

**Albania** has had a relatively long exposure to the EU and has benefited from substantive Phare and CARDS assistance. From 1997 onward, a comprehensive State Institutions and Public Administration Reform (SIPAR) Package was developed and implemented under EU leadership. The programme's main objective was to create the basic preconditions for implementing the rule of law. It helped the Albanian authorities to develop and implement their Public Administration strategy. SIPAR promoted in particular the stabilisation of civil service management, the improvement of public expenditure management and the transformation of the State Control into a Supreme Audit Institution. For a variety of reasons, as from 2000 the co-ordination of public administration reform was taken over by the Albanian authorities. This transfer of responsibilities has instigated a certain shift from supply-driven to demand-driven technical assistance projects. Despite considerable donor investment, real change has been rather limited. While most of the newly adopted legislation meets international standards, its implementation is lagging far behind.

Endemic corruption is hampering economic and social development. Supporting the strengthening of horizontal integrity systems -- such as policy development, co-ordination and monitoring; civil service management; sound financial management and control; audit; procurement; etc. -- will help to reduce the level of cronyism and corruption.

**Civil Service and PAR leadership** reform has attracted a lot of attention from both the donors and the Albanian authorities. The general administrative legal framework exists and is basically in line with EU standards; however, its implementation, e.g. of the administrative procedures law, is very limited. Administrative redress and judicial review exist but are not reliable. While there is a legal and institutional basis for human resources management within government, HRM practices have still barely evolved. Politicisation and nepotism persist in wide parts of the public administration and, according to donors, also in the judiciary. Further assistance will be needed to improve the legal and institutional setting and in particular the implementation of the legal instruments and the monitoring capacity within the administration.

**Financial Management** is the only area where notable progress has been made. The government is considering amending the organic Budget Law in the light of experience since the adoption of the current legislation in 1998. There is ample supply of technical assistance in this field, and further assistance will be needed to spread reforms across levels of government and to build up the needed critical mass of trained human resources.

**Public Procurement** was mentioned in the SIPAR, but was not selected as a priority area. The public procurement legal system is largely based on the UNCITRAL Model Law, and remains generally unchanged since 1996. Substantial technical assistance will be necessary to align the law with both the *acquis communautaire* and WTO's GPA. In addition, further support in building up administrative capacities to adequately implement the public procurement system will be required.

**Internal Audit and Financial Control** are areas where until now no clear legal framework exists that would force line ministries to carry out sound internal control. If internal control mechanisms exist, they often focus on identifying non-compliance in the formal disbursement process; assessment of financial risks and/or cost/benefit is practically non-existent. A central financial control department was set up in 2000 in the MoF, but needs to be developed. Each line ministry has a generally weak internal audit capacity, and the central internal audit department within MoF has no authority to supplement the audit work in line ministries. While laws on internal audit and internal control are under consideration, further TA will be needed to establish the legal and institutional frameworks.

**External Audit**, as required by international audit standards, is a fairly new concept in Albania. The SAI was created through the reform of the State Control Services, which was initiated in 1997. The legal basis of the SAI was amended in 2000 and changed the SAI from a collegiate body to a monocratic institution. The SAI is fairly isolated and receives little support from international donors. In recent months, the SAI was at the centre of a politico-constitutional debate that has frozen further international co-operation.

**Tax and Tax Administration:** The major instruments of modern taxation exist in principle. Revenues from VAT have risen in recent years. Direct taxation contributes little to government revenues and essentially stems from social security contributions. The MoF and its general taxation department do not have the necessary resources to formulate tax policies. Assistance will be needed to synchronise further development of the tax policy framework and the development of supporting instruments (IT, etc.).