



## **SIGMA**

### **Support for Improvement in Governance and Management**

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## **ALBANIA**

### **PUBLIC EXPENDITURE MANAGEMENT SYSTEM**

#### **ASSESSMENT MAY 2008**

#### **1. Legal Framework**

The legislative framework currently in place for public expenditure management (PEM) in Albania is based mainly on the Organic Budget Law (OBL), which was implemented (in full) in 2000. The law governs both budget preparation and budget execution; it also regulates issues related to government borrowing, accounting and auditing. Related aspects of PEM are procurement, which is regulated by a new law passed in 2006, and internal audit, which is regulated by a law passed in June 2007. A Law on Debt Policy was also approved in 2006.

The need for a new OBL has been recognised for some time in order to reflect developments in budgetary practice in recent years and to address weaknesses in the current law. Work on a new OBL has been in hand since 2002, following the introduction of a Medium-Term Budget Programme (MTBP). An important milestone has now been reached with the approval of a draft by the Council of Ministers (CoM) and its submission to parliament. Review of the draft law by the parliamentary Standing Committee on Economy and Finance is now taking place. While the legislation may not be without at least some controversy, there have been several consultation rounds with the Standing Committee, and it is expected that the final form of the law will be approved by parliament before the end of its summer session.

#### ***Central Government***

The new draft OBL submitted to parliament contains a number of improvements in the regulatory framework and process definition. It sets out more fully the budget preparation and monitoring calendar and brings the start of the process forward in order to allow more time for analysis and prioritisation within the medium-term budget framework that has been developed in recent years. Roles and responsibilities have been more clearly defined and a framework has been established for greater budget management delegation. The rights of parliament to information, including information about the levels of debt and contingent liabilities, have been extended and the timing improved. Provision for improved transparency has been made through requirements for the publishing of the medium-term budget plan and the posting of budget implementation progress reports on the government website. More discipline has been introduced regarding the rules for the transfer of funds. Penalties for contravention of required practice have been clearly defined. A framework has been established for the fiscal and budgetary management responsibilities of sub-national bodies.

A potential weakness in the current draft is the lack of a clear definition of the scope of both the budget and public accounts. In particular, it is not clear about what information is to be included with regard to development partner-financed activity and to the financial relationship of the government with state-owned enterprises, which are defined only by implication and not directly. Furthermore, past practice has been to allow some portion of revenues collected by budget entities to remain “off-budget” – for example, a percentage of fees and charges collected to be deployed by budget entities according to their own specific priorities. The provision of a clear definition of what is to be encompassed by the budget and by public accounts is often an important characteristic of the OBL in other countries.

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A significant change is the proposed separation of responsibilities for PEM between the political directorate in a ministry and its top civil servant. The latter becomes an “authorising officer” with separate authority and responsibility for ensuring standards of PEM in accordance with the OBL. While this is a potentially useful step in clarifying administrative responsibility, it represents a significant change in the administrative culture of Albania. The law enables individual budget entities to decide not to adopt this role of authorising officer for a period of up to three years. Although the need for a transition period is understandable, the strong management of this transition by the Ministry of Finance (MoF) is indispensable. If the transition period is not managed properly, there is a danger that lines of accountability will, in practice, become blurred in the short term and will be difficult to recover in the medium term.

The new OBL is a mixture of a framework law with references to secondary legislation and a law with all of the required details. Reflecting the emphasis in recent years on developing an MTBP, it includes more details about budget formulation and fewer about execution and reporting. Only broad provisions are made with regard to financial management and control, internal audit and inspection, and references are made to more detailed provisions that will be included in new legislation, most of which has yet to be developed. Not only does this make the law seem unbalanced at the moment, but also the lack of a complete legal foundation for budget execution may hamper the introduction of the responsibilities of the authorising officer. The drafting of more detailed provisions with regard to budget execution is foreseen in the framework of a twinning project with the National Audit Office of the United Kingdom and the Central Harmonisation Unit of the Ministry of Finance of Poland, which probably will start in September 2008.

Although the rights of parliament to information have improved, reporting to parliament could be further strengthened if it were informed of progress in budget execution during the budget year. Furthermore, the role of the High State Control in auditing the budget process and in informing parliament of the results of its work is not mentioned in the OBL. In the event that the OBL cannot be amended for this omission, the State Supreme Audit Institution Act of 1997 should clarify the procedures to be followed annually for informing parliament regarding the regularity and performance of the government’s operations.

The new Public Procurement Law 2007 (PPL) is operational and has important implications for effective budget execution. There are some views within budget entities that the PPL provisions are too cumbersome and time-consuming and that this is contributing to continuing weaknesses in budget execution. However, this may be due to the lack of familiarity and capacity in adapting from previous weak practices, and more time is needed to see how the new requirements are assimilated.

The development of a system of internal audit is also recognised as important for effective budget execution and probity. It is recognised that the new Internal Audit Law of June 2007 will need to be further updated in the light of changes in roles and responsibilities proposed in the new OBL. The OBL makes separate provision for internal audit on the one hand and inspection activities on the other. This implies – although it is not directly stated – that these two functions should be separate. In practice, internal audit teams are still expected to carry out inspection-type functions, which undermines their capacity to develop a more independent and objective approach to internal audit. As an aid to effective and efficient budget execution, internal audit does not yet function as an important tool of management.

### ***Local Government***

The OBL provides an improved framework for public expenditure management at the local government level, in line with most of the measures envisaged for central government: a balanced budget is required and controls over the creation of special funds have been created; a common classification system must be adopted in line with national requirements; there are tighter rules for the transfer of funds; a mid-year review is required; there are reporting and progress review requirements; the Minister of Finance has the power to stipulate accounting and internal auditing standards that local authorities must observe.

As the equivalent to national provisions at local level, authorising officers will have responsibilities for standards of financial management in the local authority. However, they will have dual responsibility to the council of the local authority and to the principle authorising officer in the MoF. How this dual responsibility will work in practice can only be tested.

There are positive provisions within the OBL with regard to requirements for the central government to declare transfers to local authorities by a specified time in the year and to declare the basis of those transfers. These requirements can serve as a basis for stabilising the amounts transferred over a period of years, but are not sufficient to provide a predictable basis for local budget planning.

Provision is made for local borrowing and the power to issue guarantees, together with controls over the amount of debt, based on parameters related to the underlying health of local finances, and requirements for notification of the exercise of powers and for the registration of new debts with the MoF. It is not clear from the draft OBL, however, how and in what circumstances the MoF is empowered to constrain the exercise of such powers by local authorities, for example, due to a severe fiscal downturn or a threatened excess of the overall cap of 60% of GDP provided in the law for all public debt.

## **2. Institutional Framework**

### **2.1 Organisation**

Steps continue to be taken to realign functions within MoF to reflect both modern practice and developments in expenditure management processes within Albania. Budget execution functions are being consolidated within the Treasury Directorate. It is proposed that in June 2008 the General Treasury Directorate will establish a Directorate for Central Co-ordination and Harmonisation of Financial Management and Control to provide oversight of internal control processes. Improved co-operation within the departments of the General Budget Directorate is taking place with the development of the integrated planning and budgeting system, for example co-operation between the departments dealing with sector budget formulation on the one hand and investment programmes on the other. Monitoring functions within the directorate are also being enhanced. The General Budget Directorate is also being developed to consolidate central PEM relationships with sub-national bodies that had previously been attached to the Ministry of the Interior.

Both internal and external debt management is being brought together in a single general directorate. A General Directorate for Macro-fiscal Management and Forecasting has also been established. The creation of both of these general directorates was made in order to give to these functions a higher profile. A new department has been created to co-ordinate the implementation of donor-financed projects, although it is initially focusing on the requirements of EU-financed work and some World Bank projects.

However, a large number of staff vacancies remain, and this situation impairs the effectiveness of some of these reforms. The constraint appears to be due more to finding people with the appropriate qualifications and experience than to the lack of budgetary provisions. However, recruitment and retention problems also seem to arise due to concerns that in practice political change would result in the large-scale displacement of staff in spite of the apparent protection provided by the Civil Service Law. For example, although the management of internal and external debt has been brought together in a single directorate and plans have been developed to reorganise the debt management function along modern lines of separate front, middle and back offices, an appointment to head that directorate has been outstanding for some time, and the internal and external debt departments continue to function separately for the time being, with unintegrated databases for debt management purposes. In general, training and professional development arrangements are somewhat fragmented and largely based on provisions of donor-financed projects.

Within the Council of Ministers (CoM) a department has been established to play a strategic role in the Integrated Planning System (IPS) currently being introduced and to play its part in the links being forged between planning and budgeting systems. This department is helping to provide stronger relationships between the CoM and the MoF, which are actively and positively co-operating to implement the integrated procedures. The CoM has also taken over donor co-ordination functions from the Ministry of Economy, although further database development is recognised as necessary.

Also under the IPS processes, budget entities have been required to establish a strategic and planning committee, chaired by their respective ministers, and a structure of working groups, led by their respective general secretaries, to formulate budget plans for each programme. These working groups draw in managers related to each programme and involve them directly in the process of activity identification and prioritisation within the strategic plans already submitted by each budget entity.

### **2.2 Budget Preparation**

The budget is prepared on a cash basis covering local municipalities as well as the Social Security Fund and the Health Fund. Foreign financing is included in the budget, although in reality not all foreign funds flow through the budget and the Treasury.

During the past year, the focus has been on developing links between national strategies and priorities and the medium- term budgeting system that Albania has been seeking to develop since 2002. Until now, the linkages between those strategies, the medium-term budget statements produced and the annual budget have been very weak, resulting in only a limited impact on both what is implemented in practice and the quality of expenditures in the provision of services.

The Integrated Planning System (IPS) is a planning and monitoring framework, which aims to ensure that the core policy and financial processes developed by the government function in an integrated manner. These core processes are:

- National Strategy for Development and Integration (NSDI), which establishes the government's medium to longer-term goals and strategies for all sectors;
- Medium-Term Budget Programme (MTBP), which requires each ministry to develop a three-year plan for the delivery of programme outputs aimed at achieving its policy objectives and goals within the ministry's expenditure ceiling, as set out in the government's fiscal plan.

The IPS aims to provide a set of operating principles and supporting structures to ensure that government planning and monitoring take place in as efficient and harmonised a way as possible.

Given the importance that Albania attaches to the European integration agenda, the IPS is seen as contributing significantly to enhancing the government's ability to deliver this agenda, since European integration will be at the centre of the NSDI, reflected in every sectoral and cross-cutting strategy, and taken into account whenever decisions regarding priorities need to be set and implementation monitored.

The IPS has seven core products:

- an *Integrated Planning Calendar*, which will be issued to ministries at the beginning of each year, covering the major requirements and deadlines for all core policy and financial processes;
- combined *training programmes*, to be delivered wherever feasible;
- each year, a *Ministry Integrated Plan*, which will contain the major commitments (including a list of proposed investment projects) for the core policy and financial processes;
- a single *External Assistance Strategy* document. to be produced annually, which identifies all priority areas where external assistance is needed;
- a single *Ministry Monitoring Plan*, to be negotiated annually with each ministry and encompassing all key outputs and indicators to be monitored by the centre;
- an *IPS Information System (IPSIS)*, to serve as the primary system for integrated reporting on progress towards achieving the outputs and indicators contained in the Ministry Monitoring Plan; and
- *Ministry Annual Reports*, which will present the results achieved versus the targets set for all processes.

Under the IPS the above national strategy covering all sectors has now been prepared, with definitions of objectives, programmes and costs; the strategy has been designed in such a way as to provide a hook into the budgeting process. The strategy has been developed on the basis of sector strategies prepared by ministries and a number of cross-cutting strategies. Not all of these strategies have been completed, and still outstanding, perhaps crucially, is the public administration reform strategy. At the same time, budget entities are currently preparing medium-term budget statements, which are required to address the priorities set out in the national strategy, within the ceilings set by the MoF and identifying the activities that can be implemented within their programmes.

This process appears to be functioning in practice and the working groups seem to have made progress in preparing their activity plans within the ceilings (although the process allows for supplementary bidding, provided that within the ceilings the activities given priority are at least addressed), and the results are being actively discussed at a political level. Problems appear to be arising with regard to the clarity of activity definition and costing, although prioritisation within budgetary ceilings does appear to be taking place.

An important part of the new processes is the fixing of ceilings within which budget plans are to be produced; these ceilings are updated as the cycle unfolds. With a more integrated planning/budgeting process, it is important to achieve some degree of stability of the ceilings in both inter-budgetary and intra-

budgetary cycles. Lack of predictability undermines both the linkages made and the quality of budget implementation. Some budget entities complain of instability in this respect during the early years of the development of medium-term budgeting. In that respect, specific attention to risk management and to minimising the impact of frequent changes is of paramount importance.

All strategies and related budget proposals are meant to include capacity development plans, but this seems to be one of the weakest elements of the sector plans so far, and a great deal of reliance is placed on a multi-donor fund established to support IPS-related reforms (this fund has been established, but a procurement plan has yet to be completed). It is not yet clear how the analytical and managerial skill developments that are essential if the ambitious reforms in budget formulation and monitoring processes being introduced are to be sustained are going to be developed and the necessary facilities internalised within Albanian training institutions. Given the fact that the OBL also enables more effective involvement in the budget process by parliamentarians, consideration also needs to be given to their support and training needs. The General Budget Directorate of the MoF intends to produce a manual covering the new integrated procedures by June 2008.

### **2.3 *Budget Execution***

The Ministry of Finance requires the production of annual procurement and cash-flow plans and sets cash spending limits based on these plans. However, the plans are often highly inaccurate. The new computerised Financial Management Information System (FMIS) currently being introduced provides improved cash-planning tools, but systems for applying these tools are not yet fully developed.

In general, line ministries do not appear to regard the cash-spending limits issued by the MoF as being particularly onerous. What seems to be more of a constraint on effective budget execution is the combined effect of different procedures for budget implementation. For example, with regard to investment expenditure, each year the Ministry of Education carries out a competitive process among local bodies for investment in education facilities; these investments then have to be designed and mobilised and procurement arranged. All this is arranged around an annual calendar so that actual implementation and spending is squeezed into the final few months of the year. The unsurprising result across many sectors is a significant concentration of spending activity over a short space of time and large underspending for the year as a whole. The lack of clear and implementable plans at an activity/project level at the beginning of the year, with specific assignment of responsibilities for action, also results in a high volume of transfers in the course of the year as concrete plans emerge.

The MoF has made proposals to tackle these problems that are under discussion, such as consolidation of projects so that they are more easily mobilised and moving towards the introduction of multi-year procurement plans so as to improve the timeliness of procurement mobilisation (perhaps initially through bringing forward annual plans so that they are prepared in the previous year rather than waiting for the new year to start). Improvements in actual practice are not yet evident, however. The pattern of spending and underspending was largely repeated at the end of 2007. Unless steps are taken to address these problems, there is a danger that weak execution will undermine the credibility of improved budget formulation and the process of rolling forward from one cycle to the next, which is fundamental to the integrated multi-year nature of the reforms that Albania is seeking to introduce.

At present, ex ante control of individual transactions is exercised through both the managers responsible within budget entities and by the national network of Treasury offices. The Treasury's ex ante control is still leading and functions as the last beacon of control. The changing institutional structures, new roles defined within the OBL, enabling of increased delegation (also within the OBL), the facilities provided by the new computerised FMIS, and the growing network of internal audit teams all make it possible to consider a different model of internal and transaction control, based on enhanced managerial responsibility. It is not yet clear, however, which model Albania may be moving towards in the medium term or what transitional process may be appropriate. There is a need to define the direction and path towards any changed model, while taking into account the need to implement reforms gradually.

### **2.4 *Accounting and Monitoring***

Accounting systems are still largely cash-based with some aspects of modified accrual. There are plans to review International Public Sector Accounting Standards and to implement reforms as appropriate. The draft

OBL proposes a modified accrual system for expenditure, recognising expenditure when it is incurred rather than when payments are made, while retaining revenue on a cash-received basis.

The Financial Management Information System (FMIS) has been under development for some years (since 2002). It is now at the stage of parallel run and of addressing any problems, with a view to full accounting reliance being placed on it later in 2008. However, what is being tested at the moment is still largely a treasury accounting system for transaction control, cash-flow management and formal accounting and budget reporting purposes. It is not yet fulfilling a management accounting role and providing deeper analysis for managerial purposes in budget entities. Budget entities are still keeping their own accounting records on a largely manual basis, assisted by spreadsheet systems. As a result, reconciliation between treasury and spending entity records is still necessary and can be difficult and time-consuming. Furthermore, it will be difficult for budget entities to track expenditures using their largely manual recording processes to the deeper analytical level (such as activities within programmes) that is being developed through budget formulation reforms. Modules are available within the FMIS, which might be used to bring about a more integrated approach to the provision of financial information, through which different needs might be met from a single database. However, it will require careful planning and data-flow mapping if it is to work effectively. An EU-funded project for strengthening public financial management, which is to be started in early 2010, will focus on using the FMIS more effectively by linking more budget entities to all available modules of the system.

A concern is that it is not clear whether sufficient resources have been devoted to the maintenance and further development of the FMIS once its core facilities are fully operational. Experience elsewhere suggests that the resources required are significant and that clear management structures are needed for the system to be effective.

The CoM and MoF have worked together in developing processes for monitoring expenditures as well as results compared to plans under the integrated planning and budgeting systems. This will require both quarterly in-year progress reporting and a formal progress review early in the new year to inform the start of the next cycle. However, it will be important that these reports lead to effective follow-up if the process as a whole is to achieve credibility and sustainability.

The integrated nature of the reforms being implemented in Albania is something that has proved difficult to achieve for many countries that have tried these sorts of reforms. The weakest link in the chain has often been effective monitoring and follow-up. The national strategy covers 14 ministries and has 75 programmes. Once activities are identified for each of these programmes, there will probably be hundreds if not thousands of activities. The problems of establishing reliable records of spending at activity level were referred to above. Information on results achieved is also likely to be a challenge. The danger is if data problems create so much “noise” that effective follow-up is weak, the reforms will lose their credibility and this will in turn affect the level of engagement in subsequent cycles. It may be more effective to focus on key areas and ensure that the data are available to monitor these areas as a minimum. It will also require careful attention to the steps to be taken if resources are consumed without results being achieved and to the circumstances determining where help will be given or sanctions applied and the form of help/sanctions that are likely to be the most effective.

### **3. Reform Agenda and Capacities**

As its contribution to the national plan, in February 2008 the Ministry of Finance published a Strategy for Public Finance Sector Development up to 2013, which stated the following overall vision: *“The public finance sector shall be professionally oriented towards efficient, effective, transparent and with integrity, mobilization and use of domestic financial resources, in accordance with the policies and priorities set out in the Government Plan and the National Strategy for Development and Integration.”*

It is a comprehensive strategy with four pillars and within the pillar “Improvement of the public finances management according to international standards” seven strategic priorities are identified. The strategy includes a costing and a phasing of reform activity in two-year slices up to 2013. The key elements of reform in the public finance sector are found in this strategy, including the reforms already in hand, and in general the plan seems well-rounded. Very importantly, regard is paid to the need to create appropriate incentives to encourage positive participation in the reforms, for example by awarding additional budget resources based on the quality of the budget proposals that have been made.

However, the strategy tends to reflect the way in which it was prepared, with individual departments within the MoF proposing their own activities from within their own competencies. What comes out less strongly in the strategy are the cross-cutting issues that require the activity of several departments acting together in order to achieve an impact not just on processes, but on what the PEM system as a whole is capable of supporting by way of outcomes. For example, to achieve an improvement in the quality of expenditures requires not just improved linkages between plans and budgets, but also tackling some of the barriers to improved effectiveness of expenditures inherent in current budget execution processes, such as cash management and procurement planning. These linkages are less clear. Achieving transparency and accountability for budget performance also requires co-operation across several departments and a more holistic approach to the use of data.

The definition of step changes (for example, removing excuses for weak budget execution, such as commencing procurement planning only once the budget has been approved) towards these high-level outcomes (such as improved quality/effectiveness of implemented expenditures) would help to make the strategy much more objective-oriented and the basis for sequencing clearer. It would also help define measures of achievement if the cross-cutting linkages were made and activities packaged together in terms of the outcomes that they contribute to (for example, measurable indicators could be related to the quality/effectiveness of expenditures). At the moment, proposed indicators for implementation of the strategy are largely of a process nature.

The strategy does provide a sequencing of activities, but the rationale for this phasing is neither stated nor is its basis clear. Relating proposed activities to targeted outcomes would also make it easier to establish milestones and to have an idea of the basic elements that need to be put in place before more complicated reforms can work effectively. As discussed in Section 2.3 above, there is a need for some basic budget execution reforms to catch up with the ambitious reforms in budget formulation already being implemented.

The strategy includes a section on the important question of capacity development. It also recognises an underlying problem of the lack of staff numbers and experience in key areas compared to the administrations of other countries. However, at present much of this section is largely a review of training activities already being carried out to support ongoing reforms. There is little provided in the strategy in terms of concrete and integrated proposals for ensuring the adequate staff and experience levels in key areas to enable the further reforms envisaged in the strategy to go forward. The strategy recognises the need for a longer-term training plan, but capacity development is about much more than just training and encompasses broader issues of human resources management and motivation, which need to be addressed. A capacity-development plan would also need to address the needs for improved infrastructure to sustain the IT developments currently underway in the sector referred to above.

#### **4. Assessment**

Progress is being made and reforms appear to have some momentum. Questions that arise are largely about the sustainability of the reforms and their balance in achieving an overall impact. Attention to the sequencing of reforms and to the deepening of existing reforms is important. In particular, there is a need to create more focus on reforms in budget implementation and public internal financial control procedures in order to close a perceived gap with improved budget formulation.

*Strengths:* The personnel in the MoF are in general technically competent and dedicated. The need for reform is recognised and there is a will to make the reform a success. Institutional reforms inside the MoF are helping to give the ministry more cohesion and a stronger reform leadership capacity. The emergence of the new draft OBL and its support by the CoM is a key milestone, as is the preparation of the strategy for public finance reform, which will help to give more shape to the reforms that have been taking place and are planned. The integration of budget formulation reforms through the policy-makers in the CoM to the MoF and then on to policy-makers and managers within budget entities is an important reform and appears to have momentum behind it and the active participation of budget entities. The emergence of improved IT systems provides a potential for making a much more active and transparent use of information and to thereby achieve improved accountability and probity. Revenue collection performance is improving, and the tax take is at a reasonable level for a country at this stage of development, although more could be done to broaden the tax net.

*Weaknesses:* Understaffing and lack of experience in some areas continues to be a problem, particularly when set against the ambitious nature of the reforms in hand. While technical skills are present, managerial and change management skills are weak. This means that the MoF sometimes lacks the depth necessary to

ensure sustainability in many areas, and the departure of a few key staff could pose significant problems. There is still an evident degree of dependency on foreign experts, which puts at risk the sustainability of the reforms that have started. Furthermore, those reforms are also placing increased emphasis on managerial accountability for both handling finances and achieving performance. It is not yet clear whether managers at the operational level are sufficiently engaged or have the capacity to respond to what is expected of them. In spite of the emergence of the public finance reform strategy, the way forward towards improved outcomes (as opposed to processes) in a number of key areas, such as expenditure quality (service impact), transparency and managerial responsibility, remains unclear.

In overall terms it is not yet clear whether reforms are having the full impact on the delivery of policies and services that has been targeted. While it is recognised that achieving such an impact requires very clear vertical linkage between policies at one end and the actions of an operational manager at the other, and while connecting plans to budgets is potentially an important link in that chain, it does not constitute the whole story. Reforms need to be further linked to the development of a managerial culture at operational level that is both motivated and empowered. The development of this culture will inevitably take time. On the one hand, it is important to implement measures that will help develop this culture through clear expectations and related training. On the other hand, attention must also be given to budget execution processes and to removing the barriers that currently lock managers into dysfunctional work mobilisation practices and create perverse incentives. Furthermore, current budget execution controls are often not observed, and efforts will be required to ensure that any new processes are firmly enforced and that the transition is carefully managed so that discipline is enhanced rather than weakened during the transitional process.

It is also important not to allow the reforms of the budget formulation process that are already being undertaken to get bogged down in detail to the point that they collapse under their own weight. Consideration must also be given to the lack of capacity of the staff who must implement these reforms. This is likely to mean making judgments about what is really important and being selective in order to demonstrate impact. Failure to create an effective loop from plans to budgets, implementation, monitoring of results, and back to plans will cause the system being developed to quickly degrade. It is better to target where that loop can most effectively be created than to try to apply it to the hundreds, if not thousands, of activities currently being identified and defined.

## **5. Recommendations**

- The new draft Organic Budget Law (OBL) now before parliament reflects a number of improvements in terms of both process and regulation. While it should be welcomed as a significant step forward, opportunities to amend it during its passage (or by way of separate regulation) so as to more clearly define what is to be included in the budget should be encouraged, specifically with regard to donor-financed activity and the government's relationship with state-owned enterprises.
- It is important that the proposed special law with regard to financial management and control is developed as soon as possible in order to ensure that improved budget formulation is adequately balanced by underlying improved discipline in the undertaking of budget implementation and of financial transactions. Without this discipline, there is a risk that the current perceived gap between the emerging budget formulation procedures and the ability to implement those budgets more effectively within basic control procedures will widen rather than narrow in the short term.
- The identification of "authorising officers", i.e. senior administrators having responsibility for expenditure management, is a potentially positive step. However, care should be taken by the Ministry of Finance (MoF) during the transitional arrangements to ensure that there is no ambiguity at any given time for either the senior administrator concerned or the political cadre concerning the authorising officer's responsibilities.
- The development of a well-rounded public finance sector strategy is also a positive step and to be welcomed. Its further development should be encouraged, particularly with regard to the development of cross-functional linkages related to the required outcomes of the public expenditure management (PEM) system, which would enable further improvements in sequencing and the elaboration of measurable indicators of change.
- The development of accounting information and the use of accounting data in a more integrated way, with a view to meeting various reporting and analytical purposes from the databases and IT

facilities that are becoming available to the MoF, would benefit from a higher focus in the strategy. This will require close co-operation across several MoF departments and with budget entities.

- Steps being taken in the current budget cycle to draw planning and budgeting closer together should be welcomed. The effectiveness of these measures will be critically dependent on the monitoring and follow-up processes that will come later. It is important that these measures are highly focused and do not get swamped by an overload of non-essential data. They must also be adequately staffed.
- The capacity of staff in both the MoF and budget entities to sustain the ambitious integrated planning and budgeting formulation processes being implemented will also be a critical factor in their effectiveness. This is a question of both numbers and experience. More attention to the strengthening of this capacity is required, both in the strategies and in the allocation of resources. Change management will be vital during the transition to new processes and the MoF is likely to need particular help in this respect for some years to come. It is also important that arrangements for strengthening this capacity are increasingly internalised within the administration rather than relying on components within donor-financed projects.
- Capacity development needs to reach beyond the capacity of staff to manage the enhanced planning and budget formulation procedures to include the operational managers who must implement the activities emerging from those processes. They need help in learning how to manage resources in a more dynamic way, but they also need to be supported by financial management procedures that empower that sort of dynamic management within a disciplined framework.
- A potential reason for the uneven attention given to various aspects of PEM reform in the past has been the fragmented project-based nature of the support provided by donors. While the new trust fund, coupled with the proposed EU programme, provides some consolidation, they do not cover the whole of public financial management development. Complementarity is still lacking and the two streams of support will require management under different procedures. With the emergence of a more comprehensive government strategy, there is an opportunity to consider using the approach of multi-donor support to promote greater integration and internalisation of the reforms within the government administration. Consideration might be given to organising assistance similar to the trust fund at an appropriate time so as to provide flexible support to the whole of the public finance sector strategy that the government has developed and more integrated support to the development of the financial management cycle as a whole.

## **6. External Assistance**

The World Bank has in place a significant project to strengthen the Treasury. This project includes the supply of hardware, implementation of an interim Treasury software solution, and supply and configuration of a long-term solution. The US Treasury provides long-term advisors to assist the Department for Combating Money-Laundering and the Treasury and Debt Department. DFID provides assistance in the drafting of a new Organic Budget Law and has supported the development of MTBP as well as NSDI. A CARDS project is also assisting the Tax Department. SIDA is providing assistance to the development of debt management systems. The IMF has provided support through a resident advisor and by periodic visits from its Washington-based country team to lead in areas such as fiscal forecasting and the preparation of national accounts.

A potentially important development in 2007 was the agreement on the terms and conditions of a multi-donor trust fund to support ongoing developments in the integrated planning and budgeting system. The fund will make 7.2 million USD available for the implementation of eight components of reform. The trust fund focuses on the development of the planning, budget formulation and related monitoring processes. Support to more basic financial management procedures will be given by an EU-financed twinning project, to begin in September 2008, and an IT project for strengthening financial management, foreseen to start in 2010.