single Treasury Account of the Ministry of Finance through the Central Bank of Albania. Once released, the funds will be used as all other normal budgetary resources of the Government and managed in compliance with the laws and regulations of the Republic of Albania.

Foreign exchange transfers will be entered in the accounts under the value date of the notification of credit to the account of the Central Bank of Albania opened for this purpose and an equivalent amount in Albanian Lek will be credited to the Single Treasury Account. The exchange rate used will be the middle rate of the interbank foreign currency market on the day of the transfer.

### **Details on complementary support**

A service contract of EUR 2 million will be procured under direct management by the EU Delegation. This technical assistance component will be used for support to the PFM Steering Committee and its technical Secretariat, for external review missions and for requests of ad-hoc specialist expertise related to PFM reforms.

#### **4. METHODOLOGY FOR MONITORING AND REPORTING**

The eligibility criterion related to macro-economic stability will continue to be monitored by the Commission Directorate General for Economic and Financial Affairs (DG ECFIN), in particular through the annual assessments of Albania's macroeconomic and fiscal programmes. The joint ECOFIN Ministerial Meeting will also issue annually country-specific policy guidance for Albania. Fiscal discipline and budget execution will be observed in order to ensure they do not deviate substantially from agreed targets or do not threaten overall macroeconomic stability. Policy dialogue in the context of the relevant stabilisation and association agreement sub-committees with the Government of Albania will also assess overall macro-economic and fiscal performance. Finally, third party assessments will be also taken into consideration, such as the reports from IMF Article IV consultations.

The eligibility criteria related to the PFM strategy and the roadmap for budget transparency, as well as the triggers for the disbursement of the variable tranches, will be monitored by the EU Delegation to Albania in conjunction with the PFM Steering Committee. Performance reports will capture progress against the policy performance assessment framework developed in the annual action plan. Regular reviews from the IMF and World Bank, PEFA PFM performance reviews and SIGMA assessments, as well as input through the relevant sub-committee meetings and from line DGs (BUDG, TAXUD, and MARKT) will also provide valuable information to assess the overall PFM situation and progress made in the implementation of the strategy).

#### **5. CROSS-CUTTING ISSUES**

##### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

The PFM Strategy is not expected to have any direct effect on Albania's environment, water resources, habitat or other natural resources. However, the legal and regulatory changes implemented in the context of this Strategy will lead to an improvement of the existing environmental regulatory framework with particular reference to the requirements of public procurement procedures for investments. In accordance with EU environmental legislation, Albanian public procurement procedures shall require an environmental impact assessment and/or a nature conservation assessment before taking any new decisions on infrastructure investments

##### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

In the framework of the PFM strategy preparation four civil society organisations received the draft and provided comments. Their involvement is foreseen during the implementation. Also within the accompanying technical assistance, civil society organisations will be involved and as identified necessary will receive capacity building support to develop expertise and effectively carry out their monitoring and advocacy functions with regards to PFM policy in Albania. Enhanced cooperation with civil society is expected to positively impact on enhancing the transparency, accountability and oversight mechanisms in the country.

## **EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING**

The PFM strategy is expected to have positive effect on gender equality by reforming the pension system since it includes the equalization of the retirement age for men and women<sup>9</sup>. Currently, women and men retire at age 60 and 65, respectively. The lower retirement age for women delinks women earlier from the labour market, thus increasing their probability of old-age poverty due to a combination of lower contributions to the pension system and longer life expectancy. The current reform strategy envisions a gradual increase of the retirement age of women from 2015 onwards.

## **MINORITIES AND VULNERABLE GROUPS**

With respect to vulnerable groups, a more functional PFM system will lead to increased quality of public spending, better allocation of public funds and will open fiscal space to strengthen the social assistance programs of the Albanian Government, i.e. the disability programme and the economic aid programme. The reform of the pension system is also going to have positive effects on vulnerable groups. The reform stipulates the indexation of pensions benefits based on a reference consumption basket. This will ensure that the real value of pensions is not eroded, particularly for the poor segment of the population, while preventing fiscally unsustainable ad-hoc pension increases. In addition, a social pension will be introduced for all citizens without pension rights, providing income to elderly people who currently do not receive any kind of transfer. Pensioners receiving the minimum pension today will receive the social pension in the future together with additional benefits which are linked to their earnings and contributions.

## **6. SUSTAINABILITY**

The PFM strategy and action plan will provide a comprehensive set of measures to address the current weaknesses in PFM institutions and arrangements with systemic and long-term solutions.

The sustainability of this exercise is first of all ensured by the strong political will expressed by the Government to address reforms in this crucial area. In this respect, the Government has already achieved a considerable track record with the implementation of the IMF/WB-driven arrears prevention and clearance strategy and the important results recently achieved in a number of sub-policy areas (e.g. recording of all procurement orders in a new register within the Treasury system; preparation of the 2015 with strengthened ceiling on commitments; gradual extension of the Automated Government Financial Information System – AGFIS – to all budget spending units). In addition, the accompanying technical assistance of this Sector Reform Contract specifically aims at providing advice, coaching and training to the institutions and actors involved in the implementation of the policy.

The PFM strategy includes the costing of the reforms and operations described therein. Many of the envisaged reform activities will take the form of policy, legal and regulatory reforms but they will also require the introduction of new systems and the development of the necessary skills by the competent departments. The Ministry of Finance will seek financing from its own resources as well as rely on the support of external partners. The Ministry can also rely on the financial support mobilized by this Sector Reform Contract.

However, the long-term sustainability in the implementation of the PFM strategy can only be ensured by the coherence and consistency of the envisaged policy, legal and regulatory reforms and particularly by the increased capacity of the administration to respect and act in compliance with the new PFM framework. Indeed, legislative reforms and IT developments are not sufficient to produce changes and positive spill overs. Increased professionalism and changes in management culture are

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<sup>9</sup> The reform pension strategy is a sub-component of the overarching PFM strategy.

essential to increase the quality of public spending by efficiency gains and lead to improved service delivery for the public. This is why a number of capacity development actions are already taking in place, predominantly under EU funds, and further technical assistance measures are envisaged under the strategy. The link of the PFM strategy with the Public Administration Reform (PAR) strategy is key since professionalism and changes in management culture will be ultimately achieved with merit-based recruitment processes, efficient training of the Albanian School of Public Administration and appropriate incentives for career development.

## **7. COMMUNICATION AND VISIBILITY**

A contractual obligation in the IPA 2014 Financing Agreement between Albania and the EU will stipulate that a strategy for visibility will be developed between the parties. This strategy will set out the measures to be taken by the Albanian authorities to publicise (i) the assistance activities of the EU, (ii) the various milestones of the budget support program, such as the disbursement of tranches, (iii) the technical assistance provided to civil society organizations or to the Economic and Financial Committee of the Parliament. The following publicity events provide an ideal platform for visibility: (i) policy dialogue, (ii) the launch of Albania's economic reform programme, (iii) PFM steering committee sessions. A continued, vigilant and pro-active press work will be foreseen by the Albanian MoF and the EU Delegation.

To promote transparency and visibility of its support, the EU on its side will regularly publish relevant information on budget support actions, such as press releases on budget support payments and results achieved. Joint press activities between the EU and Albania may enhance the impact of individual publicity events.