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Albania

Public Expenditure and Institutional Review

Volume I: Executive Summary

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CURRENCY EQUIVALENTS
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Currency Unit = Albania LEK
LEK 1 = US\$ 0.0068092
US\$1 = 146.86 LEK

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

CAM - A	Customs Assistance Mission - Albania	MoLSP	Ministry of Labor of Social Protection
CEM	Country Economic Memorandum	MoT	Ministry of Transport
CoM	Council of Ministers	MTEF	Medium Term Expenditure Framework
DoPA	Department of Public Administration	NGO	Non-Governmental Organization
ECA	Europe and Central Asia	NHA	National Housing Agency
EPC	Economic Policy Committee	OBL	Organic Budget Law
EU	European Union	OECD	Organization of Economic Cooperation and Development
FIAD	Fiscal Information and Analysis Department	PEIR	Public Expenditure and Institutional Review
FIU	Fiscal Information Unit	PEM	Public Expenditure Management
GDP	Gross Domestic Product	PIP	Public Investment Program
GoA	Government of Albania	PREM	Poverty Reduction Economic management
GPRS	Growth and Poverty Reduction Strategy	PRS	Poverty Reduction Strategy
HII	Health Insurance Institute	RTO	Regional Treasury Offices
IMF	International Monetary Fund	SAC	Structural Adjustment Credit
KESH	Albanian Power Company	SAI	Supreme Audit Institute
MoE	Ministry of Education	SII	Social Insurance Institute
MoECT	Ministry of Economic Cooperation and Trade	SP	Stability Pact
MoF	Ministry of Finance	TD	Tax Department
MoH	Ministry of Health	TGL	Treasury General Ledger
MoLG	Ministry of Local Government	TSA	Treasury Single Account
MoPW	Ministry of Public Works	VAT	Value Added Tax

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Executive Summary

Volume I

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Albania

Public Expenditure and Institutional Review

Executive Summary¹

Focus and Overview of the Report

1.1 After the change in economic regime in 1990, the Albanian economy made considerable progress toward achieving macroeconomic stability and growth, despite the adverse effects of a series of economic shocks and civil unrest. Having achieved macroeconomic stability, Albania now needs to continue with its reform efforts to increase employment, alleviate poverty, and strengthen weak governance and institutional capacities which have hampered its development efforts in the past. Many of the needed reforms are medium term in nature and require careful planning and adequate sources of financing. Public expenditure management, which is at the core of the Government's program to strengthen the capacities and increase the accountability of public institutions, is the focus of this public expenditure and institutional review (PEIR).

1.2 The policy dialogue with the Government of Albania on public expenditure management and institutions began with the preparation of the structural adjustment credit and the public expenditure support credit in early 1999 and continued with the preparation of the public administration reform technical assistance project in late 1999 and the introduction of the medium term expenditure framework (MTEF) in 2000. The latter exercise began in January 2000 and continued until the approval of the 2001-03 MTEF by the Cabinet in June 2000. Following the preparation of the 2001 budget, the MTEF was updated and presented to the donor community in Tirana in December 2000. During all the stages of its preparation, the Public Expenditure and Institutional Review (PEIR) team provided direct support to the Albanian authorities in the field.

1.3 The PEIR report should thus be regarded as a part of the MTEF exercise and the ongoing dialogue with the Government on public expenditure management. The Report's main focus is on an in-depth evaluation of the budgetary planning process in Albania and the institutional arrangements required for better management of public expenditures. The Report does not provide a detailed analysis of expenditures or an assessment of investment projects and their outcomes in each sector. Such a shift in emphasis is appropriate given the currently weak institutional capacities in Albania and the need to enforce accountability in the public sector.

1.4 Chapter 1 deals with the macroeconomic framework and policies needed to maintain fiscal sustainability and improve fiscal discipline. Chapter 2 discusses revenue and expenditure patterns, presents measures that would enhance revenue performance and analyzes the allocation of expenditures. This chapter is not intended to provide a full external review of Albania's public expenditure policies, but it is designed to highlight the key expenditure priorities that

¹ This Executive Summary (Volume I of this Report) is followed by the detailed discussion of the Report's subject, in five chapters, in Volume II.

should be more fully addressed as Albania moves forward with the medium term expenditure framework process. The bulk of the Report (Chapters 3, 4, and 5) addresses key challenges facing Albania to improve its institutional environment and its capacities, so as to ensure that fiscal discipline is maintained while resources are allocated to strategic priorities and that resources are used efficiently for the purposes intended. Chapter 3 provides an assessment of the public expenditure management process and its weaknesses in Albania and discusses how this process should be reformed. Chapter 4 explains how the establishment of the MTEF mechanism could provide a better linkage between policy planning and the allocation of resources-- a practice that to date has been lacking in Albania. It explains how this process has been applied in Albania and how it could change the incentive structure and budget management institutions so that they can address many of the weaknesses discussed in Chapters 1, 2, and 3. Finally, Chapter 5 discusses meeting institutional capacity requirements needed to reform Albania's public expenditure management.

1.5 Following a brief background, this summary details the results of this review, including Albania's experience in adopting a medium term expenditure framework and institutional reforms needed in the short and medium terms to meet the challenges posed by public expenditure management reforms.

Background

1.6 *Albania experienced a series of shocks and civil unrest in its first decade of transition to a market economy.* Initial conditions in Albania were far less conducive to such a transition than in other Eastern and Central European countries. The collapse of communism sharply reduced economic output while inflation and unemployment soared. The 1997 pyramid crisis led to the Government's collapse, precipitating civil unrest and severely disrupting economic and social activities. The conflict in Kosovo, accompanied by a massive influx of refugees, created a new crisis in 1999 (Chapter 1). Despite these shocks, Albania, with the help of the donor community, continued its programs of stabilization and structural reforms, which resulted in a reduction in budgetary and current-account deficits and a recovery of output. Albania's strong macroeconomic performance continued in 2000 with real GDP growing by 7.8 percent, inflation running at a rate of about 2 percent, and fiscal deficit declining (Table 1).

Table 1: Macroeconomic Indicators, 1991-2000

(Annual averages, percent)

	1991-92	1993-96	1997	1998-99	2000 Estimate
Real GDP growth	-17.6	9.3	-7.0	7.6	7.8
Inflation	170.5	17.5	42.1	3.8	2.0
Current account deficit (%GDP)	-61.1	-15.1	-12.1	-7.1	-7.1
Fiscal deficit (%GDP)	-25.8	-11.4	-12.9	-11.0	-9.6

Source: Ministry of Finance.

1.7 *Albania's success at achieving macroeconomic stability was heavily influenced by the priority given by the Government to maintaining fiscal discipline.* During the 1990s the Government's economic transformation program was supported by large inflows of grants and

concessional loans. Foreign aid, together with private transfers, were instrumental in reducing exchange rate volatility and current account deficits, and in building up foreign exchange reserves. Government policies and foreign assistance were particularly critical in helping Albania weather the storm in the aftermath of the 1997 pyramid crisis and the 1999 Kosovo crisis. In addition to financial support, foreign aid partners provided technical assistance and ensured the contestability of fiscal decisions and their implementation. Much foreign aid was used to ensure that Albania could meet its monetary and fiscal targets in support of its macro stabilization objectives. Albania achieved these objectives through systematic improvements in fiscal performance, which in turn were heavily influenced by the priority that the Government gave to maintaining fiscal discipline (Chapter 1).

1.8 *However, there has been insufficient attention to the strategic allocation and efficient use of public resources.* The quality of Government expenditures has deteriorated. There have been low levels of spending on health and education, which are particularly important for low-income families. Albania's health expenditures—less than 2 percent of GDP—are among the lowest reported in transition economies or in economies at a similar level of development. Within the health sector, spending is not targeted to primary level services. Education expenditures have fallen to just over 2.5 percent of GDP compared to an OECD average of 4.8 percent of GDP, and children from higher income groups benefit disproportionately at all levels of education, except basic education. Inadequate spending on operations and maintenance over a prolonged period of time has led to a rapid depreciation of existing capital assets. (It was only in 1999 that spending on operations and maintenance reached the already low level of 1995 spending in real terms.) Regional expenditures are unevenly distributed. There are large direct and indirect subsidies for water and power. In addition, the budget provides significant transfers to the Social Insurance Institute to finance the pension system and smaller transfers to the Health Insurance Institute to finance its deficit, although the funding is not well targeted to poverty alleviation (Chapter 2 and Annexes C and D).

1.9 *Shortcomings in the strategic allocation and efficiency of public spending have been primarily a result of weak budget management and process.* Albania made substantial progress in the 1990s to improve the public expenditure management including the establishment of a Treasury system and the adoption of the Organic Budget Law, which sets out rules and regulations for budget preparation, formulation and audit. However, the measures implemented were not accompanied by adequate institutional arrangements for making policy decisions regarding the budget, thereby negatively affecting budgetary performance. There are a number of shortcomings in the budget management process: budget preparation is based on outdated budget norms; policy, programming, and budgeting functions in line ministries are not fully integrated; there is little policy debate on spending decisions; budget execution by the Treasury is far from effective; and budget monitoring pays little attention to the implementation of the budget program and activities. Budget performance is also hampered by the short time horizon of the annual budget and the separate investment and recurrent budget planning processes (Chapter 3).

Challenges Facing Albania

1.10 *With progress being made on the stabilization and structural fronts, Albania's challenge now is to complete its economic reform agenda and put the economy on a firm path of rapid and sustainable growth to increase employment and decrease poverty.* To achieve durable progress in reducing poverty, Albania needs to pursue a strategy of inclusive growth, so that the benefits of growth are more widely shared (Chapter 1). The main elements of Albania's development strategy are outlined in the Government's *Interim Poverty Reduction Strategy Paper*. Albania has initiated a dialogue with the civil society and other stakeholders to develop a comprehensive strategy for growth and poverty reduction by June 2001.

1.11 *The Government needs to continue implementing key reform measures that have been initiated in recent years.* These reforms include: completing enterprise privatization and restructuring, bank privatization, improving the regulatory framework for the financial sector, improving governance, and strengthening the legal and judicial system. Implementation of these reforms will improve the overall climate for growth and development. While paying particular attention to the effectiveness of public expenditures in reducing poverty, Albania needs to create employment opportunities by removing obstacles to efficient, small-scale private economic activity, and emphasize community development projects that attack the root causes of poverty. Institutional reform must play a key role in this pro-poor growth strategy, to overcome both the aforementioned weak institutional capacities and the lack of transparency and accountability in public administration. These factors have negatively affected private sector development, public expenditure management, and the delivery of essential public services-- all critical to broad-based sustainable growth and poverty reduction.

1.12 *Improved public expenditure management should be at the core of the Government's reform program.* Reform of public expenditure management and the budgetary process is needed to increase the efficiency of public spending and the accountability of public institutions (Chapter 3). Unless domestic accountability mechanisms are designed and implemented over the medium term, it will be difficult for Albania to fight corruption, encourage high levels of investment--particularly foreign direct investment, maintain fiscal discipline, and to ensure that resources are used efficiently and transparently for promoting growth and reducing poverty.

1.13 *To this end, the Government has initiated a new approach to budget management to improve the strategic allocation and efficiency of public spending.* In 2000, the Government introduced a Medium-Term Expenditure Framework (MTEF), which aims to improve the linkage between policy planning and the allocation of resources and to introduce a greater transparency in the budget formulation process (Chapter 4). By introducing the MTEF, the Government aims to ensure that: (i) fiscal discipline is maintained; (ii) resources are allocated according to the strategic priorities of the Government; and (iii) resources are spent efficiently for their intended purposes.

1.14 *The PEIR report highlights broad public expenditure measures and institutional requirements that Albania needs to address in the short to medium term in pursuit of the above objectives.* Four main messages are emphasized in this report:

- There is a need to manage fiscal discipline without compromising the strategic allocation and efficiency of public spending.
- There is a need to create an incentive structure within the budget management process for more effective and efficient allocation of expenditures.
- There is a need to improve the MTEF process by deepening its analysis, broadening its coverage, and integrating the Government's national policy initiatives in the budget strategy.
- There is a need to strengthen institutional capacities to improve the effectiveness of the MTEF and to ensure that line ministries have adequate human resources for its implementation.

The following sections elaborate on these messages and describe Albania's first year's experience in adopting the MTEF process and further actions that are needed to move this process forward.

Improving the Allocation and Efficiency of Public Expenditures

1.15 *A main feature of public expenditure management in Albania is weak accountability, especially at the budget institution level.* The predictability of policies and resources are the most important factors affecting accountability and performance at the budget institution level. In turn, predictability requires that budgets are formulated on a realistic resource framework and that the underlying policies are designed through broad consultation and consensus among all stakeholders. Albania has failed to achieve predictability of policies and resources for two main reasons. First, several weaknesses in the budget formulation process (including input-oriented budgeting and separate recurrent and investment budget planning processes) contribute to the poor linkage between policy objectives and budget planning and the lack of contestability of major policy decisions. Second, significant budget reallocations during the course of the budget year make it difficult to dependably predict resources for expenditures. Many factors have contributed to these reallocations, including external shocks. However, an analysis of inter-sectoral reallocations points to significant underlying problems in budget discipline which, if uncorrected, will undermine efforts to ensure a more policy-driven budget process (Chapter 3 and Annex H).

1.16 *Reforms are needed to establish a strategic policy focus within the budget management process and to improve basic budget support systems.* A broad program of reforms, including measures to improve the budget formulation process, strengthen budget execution, and enhance Treasury functions, is needed for more realistic budgets (Chapter 3). Although this is a long term process, the implementation of measures to achieve these objectives needs to be initiated. Key elements of a reform program are as follows:

- *Strengthen strategic budget decision making at the center of the Government.* This will require: (i) introducing a contestable and consultative process for budget decision

making, with a view to facilitating debate on different policy options at the technical level and to openly contest and transparently decide on inter-sectoral trade-offs at the political level; (ii) improving the quality and the timeliness of information made available to decision makers, particularly on the actual spending on budget programs and activities during the year, so that informed decisions can be made about budget priorities; and (iii) agreeing on a realistic resource framework at the Cabinet level prior to budget preparations to impose discipline and provide incentives for selecting priorities.

- *Integrate major policy initiatives, including their implications for recurrent and investment expenditures, in a coherent Medium-Term Expenditure Framework.* An integrated policy formulation process should include not only sector-specific strategies, but also major Government policy initiatives, such as the Growth and Poverty Reduction Strategy, the decentralization strategy, the Stability Pact, and the Stabilization and Association process with the European Union (Box 1). The policies formulated under these initiatives need to be consistent with sector strategies, and their medium-term expenditure implications should be taken into consideration in the Government's macroeconomic and budgetary analysis. This requires closer participation of the different coordinating working groups during the formulation of the sectoral and the overall budget policies. Likewise, the recurrent and investment planning processes, which until recently have been separated, should be fully integrated. Attempts at closer integration of these processes have begun with the objective to integrate the investment planning process within the Budget Department. However, full integration requires further actions that would, among other things, ensure that the budget planning process at the sector level considers the implications of a predefined resource envelope for both recurrent and investment expenditures. Donor coordination also needs improvement (see the next section).
- *Improve basic budget support systems and accountability structures, which should be complemented by improved budget monitoring and evaluation mechanisms.* This will require a number of short- to medium-term measures, including immediate implementation of a new economic classification to allow a more accurate costing of budget activities, as well as the rationalizing of the functional classification of the budget system following a review of the ministerial functions. Effective functioning of the Treasury requires introducing a Treasury General Ledger system and recording tax revenues and all foreign grant-financed projects. Budget evaluation and auditing structures also need to be improved by establishing a budget evaluation function within the Budget Department and improving auditing techniques and staff training. Internal auditing structures need to be established. Many of these reforms are being addressed through various technical assistance.

Box 1: Integrating Policy Initiatives into the MTEF

Three major cross-cutting policy initiatives are expected to have a significant impact on sector resource allocations and spending plans for the 2002-04 MTEF:

- **The Growth and Poverty Reduction Strategy.** The MTEF is one of the principal instruments for operationalizing the Government's GPRS. Preparation of the 2002-04 MTEF will therefore need to be closely coordinated with the finalization of the GPRS. Preparation of the GPRS and MTEF should proceed concurrently, ensuring consistency between the sector policies and strategies in the GPRS and the spending proposals in the MTEF.
- **Decentralization Strategy.** Albania's decentralization strategy proposes an ambitious program of devolution of service delivery responsibilities to local governments. The phasing of the decentralization is currently being worked out together with the supporting arrangements for intergovernmental finance. The 2002-04 MTEF will have to consider the budgetary implications of these reforms and how they will affect sector ministry budgets. Proposals for handling decentralization issues in the MTEF will have to be spelled out in the MTEF Issues Paper.
- **Public Administration Reform Program.** The Government has recently initiated a major program of public administration reform with the assistance of the World Bank and other donors. The 2002-04 MTEF should incorporate the budgetary implications of this program in areas such as: (i) wage bill policy; (ii) organizational reform; and (iii) public service manning levels. Based on the proposals of the Department of Public Administration, the MTEF Issues Paper should set out the framework for public administration reform against which sector ministries should prepare their spending proposals for the MTEF.

A Strategic Approach to Expenditure Planning

1.17 *Albania introduced a Medium-Term Expenditure Framework in 2000 to start some of the reforms mentioned above including bringing a more strategic focus to expenditure planning.* In the context of the World Bank's public expenditure work, the Bank team helped the Government introduce the MTEF. The MTEF process aims to: (i) improve the consultative process for strategic budget policy formulation; (ii) improve budget decision making; (iii) establish a participatory budget process by linking it with other major policy initiatives, such as the GPRS and the decentralization strategy; and (iv) improve transparency and accountability in public expenditure management beyond line item budgeting.

Key Features of Albania's MTEF

1.18 *The MTEF was fully integrated with the budget cycle.* The MTEF was prepared during the first half of the year, beginning with the preparation of an initiating memorandum in January 2000 and ending with the approval of the MTEF document by the Economic Policy Committee in June 2000 (Chapter 4). This timetable made it possible to integrate the recommendations of the MTEF into the budget guidelines sent to line ministries at the outset of the preparation process for the 2001 budget. Thus, the strategic resource allocation recommendations in the MTEF served as a basis for the detailed elaboration of the 2001 budget.

1.19 *The MTEF was built around the following four main elements:*

- The *macro-fiscal framework* for the MTEF was elaborated by the Ministry of Finance during the early part of the exercise. This framework was largely based on the parameters

guiding Albania's PRGF arrangement with the IMF. In the future it is expected that this framework will increasingly reflect the Government's own forecasts and analysis.

- An analysis of *cross-cutting public expenditure issues* was carried out by the Ministry of Finance. These issues, were either applicable to all sectors or had implications for spending programs in several sectors. They included initiatives such as the GPRS, the public administration reform agenda, and the anti-corruption program. Also included in this analysis were economic categories of expenditures such as the public sector wage bill, operations and maintenance spending, entitlement programs, subsidies, and public investment.
- *Sector expenditure strategies* were elaborated during the period February-April 2000. Preparation of the strategies was coordinated by sector working groups chaired by the line ministry and which comprised ministry and line agency staff as well as representatives from the Ministry of Economic Cooperation and Trade and the Ministry of Finance. These strategies aimed to ensure that public expenditure allocations within sectors are driven by sector policies and program priorities, and that resources are effectively utilized within sector programs. The strategies were presented in matrix format, which helped their comparability. The methodology for preparing the strategies involved: identification of the overall policy objectives for the sector, assessment of major challenges in each program area, determination of public spending priorities, determination of their implications for public spending, and identification of indicators for program performance.
- *Expenditure plans* were developed by the Ministry of Finance based on the three elements described above. These three-year expenditure plans comprised two components: (i) planned allocations for each of the main components of public expenditure covering recent trends and projections, and (ii) sector expenditure plans showing past and projected spending across all sectors and between program areas within sectors.

1.20 *The draft MTEF document was discussed at an inter-ministerial workshop in May 2000.* The draft MTEF document consisted of technical notes covering the four main elements described above. This document was presented at a workshop in Durres which was attended by over 50 participants from a wide range of line ministries, including those not directly involved in the MTEF exercise. By bringing the discussion of sector expenditure programs into a common forum, the workshop succeeded in highlighting the trade-offs that had to be made between sectors in establishing appropriate budgetary resource ceilings. This workshop also greatly enhanced the transparency of the budget process by sharing all relevant information that had gone into the elaboration of three-year expenditure plans. However, the time allocated for the workshop (one day) proved insufficient and should be expanded for future MTEFs.

1.21 *After the inter-ministerial workshop, the MTEF document was discussed by the Economic Policy Committee and the Cabinet in early June and finalized thereafter.* This provided an opportunity for open discussion of different budget options based on a large amount of information. Through this step, both the transparency and the contestability of the budget

process were greatly enhanced. However, the MTEF generated only limited discussion, which was partly explained by the lack of depth of analysis and the absence of clear budget options.

1.22 *The MTEF was widely distributed--albeit with some delay--in Albania, thereby further increasing the transparency of the budget process.* The MTEF was presented to the donor community in Tirana at a conference held in December 2000. This conference was also attended by a broad cross-section of Government staff and the civil society. The conference declaration emphasized the role of the MTEF in translating sector policy objectives and strategies into public expenditure allocations and in providing a framework for aid coordination. The MTEF was further distributed to the civil society and others in early January 2001.

Evaluating the First Year of the MTEF

1.23 *The first MTEF cycle in Albania achieved considerable success.* The MTEF exercise was received favorably by the Government. It focused attention on the relevance of decisions on expenditure allocations at the political level, and there was strong political endorsement for increasing spending on education, health, transport, and infrastructure maintenance. Line ministries and the Ministry of Finance recognized the benefits of the increased transparency that the MTEF exercise brought to the budget process. The MTEF also brought a much sharper focus to the 2001 budget, which reflected the Government's policy objectives as elaborated in the *Interim Poverty Reduction Strategy Paper*.

1.24 *The first year's experience also pointed to a number of weaknesses in the process which limited its usefulness:*

- Due to capacity constraints there was a limited analysis of issues relating to the main economic categories of expenditure.
- There was a lack of clear prioritization within sector expenditure programs.
- The Ministry of Finance played a dominant role in the development of the sector strategies and expenditure plans.
- It proved difficult to fully link sector expenditure strategies to resource allocations at the program level.
- Limited progress was made toward an integrated approach to the analysis and budgeting of recurrent and investment spending.

1.25 *The experience also demonstrated the need to strengthen expenditure policy and analysis capacities within the Ministry of Finance.* Improved capacities are needed to enhance contestability and the policy debate on public spending and the formulation of economic policies (Chapter 1). Key capacities requiring upgrading include: (i) the capacity to assess the potential impact of macroeconomic and structural policies; (ii) the capacity to evaluate the sustainability of the medium-term fiscal path in relation to budgetary deficits and sustainable levels of public

debt; and (iii) the capacity to determine the medium-term resource framework and evaluate the level and composition of expenditures and their consistency with the overall policy objectives (poverty reduction) and strategic priorities.

1.26 *The capacity of line ministries for planning and budgeting also needs strengthening.* In the first MTEF exercise, line ministries faced time and capacity constraints in conducting the background analysis necessary for preparing sector expenditure strategies. These constraints were exacerbated by the line ministries' lack of familiarity with the exercise and their limited capacities for sector planning and budgeting (Chapters 4 and 5). Donor support could greatly assist strengthening line ministry capacities in these areas.

Measures to Improve the Macroeconomic Framework of the MTEF

1.27 *The Government formulated a sound macroeconomic framework for the 2001-03 MTEF.* The macro scenario in the 2001-03 MTEF is broadly consistent with the projected macroeconomic developments for the Albanian economy during the next five years based on simulations of the fiscal sustainability model developed for this review (Box 2). The MTEF assumes a somewhat more optimistic growth rate (7-8 percent) in view of Albania's recent privatization of strategic enterprises and continued efforts at structural measures (Chapters 1 and 4). The current account deficit is projected to decline to about 7 percent in 2001 and 2002 before declining further in 2003. Inflation is projected to remain around 2-3 percent annually.

1.28 *The macro framework should be improved to prioritize expenditures more efficiently while maintaining fiscal discipline.* Achieving Albania's development objectives of sustained economic growth and poverty reduction requires a larger allocation to health and education, as well as to critical operations and maintenance expenditures. In the health sector increased share of resources need to go to primary health services. In the education sector, increased allocations are needed for curriculum development and teacher retraining programs. Higher levels of capital expenditures are also needed to improve the country's infrastructure in order to support a rise in private investment (Chapter 2). Improving the slow implementation of many externally financed projects is essential if the continued donor financing for increase in infrastructure investment is to be realized. Financing these expenditure priorities, while at the same time maintaining macroeconomic stability, would require both an improved revenue performance and continued reliance on foreign financing. This would make possible a reduction in domestic debt, resulting in lower interest payments (Chapter 1).

1.29 *Domestic revenues need to be increased to meet a greater part of budgetary resource requirements and to gradually reduce heavy reliance on donor financing.* Fiscal revenues in Albania have remained far below those of other transition economies in Europe. Despite significant progress in the last two years, domestic revenue capacities in Albania remain weak and continue to suffer from structural problems (Chapter 2 and Annex B). The Government needs to continue implementing measures to ensure that tax revenues expand as the economy grows. Albania needs to rely more on direct taxes (which currently account for less than 10 percent of total tax revenues), because these taxes have considerable revenue potential. Coordination among different units of the revenue administration system needs to be improved.

Given the large direct and indirect subsidies to public utilities, Albania should also consider a gradual move toward cost recovery of major utilities that have tariffs below cost recovery levels.

Box 2: Macroeconomic Framework

During the next five years economic growth is projected to remain strong at about 7 percent a year led by an increase in exports and private sector activities (Chapter 1). Inflation is expected to remain low (2-3 percent), the fiscal deficit is expected to decline further, and the current account deficit is projected to decline from 8 percent in 1999 to more sustainable levels in 2005. Fiscal consolidation in Albania requires a reduction in the level of domestic debt and a restructuring of expenditures. This requires a reduction in the level of domestic borrowing, combined with significant efforts to increase revenues and the use of concessional foreign financing for well-defined priority areas.

Macroeconomic Indicators, 2000-2005

(in percent; in percentage of GDP)

	2000	2001	2002	2003	2004	2005
	Estimate					
Real GDP growth	7.8	7.3	7.0	7.0	7.0	7.0
Inflation	2.0	2.0	3.0	3.0	3.0	3.0
Current account balance (%GDP)	-7.1	-7.3	-7.3	-6.7	-6.0	-5.5
Fiscal Deficit (%GDP)	-9.6	-9.1	-8.5	-7.8	-7.1	-6.7

Sources: Ministry of Finance and staff projections.

Overall revenues are projected to increase from 22.6 percent of GDP in 2000 to nearly 27 percent in 2005. This increase is expected to come from higher tax revenues brought about by the continuation of economic growth and better administration and enforcement of existing tax laws.

The budgetary expenditures are projected to grow only moderately and stay in the range of 32 to 33.5 percent of GDP. Non-interest current expenditures are projected to increase, reflecting the needed increase in priority expenditures particularly on health, education and operations and maintenance. Capital expenditures are projected to increase significantly and remain high to accommodate large infrastructure needs. These increases are partially offset by an expected reduction in interest payments.

State Budget, 1999 – 2005

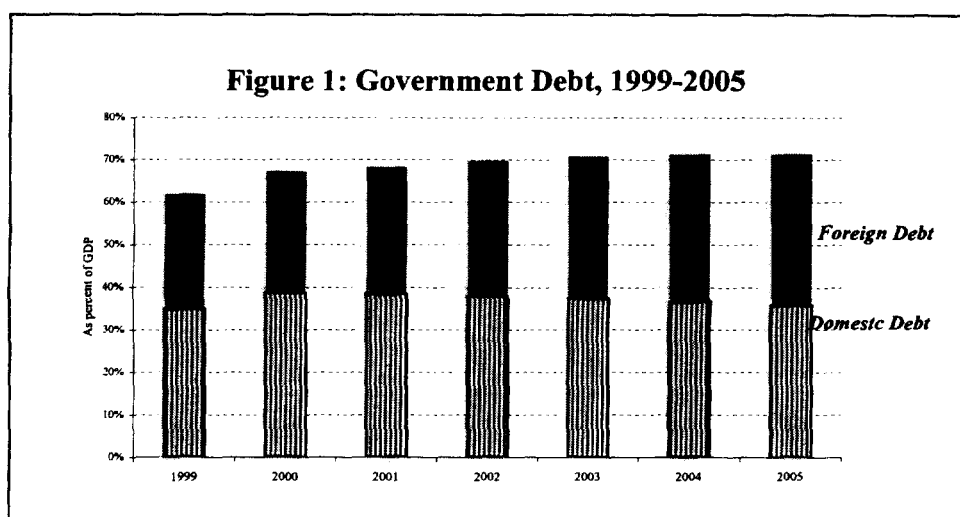
(in percent of GDP)

	1999	2000	2001	2002	2003	2004	2005
Total revenue	21.2	22.6	22.9	23.9	24.9	26.0	26.8
Total expenditures	32.7	32.2	32.0	32.4	32.7	33.1	33.5
Current expenditures	25.9	25.0	24.1	24.5	24.9	25.6	26.0
Interest	6.9	5.4	4.0	3.9	3.7	3.6	3.4
Non-interest current expenditures	19.0	19.6	20.1	20.6	21.2	22.0	22.6
Capital expenditures	6.7	6.8	7.6	7.9	7.7	7.5	7.5
Domestically financed	3.4	3.1	3.4	3.0	3.0	3.0	3.2
Foreign financed	3.4	3.7	4.2	4.9	4.7	4.5	4.3
Primary balance*	-6.5	-6.1	-7.1	-6.5	-5.9	-5.3	-5.0
Overall balance	-11.5	-9.6	-9.1	-8.5	-7.8	-7.1	-6.7
Financing	11.5	9.6	9.1	8.5	7.8	7.1	6.7
Domestic financing	5.5	5.0	4.6	3.3	3.0	2.6	2.4
Foreign financing	6.0	4.6	4.5	5.2	4.5	4.5	4.3

* The primary balance excludes interest payments and profit transfers from the Bank of Albania. The increase in the primary deficit in 2001 results from the significant drop in interest payments brought about by a reduction in interest rates on treasury bills, while total expenditures remained roughly constant.

Sources: Ministry of Finance and staff projections.

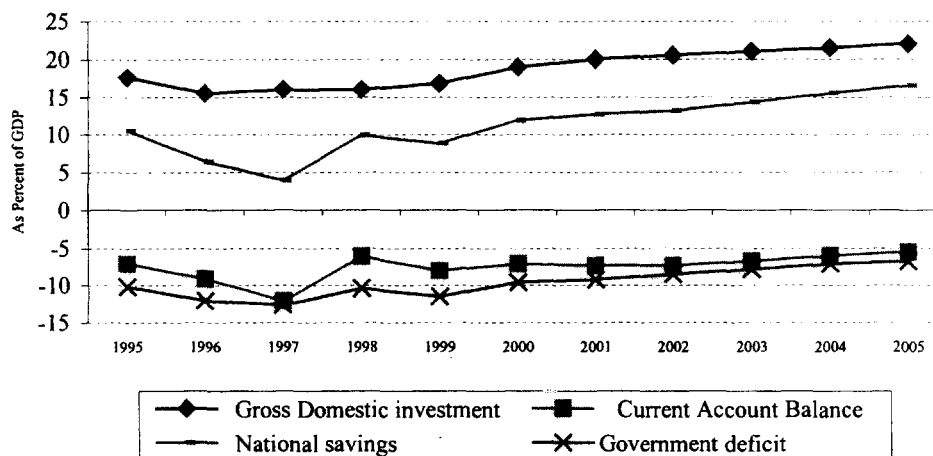
1.30 *To improve fiscal discipline, the Government should aim at reducing domestic debt while increasing the use of concessional foreign financing.* Reducing domestic debt is a top priority of the Government. In the aftermath of the 1997 crisis, the decline in the availability of foreign financing, combined with the cost of bank restructuring, forced a heavy reliance on high-cost domestic financing (Chapter 1). As a consequence, domestic debt increased by about 15 percentage points of GDP during the last five years and interest expenditures currently absorb about 18 percent of total expenditures. Government debt is estimated at 67 percent of GDP at end 2000. Albania's foreign debt (28 percent of GDP) is at a more moderate level than its domestic debt (39 percent). In recent years, the Government has made a conscious decision to limit new foreign borrowing mainly to loans from multilateral organizations at concessional terms. This type of foreign financing would need to remain a major source of financing for public investment in the near to medium term. Albania needs to carefully elaborate its priority foreign investment needs and seek to attract concessional foreign financing for it. As long as foreign financing is less costly, and is used for productive investment, the Government should take advantage of the situation and reduce its recourse to high cost domestic debt.



1.31 *Moderate increases in foreign debt at concessional terms would not put Albania's external sustainability at risk.* During the next five years, the debt service ratio (the ratio of external debt payments to exports) is expected to increase from 5.9 percent in 2000 to 13.1 percent in 2005. Simulations indicate that the sustainability of the financing of the projected fiscal deficit and the path of domestic and external debt levels show an increase in the level of both external debt and total debt during this period (Chapter 1 and Annex A). However, despite this increase, the impact on the budget would be a net reduction in interest payments of about 2 percentage points of GDP. This is because the increase in the overall debt is comprised of a decrease in the level of domestic debt (and domestic interest rates) coupled with an increase in the level of foreign debt, which would be on concessional terms (Figure 1). This path of domestic and external debt levels is consistent with Albania's overall saving and investment flows, which show a steady improvement in public saving of about 3.6 percentage points of GDP and would allow an increase in public investment by about 1 percentage point of GDP. Higher public savings will reduce significantly the saving investment gap in the public sector, freeing

investment resources for the private sector, which is essential for achieving sustainable economic growth (Figure 2).

Figure 2: Savings and Investment Flows, 1995-2005



1.32 *The MTEF also needs to realistically assess the availability of revenue sources and foreign assistance in light of the overall macroeconomic environment.* The MTEF should exercise more caution, not only with respect to its projections for available foreign financing, but also with respect to privatization revenues. Given the projected decline in the current account deficit and the limited absorptive capacity of Albania, the 2001-03 MTEF projections for foreign financing are on the high side (Chapter 4). However, if additional investment needs are identified for which concessional foreign financing could be secured, it should be used, even if this results in a temporary increase in the current account deficit. Privatization revenues for 2002-2003 also seem optimistic, given the remaining non-privatized public enterprises. As a general rule, privatization revenues should primarily be used to limit recourse to domestic borrowing rather than to boost current expenditures, which in subsequent years would have to be financed either through increased revenues or larger borrowing.

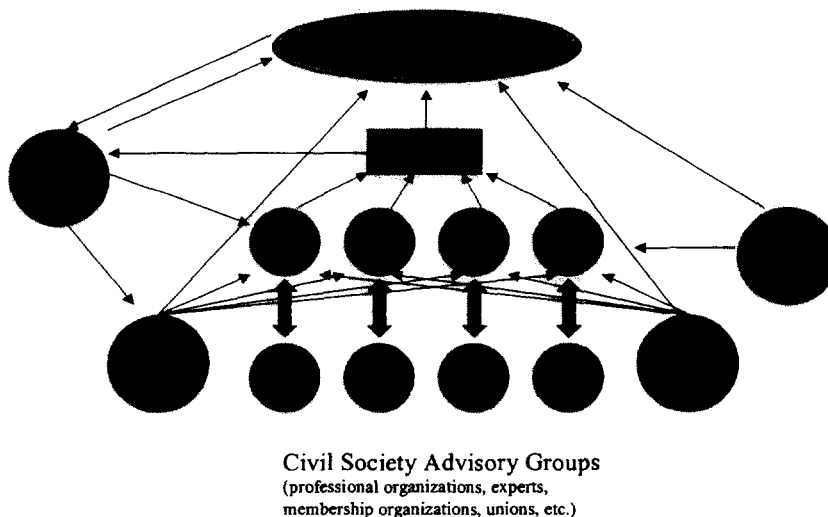
1.33 *The MTEF macroeconomic scenario is subject to a number of risks and uncertainties.* First, Albania must forcefully implement its reform program, including the strategy outlined in the *Interim Poverty Reduction Strategy Paper*. This is essential to ensure that inflows of concessional foreign assistance are adequate to support Albania's efforts to sustain stabilization and to underpin sustainable growth. Second, the macroeconomic framework assumes significant increases in domestic revenues. If the ongoing and planned reform efforts to strengthen revenue administration capacities do not achieve their ambitious revenue collection targets, funding for priority expenditures, including those essential for poverty reduction, would have to be substantially curtailed. This would adversely affect the achievement of Albania's poverty reduction goals and could threaten macroeconomic stability. Finally, weak domestic institutional capacities could impede the reform process.

Measures to Improve the Sector Strategies of the MTEF

1.34 *Cross-cutting policy initiatives need to be better integrated with the MTEF process.* The 2002-04 MTEF should include a more detailed analysis of the public expenditure implications of key government policy initiatives that cut across sectors. These include the GPRS, the decentralization program, and the public administration reform program. The GPRS and the 2002-2004 MTEF will need to be elaborated in parallel. Sector working groups in line ministries need to work simultaneously on the ministry's input into the GPRS and the sector expenditure strategy (Figure 3). This ensures that growth and poverty reduction objectives are reflected in the sector expenditure strategies (Chapter 4). Moreover, the strategic objectives of the GPRS must immediately confront the resource framework, thereby making the strategy more operational. During the 2002-2004 MTEF exercise, sector working groups in four core ministries (Health, Education, Agriculture, Labor and Social Affairs) plan to consult with civil society representatives during the preparation of the sector expenditure strategies, thereby further increasing the transparency of the process. The implications of the decentralization initiative need to be taken into account by the Ministry of Finance regarding mechanisms for revenue-sharing and transfers as well as by a number of line ministries (Public Works, Education, Health), which are particularly affected by the devolution of responsibility to lower levels of government (Chapter 2 and Annex C).

1.35 *Line ministries need to focus more on the prioritization of expenditure needs and on making sector strategies more operational.* In the 2001-03 MTEF exercise line ministries had only limited success in identifying the critical shifts in resource allocations within their sectors

Figure 3: GPRS - Institutional Design



necessary for the implementation of their sector policies. The importance of prioritization between competing expenditure demands should be more strongly emphasized in future MTEF

cycles. Sector expenditure strategies should spell out in greater detail the key operational recommendations and the timetable for their implementation. In addition, there needs to be a shift in focus to sector budgets from the current focus on ministry budgets. The 2001-03 MTEF focused on what ministries were doing under their own budgets rather than on adopting a broader definition of public expenditure in the sector. As a result, the analysis in sector strategies tended not to include off-budget externally financed public investment, or to consider the role of local government expenditures.

1.36 *The MTEF should be extended to include additional sectors.* During the first year, the MTEF only covered five pilot sectors and the analysis of main economic categories of public expenditure was limited. The five pilot sectors were education, health, infrastructure (public works), labor and social affairs, and transport, which covered about 60 percent of public expenditures. The limited sectoral coverage was mainly due to capacity constraints, which as mentioned also limited the depth of the analysis that could be undertaken for the main economic categories of public expenditure. The main priority for the 2002-04 MTEF should be to further develop the expenditure strategies in the five pilot sectors and to extend the MTEF coverage to include additional sectors. These should include agriculture and rural development, since programs in these areas have a key role in the realization of the GPRS objectives, as well as Public Order, which is a main spending ministry.

1.37 *More emphasis needs to be placed on the identification of monitorable indicators.* It is important that line ministries develop indicators and measures to monitor the performance of their expenditure programs. The 2001-03 MTEF achieved only limited success in identifying such indicators. For example, the sector expenditure strategy for health mentioned a number of standard health indicators, such as infant and maternal mortality rate and life expectancy. Those indicators are better suited to detect longer-term trends, rather than changes from one year to another. Moreover, indicators of this type are not closely linked to the priority actions identified by the Ministry of Health. Short-term trends would be better monitored by indicators closely linked to the programs being financed. Future work in developing indicators needs to be closely linked to the similar work in developing monitoring indicators for the Government's GPRS and Public Administration Reform (Annex G).

1.38 *Analysis of the sector expenditure strategies needs to be deepened to include an analysis of public expenditure policy issues in the following areas:*

- *Role of the Government.* The 2001-03 sector strategies indicated a need for greater clarity regarding the role of the Government. In some sectors, such as water and sewerage, it was believed that the Government should become more directly involved in the sector instead of only regulating water resource management. In others, it was felt that the Government still undertakes activities for which the private sector is better suited (e.g., vocational training, provision of housing, transport engineering services, service delivery to utilities). In moving the MTEF exercise forward, line ministries need to be encouraged to question the role of the state in their sectors and identify functions that could be undertaken by the private sector.

- *Policy and program management.* In the 2001-03 MTEF weaknesses in policy and program management were identified mainly in planning and management functions within line ministries; and management at the operational program level. Policy and programming units in line ministries not only need to be strengthened, but their mandates should be extended to include the coordination and management of donor assistance to the sector.
- *Efficient use of resources.* Four main groups of issues relating to resource use efficiency were noted in the 2001-03 MTEF: (i) cost effectiveness; (ii) cost recovery; (iii) contracting out; and (iv) balancing investment and recurrent spending. In all the sector strategies, particularly transport, substantial priority was given to new investment and to increased allocations to operations and maintenance. But warnings were also given not to over-maintain facilities (e.g., roads) beyond maintenance that is justified for their traffic level and usage. The cost-effectiveness of public expenditures was highlighted in education (dormitories in rural schools), in health (fragmented system), and in social protection (residential care). The 2002-04 MTEF and beyond will need to further consider aspects of commercialization and cost recovery of key services.
- *Access to public service.* Some sector strategies highlighted problems of access, the poor quality of public services, and inequalities in public service provision (health, safe water supply). In some sectors (housing) legal problems (e.g., urban land management) were identified as bottlenecks to legalizing informal settlements and ensuring adequate zoning of land for urbanization. Substantial variations were found to exist in the access to and the quality of public services between urban and rural areas. Addressing issues of access to public services in the next MTEF will require that line ministries establish minimum service standards, develop criteria for the regional distribution of resources, and monitor resources to ensure that criteria are being effectively applied and that resources are reaching the intended beneficiaries.

1.39 *Improved donor coordination and continued strong donor support is crucial to the success of the MTEF in Albania.* An important aspect of the MTEF is that it provides a mechanism for ongoing dialogue with the donor community in order to ensure a more rational planning and utilization of external financial and technical commitments to Albania (Chapter 4).

Through the three-year time horizon for the budget that this mechanism provides, the donor community would be better able to assess and plan its financial commitments. This longer time horizon would also allow the Government to have an early indication of the sources and availability of financing and to make a timely decision about their allocation. The donor community could also assist the line ministries by providing support to strengthen their capacities and skills for budget planning and analysis and to enable them to plan and implement their expenditures efficiently.

1.40 *Programming of external project financing needs improvement to account for all foreign grants that finance investment expenditures.* This would require that actual and projected expenditures on projects for which funds have already been committed are incorporated into the resource ceilings. Currently, donor financing for investment projects remains partly off budget

and a lack of proper reporting and recording makes it difficult to account for all foreign-funded investment, which impedes the effectiveness of the MTEF (Chapter 2). The budget outturns capture all foreign financing in the form of foreign loans, because the loans go through a formal signing process involving the Ministry of Finance. Even though the Budget Law requires that all foreign financing of public investment projects is channeled through the budget, the Treasury accounts fail to track most grant-financed foreign financing. This is partly due to donors' lack of knowledge about Treasury procedures when an agreement is negotiated and inadequate information on the disbursements against each of the projects that they finance. The process could be greatly facilitated if the donor community would report expenditures under their grants to the Ministry of Finance, until Treasury operations are reformed to record all foreign grant financing (Chapter 3).

Institutional Capacity Requirements

1.41 *Improving the effectiveness of public expenditure management and the MTEF process requires strengthening institutional capacities.* As has been mentioned throughout this summary, institutional capacities in the public sector are weak. The Government, with the support from a number of donors, has embarked on a medium-term effort to build the needed institutional capacities in Albania's public administration. The public expenditure management reform and the MTEF process will require institutional capacity strengthening, particularly in the line ministries, to meet the challenges posed by these reforms (Chapter 5).

1.42 *As the most immediate measure, key rules and requirements of the MTEF process need to be clarified.* The Ministry of Finance should prepare clear guidelines and requirements on a number of issues, including: analysis of economic categories of expenditure; analysis of sector strategies; clarification of the differing objectives of sector strategy matrices versus the analysis that should underpin them; explanation of the difference between the analysis of Ministry versus sector issues; the design of monitorable indicators; and an analysis of implementation issues such as the timing and sequence of activities.

1.43 *The line ministries should also create strong institutional incentives to address the challenges posed by the MTEF.* This should be carried out through: (i) establishing strategy and budget preparation rules that force line ministries to address certain analytic and prioritization requirements of the MTEF exercise; (ii) sending credible signals to the effect that the quality with which these prioritization requirements are addressed in the sector strategies will influence budget choices and submissions; and (iii) aligning organizational responsibilities more effectively with policy objectives.

1.44 *The line ministries also need the resources, especially the human resources, to meet these challenges.* Inadequate human resources pose the most serious resource constraint to line ministries' capacity to implement the MTEF. To address this, the Government faces at least three broad challenges: (i) depoliticizing the management of the civil service as envisaged in the Civil Service Law; (ii) focusing civil servants on achieving agreed policy and program objectives mainly through annual performance appraisals; and (ii) enhancing the attractiveness of a civil service career by improving terms and conditions of employment. An efficient civil service is

critical to a well- functioning public sector in Albania. The Report identifies a number of measures that would enhance the attractiveness of a civil service career, in the short-to medium-term including: a program of scholarships to pursue advanced degrees; a medium-term program for improving the wage structure within the public sector; and formal and informal recognition of employees for outstanding work (Chapter 5 and Annexes E and F).

1.45 The matrix at the end of this summary identifies a number of short- to medium-term operational implications of the PEIR recommendations for the Government and the donor community at large.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
I. Overall Public Expenditure Management Process		
<i>1. Macro-fiscal framework</i>		
<ul style="list-style-type: none"> • Reduce domestic debt while increasing investment and the use of concessional foreign financing. 	<ul style="list-style-type: none"> • Increase the level of public investment, in particular by reliance on concessional foreign financing for clearly identified priority areas. • Identify priority investment needs on health and education in the context of the GPRS. 	<ul style="list-style-type: none"> • Limit recourse to domestic borrowing in order to reduce the domestic debt burden. • Continue with high levels of public investment to meet the priority needs.
<ul style="list-style-type: none"> • Improve domestic revenues and administration capacities to meet greater part of budgetary resource requirements. 	<ul style="list-style-type: none"> • Improve the collection of social insurance contributions through administrative improvement and better information sharing between the General Tax Directorate and the Social Insurance Institute. • Evaluate the feasibility of transferring the responsibility for the collection of social insurance contributions to the General Tax Directorate. • Implement stronger controls on wholesale transactions. • Improve VAT refund system for exporters and investors. • Train staff in tax administration (with an initial focus on VAT). • Improve coordination between tax, customs and social insurance collection. 	<ul style="list-style-type: none"> • Improve administration of social insurance taxes. • Shift toward direct taxes and taxation of domestically produced goods. • Strengthen audit capacity. • Introduce a modern appeals system. • Improve business practices. • Improve human resource management. • Continue strengthening of customs administration.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
<i>2. Budget Decision Making</i>		
<ul style="list-style-type: none"> • Strengthen strategic budget decision making at the center of the government. 	<ul style="list-style-type: none"> • Discuss the MTEF 2002-04 at the Economic Policy Committee and Cabinet at various stages during the MTEF cycle. (issues paper, macro-fiscal framework and budget ceilings, draft MTEF document, updated MTEF document at the time of annual budget discussions). • Establish a technical level working group to support the EPC and the Cabinet in the MTEF discussions. • Improve the quality of the documentation that will be presented to the EPC and Cabinet, so that different options or sector restructuring measures are presented to them for discussion and decision with the budget proposals. • Establish procedures for consultations with the civil society groups and Parliament on the budget strategy as presented in the MTEF (work has already been initiated in the context of the GPRS). 	<ul style="list-style-type: none"> • Establish formal procedures that combine a bottom-up and top-down approach to the budget decision making process. • Improve the quality of information made available to the decision makers, so that informed decisions can be made about budget policy priorities. • Improve capacities for preparing a realistic resource framework.
<i>3. Budget Preparation</i>		
<ul style="list-style-type: none"> • Strengthen the strategic focus of the budget formulation. 	<ul style="list-style-type: none"> • Initiate the process of estimating recurrent cost implications of the ongoing investment projects. • Start incorporating policy objectives of the full GPRS document during the formulation of the sector strategies for the sectors included in the GPRS analysis. • Consider the preparation of sector strategies for additional sectors (e.g., Agriculture). 	<ul style="list-style-type: none"> • Integrate strategic policy objectives of the Growth and Poverty reduction Strategy (GPRS) and the Stability Pact (SP) initiatives into the sector policies and reflect them into a coherent medium term budget framework. • Integrate the recurrent and investment planning processes.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
	<ul style="list-style-type: none"> • Improve the analysis of public expenditure policy issues to be reflected in the sector strategy by extending the discussion on issues related to: <ul style="list-style-type: none"> • Role of the state in provision, financing and regulation of services provided by the government. • Policy and program planning and management issues in the central administration to carry out their mission. • Efficiency of resource use. • Access to public services. • Improve organizational arrangements in the Budget Department to reflect the requirements of a policy-oriented budgeting. <ul style="list-style-type: none"> • Organize the Budget Department along functional lines. • Review the role of the Regional Budget Offices. 	<ul style="list-style-type: none"> • Improve capacities for policy planning and budget analysis in the MoF and line ministries.
<ul style="list-style-type: none"> • Improve supporting systems for budget preparation. 	<ul style="list-style-type: none"> • Implement the new economic classification. • Revise annual budget preparation guidelines clarifying requirements for preparation of MTEF sector strategies and affiliated budget submissions. • Provide training addressing these same requirements to line ministries. • Initiate the process of reviewing the functions of central ministries to prepare a new functional classification for the budget. 	<ul style="list-style-type: none"> • Extend the time horizon for the budget preparation process from 6 months to 1 year. • Revise the legal framework to support strategic budget formulation and monitoring. • Implement a new functional classification. • Continue providing training addressing budget preparation requirements to line ministries.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
<i>4. Budget Execution</i>		
<ul style="list-style-type: none"> • Improve supporting systems for budget execution. 	<ul style="list-style-type: none"> • Initiate the implementation of the Treasury computerization component of the PAR project. • Specify clearly the responsibilities and authority of each department in the MoF involved in financial planning and establish operational procedures. • Improve budget reporting by strengthening capacities in the Fiscal Information Unit. 	<ul style="list-style-type: none"> • Improve financial planning and cash management functions. • Introduce direct recording of tax revenues into the Treasury. • Introduce a Plan of Treasury Accounts and a Treasury General Ledger (TGL). • Continue the implementation of the Treasury Computerization.
<ul style="list-style-type: none"> • Improve the recording and reporting of foreign financed projects in the Treasury. 	<ul style="list-style-type: none"> • Establish policies governing the receipt of grant financing by public entities and the reporting requirements to the Treasury. • Establish procedures for reporting from the MoECT to the Treasury on foreign project financing. 	<ul style="list-style-type: none"> • Establish regular procedures for reporting on foreign financed projects to the Treasury and proceed gradually to the implementation of foreign financed projects through the Treasury.
<i>5. Budget Monitoring and Evaluation</i>		
<ul style="list-style-type: none"> • Improve budget monitoring and evaluation functions. 	<ul style="list-style-type: none"> • Develop training programs to improve staff skills in budget analysis and evaluation. 	<ul style="list-style-type: none"> • Establish a budget evaluation function within the Budget Department in the MoF. • Develop capacities in the Council of Minister and Parliament for budget policy evaluation.
<i>6. Improve Broader Financial Management Systems</i>		
<ul style="list-style-type: none"> • Establish internal auditing and strengthen external auditing functions. 	<ul style="list-style-type: none"> • Develop the legal framework for the internal audit function. • Define the organizational arrangements for internal audit. • Develop training programs to improve staff skills. • Make public annual budget accounts and audit results. 	<ul style="list-style-type: none"> • Strengthen Treasury Department's internal audit capacities. • Improve auditing techniques for external audit.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
	<ul style="list-style-type: none"> ➤ Strengthen Law on Civil Servants' implementation oversight capacities, including: <ul style="list-style-type: none"> ▪ Central data base on civil servants. ▪ Monitoring and publication of indicators of institutional impacts of implementation of Law on Civil Servants. ➤ Establish rules and procedures of the Civil Service Commission. ➤ Provide adequate budget resources for the Civil Service Commission. 	<ul style="list-style-type: none"> ▪ Central data base on civil servants. ▪ Monitoring and publication of indicators of institutional impacts of implementation of Law on Civil Servants. ➤ Ensure fully functioning Civil Service Commission. <ul style="list-style-type: none"> ▪
	<ul style="list-style-type: none"> • Enhance the attractiveness of a civil service career <ul style="list-style-type: none"> ➤ Review options for targeted training programs. <ul style="list-style-type: none"> ▪ Scholarship program for promising young civil servants. ▪ In-service training in general human capital skills for promising young civil servants. ➤ Make initial modest improvements in civil service salaries. ➤ Encourage managers to frequently provide civil servants with positive reinforcement, both informal and formal, for meritorious work. 	<ul style="list-style-type: none"> • Enhance the attractiveness of a civil service career. <ul style="list-style-type: none"> ➤ Establish targeted training programs. <ul style="list-style-type: none"> ▪ Scholarship program for promising young civil servants. ▪ In-service training in general human capital skills for promising young civil servants. ➤ Continue implementation of medium term civil service salary enhancement strategy. ➤ Encourage managers to frequently provide civil servants with positive reinforcement, both informal and formal, for meritorious work.

PEIR Summary of Recommendations

Objective	Next round of the MTEF (6-12 months)	Medium Term
	<ul style="list-style-type: none"> • Establish mechanisms for focusing civil servants on achieving agreed policy objectives.. <ul style="list-style-type: none"> ➤ Ensure compliance with personnel performance appraisal requirements of Law on Civil Servants. ➤ Monitor and publicize summary statistics on civil servant performance. ➤ Monitor and publicize evidence on impacts of policies and programs, identifying agencies responsible for each program. 	<ul style="list-style-type: none"> • Establish mechanisms for focusing civil servants on achieving agreed policy objectives. <ul style="list-style-type: none"> ➤ Continue to ensure compliance with personnel performance appraisal requirements of Law on Civil Servants. ➤ Continue to monitor and publicize summary statistics on civil servant performance appraisals. ➤ Continue to monitor and publicize evidence on impacts of policies and programs, identifying agencies responsible for each program.