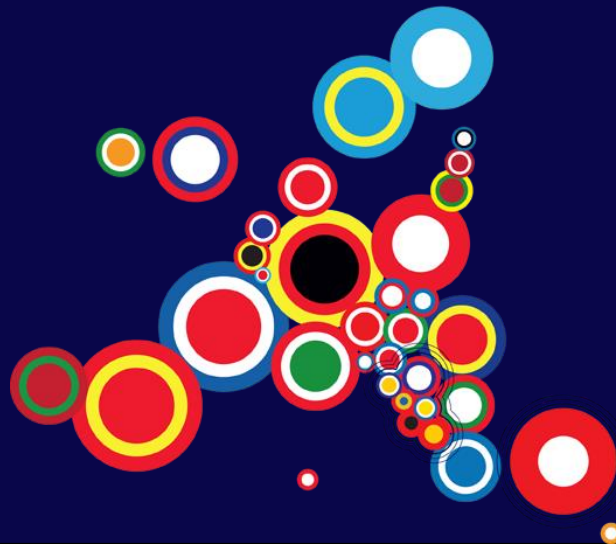




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

ALBANIA

EU for Good Governance



Action Summary

The overall objective is to contribute to a more capable and responsive public sector towards citizens' needs and businesses as well as to advance and respond to demands of EU integration processes. It aims to improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level. Key results include improved domestic revenue mobilisation; fiscal capacity of local government units; planning, budgeting and coordination; strengthened commitment controls and reduced arrears; improved human resource management; strengthened public investment management; increased integrity of public institutions; enhanced transparency and access to information for the citizens; and improved quality of services for citizens and businesses.

Action Identification	
Action Programme Title	Annual Action Programme for Albania for the year 2020
Action Title	EU for Good Governance
Action ID	IPA 2020/042-914.01/AL/EU for Good Governance
Sector Information	
IPA II Sector	Democracy and Good Governance
DAC Sector	15110 Public sector policy and administrative management
Budget	
Total cost	EUR 48,294,444
EU contribution	EUR 48,100,000
Management and Implementation	
Method of implementation	
<i>Direct management:</i> EU Delegation <i>Indirect management</i> National authority or other entrusted entity	Direct management by the EU Delegation to Albania And Indirect management with entrusted entity
Implementation responsibilities	Prime Minister's Office Department of Public Administration Ministry of Finance and Economy (MoFE) Ministry of Justice Ministry of Interior and the Municipalities of Albania
Location	
Specific implementation area(s)	Albania
Zone benefiting from the action	Albania
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2021
Final date for concluding contribution/delegation agreements, procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Indicative operational implementation period	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
Internal markers	Not targeted	Significant objective	Main objective
Migration	x	<input type="checkbox"/>	<input type="checkbox"/>
COVID response	x	<input type="checkbox"/>	<input type="checkbox"/>

LIST OF ABBREVIATIONS

AC	fight Against Corruption / Anti-Corruption
ADISA	Agency for the Delivery of Integrated Services Albania
AFMIS	Albanian Financial Management Information System
ALSAI	Albanian Supreme Audit Institution
ASPA	Albanian School of Public Administration
CEC	Central Election Commission
CoM	Council of Ministers
CSO	Civil Society Organisation
DoPA	Department of Public Administration
EAMIS	External Assistance Management Information System
EC	European Commission
EITI	Extractive Industries Initiative
ERP	Economic Reform Programme
EU	European Union
FATF	Financial Action Task Force
GDP	Gross Domestic Product
GoA	Government of Albania
GRECO	Group of States against Corruption
HIDAACI	High Inspectorate of Declaration and Audit of Assets and Conflicts of Interest
HRMIS	Human Resources Management Information System
ILO	International Labour Organisation
IMF	International Monetary Fund
INSTAT	Institute of Statistics
IPA	Instrument for Pre-Accession
IPMG	Integrated Policy Management Group
IPSIS	Integrated Planning System Information System
ISP	Indicative Strategy Paper
IT	Information Technology
LG	Local Government
LGU	Local Government Unit
MoFE	Ministry of Finance and Economy
MoI	Ministry of Interior
MoJ	Ministry of Justice
MTBP	Medium Term Budget Planning
NGO	Non-Government Organisation
NIPAC	National IPA Coordinator, currently the Ministry for Europe and Foreign Affairs
NSDI	National Strategy for Development and Integration
OBL	Organic Budget Law
OECD	Organisation for Economic Co-operation and Development
PAR	Public Administration Reform
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIFC	Public Internal Financial Control
PMO	Prime Minister's Office
PPP	Public Private Partnership
RIA	Regulatory Impact Assessment
SIGMA	Support for Improvement in Governance and Management
SMEs	Small and Medium-sized Enterprises
SRPC	Sector Reform Performance Contract
TA	Technical Assistance

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The Government of Albania (GoA) has embarked on **ambitious reforms to improve Good Governance** addressing a wide range of complex issues in the public administration reform (PAR), public finance management (PFM), the fight against corruption (AC) as well as **decentralisation** and **digitalisation**. Several reform areas progressed well but slowed down following the 2017 national elections and subsequent government restructuring. Until 2018 i.e. after 4 out of 6 years of implementation, 55% of the activities under the PAR strategy 2015-2020 were completed within the originally foreseen timeline¹. In 2018, the PFM Strategy 2014-2020 recorded 18 out of 36 indicators fully met and four partially met. The rate of completed activities under the Inter-sectoral Strategy against Corruption 2015-2020 was about 54% in 2018. Overall, progress of the National Cross Cutting Strategy for Decentralisation and Local Government (LG) 2015-2020 has been satisfactory² and the cross-cutting strategy of Digital Agenda for Albania 2015-20 shows visible results in the area of e-services. Strategies underwent mid-term reviews³ to make adjustments and the necessary time extensions until 2022. The action plans of these strategies are all costed, except the Digitalisation Strategy, as the administrative restructuring process in 2017 created some delays in the overall leadership and management of this area. In March 2020, the global pandemic COVID-19 reached Albania and the GoA introduced a number of measures to address the crisis situation. Restrictions and redirected focus on immediate response measures diverted attention from ongoing reforms, likely resulting in delays and/or change of results in the foreseeable future.

The EC report of 2019 noted that **Albania is moderately prepared** in what concerns the reform of its public administration. Efforts continued in several related areas, resulting in some progress in the efficiency and transparency of public services delivery, improving the regulatory framework on impact assessment of policies, more transparent recruitment procedures, and the overall strengthening of the administration's capacity to undertake merit-based civil service procedures. Consolidation of these achievements should advance further, to ensure a more efficient, depoliticised, and professional public administration. Further efforts are needed in strengthening the policy making system. Implementation of the public administration reform and public-financial-management reform strategies has continued, although the reorganisation of ministerial portfolios and structures has affected its pace and effectiveness⁴. **Several government measures have contributed already to the modernisation** of the public administration and its performance, as well as to the prevention of corruption. For example, regulatory reforms related to auditing and electronic procurement system led to improvements, and also E-taxation and E-customs systems have contributed to reducing the level of corruption in these sectors.

Key problems/needs for improvement, which have been also outlined in the 2019 EU-OECD SIGMA assessment for Albania⁵, are categorised along the various PAR areas. First, several problems are related to the policy planning and monitoring system such as incomplete regulatory framework for central medium term planning, weak alignment between analytical programme and National Plan for European Integration, lack of quality review function at the centre of government; fragmented monitoring and reporting of policies; preparation and costing of sector policies not fully based on regulatory and fiscal impact assessments, and weak link between strategies and fiscal planning. Evidence-based policy is at an early stage with insufficient statistical data and limited attention to e.g. citizens with special needs. Legislation on public consultations and regulatory impact assessments remain to be fully implemented. Second, with regard to **human resources**, sectoral administrative capacity and increased managerial accountability needs to be strengthened and delegation of decision making power to middle management increased. Third, with regard to **accountability**, implementation of the Law on Access to information needs to improve and central registers of requests and responses on the right to information to be extended. Fourth, with regard to **public financial management**, the process of public investment management does not guarantee

¹ The CCPAR Annual Report reports 68% completed. That figure is a percentage of activities/ outputs initiated (66) and not a percentage of total actions/ outputs planned (82).

² Annual Monitoring Reports on Implementation of Decentralisation Strategy, Oct 2016 and Oct 2017. As of 31 December 2017, 36% of the actions are completed, 49% are in progress, 13% are delayed, and 2% are to start beyond 2017.

³ Mid Term Evaluation of the Albanian Cross-Cutting Public Administration Reform Strategy, 2015-2020; Mid Term Review Report of the Albanian Public Financial Management Strategy 2014-2020; Mid Term Review of the National Cross Cutting Strategy for Decentralisation and Local Governance 2015-2020 issued in October 2020

⁴ <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf>

⁵ <http://sigmaweb.org/publications/Monitoring-Report-2019-Albania.pdf>

the approval of fully mature projects,⁶ and the accumulation of new arrears persists despite various budgetary control procedures being in place.

Generally, **internal control mechanisms and corruption risk assessments** are not systematically applied. Gender responsive budgeting has progressed well, however, not across all central and local government units. Institutional capacity gaps both at central and local level for coordinating, implementing, reviewing and monitoring policies widened following the government restructuring, and will not be closed through plans for reorganising subordinated agencies and independent institutions. The capacity for planning and implementing the National Plan for European Integration is weak. The design and integration of key IT systems continues with delays. Despite efforts and visible progress, **system and procedural weaknesses** still allow the reoccurrence of arrears across all line ministries. Alignment to the new Code of Administrative Procedures of existing and forthcoming laws remains to be implemented. The effective implementation of the Civil Service Law requires the production of guidelines and strengthening of human resource capacities. An integrated system linking performance appraisal, remuneration and career development (including dismissals) needs to be developed, and transparency improved through automated payrolls in the human resource management information system (HRMIS). New legislation affecting the local level is not fully harmonised and implemented yet. Most notably, larger competences are not matched with adequate financial and human resources available to Local Government Units (LGU), and their fiscal autonomy is at risk⁶. The establishment of community structures⁷ is on hold in most municipalities.

Corruption remains prevalent in many areas⁸. It undermines the potential impact of any reform, and the efficient and effective use of public resources. Weaknesses exist in the overall institutional set-up, highly complex legislative framework, available human resources, managerial accountability, and internal control. The high level of corruption results in a low level of public trust in the public administration and the judiciary. Public Financial Management needs to be strengthened and the civil service further professionalised to improve the quality of public spending and value for money in service delivery. While the Corruption Perceptions Index score for Albania increased from 31 in 2013 to 38 in 2017 (on a scale from zero (highly corrupt) to 100 (very clean)), it dropped again to 36 in 2018 with a decrease in rule of law, control of corruption and democracy, and stagnation in other areas⁹. While corruption is perceived widespread, few citizens have witnessed corruption cases at central or local government¹⁰. Low salary packages for civil servants, as well as lack of internal control and managerial accountability mechanisms are considered to contribute to the situation. Both preventative and repressive measures against corruption need to be stepped up. A merit-based, de-politicised civil service plays a crucial role in enabling value for money for the public, while at the same time limiting the spread of corruption and reducing the space for conflicts of interests and undue influence. The Law on Public Consultation is not yet fully implemented. Lack of inclusiveness, equity and equality are also evidenced by an absence of a comprehensive public consultation on budget, expenditure and policy matters. The lack of participation and engagement of citizens reinforces deficit of public trust in government. Public scrutiny of government work improved, but is limited and requires closer interaction with independent institutions, the Parliament and civil society.

Accession to the European Union (EU) is the primary **driver of governance improvements** for the GoA, alongside economic growth, which depends on a positive enabling environment. Fiscal sustainability needs to be monitored closely in the context of the Economic Reform Programme (ERP). Albania is ranked 63rd among 190 economies in the '2018 Ease of Doing Business' rankings, up by 3 places since 2017. The risk of "brain drain" is high with 70% of young people wanting to emigrate. The GoA is in **need of modernisation** towards a customer-centred public management with clear managerial accountability, as provider of services and as employer.

The overall coordinator in this sector is the Deputy Prime Minister. Main institutional stakeholders include the Department for Development and Good Governance in the Prime Minister's Office, Ministry of Finance and Economy (MoFE); the Ministry of Justice (MoJ) also in its capacity as National Coordinator Against Corruption; the Ministry of Interior (MoI) as coordinator for the decentralisation agenda; the Department of Public

⁶ Annual Monitoring Reports on Implementation of Decentralisation Strategy, Oct 2016 and Oct 2017; Mid Term Review on Implementation of Decentralisation Strategy (Oct 2018)

⁷ As required by Law 139/2015

⁸ 3-monthly Monitoring Reports on the implementation of the Inter-sectoral Strategy against Corruption (Q1 2017, Q3 2018); and Indicator Passport for the Inter-sectoral Strategy against Corruption (April 2018)

⁹ Transparency International Corruption Perceptions Index, <https://www.transparency.org/cpi2018>

¹⁰ Opinion Poll 2017, Trust in Government. Institute for Democracy and Mediation

Administration (**DoPA**) and Albanian School of Public Administration (**ASPA**); the Commissioner for the Oversight of the Civil Service; the Commissioner for the Right to Information and Data Protection; several agencies such as the National Agency for Information Society (**AKSHI**) in charge of almost all government IT development, integration and maintenance as well as the coordination of the Digital Agenda strategy; the Public Procurement Agency; the Central Inspectorate; the Agency of Self-Government Support; and municipalities. Other stakeholders at local government level include the Association of Municipalities and the Agency for the Delivery of Integrated Services Albania (**ADISA**). **Independent Institutions** with an oversight role include the Albanian Supreme Audit Institution (**ALSAI**); the Institute of Statistics (**INSTAT**), the Ombudsperson; the Anti-discrimination Commissioner; the Commissioner for data protection and access to information; and the Public Procurement Commission and the Parliament. The main **non-state actors** comprise civil society organisations (**CSOs**) as well as think tanks, academia, research institutes, young people, universities, the private sector and those with an interest and influence in the sector such as donors, development partners and the media.

The majority of institutions are negatively affected by a mismatch between human and financial resources, and competency levels and “know-how” required to undertake complex tasks to deliver transparent, accountable and responsive public services, which were expanded in the case of municipalities. All main actors are represented in the Integrated Policy Management Group (**IPMG**) for Good Governance and Public Administration, which has restarted its operations in late 2018.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Good Governance is linked to two of the priorities of the **Enlargement Strategy** for Albania: to reform the public administration with a view to enhancing its professionalism and de-politicisation; and to make further determined efforts in the fight against corruption. The revised **Indicative Strategy Paper (ISP)** for Albania for 2014-2020, among others, aims to support enhanced transparency, accountability, and effectiveness of the public administration; to increase the administration's focus on the needs of citizens and businesses; and to enhance economic governance including a comprehensive PFM reform.

Particular ISP results relate to (i) a de-politicised, merit-based civil service system with integrity systems and ethical standards; gender balanced career management; (ii) civil service and public administration organisation, coordination, and functioning fully defined, including competency and responsibility of local governments; (iii) inclusive strategic planning and policy making, participatory, evidence-based and legislative development aligned to GOA's medium term budget programme; (iv) decision making processes follow performance monitoring and quality statistical data collected and analysed; (v) improved fiscal stability; (vi) efficient and sustainable use of public finances covering arrear clearance, revenue collection and administration, budget preparation and execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit; (vii) strengthened municipal EU related governance capacities, as well as an improved reach-out to citizens and local administrations; and (viii) strengthened administrative and institutional capacities of LGUs, improved local service delivery, and enhanced local democracy through fostering citizen-oriented governance and participatory decision making.

The **2018 strategy for "A credible enlargement perspective for an enhanced EU engagement with the Western Balkans"** notes that Public administration reform is paramount to strengthening governance at all levels. This includes improving the quality and accountability of administration, increasing professionalism, de-politicisation and transparency, also in recruitment and dismissals, more transparent management of public finances, and better services for citizens. An appropriate balance between central, regional and local government also needs to be found. It also specifically refers to the fight against corruption and economic reforms, for which also local governments are a strategic element. An important share of the EU *acquis* is implemented at local level.

SECTOR BUDGET SUPPORT READINESS

MACROECONOMIC STABILITY

Albania's economic growth slowed down in 2019 to 2.2% after the moderate growth of 4.1% in 2018. Domestic demand expansion led growth in 2019. Stagnant growth among trade partners limited traditional exports, while energy exports declined. Exports grew 10% year-on-year, driven in particular by services (tourism) and manufacturing services. The growth of imports softened to 3.6% year-on-year due to lower electricity imports.

Growth of gross fixed capital formation continued to shrink, most likely due to the conclusion of works related to the Trans-Adriatic Pipeline, an exceptionally large construction project.

Following subdued growth and a devastating earthquake in 2019, Albania was hit by the COVID-19 pandemic in March 2020. The economy is projected to contract by 4¾% in 2020 because of domestic and international restrictions depressing private consumption and tourism, on which Albania strongly relies. The recession in the EU will also affect remittances and FDI inflows and put pressure on the current account and the exchange rate. The fiscal deficit is expected to rise above 5% of GDP and public debt is set to rise temporarily to about 75% of GDP. For 2021, GDP growth is expected to rebound to 4¼%, but this is subject to uncertainty about the length of travel restrictions and the resilience of enterprises during the crisis. Since March 2020, domestic and international restrictions to contain the pandemic have begun to depress private consumption, investment and exports. Private consumption and investment are projected to drop by 4¼% and 7% respectively. Total exports are set to drop by about 25%, mainly because tourism services are set to lose an entire season in 2020. Merchandise exports are expected to contract because of falling manufacturing and commodity exports, whereas electricity exports are not expected to be affected. The expected strong fall in imports, in particular for travel services, will not be able to fully offset the drop of exports; overall net exports are likely to subtract about ¼ percentage points from growth. The still large share of family based agriculture and hydro-electricity production will not be affected by the crisis and could slightly limit the contraction of GDP. Manufacturing, construction and services industries are expected to recover gradually after the end of the lock-down.

On the supply side, the 2019 recovery reflects an increased output of mining, manufacturing and of services, including those related to hotels and trade. Electricity production recovered but remained far below its exceptional 2018 levels. Job creation, higher wages and consumer credit continued to drive private consumption, which contributed around 2.1 percentage points to GDP growth. Meanwhile, investment increased thanks to better credit conditions and government infrastructure spending. Employment continued to grow, while unemployment reached a record low of 11.4% in Q3 2019. Job creation (for the population aged 15 years and above) was with 6% strongest in industry (mainly manufacturing and construction), followed by services, in particular in hotels and in communication services. The youth unemployment rate increased to 21.4% in Q3 2019 but remained below its 2018 level. The labour force participation rate was 69.8% in Q3 2019 with the female participation rate increasing to 62%. This narrowed the gap between male and female labour force participation to 15.7 percentage points.

The contraction in 2020 is likely to increase the unemployment rate by more than 3 percentage points to close to 15%. The rise in unemployment and weak social safety nets will dampen the recovery of private consumption in 2021. The depletion of many small and medium-sized enterprises' (SMEs) financial resources is expected to continue depressing private investment in 2021. Nonetheless, economic growth is estimated to rebound to 4¼% mainly due to the recovery of tourism. Moreover, already lined-up public reconstruction projects could stimulate the construction sector. This projection is subject to substantial uncertainty about how enterprises will survive the crisis period. Continuing travel restrictions, which would dampen the recovery of tourism, are the downside risk.

Inflation declined compared to end-2018, on the back of low imported inflation from Albania's trade partners and an appreciation of the Albanian LEK.

In 2019 fiscal revenue growth was limited by lower GDP growth and, especially, by increased repayment of VAT-refund-arrears. The revenues-to-GDP ratio declined from 27.6% of GDP in 2018 to an estimated 27.4% in 2019. Personal income tax revenue and social security contributions rose slightly, supported by higher wages and efforts to reduce informality.

Government efforts to formalise the economy during the last years have yielded some positive results in the number of registered employees in the social insurance scheme. The labour market policies envisaged under the national employment and skills strategy for 2014-2020, are expected to contribute to the reduction of unemployment, youth unemployment and informal economy. However, Albania has a relatively narrow production base, resulting in a large structural deficit on the trade balance for goods. This is partially offset by revenues from foreign tourism and the export of manufacturing services for foreign-owned products. The current account also benefits from a large volume of remittances from Albanians abroad. However, due to fiscal consolidation efforts there may be pressure on the expenditure side in case of revenue shortfall to meet deficit targets.

Despite the difficult situation due to November 2019 earthquake the government managed to reduce the public debt to 66.2% vis-à-vis previously estimated 66%. Because of the high financing needs, the new sovereign

guarantees for the private sector and the fall in GDP, the public debt ratio is set to increase temporarily to about 75% of GDP in 2020 and to decline mildly in 2021.

The general government deficit fell from 4.1% in 2015 to 1.5% of GDP in 2018 on account of lower expenditure and higher revenues. In 2019 it increased up to 1.9% of GDP mainly due to increased expenditures in the last quarter of 2019 due to earthquake. The energy shock and lower foreign demand exposed country's external vulnerabilities. In response to the earthquake, the government planned a 0.6 percentage points increase in the fiscal deficit, to 2.2% of GDP in 2020. The government's financial support measures in the context of the pandemic, combined with the expected fall in revenue are forecast to increase the fiscal deficit temporarily above 5% of GDP. The current-account deficit is highly sensitive to commodity prices and rainfall conditions, as the latter largely determine energy production. Current Account deficit expanded from -6.8% of GDP in 2018 to -8% of GDP in 2019 mainly due to reduced exports while imports maintained similar level to 2018.

The real-effective-exchange-rate index climbed 9% by the end of 2018, reflecting the acceleration in the appreciation of the Albanian currency. In 2019 the currency was back to normal levels. Remittances inflows remained strong but recorded a slightly decreasing share in GDP from 5.8% in 2015 to 5.2% of GDP in 2018. FDI inflows softened from 8.6% to 7.9%, as the construction of two large energy projects approaches completion, but remained high and still financed most of the current account deficit. At the end of December 2019, gross international reserves were at EUR 3 360 million, about 24.5% of GDP. Reserve adequacy indicators were above critical levels, enough to cover 6.6 months of imports of goods and services and 155% of short-term external debt.

The stability of the financial sector improved, as banks continued to reduce non-performing loans. However, lending to the private corporate sector remained muted and the high use of foreign currency in the domestic market persisted. The new Bankruptcy Law still awaits the adoption of accompanying regulations, and the implementation of the amended Private Bailiffs Law is hampered by disputes.

The Economic Reform Programme (**ERP**) 2020-2022 was adopted in January 2020 – prior to COVID-19. Under the ERP Albania projected economic growth to accelerate to 4.1% by 2020 based on strong private domestic demand due to greater employment, rising wages and favourable lending conditions for households. Private investment activity was projected to remain steady at 17.8% of GDP during 2019-2021, slightly lower than compared to 18.5% of GDP in 2018. The situation is expected to further deteriorate due to COVID-19 in 2020, the government austerity measures which blocked activities of the majority of enterprises during March-May 2020, and risks associated with a potential second wave of COVID-19 in 2020. Net exports are expected to make only a marginal contribution to the economic expansion. The growth outlook appears optimistic in light of a worsening external environment, continued low levels of lending to businesses, and weaknesses in the business environment.

In the ERP Albania confirmed the commitment to cut public debt from the peak of about 73% of GDP in 2015 to about 65.4% of GDP in 2020; 62.3% of GDP in 2021 and 62.0% in 2022. To achieve this reduction, the baseline fiscal scenario targets a fiscal deficit at the level of 2.2% of GDP in 2020; 2.0% in 2021; and 1.7% by 2022 while targeting a positive primary balance. The relatively low public expenditure ratio does not allow for significant expenditure cuts, which partly explains the moderate pace in debt reduction. The recent multiplication of VAT exemptions will complicate attempts to broaden the tax base and improve the efficiency of tax collection, alongside informality and tax evasion in the formal economy.

In 2019 capital expenditures were at the level of 4.5% of GDP or 15.2% of total expenditures as compared to 4.8% of GDP and 16.5% of total expenditures in 2018. For the period 2020-2022 government public investments were estimated at an average of about 4.7% of GDP for each year (or about 5.5% of GDP if local government investments were included). Weaknesses in the planning and management of capital expenditure still persist. In order to bridge the large infrastructure gap, the government is seeking to mobilise private capital - mainly through public-private partnerships (**PPPs**). The increasing reliance on PPPs generates contingent liabilities and therefore fiscal risks, for which there is limited monitoring capacity.

The overall macroeconomic policy mix has been broadly appropriate. Albania has complied with fiscal rules – mainly to keep the public-debt-to-GDP ratio declining to reach the limit of 45% despite the force major earthquake. Budget implementation and PFM should be strengthened to avoid arrears and to manage fiscal risks. Increasing tax revenues could help speed up the path to the 45%-debt-to-GDP limit, thus strengthening debt sustainability.

As the effects of COVID-19 crisis to the Albanian economy continue deepening, the government intends to increase borrowing. The budget deficit is expected to increase in 2020 in order to ensure basic services, and to help

businesses survive. In the mid to long run, however, the government is committed to maintaining fiscal consolidation. After the March amendment to the state budget, a second revision was approved in April 2020. *Overall, the eligibility requirement for a credible and relevant stability-oriented macroeconomic policy is met.*

PUBLIC FINANCIAL MANAGEMENT

2019 marked the fifth year of implementation of the Public Financial Management (PFM) Strategy and the related action plan. Annual monitoring reports are published in Albanian and in English. Overall, there has been progress which, however, slowed down following the November 2019 earthquake and the COVID-19 in the first half of 2020. In particular, the approval and implementation of the coordination framework and regular monitoring were delayed. Delays were also encountered in the roll-out of AGFIS to more budget institutions and establishing interfaces between AGFIS and HRMIS, the procurement system, and the customs management. On the other hand, notable progress was achieved by the Public Procurement Agency in drafting of a public procurement strategy and a new public procurement law; and by the Central Harmonisation Unit on internal control.

The Ministry of Finance and Economy (MoFE) set up intra- and inter-ministerial consultation mechanisms to conduct the midterm review of the PFM reform strategy 2014-2022, and to develop and consult the revised and extended PFM strategy for 2019-2022. The midterm review of the PFM strategy was completed with a consultation workshop in March 2019 including the identification of priorities to be addressed during the extended period until 2022. The priorities include, among others, public investment management including fragmented approval, appraisal, selection, and monitoring processes for public investment projects, PPPs and concessions; analysing, monitoring, reporting and mitigating fiscal risks; re-accumulation of arrears at local and central government levels following the clearance of all pre-2014 arrears; improving the follow-up of internal and external audit recommendations; strengthening of internal control standards across government in line with a comprehensive PIFC policy; online access to the treasury for all budget institutions; and the creation of a separate pillar for Domestic Revenue Mobilisation. In the context of the recent crises these priorities remain valid, in particular the focus on improving own revenue generation and fiscal decentralisation, risk management and budget execution as far as public procurement, arrears management and public investment management/PPPs are concerned.

MoFE's coordination unit led this process. Consultation started in July 2019 and the process was concluded in the PFM Steering Committee, the formalised government coordination and dialogue mechanism, in September 2019. The Council of Ministers approved the revised and extended PFM strategy for 2019-2022 in December 2019. The revision marks a shift from action-orientation to focusing on results, including performance indicators and costing.

The changed circumstances and economic outlook due to COVID-19 require MoFE to review priority setting and sequencing for 2020, and possibly beyond, including potential changes to outcome and output targets as well as reform activities. The anticipation is to finalise such review within Q3 of 2020.

The 2017 Public Expenditure and Financial Accountability (PEFA) assessment indicates mixed performance with 15 out of 31 indicators reflecting strong performance, 16 indicators weak performance. The aggregate comparison with the previous assessment in 2011 shows no change in performance for sixteen indicators, an improvement for five indicators, and a lower score for seven indicators. Of those seven indicators, three scores did not relate to a change in performance but to an over-optimistic interpretation of the framework in 2011.

Overall, the eligibility requirement for a credible and relevant programme to improve public financial management is considered to be met.

BUDGET TRANSPARENCY AND OVERSIGHT

The Government of Albania published the 2020 budget (Executive's budget proposal and the enacted budget) in a timely manner for the general public on the MoFE website¹¹ and in printed form in the Official Gazette¹².

¹¹ <https://financa.gov.al/buxheti-2019/>

¹² <http://www.qbz.gov.al/>

Therefore, *the entry level requirements are considered to be met*. Overall, budget transparency has improved in recent years in terms of quantity and relevance of information at both central and local level with the implementation of the PFM reform. Government now publishes all key budget documents¹³ in a timeframe consistent with international standards. However, the mid-year report, first published in 2017¹⁴, covers five instead of six months; in line with the Albanian Organic Budget Law. The BOOST initiative improved public access to budget data¹⁵ and MoFE established in collaboration with Co-Plan a transparency portal on Local Finances¹⁶. A key issue is the varying level of transparency across government, which needs to be systematically addressed. The 2018 budget implementation report was published¹⁷ with room for improvement as regards reporting on state assets and possibility of comparison with the original budget.

The most recent Open Budget Index score available is 55 (2019)¹⁸ compared to 50 (2017) and 38 (2015), demonstrating a continuous improvement. According to the PEFA 2017, most indicators did not change in terms of performance vis-à-vis overoptimistic PEFA 2011 scores, with the exception of budget documentation (PI-5). Monthly budget execution reports are issued timely, but data coverage and classification does not allow direct comparison to original budget, and expenditure is captured at payment stage (PI-28). Annual financial reports are submitted for external audit in a timely manner but do not present a comparison between original budget and actual execution. Differences between national and international standards are not disclosed. (PI-29)

Gaps exist with regard to adequate attention by Parliament and follow-up of audit recommendations (PI-30 and PI-31). The legislature issues recommendations on actions to be implemented, but does not monitor them. Hearings are conducted in public with a few exceptions. External audit coverage is extensive but the implementation of recommendations is low. ALSAI developed a system to track the implementation of recommendations which is expected to become fully operational in 2020. In 2018 ALSAI issued for the first time an opinion on the 2017 budget execution report. The Open Budget Survey (OBS) 2019 scored oversight at 65 points, slightly lower than in 2017 (69 out of 100 points). Audit oversight was considered adequate with 72 points and legislative oversight just about adequate with 61 points (*N.B. 41-60 points is "limited"*). An OBS recommends that a legislative committee should examine in-year budget implementation and publish reports with their findings online.

The 2019 Open Budget Survey concluded with 7 out of 100 points (up from 2 points in 2017) that Albania provides few opportunities for the public to engage in the budget process. However, the global average for this indicator is only 14 points, while the OECD average is 23 points. In the region Croatia (22 points) and Slovenia (11) are at the top of the league. The revision of the Organic Budget Law in 2016 included consultation with civil society as a legal requirement, to formalise previously voluntary initiatives. The low score for Albania is mainly due to the limitation of public consultation during the budget approval process, rather than during formulation, implementation and audit of the budget.

A New Financial Planning Tool for local units for the MTBP and related Manual for Financial Planning Toolkit were approved in 2018 and rolled-out as part of staff training and capacity building measures. The new standard MTBP preparation instruction will strengthen its role as an instrument for the budget (preparation) process and strategic resource allocation purposes. MoFE publishes LG budget monitoring reports quarterly.¹⁹ Over the medium-term perspective a significant challenge - particularly for LGs – will be to adhere to the two-step approach of costing and budgeting resources.

The IMF Fiscal Transparency Code assessment²⁰, published in 2016, noted that ten of the Code's 36 principles are rated as either "good" or "advanced," and 14 principles rated as "basic". However, in eight areas the basic requirements of the Code are "not met." The IMF Transparency assessment from 2016 has not been updated and hence it does not reflect any of the progress in the last two years.

Albania was found to have made meaningful progresses against the Extractive Industries Initiative (**EITI**) Standards as confirmed by the Board on 17 June 2019. The second validation in 2019 showed that all requirements

¹³ Including Citizen budget <https://financa.gov.al/buxheti-i-qtetarit-2/>

¹⁴ <http://financa.gov.al/buxheti-2017/>

¹⁵ <https://financa.gov.al/boost/>

¹⁶ <http://www.financatvendore.al/>

¹⁷ <https://financa.gov.al/buxheti-faktik-2018/>

¹⁸ <https://www.internationalbudget.org/open-budget-survey/country-results/2019/albania>

¹⁹ <https://financa.gov.al/buxheti-i-pushtetit-vendor/>

²⁰ <http://www.imf.org/external/np/sec/pr/2016/pr1611.htm>

show improving performance compared to the first validation, with the exception of deterioration of revenue collection comprehensiveness (#4.1). The objective is to reach “Beneficial Ownership Disclosure” by 2020.

Albania is part of MONEYVAL, the permanent regional monitoring mechanism assessing compliance with and implementation of international standards to counter money laundering and financing of terrorism (FATF standards). Strategic deficiencies of the Albanian system highlighted in the 5th round Mutual Evaluation Report triggered the FATF listing process, resulting in Albania being subject to a one-year observation period. On 17 June 2019, Parliament adopted a "MONEYVAL package" to address the technical part of the recommendations including amendments to four existing laws (tax procedures, business registration, terrorism financing, prevention of anti-money laundering/terrorist financing), and the adoption of a new law on the administration of seized and confiscated assets. Among the main changes introduced are the obligations for businesses and NGOs to open a bank account, an improved transparency on the beneficial ownership of companies, a faster transposition of UNSCR sanctions on the freezing of terrorist assets, and the broadened competence of the agency in charge of confiscated assets. Despite progress in some areas, the MONEYVAL plenary assessed overall progress in implementing recommendations as insufficient, and Albania was grey-listed by the FATF in February 2020.

Albania signed the Convention on Mutual Administrative Assistance in Tax Matters. It is member to the inclusive framework on BEPS and member of the global forum for the exchange of information on request, largely compliant in the first rating round. The next rating round is scheduled for 2020. *Overall, the eligibility requirement for budget transparency and oversight is considered to be met.*

SECTOR POLICY

Good Governance policy is anchored in several interrelated sectoral and cross-sectoral strategies. The coordination and monitoring of these are envisaged with the IPMG and its respective thematic working groups for Good Governance. They cover policy making and systems, PAR, PFM, Anti-Corruption, Justice, Local Government/Decentralisation, the Digital Agenda, Public Services, and Statistics. **The design and implementation of this programme is based on the credibility and relevance as well as satisfactory progress for the implementation of the two "core" strategies, i.e. PAR and PFM.** In addition, relevant policy monitoring will be provided for the implementation of "complementary" strategies, i.e. Anti-Corruption, Local Government and the Digital Agenda.

The cross-cutting PAR strategy 2015-2020, the PFM reform strategy 2019-2022, as well as the other complementary strategies of the good governance reform framework - the inter-sectoral strategy against corruption 2015-2020, the National Cross Cutting Strategy for Decentralisation and Local Government 2015-2020 and the strategy for a Digital Albania 2015-2020 - together form the wider public administration reform framework – also in line with the strategic framework for PAR. The PAR strategy as the main public policy document - as well as other complementary strategies for good governance - continue to be **relevant** in the sense that they are aligned with other primary national planning documents, namely NSDI, they address the principal problems in the sector and they accord with Albania’s EU accession policy commitments. The **PAR** strategy, coordinated by the PMO and DoPA, addresses the key weaknesses in: (i) policymaking and the quality of legislation; (ii) organisation and functioning of public administration; (iii) civil service: human resource management; (iv) administrative procedures and oversight. The **PAR** strategy is also consistent with SIGMA’s six core areas of Public Administration²¹ and reflects priorities set out under “governance for development” of the South East Europe Strategy 2020²². With regards to the other complementary strategies for good governance:

The specific objectives of the **PFM** strategy 2019-2022, coordinated by the MoFE, address key weaknesses related to (i) sustainable and prudent fiscal framework; (ii) well integrated and efficient planning; (iii) revenue mobilisation; (iv) efficient execution of the budget; (v) transparency of public finances; (vi) effective internal control; and (vii) effective external oversight of public finances.

The **AC** strategy, coordinated by the MoJ in its role as the National Coordinator Against Corruption, combines 18 rather complex objectives linked to prevention, repression, and awareness raising with 97 measures in the action

²¹ SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the European Union and the Organisation for Economic Co-operation and Development (OECD).

²² <https://www.rcc.int/pages/62/south-east-europe-2020-strategy>

plan 2018-2020 in a multi-institutional setting. The strategy directly responds to the key priorities set out in the European Integration agenda, but lacks financial planning and sustainability. A new action plan for the period 2019-2023 with costing and updated targets for the performance indicators has been submitted to the Council of Ministers (CoM) for approval. In 2018, the Council of Ministers (CoM) approved two new internal AC monitoring structures: an inter-ministerial committee as a decision making body composed by the 12 Deputy Ministers and an inter-institutional anti-corruption task force as a technical level working group led by the National Coordinator Against Corruption. In 2019, a separate Directorate for Anti-corruption was created within the Ministry of Justice together with a network of Anti-corruption Coordinators covering 17 central institutions. In 2020, a new Unit on Anti-evasion and Anti-corruption was set up under the Prime Minister's Office.

The National Cross Cutting Strategy for Decentralisation and **Local Government** 2015-2020, coordinated by the MoI, addresses identified weaknesses: (i) efficiency of LG structures; (ii) fiscal and financial autonomy; (iii) sustainable economic development; and (iv) good governance. The division of responsibilities needs to be clarified and the existing de-link between objectives and activities/indicators needs to be revisited. The strategy could also be enriched by considering linkages between decentralisation and regional policy; role of regions (qarks); national and local prerogatives in financing national/regional local development or further direction on the intergovernmental grant system (primarily conditional grants). The management structures for the decentralisation strategy are not streamlined. The **Agency for Support to LGs** has been established in January 2018 and committed to the process, but line ministries have not been involved in an equally active way.

The cross-cutting strategy "**Digital Agenda** for Albania 2015-20", coordinated by the PMO, focuses on: (i) development of electronic governance and delivery of interactive public services for citizens and businesses; (ii) development of electronic communications in all sectors and; (iii) establishment of the National Geospatial Data Infrastructure. The strategy aims to address some of the main challenges in terms of e-government, public service delivery, and electronic communication infrastructures' needs.

The design of these strategies and their mid-term reviews were informed by consultation processes with relevant stakeholders, including state and non-state actors. While the **track record in implementing the strategies is overall positive** despite a slow-down following the 2017 elections and government restructuring, the original strategies suffered from poor costing and at times inadequate inclusion in the medium term budget. Risks to the sustainability of reforms relate to political commitment and palpable ownership of some pillars, as well as to low human resource capacity by several public administration actors in terms of staff numbers and skills. The opportunity to coordinate the interlinked strategies has now been re-vitalised at the end of 2018 with the reestablishment of the IPMG structure. Considering all aspects and recent developments regarding design, implementation track record and sustainability, the PAR strategy can be considered *credible*. The **PAR** action plan 2018-2020, is practically fully-costed (90%) and 96% of the identified costs are included in the MTBP. The revised **PFM** strategy, including costing for the period 2019-2022, was adopted in December 2019. The **AC** Action Plan 2018-2020, including recommendations of the Group of States against Corruption (GRECO) and MONEYVAL, was approved without prior consultation and proper costing. The new Action Plan 2019-2023 has been consulted and includes costing of the measures. Within the framework of the decentralisation strategy, new laws on local self-governance and on the territorial and administrative division of Albania were adopted. In addition, a new law on local finance was adopted in 2017 with clear rules, principles and procedures of local government finance from their local and state budget sources. Costing of the strategy is needed with link to the MTBP. According to the 2018 annual monitoring report on the implementation of the Decentralisation and Local Governance Strategy, implementation is satisfactory. As of 31 December 2017, 36% of the actions were completed, 49% were in progress, 13% were delayed, and 2% were to start beyond 2017. Progress in the **Digital Agenda** (DA) strategy's implementation is visible in the area of e-services. There is political will to move Digital Agenda forward, but this responsibility was transferred to AKSHI in 2017 and the absence of a strong coordination mechanism hinders progress and sustainability.

Monitoring and evaluation have continuously improved since the adoption of the PAR and other strategies related to good governance, now featuring corresponding action plans and indicators with targets; except for DA for which the recently appointed coordinating institution, the National Agency for Information Society, produced a new action plan until 2022. While the first annual reports were heavily supported or even drafted by external consultants, each monitoring round was characterised by stronger ownership by GoA. Monitoring reports are slowly moving from rather descriptive activity-focused monitoring to a more substantiated analysis of indicator

target achievements. So far, reports were prepared by DoPA for PAR, by MoFE for PFM, by MoJ for AC, and by external experts for the Ministry of Interior for LG²³. For the Digital Agenda the Minister of Innovation and Public Administration was in charge of reporting until the dismantling of this function in 2017. Since then the National Agency for Information Society has produced a first monitoring report in 2019. All available progress reports have been published.²⁴ Moving forward, the operationalisation of the IPSIS, the Albanian Financial Management Information System (AFMIS) are expected to improve data availability for monitoring. The strategies discussed in this chapter are all *coherent* in terms of linkages to the national policy priorities. In terms of PAR mainstreaming across government policies, the capacity by the PMO is limited to ensure the quality of draft policies prior to submission to the Council of Ministers (CoM) for adoption. Templates exist for drafting policies and strategies, but these are reportedly rarely used so that policies/strategies, without Action Plans or with un-costed Action Plans, have been adopted by the CoM. In 2019, 42 laws were subject to Regulatory Impact Assessments (RIA). The introduction of RIA is expected to further contribute to harmonisation and improvements of standards over the next years. *On the basis of the assessment carried out, the PAR strategy as main public policy base for the support - is considered relevant and credible as underlying sector strategy for this Sector Reform Performance Contract.*

LESSONS LEARNED, LINK TO PREVIOUS/OTHER FINANCIAL ASSISTANCE AND INTERVENTIONS BY OTHER COOPERATION PARTNERS

This action builds on ongoing and past EU-funded support and mid-term reviews of government's own strategies, while seeking to complement other donors' initiatives. Budget support for PFM, PAR and AC are close to completion and pave the way for a follow up action to further strengthen reform implementation. Furthermore, lessons from these programmes indicate the need for additional TA to further implement the civil service reform and the reform of subordinated agencies and independent institutions, to improve services delivered to citizens, to improve sector coordination, strengthening PFM and transparency with a view to fight corruption, and to support municipalities, to clarify competences, to strengthen capacity, and to strengthen local fiscal autonomy.

The integrated planning system has been under development since 2010 and is planned to be put in operation from 2020. It needs a relevant legal framework, coordination, and adequate human resources as well as further capacity building to secure sustainability. While the IT systems are expected to be up and running from 2020, a longer term process is required for government staff to operate the systems. Moreover, lessons learned from ongoing sector budget support programmes highlight the need for political leadership, commitment and strong coordination, and stability of the public administration, especially for cross-cutting reforms to be implemented across government, both at central and local levels, and for further engagement through policy dialogue.

Complementarity is ensured with other ongoing EU Rule of Law assistance, namely EURALIUS and PAMECA, with the past support to local governance and decentralisation (namely STAR 2), as well as with the Horizontal Facility – Action against Economic Crime (EU/Council of Europe) and Horizontal Facility – Strengthening the quality and efficiency of Justice in Albania (EU/Council of Europe).

2. INTERVENTION LOGIC

DESCRIPTION OF OBJECTIVES, MAIN ACTIVITIES AND EXPECTED RESULTS (OF THE BUDGET SUPPORT COMPONENT)

The overall objective is to contribute to a more capable and responsive public sector towards citizens' needs and businesses as well as to advance and respond to demands of EU integration processes.

The specific objective is to improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level.

²³ For 2016 and 2017 the previous Minister of State on Local Issues/National Coordinator Against Corruption received support from OSCE to the report drafting

²⁴ **PAR:** http://dap.gov.al/images/DokumentaStrategjik/PAR_Strategy_2015-2020_English.pdf (in EN); **PFM:** <http://financa.gov.al/raportet-e-monitorimit-2/> (in AL and EN); **LG:** <https://amvv.qeverisjavendore.gov.al/> (in AL); **AC:** <https://drejtesia.gov.al/wp-content/uploads/2018/07/2017-Monitoring-Report-for-Strategy-Against-Corruption-1.pdf> (in EN). **LG:** <http://www.bpe.al/al/publikime>

The **induced outputs** of this intervention are as follows:

- Improved domestic revenue mobilisation;
- Improved fiscal capacity of local government units;
- Strengthened commitment controls
- Improved human resource management;
- Improved public investment management;
- Increased integrity of public institutions;
- Enhanced transparency and access to information for the citizens;
- Improved regulatory framework and capacities at local government;
- Improved service delivery to citizens;

The **main activities** to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development:

- Engagement in policy dialogue around conditions and government reform priorities, the verification of conditions, targets and the payment of budget support;
- Transfer of EUR 36 million to the beneficiary country over the fiscal years 2020, 2021, 2022 and 2023 with disbursements of fixed and variable tranches;
- Support to reinforce Government's institutional capacities to implement the Public Administration reform and related strategies;
- Enhancing donor and policy coordination through capacity building for the good governance and public administration on central and local level by budget support as well as TA;
- Monitoring and evaluation for tracking implementation of the public administration reform and other related reforms;
- Regular monitoring of budget support eligibility criteria.

At **input level**, the transfer of budget support funds will enable the government to improve the financial capability to undertake strategy implementation in the field of good governance. Also, the policy dialogue and focus on improved sector coordination will contribute, among others, to better follow up of policy implementation and improve sector monitoring and evaluation.

The technical assistance will support the reform implementation, improve the delivery of services at local level, enhance communication and awareness raising, and provide regular monitoring and compliance review of the reform progress. The grant will support service delivery at local level.

At **output level** (induced outputs), the action will contribute to:

- **Improved domestic revenue mobilisation:** The tax-to-GDP ratio in Albania is below the regional average and below its potential due to gaps in the efficiency of the tax administration, tax evasion and large informality. Albania's large infrastructure and human development needs require a strong domestic revenue generation to provide the fiscal space needed, while reducing the national debt-to-GDP ratio as set out in the fiscal rules. Revenue goals and associated measures are expected to be set out in a medium-term revenue strategy, which was agreed in the Joint Conclusions on Albania's ERP 2019-21. Its implementation will be monitored through the annual ERP assessments. The recurrent issue of VAT refund arrears needs to be addressed as it undermines the business climate and trust in the government.
- **Improved fiscal capacity of local government units:** The implementation of the 2017 Law on Local Finances foresees a larger share of funding to municipalities which is crucial in order to fulfil the LGUs' increased mandates. Design and approval of pending secondary legislation as well as budgetary consideration of shared taxes will not only increase the fiscal space but also fiscal autonomy of LGUs and thus, directly benefit citizens by allowing increase in service delivery and investments at the discretion of LGUs in consultation with its citizens.
- **Strengthened commitment controls:** The re-occurrence of arrears is a symptom of poor planning as well as of ineffective commitment controls. The accountability of Authorising Officers needs to be strengthened, including the responsibility of First Authorising Officers, CoM members individually and collectively, and Councils of LGUs.

- **Improved human resource management:** Transparent, fair and more efficient management of civil service will contribute to a more professional and depoliticised public administration. A clear overview of the number, positions and payrolls of public employees is the foundation of a modern public administration, and the starting point for fighting corruption and sound PFM.
- **Strengthened public investment management:** Addressing the currently existing fragmentation of decision making in public investment management, ad-hoc integration of projects not in line with approved sectoral strategies, high number of unsolicited proposals for PPPs, and limited monitoring capacity in MoFE will greatly improve cost-effectiveness of public spending in this area. Moreover, improved assessments of risks before contract signature and subsequent monitoring of PPPs will support the cost-effectiveness but also allow mitigation of risks.
- **Increased integrity of public institutions:** Integrity plans will provide the conceptual framework for the policies and measures to prevent integrity breaches by public officials and monitor the effect of the implemented measures in public institutions. Integrity plans could include (i.a.): specific corruption prone areas in the institutions, ethics and personal integrity areas (acceptance of gifts, reporting of corruption, disciplinary actions), a risk assessment tool, specific prone areas in the municipality. Both public institutions and municipalities will draft their own integrity plan based on adopted guidelines that are being prepared by the Ministry of Justice.
- **Enhanced transparency and access to information:** The office of the Commissioner for Information and Data Protection monitors twice a year transparency programmes of the institutions, information foreseen in the Law on the right to information (such as budget, procurement, legal framework, structure, etc.) and that registers of requests and responses have been updated. A central registry has been designed for requests and responses, in order to harmonise the collection of complaints. This will ensure the efficiency of the office and enhance transparency and accountability of public institutions.
- **Improved regulatory framework and capacities at local government:** The government conducted (with EU support) a comprehensive review of legislation related to the role of the three tiers of government (central government, regional institutions and municipalities) in implementing specific functions of LGUs. A number of institutional and legal gaps as well as overlaps were identified which hinder the effective and efficient functioning of LGUs. The implementation of the so-called “Matrix of Competencies”, a road map for each sector with recommendations, is crucial to address identified gaps and overlaps.
- **Improved service delivery to citizens:** One of the main functions of the state is to provide timely and high quality services from central state administration and LGUs to citizens and businesses. In an effort to reduce corruption, and to improve transparency and accessibility, an increasing number of such services are to be provided electronically and/or in a standardised way in an increasing number of front offices across the country.

At the **outcome level** (specific objectives): **“Improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level”** will result in improved government effectiveness, fairness and efficiency of administrative procedures, transparency, public consultation, budget oversight, citizen-oriented service delivery and accessibility of public services.

COMPLEMENTARY SUPPORT

The expected results of the complementary assistance support are:

- Enhanced good governance policy making and implementation including integrated and efficient planning, budgeting and coordination of policies;
- Improved capacity of budget institutions to implement public internal financial control policy;
- Improved capacity of municipalities on EU related governance and delivery of public services;
- Improved public participation and public consultation coverage and mechanisms at national and local level;
- Improved transparency and accountability for reform implementation through independent institutions;
- Budget support eligibility criteria are independently monitored;
- Enhanced visibility, awareness raising and acceptance of good governance reforms.
- Enhanced provision of standardised public services at local level.

Key performance indicators of the complementary assistance shall include:

- Number of line ministries and municipalities supported;
- Number of municipalities and services with standardised delivery of public services improved;
- Open Budget Index score for public consultations;
- Number of discussions / events held by/or with independent institutions, e.g. Parliament on reform implementation and monitoring.
- Number of independent assessments on the implementation of the reform and on the compliance with the general and specific eligibility requirements of the sector reform performance contract completed;
- Share of persons internal and external stakeholders aware of PAR reform implementation issues
- Number of municipalities and services with standardised delivery of public services improved.

RISK MANAGEMENT FRAMEWORK

Risks will be monitored through policy dialogue and documented through annual updates. **Political Risks** are related to (1) the finalisation of the electoral reform and national elections in 2021; (2) the independence of the judiciary; (3) indications that women, children, groups at risk of vulnerability, and CSOs are particularly affected by the COVID-19 pandemic. Mitigating measures comprise political dialogue, including via high level meetings, enhanced focus on the support to the justice reform and other key reforms, on establishing remaining judicial institutions and filling the vacancies in the Constitutional Court / the High Court and newly created bodies to fight corruption and organised crime.

Macroeconomic risks relate to the impact of COVID-19 on (1) macroeconomic stability and sustainability; and (2) achieving public debt reduction. As mitigating measures, the increase of fiscal deficit and public debts should be kept temporary, while accommodating the fiscal costs of post-earthquake reconstruction and addressing the pandemic impact in a transparent and cost-effective manner. In addition, time-limits for tax-relief measures, while paying all VAT refunds in time and adopting the medium-term revenue strategy, with a particular focus on reviewing tax expenditures, should be set.

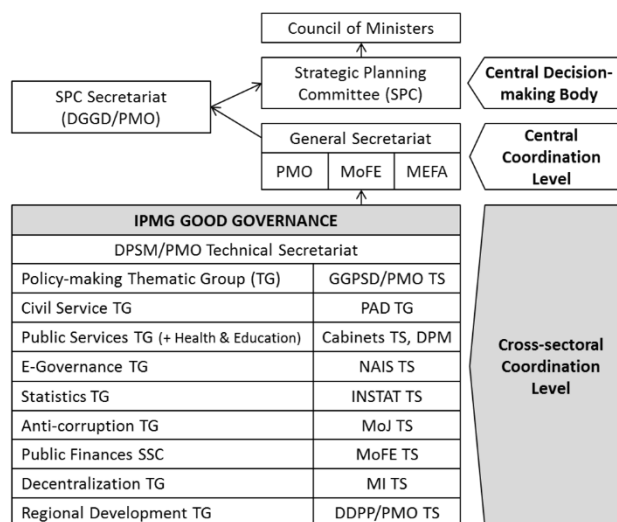
In general, **PFM risks** are mitigated through policy dialogue, monitoring of PFM related conditionality, and close cooperation on policy issues jointly with IMF and World Bank. Particular risks were identified as follows: (1) The extent of off-budget and loans expenditures and unreported government operations compromise the credibility of the budget. Risks derive from potential shifting of public investments outside the budget through structures such as state owned enterprises and the planned new Albanian Investment Corporation. Funds for post-earthquake and COVID-19 response are substantial and need to be reported on in a transparent manner. Mitigating measures are introduced through ongoing EU-funded PFM TA working on introducing a dedicated PPP monitoring template to be piloted in 2019 and improving the Annual Budget Execution Report. The prioritisation under the revised PFM reform strategy also bears opportunities. (2) Weaknesses in the accounting procedures and reporting do not provide timely and regular information on actual budget implementation. Risks relate to the delay in the roll-out of AFMIS and AGFIS. Slow uptake to address root causes of arrears creation, and understanding of PIFC as a purely financial matter rather than a government-wide policy including managerial accountability, are of concern. Crisis response funds are substantial and follow special fast track procedures which need to be reported on in a transparent manner. Mitigating measures comprise ongoing EU-funded TA to address the management of arrears and to develop a solid PIFC policy. (3) Procurement processes do not ensure adequate competition and value for money, and transparency and accessibility for SMEs. Risks are linked to potential corruption in public procurement processes and transparency concerns regarding post-crisis procurement procedures. Mitigating measures include stronger link between procurement plans and the budget; continuous implementation of new templates and instructions, increased use of framework contracts, and improving capacity of the Central Purchasing Agency. (4) Public investment management processes do not ensure the selection and execution of projects with the highest economic and social returns. The system is further put under pressure by the urgency to invest post-crisis funds, which may lead to the selection of projects of substandard quality. Risks relate to sustained political will which is necessary to shift towards strategic and evidence-based decision making. Threats stem from further legal fragmentation for public investments. Mitigating measures include close follow up of the implementation of the 2018 public investment management guidelines and amendments to the law on concessions/PPPs with a stronger role of MoFE for approval and monitoring of projects.

Corruption and Fraud Risks are captured as (1) negative trend in corruption perception indicators; (2) low staff capacities in MoJ to run the complex anti-corruption reform process, a highly complex legislative framework, and gaps in the cooperation between law enforcement agencies; and (3) legal, regulatory and institutional framework not effectively enforced, demonstrated by the low track record of investigations, prosecutions and convictions in the fight against corruption involving high-level officials. Mitigating measures include policy dialogue, communication and awareness raising under the complementary support, continued implementation of the justice reform including re-evaluation process of the judiciary, as well as the setting up of new institutions to fight corruption (SPAK – Special Anti-Corruption and Organised Crimes Structures; and Anti-Corruption and Organised Crime Courts).

3. IMPLEMENTATION ARRANGEMENTS

ROLES, RESPONSIBILITIES AND POLICY DIALOGUE

The function of the **IPMG on Good Governance and Public Administration** is to guide and coordinate institutions involved in the sector for informed policy making, co-operation and using a results-based framework to develop and implement key government reforms. The IPMG supports regular dialogue and interaction with development and integration partners. The main institutional stakeholders involved in the management, implementation and oversight process of the action through the IPMG and the relevant thematic areas are the PMO, MoFE, DoPA as well as other key institutions, including independent Institutions, such as ALSAI, the Institute of Statistics, the Parliament, and National Agency for civil society representatives and municipalities. The Deputy Prime Minister provides overall political leadership for the Good Governance and Public Administration reform process. At the technical level the Department of Development and Good Governance within the PMO serves as the Technical Secretariat for quality control of mid-term reviews and for implementing and monitoring reforms in line with government priorities. In addition, the EU has political, policy and operational dialogue on PAR, PFM, Anti-Corruption, Local Government and Decentralisation, and Digital Agenda with Albania in the framework of the relevant Stabilisation and Association Agreement Subcommittees and PAR Special Group meetings. These enable the EU to discuss challenges at different levels in a coherent and complementary manner: i) policy dialogue on legal and institutional developments as part of the EU integration process takes place between the EU and Albania in the framework of the Stabilisation and Association Agreement, ii) dialogue on implementation of sectoral strategies takes place through the IPMG structure as well as at the PAR Special Group and increasingly at Sub-Committee meetings in line with the efforts of PAR mainstreaming.



IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING (SEE ALSO IMPLEMENTATION ANNEX)

The amount allocated for the budget support component is EUR 36 million and for complementary support EUR 12.1 million. The amounts of these allocations are based on a combination of criteria: a) costing of the strategies, b) financing gap, c) assessed level of national funding sufficiently encouraging to support the reforms, and d) lessons learned from previous and ongoing programmes in the area of good governance.

Based on lessons learned, identified risks, the objectives of the programme and the capacity assessment, a combination of implementation methods is proposed. The budget support modality reinforces government's own reform plans through financial support and policy dialogue, and is further underpinned through dedicated complementary capacity building at central level and a grant scheme dedicated to municipalities. Moreover, funds are foreseen for independent monitoring (compliance reviews) and communications/visibility.

Disbursement of sector budget support

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

- Satisfactory progress in the implementation of the Public Administration Reform Strategy and continued credibility and relevance thereof; Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

In addition, the government shall also demonstrate its policy making and monitoring capacity in the sphere of good governance through the submission of annual monitoring reports for the implementation of Decentralisation, fight against corruption and Digital Albania strategies, complementing the demonstration of satisfactory progress for the implementation of PAR Strategy.

The performance indicators for disbursement that may be used for variable tranches are the following:

- Improved domestic revenue mobilisation;
- Improved fiscal capacity of local government units;
- Strengthened commitment controls;
- Improved human resource management;
- Improved public investment management;
- Increased integrity of public institutions;
- Enhanced transparency and access to information for the citizens;
- Improved regulatory framework and capacities at local government;
- Improved service delivery to citizens.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Office of the Deputy Prime Minister, through the National IPA coordinator (**NIPAC**) may submit a request to the European Commission for the targets and indicators to be updated or changed. The agreed updates or changes to the targets and indicators may be authorised by exchange of letters between the two parties. The change of indicators should be agreed ex-ante at the latest by the end of the first quarter of the assessed year.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

Budget support details

The budget support amount (EUR 36 million) is split in a fixed tranche (EUR 5 million) upon signature of the financing agreement and a variable tranche (EUR 8 million) in year 1, and two equal tranches in years 2 and 3, each with a fixed (EUR 2 million) and a variable part (EUR 9.5 million).

Budget support is provided as direct untargeted budget support to the national Treasury of Albania. The crediting of the euro transfers may be deposited in Euro or disbursed into Albanian LEK which will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement. Following the receipt of the payment the Ministry of Finance and Economy shall provide documentary evidence confirming the recording of the funds on the national treasury account and the used exchange rate if applicable.

Details on complementary support

The foreseen complementary assistance will be implemented in **direct management mode** through a) a global procurement envelope of Euro 7.1 million, b) a global grant envelope for EUR 2.5 million (EU contribution) and in **indirect management mode with UNDP** (entrusted entity) for EUR 2.5 million.

The assistance will include:

Technical Assistance: Capacity building is foreseen for policy planning, budgeting, implementation monitoring and evaluation, as well as support to independent institutions (including but not limited to the State Audit Office, Parliament, Civil Service Commission, Commission for Data Protection, National Agency for Civil Society, Consultative Council) for improved transparency and oversight; improved participatory governance and civic dialogue in relation to reform public consultation and implementation; and to support the management of the foreseen grants to municipalities.

External monitoring, audit and evaluation: Independent monitoring of budget support through compliance review missions; audit and evaluation.

Communications and visibility: Awareness raising and policy messages around the reform areas of good governance will be targeted at the central and the local level, and to internal as well as external stakeholders.

Call(s) for proposals for grants: In order to be eligible for a grant, the applicant must be a non-governmental organisation and/ or a competent association of sub-national (regional, local) authorities, a public body, or relevant mandated body of a Government Department of a European Union Member State. The grantee will manage support to municipalities in the form of sub-grants in fields of e.g. job creation and local economic development, youth, education, health, water supply and other basic municipal infrastructure.

UNDP will be entrusted to implement further support to the Territorial and Administrative Reform as a continuation of the IPA 2015 engagement, which will contribute to achieving the following expected result: strengthened municipalities and improved services with standardised delivery of public services.

4. MONITORING AND EVALUATION

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

At **national level**, the implementation of sectoral and cross-cutting strategies is monitored through a result-based performance assessment system, which is based on policy goals and programme objectives, as part of the Government's Integrated Planning System (IPS) coordinated by the Prime Minister's Office. The IPS is a set of operating principles to ensure that government policy planning, budgeting and monitoring are linked and operate efficiently. The IPS is the key national system for strategic directions and aligning the allocation of resources. It guides the medium term and the annual budget process, by providing policy objectives which are included in the Ministry of Finance and Economy's instructions for the budget preparation by all ministries and agencies. Monitoring of and reporting on overall reform implementation, outcome and output indicators shall be carried out through the framework of the IPMG Good Governance and PAR structure and relevant Thematic Groups with the support of the IPMG secretariat on Good Governance and Public Administration.

At **local level**, performance evaluation units as such are not in place. At this point, there are EU Units gathering data and submitting to the Agency for Local Government Support, however limited to the municipal performance on EU related matters. A first ever mapping report of this kind, assisted by the EU funded project 'Municipalities for Europe', was produced in April 2018²⁵.

For the implementation of the complementary assistance, relevant steering committee meetings will ensure regular monitoring and reporting of the assistance. The IPMG Good Governance and PAR also performs the role of the

²⁵ <http://www.bpe.al/al/publikime>

IPA Sector Monitoring Committee for Democracy and Governance for the monitoring of EU support for the sector in compliance with Article 53 of the IPA II Framework Agreement.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). Monitoring exercises will be carried out as prescribed by the DG NEAR guidelines on linking planning/programming, monitoring and evaluation²⁶.

EVALUATION AND AUDIT

Evaluations of the budget support component should be aligned with similar exercises of other budget support providers for accountability and learning purposes at various levels (including for policy revision) and carried out via independent consultants.

For complementary support, the Commission may also carry out external evaluations via independent consultants, as follows:

- (a) possibly a mid-term evaluation mission;
- (b) a final evaluation, at the beginning of the closing phase;
- (c) possibly an ex-post evaluation.

For complementary support, audit arrangements will follow provisions as foreseen in the contractual general and special conditions.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation actions shall be covered by this measure.

5. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Overall, the legislative framework for gender equality is in place and gender focal points are foreseen in line ministries and municipalities, even though a number of laws still contain gender-discriminatory provisions, and not all legislative frameworks are fully aligned with the Law on Gender Equality, EU gender law and Albania's international gender equality obligations. The **national strategy on Gender Equality 2015-2020** highlights four main areas for ensuring gender equality: legal framework, functional gender equality mechanism at national and local level, political participation, economic empowerment and social rights for all women and men in Albania. Institutional mechanisms to protect and implement women's rights remain weak, and access to public, services, justice system for women and girls is hindered due to gender-based inequalities at legal, institutional, structural, socio-economic and cultural levels.

Women's representation in parliament increased from 16.7% in 2013 to 23% in 2015, and since the 2017 parliamentary elections, to 28.5%. In 2015, amendments to the law for local elections increased the gender-quota on candidate lists for local councils to 50%, with the gender of candidates alternating at every second name (zipper/zebra lists). As a result, women represent 34.7% of local councillors, and nine women serve as mayors

²⁶ https://ec.europa.eu/neighbourhood-enlargement/tenders/monitoring-and-evaluation_cs

among the total of 61 LGUs, while previously only three out of 365 LGU chiefs were women. However, participation of women and men at local level remains weak.

The effectiveness of GoA mechanisms with regard to gender mainstreaming needs to be enhanced. With the 2017 government, 11 employees were appointed as “gender-champions” at the central level, and 58 of the 61 municipalities have an appointed Gender Focal Points. The formalisation of Gender Equality Employees, i.e. public servants mandated by law to support gender mainstreaming efforts, is still pending as well as proper and dedicated resourcing, capacity-development, and job descriptions. Within the public administration, a system needs to be put in place to support, capture, and track public servants’ skills and capacities for absorbing national gender equality legislation and policy, the EU “Gender Equality *acquis*”. This action can contribute in three main areas: a) **gender mainstreaming** at local level as regards planning, monitor implementation, and impact assessment through the collection of sex-and age-disaggregated data and the application of gender indicators. b) support CSOs in particular to **strengthen participation of women and men** at local level in decision making processes; c) **gender-responsive budgeting** as an integral part of PFM.

EQUAL OPPORTUNITIES

Good governance is strongly related to the responsiveness of policies and public institutions to the needs of all citizens. The development of policies and institutions at the local level in the framework of decentralisation needs to ensure that all parts of a country, women in particular, have a voice in decision making, either directly, or through institutions that legitimately represent their interests and needs.

This action supports measures to further stimulate citizenship, legislation and local public expenditures, structures and processes of good governance, and finally the delivery of services of comparable quality and access across the country. The development of policies that enhance institutional accountability and responsiveness to address women' specific needs are also an important factor towards good governance.

ENVIRONMENT AND CLIMATE CHANGE

The average national waste collection rate for households is estimated to 68.9% (2016) and the current overall recovery and recycling rate is estimated to be around 17%. Rural and mountainous areas are moderately or not covered by the waste collection services due to long distances and small quantities of waste generated. Waste management faces challenges related to policy preparation, implementation and monitoring, fragmentation of responsibilities, and lack of coordination between institutions at central and local levels. At the central level, the Ministry of Health and Social Protection is responsible for the disposal of medical waste; the Ministry of Tourism and Environment finances measures, projects and campaigns to raise awareness on environmental protection and finances the integrated waste management as well as measures to increase recycling and waste reduction; the Ministry of Infrastructure and Energy is responsible for the management of existing landfills and for concession contracts for incinerators. As of 2018 expenditures on waste management are separated in several sub-functions in municipalities: waste management, wastewater management, environmental protection and pollution reduction. This separation increases the complexity compared to previous budgetary programme. The newly created National Agency for Water Supply, Sewage and Waste Infrastructure (AKUM) depends on the Ministry of Infrastructure and Energy and will be responsible for waste management infrastructure and territorial planning as well as monitoring municipalities on waste collection and treatment processes. The water sector faces several challenges from policy preparation, implementation and monitoring, to fragmentation of duties and responsibilities, inefficient water supply and sewerage services and cost recovery, insufficient water quality monitoring and financial means. Human resources capacity is another main factor impacting sector performance and policy implementation, a gap more present at local level especially in water and sewerage utilities. Services weaknesses include water supply on average only 13h/day, non-coverage of operation costs, lack of reliable data information system, lack of transparency and public involvement and participation. These problems reflect the general weaknesses in Albanian administration, as highlighted in PAR assessments (Albania annual reports and OECD/SIGMA reports). The challenges for improving the water sector include: a) expand and improve the quality of water supply and sewerage services; b) orient utilities towards the principles of cost control and full recovery costs; c) improve governance and regulation of the sector; d) invest to increase capacity in the sector; and e) progress towards EU accession by improving the alignment with the EU *acquis*. The water reform launched by GoA at the end of 2017 intends to address these challenges, and a water services bill as well as a water supply and sewerage strategy are in preparation and expected to be in place during 2019. The sector has seen advances in 2018 relative to the more general

framework of water management through the establishment of a new water resource management agency, and the adoption of a law on integrated water resources management.

ENGAGEMENT WITH CIVIL SOCIETY

A roadmap for Albanian government policy towards a more enabling environment for civil society development was adopted in May 2015, following a wide consultation process across the country. Objectives relate to promotion of participatory governance, inclusive policy making and stronger democracy in Albania. Despite some improvements in recent years, the Albanian political environment has generally maintained its practice of closed-door policy making and lack of formal channels for contributions to policies. The new structures and mechanisms in place have to be fully functioning in practice, input by CSOs needs to be followed up more systematically, and the overall environment to become conducive to the development of CSOs. The civil society sector remains highly fragmented, strongly centralised in the major cities of Albania and overly dependent on donor funding.

The number of public hearings and consultations has increased, however, with concerns regarding the impact of these mechanisms. Consultations tended to be seen as a formality rather than a genuine element of inclusiveness and governance processes. Whilst citizens believe they have sufficient knowledge to judge the quality of a government decision, they do not appear to believe in the efficiency of the mechanisms. The online platform on public consultations is not yet fully functional and accessible. The mainstreaming of CSO work could be oriented towards three main areas: i) access to information, ii) public consultation and iii) active engagement through dialogue and partnership.

MINORITIES AND VULNERABLE GROUPS

The legal framework for the protection of human rights, minorities and vulnerable groups is broadly in line with the European Union standards. However, human rights institutions lack sufficient staff, skills and financial resources, and face frequent staff turnover – in line with identified PAR related weaknesses – thus, hampering implementation. Disadvantaged people and the most vulnerable groups face discrimination in everyday life: i) People with disabilities face many difficulties, including legal, physical and cultural barriers in accessing basic services and participation in decision-making. The implementation of the **Action Plan for People with Disabilities 2016-2020** needs to be supported with budgetary resources; ii) the Roma community faces serious discrimination. A recently adopted **law on national minorities** improves the legal framework but the implementing legislation still needs to be adopted; iii) Lesbian, gay, bisexual, transgender and intersex (LGBTI) persons continue to face widespread discrimination. A **National LGBT Action Plan 2016-2020** is in force but efforts should be strengthened to implement it; and iv) Concrete measures to implement the child protection legislation have been planned in the framework of the **National Agenda on Child Rights 2017-2020**, which contains clear objectives and costed activities but is lacking implementation. There are only 52% of required number of Child Protection Workers (CPWs) of which only a quarter is full-time employed. The required social work background only applies to a third of CPWs.

The action will contribute to improving inclusion and social cohesion, allowing all citizens, irrespective of gender, ethnic background, sexual orientation or social status, to benefit from fairer access to services and enhancing participation in the decision making process.

6. SUSTAINABILITY

The sustainability of the assistance will be ensured primarily through the comprehensive policy dialogue with the central and local authorities, the independent institutions and the civil society organisations. The dialogue will reinforce the need to implement coherent sector policies under the umbrella of good governance, aligned with national, regional and sub-sector strategies and consistent with the provisions of the Accession Partnership, Europe 2020 and South East Europe 2020 strategy and Western Balkans Strategy. In addition, focus will be on the condition of developing and applying PAR principles across the administration - as a way to increase in a sustainable way its efficiency and effectiveness - and providing sufficient allocation of staffing and funding in the annual and multi-annual budgets. Moreover, communication and awareness raising plans are intended to support the sustainability of good governance reforms.

Two main **assumptions** relate to continued political commitment to the implementation of the good governance reforms and the EU accession agenda and the presence and further build-up of management and technical capacities at the central and local administration.

The sustainability of the results of this action will be supported by following-up on the implementation of the PAR and PFM strategies as well as on the complementary strategies related to the good governance such as Anti-Corruption, Local Government and Digital Agenda. In addition, the EU will continue to engage in high level dialogue fora and dialogue under the IPMG. Complementary assistance to strengthen the capacity of relevant institutions and to improve sector coordination will contribute to increased sustainability of the results.

Progress will be measured by monitoring output, result, outcome and impact indicators contained in the relevant strategies and action plans. This will be complemented by strengthening the capacities of the Ministries to carry out result-based policy monitoring. The IPMG and thematic group structure will contribute to mitigating risks stemming from personnel changes or any further reorganisation of the public administration. Furthermore, the authorities will be required to ensure the necessary human and financial resources for the maintenance of results achieved, and local level infrastructure and public services supported. Public awareness and communication campaigns as well as engagement with non-state actors will contribute to upscaling the public participation and information on sector reform objectives and results.

With regard to financial sustainability, it is assumed that at the end of the extended period of the strategies, the improved MTBP process increased financial predictability and sustainability, good governance has been strengthened, including reduced corruption levels. These achievements are expected to lead to more efficient and effective spending of public funds as well as reduced waste of resources. This should create fiscal space for continuous funding of running costs of public institutions. Moreover, the focus on domestic revenue mobilisation, including fiscal autonomy of LGUs, is assumed to close the tax-to-GDP gap compared to countries in the region. The ongoing justice reform, funded separately through the IPA 2018 Rule of Law programme, will complement this action and its sustainability.

The Community financing shall be subject to the fulfilment by the Beneficiary of its obligations under the Framework Agreement, as well as any Sectoral Agreements and Financing Agreements as well as the following conditions:

The administration shall ensure the availability of land, free of ownership claims or disputes, for the construction of planned works; in due time and in conformity with the progress of the works. It shall place the site and access thereto at the disposal of the chosen Contractor in accordance with the approved programme of implementation of tasks. The Government shall commit to continued cooperation during the implementation of works contracts financed by the EU including assistance with regulation, technical monitoring and prompt takeover of the works upon provisional acceptance and during defect liability phases. The Government shall also ensure long-term sustainability of the works financed by the EU, notably by allocating the necessary resources, including running and maintenance costs and any relevant action or funding to this purpose. In case of failure to satisfy these requirements, the Commission shall take any appropriate measures regarding payments made or contracts signed. The Commission reserves the right to suspend payments, to recover – partially or totally – funds already disbursed and to suspend and/or terminate Financing Agreement and contracts thereof on the basis of the acts, omissions and/or situations of any designated entity and the Beneficiary Government in general.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. There will be a dedicated communication and visibility plan for the strategies and the budget support programme. Aspects of good governance are implemented by various government institutions and agencies at central and local government level. Therefore, no single communication strategy or plan exists as such. Ministries do not have dedicated communication departments in their organigrammes. Communications strategies and action plans are currently being developed and/or revised for PAR, PFM and AC. Coordination of communication strategies needs to be enhanced with a view to sharing the same level of information on implementing partner's websites while also improving on reinforcing good governance messages. All necessary measures shall be taken to publicise the fact that the Action has received support and funding from the EU. All communication and visibility actions shall

publicise the EU support to / funding for the action and shall have prior consultation and approval of the EU Delegation.

For the project based complementary assistance, the Communication and Visibility Requirements for EU External Actions as well as other guidelines developed by the European Commission and the EU Delegation shall be applied. Failing to comply with the EU communication and visibility requirements during the implementation of the action may result in non-eligibility of expenses for the contractors/ beneficiaries.

8. PRECONDITIONS

- The revised extended sector strategies and action plans until at least 2022 are adopted for PAR, PFM, AC, DA, and Decentralisation before the first tranche payment under the budget support component.
- Government takes credible action (CoM Decision, Prime Minister Order or other executive decisions) to implement the recommendations from the 'matrix of competences of local self-government' with regards to clear assignment of responsibilities and finances between central and local government authorities before the signature of the Financing Agreement.
- Only applicable for EU grant scheme for municipalities: The central government shall confirm, in writing and by making the necessary budgetary allocations, a co-financing of at least 10% of the amount of sub-grants included in the EU grant scheme for municipalities before the signature of the first subgrant.