

**Instrument for Pre-accession Assistance (IPA II)  
2014-2020**

Annex IA

of the Financing Agreement for the IPA 2014 Action Programme for Albania

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**Albania**

Sector Reform Contract for

Public Finance Management

**Action Summary**

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

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

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

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| --- | --- |
| **Action Identification** | |
| **Programme Title** | IPA 2014 Action Programme for Albania |
| **Action Title** | Sector Reform Contract for Public Finance Management |
| **Action Reference** | IPA2014/032813.01 /AL/Sector Reform Contract for Public Finance Management |
| **Sector Information** | |
| **NEAR Sectors** | Democracy and governance |
| **DAC Sector** | 15111 - Public Finance Management |
| **Budget** | |
| **Total cost**  (VAT excluded)[[1]](#footnote-1) | EUR 42 million |
| **EU contribution** | EUR 42 million  (40 million for budget support and 2 million for technical assistance) |
| **Management and Implementation** | |
| **Method of implementation** | Direct management |
| **EU Delegation in charge** | Albania |
| **Implementation responsibilities** | Ministry of Finance (MoF)  Deputy Minister Erjon Luci  Email: [erjon.luci@financa.gov.al](mailto:erjon.luci@financa.gov.al) |
| **Location** | |
| **Zone benefiting from the action** | Albania |
| **Specific implementation area(s)** | n/a |
| **Timeline** | |
| **Deadline for conclusion of the Financing Agreement** | At the latest by 31 December 2015 |
| **Contracting deadline** | 2 years following the date of conclusion of the Financing Agreement, |
| **End of operational implementation period** | 5 years following the date of conclusion of the Financing Agreement |

# List of acronyms:

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

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

ECOFIN: Economic and Financial Affairs Council of the European Union

FA: Financing Agreement

GDT: General Department of Taxes of the Ministry of Finance

HSC: High State Control / Supreme Audit Institution

ICSP: IPA II indicative country strategy paper

IMF: International Monetary Fund

INTOSAI: International Organization for Supreme Audit Institutions

IPS: Integrated Planning System of the Albanian Government

ISSAI: International Standards for Supreme Audit Institutions

MoF: Ministry of Finance

MoJ: Ministry of Justice

MoE: Ministry of Economy

MTBP: Medium Term Budget Program

NIPAC: National IPA Coordinator – Minister of European Integration

NSDI: National Strategy for Development and Integration

OBI: Open Budget Index of the International Budget Partnership

PAF: Performance Assessment Framework

PAR: Public Administration Reform

PEFA: Public Expenditure and Financial Accountability program

PFM: Public Finance Management

PIFC: Public Internal Financial Control

PIP: Public Investment Programming

PP: Public Procurement

PPC: Public Procurement Commission

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

SRC: Sector Reform Contract

WB: World Bank

# Description of the action

## Objectives/results

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

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

* Improved legal and fiscal framework
* Improved planning and budgeting of public expenditures
* Enhanced expenditure controls
* Improved tax administration
* Strengthened public procurement systems
* Strengthened transparency
* Enhanced anti-fraud and anti-corruption mechanisms
* Strengthened external audit

The reform targets are further described in Annex 1 - performance indicators used for disbursements -and Annex 2 - disbursement arrangements and timeline - are related with the performance indicators the Government is expected to fulfil in order to obtain the disbursement of the fixed and variable tranches of this Sector Reform Contract.

## Main activities

### **Budget support**

Main activities will include:

* transfer of EUR 40 million over the period 2015-2018;
* strengthened political and policy dialogue with the Government on the areas reflected in the objectives of the Sector Reform Contract;
* a continued effort to reinforce the Government's capacities in the area of PFM in the context of existing complementary support projects;
* strengthened dialogue between the EU Delegation and other donors active on PFM to coordinate and further align activities;
* efficient reporting on PFM reforms by relieving the Government from multiple reporting duties and relying on the Government’s structure for monitoring the implementation of the reforms, notably the PFM Steering Committee;
* regular monitoring of budget support eligibility criteria;
* technical assistance of EUR 2 million to increase the capacity of the stakeholders in the area of public financial management.

### **Complementary support**

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

The expected results of the accompanying technical assistance support are:

* Capacities enhanced through supporting the monitoring framework and training and coaching of relevant MoF staff to coordinate and implement the PFM policy, legal and regulatory reforms;
* Capacities strengthened for monitoring the implementation of the PFM reform policy and reporting on progress via the PFM Steering Committee and its Secretariat;
* Capacities strengthened for national oversight bodies, notably the parliament, to effectively carry out their functions and enhanced participatory governance through dialogue with civil society organisations.

The complementary support component should be contracted as early as possible from the start of the Sector Reform Contract to reflect the importance of institutional support for the implementation of the PFM reform.

## Intervention logic

The overall objective of the EU support for the 2014-20 PFM strategy relates to addressing the risks for macroeconomic stability and fiscal discipline. At the input level, the programme introduces a strengthened framework for coordination and dialogue between the different stakeholders, as well as a system for reporting results and processes. This creates space for better engagement of sector expertise in the country and aims to enhance the accountability systems.

EU support also puts emphasis on resourcing for PFM reforms. Capacity building is provided for the public authorities in charge of key reform functions, notably the Ministry of Finance. Acknowledging the human resource needs and prioritising strategic allocation of resources in the national multiyear financial framework, together with the EU support for closing the financing gap for the reform, will accelerate the implementation of the reforms at the output level and to improve the sustainability of the reform activities.

Under the variable tranches, the Sector Reform Contract follows some key indicators of the PFM strategy. The first year indicators consist mostly of process and output level indicators, with a view to paving the way for measuring the outcomes. Towards the end of the programme, in addition to process indicators, there are output and outcome level indicators, measuring enhanced expenditure controls and improved tax administration, which contribute to the overall objectives of macroeconomic stability and fiscal discipline.

In addition, output level indicators are introduced for following progress in the area of external audit while outcome like indicators are introduced for public procurement systems. These are key components of efficient public service delivery. Supporting reforms in these areas will therefore contribute to more timely reform outputs and address developmental risks.

As far as the risks of corruption and fraud are concerned, the programme includes support for fighting corruption through strengthening scrutiny of cases of corruption, fraud and false asset declarations. Complementary assistance is also provided for the parliament and civil society organisations for their oversight functions.

# Implementation

## Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 40 million and for the complementary support is EUR 2 million. This amount sufficiently contributes to providing incentives for the reforms in the sector. The estimated costs of the PFM reforms are approximately EUR 250 million. At the same time, the Albanian High State Control (Supreme Audit Institution) confirmed in the last years that approximately EUR 100 million is lost due to irregular procedures. Therefore effective PFM reforms could bring considerable amount of savings to the state budget.

## Criteria for disbursement of budget support

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

* Implementation of a credible stability-oriented macroeconomic policy;
* Satisfactory progress in the implementation of the public finance management policy, notably the PFM strategy 2014-20 and continued credibility and relevance thereof;
* Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information (transparency roadmap).

b) The specific conditions for disbursement that will be used for variable tranches are outlined in Annex 2 on disbursement arrangements and timeline.

The chosen performance targets and indicators to be used for variable disbursements will apply for the entire duration of the programme. However, in duly justified circumstances, the Deputy Minister of Finance in coordination with the National IPA Coordinator may submit a request to the Commission for the targets to be changed. The agreed changes shall be authorised by exchange of letters between the two parties.

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

## Budget support details

The financial assistance will be disbursed in a fixed tranche and three variable tranches annually in the subsequent three years period.

The fixed tranche of EUR 10 million shall be requested upon the signature of the Financing Agreement, provided that the general conditions for disbursement mentioned in 2.2 a) are met.

The disbursement of annual variable tranches will occur provided that the general conditions for disbursement mentioned in 2.2 a) are met. Once this level of compliance is confirmed, the annual variable tranches of a maximum EUR 10 million will be calculated according to the disbursement procedures specified in Annex 2.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the transfers in EUR disbursed into Albania LEK will be undertaken at the appropriate exchange rates in line with the relevant provisions of the Financing Agreement.

## Organisational set-up and responsibilities

The PFM Reform Steering Committee was formally established in April 2015. The Steering Committee, chaired by the Deputy Minister of Finance, is the main decision making body for the implementation and oversight of the PFM strategy. It will be supported by a PFM Reform Secretariat for the formulation of work plans and annual reports on actions, as well as supporting documents related to the implementation of the strategy and to the disbursement requests of the fixed and variable tranches. Reforms will also be supervised by coordination committees set up for each pillar of the PFM strategy. The following institutions and actors will take part in the Committee:

* relevant departments of the Ministry of Finance[[2]](#footnote-2);
* Office of the Prime Minister;
* Ministry of European Integration;
* Ministry of Economic Development;
* Ministry for Innovation and Public Administration;
* Public Procurement Agency;
* High State Control;
* Economic and Finance Committee of the Parliament;
* EU Delegation / sector donors / other stakeholders as appropriate.

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

The Steering Committee session, specifically dedicated to issues regarding budget support disbursements, will be held on a regular basis but at least every six months between the Ministry of Finance and the EU Delegation. Other participants, e.g. representaitves of the IMF, World bank and other relevant stakeholders, will also be invited. The dialogue will be accompanied by written conclusions shared between the parties.

## Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of the Sector Reform Contract and its related PFM strategy 2014-20 will be a continuous process and part of the Governent’s responsibilities. To this aim, the Ministry of Finance shall establish a permanent internal, technical and financial monitoring system and elaborate regular annual progress reports. Every report shall provide an accurate account on the implementation of the Sector Reform Contract and its related PFM strategy 2014-20, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes), as measured by corresponding indicators, using as reference the list of performance indicators used for disbursements. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

For the disbursement of the fixed tranche, the Deputy Minister of Finance shall make available the following documents after the signature of the Financing Agreement:

* Report on progress regarding the implementation of a credible stability-oriented macroeconomic policy;
* the annual monitoring report and any other related documentation produced in the framework of the monitoring of the implementation of the PFM strategy and its action plan;
* Report and statistics on satisfactory progress on acting upon the audit findings of the external audit of the arrears clearance process and on pursuing investigations in cases of suspicion of fraud;
* Report of progress regarding the implementation of the transparency roadmap.

For the disbursement of the variable tranches for the years 2015, 2016 and 2017, the Deputy Minister of Finance shall make available the following documents not later than 31 March 2016, 2017 and 2018:

* Report on progress regarding the implementation of a credible stability-oriented macroeconomic policy;
* the annual monitoring report and any other related documentation produced in the framework of the monitoring of the implementation of the PFM strategy and its action plan;
* Report and statistics on satisfactory progress on acting upon the audit findings of the external audit of the arrears clearance process and on pursuing investigations in cases of suspicion of fraud;
* Report of progress regarding the implementation of the transparency roadmap.
* The documents required as source of verification to demonstrate the completion of the targets set out in Annex 2.

The documents may be presented and discussed at the PFM Steering Committee sessions specifically dedicated to issues regarding budget support disbursements.

The Commission may undertake additional verification missions and monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

## Evaluation and audit

Evaluations of the this budget support operation should be aligned with similar exercises undertaken under the IPA 2014 programme and carried out via independent consultants.

The part for complementary support technical assistance will be subject to regular performance monitoring. The Commission may also mobilise an external monitoring (ROM - results oriented monitoring) carried out by independent consultants on the basis of corresponding terms of references.

The Commission shall inform the Ministry of Finance at least 2 months in advance of the dates foreseen for the evaluation missions. The Ministry shall collaborate efficiently and effectively with the evaluation experts and inter alia provide them with all necessary information and documentation, as well as access to premises and activities.

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

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

**2.7 Communication and Visibility**

The budget support programme will comply with EU visibility guidelines for external actions of the European Commission. In particular, a communication and visibility plan, including specific actions (indicatively: press conferences, dissemination of study results, emblematic dates for events, closing seminar program, etc..) should be developed in the first year and presented to the PFM Steering Committee for approval and immediate implementation.

Any means of information and communication on certain thematic aspects funded by the programme (brochures, publications, educational materials, videos, press kits, information boards, etc.) must comply with the provisions of the EU visibility manual. Panels and boards should also apply to the physical outputs of the Sector Reform Contract in accordance with this manual.

All deliverables of the communication and visibility plan will be awarded at the end of the programme to the Delegation of the European Union for possible future use in its general communication activities and for archival purposes.

# APPENDIX 1: Indicative selection of result indicators

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the budget support programme without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

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|  | **Intervention logic** | **Indicators** | **Baselines** | **Targets 2017** | **Targets 2020** | **Sources and means of verification** |
| **Overall objective:** | To contribute to sustainable growth and maintained macro-economic and fiscal stability | Public debt (as per ICSP) | 2013 public debt: 70.5% | Positive trend in the consolidation of public debt | Positive trend in the consolidation of public debt | MoF data |
| **Specific objective(s):** | To strengthen the Albanian PFM system for an efficient process of budget planning, execution and oversight with a view to reinforce fiscal discipline, streamline the allocation of resources according to policy objectives and upgrade public services delivery | Arrears clearance (as per ICSP)  Government Effectiveness World bank indicator (as per ICSP) | 2013 stock of arrears: 72.57 billion Lek / approx. EUR 500 million (equivalent to 5.3 % of the GDP)  2013 Government Effectiveness index: - 0.33 | Stock of arrears entirely cleared out  Positive trend in the Government Effectiveness index | Stock of arrears entirely cleared out  Positive trend in the Government Effectiveness index | MoF  Government Effectiveness World bank indicator |
| **Induced outputs:** | 1.Improved legal and fiscal framework | 1. Organic Budget Law reviewed to enhance status and function of the Medium Term Budget Plan (MTBP) and introduce legally binding medium term budget ceilings, fiscal rule and fiscal council | 1. Current Organic Budget Law with non-binding medium term budget ceilings, no Fiscal council or Fiscal rule | 1. Budget spending institutions respect multiyear MTBP budget ceilings. Government operates the Fiscal council and fiscal rule | 1. Budget spending institutions respect multiyear MTBP budget ceilings, fiscal rule is maintained and fiscal council is operational | Official Journal |
| 2. Improved planning and budgeting of public expenditures | 2. MTBP adopted, including: alternative macro-fiscal assumptions; framework of medium term investments; fiscal risks assessment; key fiscal ceilings; expenditure priorities. | 2. MTBP is currently not a legally binding act with limited information on fiscal risks and without a framework of medium term investments and alternative macroeconomic scenarios. Capital investment projects are managed by the Ministry of Economy while the budget framework is put together by the Ministry of Finance. There is a need for strengthened coordination, preparation and appraisal of government capital investment projects linked to the MTBP. | 2. MTBP 2016-2018 is adopted, including: alternative macro-fiscal assumptions; integrated framework of medium term investments; elaborated fiscal risks assessment; key fiscal ceilings; expenditure priorities.  For MTBP 2017-2019 the Public Investment program is updated and aligned taking into account ongoing capital projects and prioritisation and appraisal (including cost benefit analysis) of planned capital projects. | 2. MTBP adopted, including: alternative macro-fiscal assumptions; integrated framework of medium term investments; elaborated fiscal risks assessment; key fiscal ceilings; expenditure priorities. PIP prioritisation and appraisal of government capital investment projects is in place and part of MTBP. | MoF |
| 3. Enhanced expenditure controls | 3. Multi-year commitments control introduced in the Treasury System / AGFIS. Accumulated arrears prior to 2014 cleared, arrears audit recommendations implemented. | 3. Multi-year commitments are currently tracked on excel spreadsheet against multiyear ceilings and are not directly recorded in the Treasury system/AGFIS.  As of June 2015 the total arrears paid under the arrears clearance strategy was 46.3bn LEK plus netting of 13.4bn LEK out of 70 bn LEK. | 3. Multi-year commitments control against multiyear budget ceilings is in place through the Treasury System / AGFIS.  100% of government arrears as of end-December 2013 cleared. | 3. Up to 50 (responsible for 95% of the general budget) budget spending institutions connected to AGFIS. | MoF |
| 4.Improved tax administration | 4. Fiscalisation of cash payments by tax payers increased. Enhanced audit operation of tax administration using risk based audit techniques. Fiscal cadastre is set up. | 4. Number of fiscal receipts revenue to GDP ratio 26% in 2014 | 4. Increased tax revenue /GDP ratio compared to 2014 by increase of fiscal receipts, enhanced audit and increased efficiency in property taxation | 4. Increased tax revenue /GDP ratio compared to 2017 | MoF |
| 5. Strengthened public procurement (PP) review systems | 5. PP review is independent transparent and effective and efficient, | 5. The Public Procurement Commissioner (PPC) is currently a public legal body subordinated to the Council of Ministers. SIGMA qualitative indicator: 2 out of 5. | 5. PP legal framework more aligned to EU directives in terms of independence and the review function is effective demonstrated by SIGMA qualitative indicator: 3 or above out of 5 | 5. PP legal framework aligned to EU directives and review function effectively. SIGMA qualitative indicator: 4 or above. The percentage of cases when the review body exceeds the legal maximum processing time is below 10% | SIGMA assessment |
| 6. Strengthened transparency | 6. Citizen’s budget annually published | 6. Albania does not currently have a Citizen’s Budget | 6. Citizen’s Budget published | 6. Citizen’s Budget published annually | MoF publication |
| 7. Enhanced fight against corruption, fraud conflict of interest | 7. Increased number of convictions/sanctions as per Article 257 and 257/a of the criminal code compared to 2012-2014 | 7. Number of convictions/sanctions as per Article 257 and 257/a of the criminal code in 2012-14: 5 | 7. Positive track record of final conviction / sanctions as per Article 257 and 257/a of the criminal code | 7. Positive dynamic in the track record of final conviction / sanctions as per Article 257 and 257/a of the criminal code | MoJ track record |
| 8. Strengthened external audit | 8. The audit of the High State Control (HSC) is in compliance with INTOSAI standards | 8. SIGMA assessment of PAR Principles: the extent to which the HSC uses the standards to ensure quality of audit work is rated 3 out of 5 according to 2014 baseline assessment | 8. The HSC strengthens its audit work in line with the standards for financial audit and compliance/regularity audit and updates its development plan to address the findings of the peer review exercise 2017 in respect of compliance audit financial and performance audits practices | 8. SIGMA assessment of PAR Principles: the extent to which the SAI uses the standards to ensure quality of audit work is rated at least 4 out of 5 according to 2020 baseline assessment or similar | HSC report, peer review report, SIGMA assessment |
| **Direct**  **outputs:** | **SRC direct outputs:**  1. Setting up of intra- and inter- ministerial consultation mechanisms to translate into actions the provisions of the PFM strategy for 2014-20 and the action plan. | 1. Regular meeting of the PFM Steering Committee and Pillar Coordinators. | 1. MoF is in the process to operationalise the coordination structures for the implementation of the PFM strategy. | 1. The PFM Steering Committee and Pillar Coordinators meet regularly under the coordination of the Deputy Minister of Finance. | 1. The PFM Steering Committee and Pillar Coordinators regularly meet monthly under the coordination of the Deputy Minister of Finance. | MoF report |
| 2. Setting up a formalised government dialogue mechanism on PFM reform issues linked to budget support | 2. High-level PFM Steering Committee | 2. The GoA set up a high level forum to discuss PFM reforms and receive policy advice from donors and with the increased capacity and participation of civil society and other non-state actors. | 2. The high-level PFM Steering Committee meets at least twice a year under the coordination of the Minister of Finance. | 2. The high-level PFM Steering Committee meets twice a year, and possibly more frequently, under the coordination of the Minister of Finance. | MoF report |
| 3. Increased use of government systems for delivering cooperation funding | 3. Number of tranches disbursed in time and as per amount agreed under the SRC. | 3. The Government has currently no direct budget support from the EU for PFM reforms. | 3. Up to 70% of tranches disbursed. | 3. Up to 100% of tranches disbursed and start of a second SRC for PFM. | MoF report |
| **Complementary support:**  1. Improved capacity of the MoF to coordinate the implementation of the PFM Strategy / SRC and EU budget support programmes in general.  2. Improved capacity for oversight the budget process (Parliament and civil society organizations) | 1. PFM strategy implementation and monitoring structures are in place and report on the implementation on track.  2. Number of Parliamentary scrutiny and consultations with civil society organizations on PFM matters | 1. PFM reform strategy adopted in December 2014 and implementation structures mandated in April 2015 and monitoring framework.  2. The Economy and Finance Committee of the Parliament generally holds parliamentary hearings and consultations on PFM matters on the annual report of the High State Control and on the draft budget / The Government had one dialogue with four civil society organizations on PFM strategy in 2014. | 1. The Secretariat of the PFM Steering Committee has the appropriate structure and resources to track the implementation of the reform / annual report on the implementation of the annual action plan is presented to the PFM Steering Committee.  2. Increased number of parliamentary hearings and consultations on PFM matters compared to 2014. / Increased number of consultation with civil society organizations compared to 2014. | 1. The Secretariat monitors and reports on the implementation of the PFM strategy 2014-2020 and develops a new strategy for the subsequent financial framework.  2. Increased number of parliamentary hearings and consultations on PFM matters compared to 2014 / increased number of consultation with civil society organizations compared to 2014. | Disbursement reports |

**List of Annexes**

1. **Performance indicators used for disbursements**
2. **Disbursement arrangements and timetable**
3. **Complementary activities**

**Annex 1: Performance indicators used for disbursements**

Delegations should select, in agreement with the authorities and in co-ordination with other donors, 5-8 indicators from the public policy's performance assessment framework (PAF) for variable tranche conditionality. The selected indicators should be coherent with programme objectives and the diagnosis of the problem. Where no PAF exists, delegations should agree with the authorities on a number of performance indicators derived from the public policy, in consultation with other stakeholders.

Indicators, baselines and targets must be clearly and unambiguously defined in order to avoid errors and problems in interpretation. The following template is completed for each indicator:

**Indicator 1 : Improved legal and fiscal framework**

**1.1 Medium term budget ceilings are set in the organic budget law as legally binding;**

**1.2 Fiscal Council is set up;**

**1.3 Fiscal rule applied;**

Programme:Public Financial Management reform Strategy 2014-2020, Pillar I

Objective:Sustainable and prudent fiscal framework

Action: 1.1, 1.2, 1.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible:Ministry of Finance

**Description of the Indicator**

Indicator Type: Process

Measurement Unit Legislation in force, MoF reports

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018

Last known result: Organic Budget Law does not require the setting out of medium term binding budget ceilings, fiscal rule is not enforced since 2012 and fiscal council is not in place in 2014

**Development and quality of the indicator**

Method of data collection: MoF

Departments responsible for collection: MoF

Method of calculation: Submission of draft Organic Budget law, submission of Fiscal Council reports

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: N/A

**Documentation schedule**

Delivery date: by the end of Q1 2016 – MoF provides the Official Journal on the amendments to the Organic Budget Law

by the end of Q1 2017 – MoF provides the Official Journal about the establishment of the Fiscal Council; Fiscal Council publishes a report about its operation in 2016

by the end of Q1 2018 – The Fiscal Council publishes a report about the MoF application of the fiscal rule from fiscal year 2017

**Comments**

**Indicator 2: Improved planning and budgeting of public expenditure**

**2.1 Improved Medium Term Budget Program**

**2.2 and 2.3 Strengthened Public Investment Programming (PIP)**

Programme:Public Financial Management reform Strategy 2014-2020, Pillar II

Objective: Well integrated and efficient planning and budgeting of public expenditure

Action: 2.1, 2.2, 2.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible:Ministry of Finance/ Ministry of Economy/ Council of Ministers

**Description of the Indicator**

Indicator Type: Process

Measurement Unit Legislation in force, MOF report and third party assessments

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018

Last known result: MTBP 2014-2016 has limited alternative macro-fiscal assumptions, fiscal risks assessment, mid- term investments, expenditure priorities.

Public Investment Management has been assigned to the Ministry of Economy from the Ministry of Finance. There is a need to update the coordination between that MoE and MoF to ensure that PIP is fully aligned to the MTBP and NSDI. Appraisal and prioritisation of PIPs within the MTBP is weak: some 60 contracts are not fully reflected in the MTBP.

**Development and quality of the indicator**

Method of data collection: adopted MTBP 2016-2018

Departments responsible for collection: MoF

Method of calculation: N/A

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: N/A

**Documentation schedule**

Delivery date: by the end of Q1 2016 – MoF provides the Medium term Budget Program 2016-2018 containing alternative macro-fiscal assumptions, fiscal risks assessment, mid- term investments, expenditure priorities adopted by parliament

by the end of Q1 2017 – MoF provides the updated Public Investment list as part of MTBP 2017-2019 adopted taking into account a) ongoing capital projects and b) prioritisation and appraisal (including cost benefit analysis) of planned capital projects;

by the end of Q1 2018 – MoF outlines the decision on institutional responsibilities on the preparation and appraisal of government capital investment projects submitted to parliament and provides the specific regulations published on the Official Journal (as per page 27 of PFM 2014-2020 Strategy)

**Comments** World Bank PIP diagnostics report of March 2015

**Indicator 3: Enhanced expenditure control**

**3.1 The Treasury information system records multiyear commitments against multiyear ceilings;**

**3.2 100 % of government arrears as of end-December 2013 cleared;**

**3.3 Action plan addressing the recommendations of external auditors on arrears clearance is implemented.**

Programme: Public Financial Management reform Strategy 2014-2020, Pillar II

Objective: Well integrated and efficient planning and budgeting of public expenditure/ Multi-year commitment controls/ Expenditure control

Action: 4.1, 4.2, 4.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible: Ministry of Finance

**Description of the Indicator**

Indicator Type: Process, outcome

Measurement Unit MoF report

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018

Last known result: 4.1 Treasury Information system (AGFIS) hardware and software is not yet updated and is not able to record multiyear commitments against multiyear ceilings

4.2 5.3% of GDP accumulated arrears were recorded by the Government at the end of 2013. Total arrears payments under the Arrears clearance strategy are 72.5 billion LEK. As of June 2015, 46.3 billion LEK was paid and 13.4bn LEK was netted off.

4.3 Draft action plan addressing the recommendations of external auditors on arrears clearance prepared in June 2015 and finalised by September 2015 on the basis of the final report by the auditors of 20 June 2015.

**Development and quality of the indicator**

Method of data collection: MoF Report

Departments responsible for collection: Ministry of Finance

Method of calculation: N/A

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: N/A

**Documentation schedule**

Delivery date: by the end of Q1 2016 – MoF report on treasury hardware and software upgraded and on the management and recording of multiyear commitments in AGFIS (Treasury information system) for fiscal year 2016-2018

by the end of Q1 2017 –MoF report on the clearance of government arrears as of end-December 2013 as per Decision of Council of Ministers no. 50 dated 05.02.2014 on “*The Arrears Prevention and Clearance Strategy (APCS)*” and on the relevant action plan including the clearance of list with disputed claims or claims with missing information. Arrears clearance report: <http://www.financa.gov.al/al/program/shlyerja-e-detyrimeve-te-prapambetura>

by the end of Q1 2018 – MoF report on the implementation of the action plan addressing the recommendations of external auditors on arrears clearance.

**Comments**

**Indicator 4: Improved Tax Administration**

**4.1 Issuance of fiscal receipts increased**

**4.2 Enhanced audit activities**

**4.3 Increased efficiency of property tax collection**

Programme:Public Financial Management reform Strategy 2014-2020, Pillar III.

Objective:Efficient execution of the budget/Tax Administration

Action:4.1, 4.2, 4.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible:General Directorate of Taxes/Ministry of Finance

**Description of the Indicator**

Indicator Type: 4.1 output, 4.2 process 4.3 output

Measurement Unit Statistics

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018,

Last known result: 5.1 Nr of fiscal receipts issued: 115,660,210 in in 2013 and 167,311,514 in 2014

5.2 Average additional taxation identified for large taxpayers in 2014: 13,36 million LEK (number of controls in 2013: 441and in 2014: 606 - additional taxation identified through controls in 2013: 9,968 million LEK and in 2014: 8,097 million LEK).

Average additional taxation identified for other taxpayers in 2014: 1.76 million LEK (number of controls in 2013: 3467 and in 2014: 2919 - additional taxation identified through controls in 2013: 3,456million LEK and in 2014: 5,143 million LEK).

5.3 Fiscal Cadastre is not in place. Property tax collection was 3,700,000,000 LEK for 2014

**Development and quality of the indicator**

Method of data collection: administrative collection from the General Directorate of Taxes

Departments responsible for collection: General Directorate of Taxes

Method of calculation: 50% increase in the number of fiscal receipts compared to 2014

20% increase in additional taxation identified through control compared to 2014

Fiscal cadaster is established leading to 20% increase in the number of properties effectively paying the tax

**Means of interpretation**

Known limits and bias: no change of methodology

Means of interpretation: GDT statistics and report, third party assessment

**Documentation schedule**

Delivery date: by the end of Q1 2016 – GDT provide statistics and report on number of fiscal receipts issued during 2015

by the end of Q1 2017 – GDT reports on audit activities for 2016, including the number controls and additional taxation identified through control for a) large taxpayers and b) other taxpayers:

by the end of Q1 2016 - the MoF provides data on the number of properties effectively paying the tax in 2015

by the end of Q1 2018 – MoF reports on a) the legal establishment of the Fiscal cadastre; b) the operation of the fiscal cadastre and the number of properties effectively paying the tax in 2017 compared to 2015

**Comments**

**Indicator 5: Strengthened public procurement review system**

**5.1 5.2 5.3 More independent, transparent, effective and efficient remedy system**

Programme:Public Financial Management reform Strategy 2014-2020, Pillar III

Objective:Efficient execution of the budget /Public Procurement (PP)

Action:5.1, 5.2, 5.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Ensure the institutional independence and increased efficiency of the Public Procurement Commission (PPC)

Department responsible:Ministry of Finance

**Description of the Indicator**

Indicator Type: Outcome

Measurement Unit draft legislation, SIGMA score, statistics

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018

Last known result: PPC is subordinated to the Council of Ministers; SIGMA score for indicator 2.6 for independent, transparent, effective and efficient remedy system is assessed as 2 (out of 5) in 2014; % of cases when the review body exceeds the legal maximum processing time: 39.6% in 2014

**Development and quality of the indicator**

Method of data collection: draft legislation and annual report from the PPC

Departments responsible for collection: PPC

Method of calculation: draft legislation, SIGMA score, PPC statistics

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: for 5.2 SIGMA assessment on increased efficiency (quality and transparency of the complaint system).

**Documentation schedule**

Delivery date: by the end of Q1 2016 – Public procurement legislation approved by Council of Ministers and submitted to Parliament by end of 2015 outlines guarantees for institutional independence of the PPC

by the end of Q1 2017 – PP law adopted by Parliament; increased SIGMA score for PAR principles regarding the efficiency, quality and transparency of the complaint system

by the end of Q1 2018 – Statistics from the PPC on the percentage of cases when the legal maximum processing time is exceeded by the PPC.

**Comments** On the basis of the 2012 PP Law, there are two main entities involved in regulating public procurement. The central body responsible for public procurement policy is the Public Procurement Agency (PPA). It has also formally been given responsibility for concessions. The Public Procurement Commission (PPC) is now responsible for the complaints review mechanism. In 2013, a new law (No. 125/2013) on concessions and public private partnership (PPP) was adopted, which does foresee for the first time rules on PPPs. The PPC is subordinated to the Council of Ministers. Different models for ensuring the impartiality and independence of the PPC are being analysed, including how PPC members are appointed and how Parliament exercises its control function.

**Indicator 6: Improved transparency**

**6.1 Action plan for preparation of Citizens budget prepared**

**6.2 Pilot Citizen’s budget for 2017 published**

**6.3 Citizen’s budget for 2017 published**

Programme: Public Financial Management reform Strategy 2014-2020, Pillar IV Transparent government reporting

Action: 6.1, 6.2, 6.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible: Ministry of Finance

**Description of the Indicator**

Indicator Type: Output

Measurement Unit Action plan publication

Periodicity of measurement: Q1 2016, Q1 2017, Q1 2018

Last known result: No Citizen’s budget in place

**Development and quality of the indicator**

Method of data collection: Action plan publication

Departments responsible for collection: MoF

Method of calculation: N/A

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: N/A

**Documentation schedule**

Delivery date: by the end of Q1 2016 - MoF invitation to public consultation for the preparation of the action plan and MoF provides action plan approved by the Minister of Finance for the preparation of Citizens budget

by the end of Q1 2017 - MoF publication of the pilot Citizen’s budget for 2017

by the end of Q1 2018 - MoF publication of the Citizen’s budget for 2018

**Comments**

**Indicator 7: Fight against corruption, fraud, conflict of interest**

**7.1, 7.2, 7.3 Sufficient increase of final convictions and sanctions as per Article 257 and 257/a of the Criminal Code**

Programme: Public Financial Management reform Strategy 2014-2020

Objective: Effective fight against corruption, fraud and conflict of interest

Action: 7.1, 7.2, 7.3 of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible:Courts – Ministry of Justice – Ministry of European Integration

**Description of the Indicator**

Indicator Type: Outcome

Measurement Unit: Criminal statistics provided by the Ministry of European Integration to the European Commission in view of the publication of the annual Progress Report.

Periodicity of measurement: Annual

Last known result: Number of convicted persons as per Article 257 and 257/a of the Criminal Code during the period 2012-14: 5.

**Development and quality of the indicator**

Method of data collection: Administrative collection of data from Courts and Ministry of Justice

Departments responsible for collection: Ministry of European Integration

Method of calculation: N/A

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: N/A

**Documentation schedule**

Delivery date: by the end of Q1 2016 – Courts submit to the Ministry of Justice and Ministry of European Integration data regarding final convictions and sanctions as per Articles 257 and 257a of the Criminal Code occurred in 2015;

by the end of Q1 2017 – Courts submit to the Ministry of Justice and Ministry of European Integration data regarding final convictions and sanctions as per Articles 257 and 257a of the Criminal Code occurred in 2016;

by the end of Q1 2018 – Courts submit to the Ministry of Justice and Ministry of European Integration data regarding final convictions and sanctions as per Articles 257 and 257a of the Criminal Code occurred in 2017.

**Comments** Article 257 of the Criminal Code refers to illegal benefiting from interests (direct or indirect holding, retaining or benefiting from any sort of interest by a person holding state functions or public service in an enterprise or operation in which, at the time of conducting the act, he was holding the capacity of supervisor, administrator or liquidator, is punishable by a fine or up to four years of imprisonment).

Article 257/a of the Criminal Code refers to assets declaration (refusal for declaration or non-declaration of assets of the elected persons or of the public employees or of any other person who has the legal obligation for declaration in accordance with the law, when previously administrative measures have been taken, constitutes a penal contravention and is punished by fine or imprisonment up to six months. Hiding or false declaration of assets of the elected persons or of the public employees or of any other person who has the legal obligation for declaration is punished by fine or imprisonment up to three years).

**Indicator 8 : Increased compliance of the operation of the HSC with ISSAI standards**

**8.1 HSC has adopted a regularity/compliance audit manual and a financial audit manual in line with the INTOSAI standards**

**8.2 HSC has conducted 3 pilot financial audits and 10 pilot regularity/compliance audits in line with INTOSAI**

**8.3 HSC has prepared its medium-term development strategy on the basis of a peer review, including an assessment of the HSC audit work conducted by one or several partner State Audit Institutions in line with the ISSAI standard 5600**

Programme:Public Financial Management reform Strategy 2014-2020, Pillar IV

Objective:Effective external oversight of the public finances

Action: 8.1, 8.2, 8.3, of the corresponding Table of the Specific Conditions for Variable Tranche Release (table E)

Department responsible:High State Control

**Description of the Indicator**

Indicator Type: Output

Measurement Unit Manuals, audit report, peer review report, medium-termdevelopment strategy

Periodicity of measurement: Annually

Last known result: HSC does not operate in line with INTOSAI and ISSAI standards. SIGMA assessment score of 2014: 3.

**Development and quality of the indicator**

Method of data collection: HSC audit manuals, pilot audit reports, HSC development strategy for 2018-2020, peer review report with HSC

Departments responsible for collection: HSC

Method of calculation: Submission

**Means of interpretation**

Known limits and bias: N/A

Means of interpretation: Publication of reports, SIGMA assessment

**Documentation schedule**

Delivery date: by the end of Q1 2016 – HSC provides the adopted regularity/compliance audit manual and a financial audit manual aligned with INTOSAI standards

by the end of Q1 2017 – HSC publishes a report about pilot audits carried out in 2016 in line with ISSAIs and submits the audit reports by May 2017 - SIGMA Assessment

by the end of Q1 2018 – HSC submits the peer review exercise report and its updated development strategy addressing the findings of the peer review regarding compliance audit and performance audit practices of the HSC.

**Comments:** The activities will be supported by an EU funded Twinning project for the period of June 2015 – June 2017.

The Strategic Development Plan 2013-2017 of the HSC and its update of 2015-2017 aims at modernising the institution and bringing its activities in full compliance with INTOSAI standards. The objectives of the plan are to: a) develop HSC’s institutional capacity; b) enhance the audit capacities and the quality of audit; c) increase the number and quality of performance audit; d) develop and consolidate IT audits, e) increase the use of IT technology in the audit process; f) strengthen the anti-corruption role of the HSC; and g) develop the co-operation with other relevant actors within and outside the country

**Annex 2: Disbursement arrangements and timetable**

This annex covers the following four main areas according to the country/intervention sector context: (1) responsibilities; (2) the indicative disbursement timetable; (3) the general conditions for each disbursement tranche; (4) the specific conditions for each disbursement tranche.

**1. Responsibilities**

The beneficiary's responsibility for making disbursement requests in accordance with the timetable must be clearly established. On the basis of the disbursement conditions stipulated in this Financing Agreement, the Deputy Minister of Finance will send a formal request to the European Commission for the disbursement of each tranche in accordance with the timetable specified in Table A below. The request must include: (i) a full analysis and justification for payment of the funds, with the required supporting documents attached; (ii) a financial information form, duly signed, to facilitate the corresponding payment.

**2. Indicative disbursement timetable**

**Table A: Indicative disbursement timetable**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Country fiscal year** | **2015** | | | | **2016** | | | | **2017** | | | | **2018** | | | |  |
| **Type of tranche** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | **Total (M EUR)** |
| **Fixed tranche** |  |  |  | 10 |  |  |  |  |  |  |  |  |  |  |  |  | **10** |
| **Variable tranche** |  |  |  |  |  |  | 10 |  |  |  | 10 |  |  |  | 10 |  | **30** |
| **Total** |  |  |  | **10** |  |  | **10** |  |  |  | **10** |  |  |  | **10** |  | **40** |

**3. General conditions for the disbursement of each tranche**

The general conditions set out below for the disbursement of each tranche shall apply to the disbursement of all tranches and all tranche release requests must be accompanied by all appropriate information and documents.

**Table B: General conditions for the release of tranches**

|  |  |  |
| --- | --- | --- |
| Area | Conditions | Verification source |
| Macroeconomic stability | Implementation of a credible stability-oriented macroeconomic policy | DG ECFIN surveillance mechanism  EU annual assessment of the Albania economic reform program  Policy dialogue in the respective SAA sub-committee |
| Public financial management | Satisfactory progress in the implementation of the public finance management policy, notably the PFM strategy 2014-20 and continued credibility and relevance thereof | The PFM Steering Committee monitors progress on the implementation of the strategy and action plan.  Annual monitoring reports provided to the EU Delegation, including report and statistics on progress on acting upon the audit findings of the external audit of the arrears clearance process and on pursuing investigations in cases of suspicion of fraud. |
| Budget transparency and oversight | Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information (transparency roadmap) | Monitoring by the PFM Steering Committee  Annual report provided by the MoF on progress for the implementation of transparency roadmap  Documentation available on MoF website, Official Journal, HSC website and Parliament website |

**4. Specific conditions for the disbursement of tranches**

The specific conditions for the disbursement set out in Table C and D and E shall apply to the disbursement of a specific tranche. Tranche release requests must be accompanied by all appropriate information and documents on the specific conditions.

**Table C: Specific conditions for the release of tranches**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Tranche** | **Amount**  **€ million** | **Indicative disbursement** | | **Triggers for disbursement** | **Verification source including timing or data availability (where applicable)** |
| **request**  **(month**  **/year)** | **date**  **(month**  **/year)** |
| First fixed tranche | 10 | Q3 / 2015 | Q4 / 2015 | Disbursed on the basis of the general criteria | MOF annual reports on:  - Maintenance of Macroeconomic stability or a stability oriented macroeconomic policy  - PFM Strategy implementation  - Implementation of transparency roadmap  - Progress on acting upon the audit findings of the external audit of the arrears clearance process and on pursuing investigations in cases of suspicion of fraud |
| First variable tranche | 10 | Q2 / 2016 | Q4 / 2016 | Triggers related to:   * Improved legal and fiscal framework * Improved planning and budgeting of public expenditure * Enhanced expenditure controls * Improved Tax Administration * Strengthened public procurement review systems * Improved transparency * Fight against corruption, fraud, conflict of interest * Strengthened external audit   *For further details, see table E on variable tranche targets* | See table E |
| Second variable tranche | 10 | Q2 / 2017 | Q4 / 2017 | Triggers related to:   * Improved legal and fiscal framework * Improved planning and budgeting of public expenditure * Enhanced expenditure controls * Improved Tax Administration * Strengthened public procurement review systems * Improved transparency * Fight against corruption, fraud, conflict of interest * Strengthened external audit   *For further details, see table E on variable tranche targets* |
| Third variable tranche | 10 | Q2 / 2018 | Q4 / 2018 | Triggers related to:   * Improved legal and fiscal framework * Improved planning and budgeting of public expenditure * Enhanced expenditure controls * Improved Tax Administration * Strengthened public procurement review systems * Improved transparency * Fight against corruption, fraud ,conflict of interest * Strengthened external audit   *For further details, see table E on variable tranche targets* |

**5. Variable tranche calculation**

As long as the general conditions described in Table B are met, the amount of budget support to be disbursed for the three variable tranches for 2015, 2016 and 2017 will be calculated according to Table D (weight of each indicator of the variable tranches) and Table E (detailed description of the targets of the variable tranches).

Disbursements of variable tranches, once the general conditions have been met, will be in proportion to the achievement of each target as described in Table E. For many indicators, there is the option of partial completion, meaning that the indicator is scored 0, 50% or 100%, depending on whether there was (i) no or insignificant progress, (ii) significant but partial progress, or (iii) target met based on the sources of verification. In case the option of partial completion is not available (N/A), the indicator is scored 0 or 100%, depending on whether there was (i) no or insignificant progress or (iii) target met based on the sources of verification.

Where serious doubts exist about the quality of the data provided, a data verification exercise may be carried out to inform payment decisions. An external expert may be recruited to verify data claims on a sample basis, verifying data directly where possible or through cross-checking data with other, typically non-governmental, stakeholders.

In most cases, the baseline of the indicators will roll forward with each successive year's performance data. This means that the results achieved in the first year for the programme effectively become the baseline against which the second year's performance is assessed.

In exceptional cases, where exceptional events or changing circumstances have prevented meeting previously agreed targets, it may be possible to waive or neutralise an indicator condition. In this case, the related amount can either be transferred to the next tranche or reallocated to the other indicators of the same tranche. Such cases must be requested by the Deputy Minister of Finance to the geographical AOSD Director of the European Commission and can be authorised by the latter through an exchange of letters between the two parties.

In exceptional and duly justified cases financing agreements can allow for a re-assessment of certain unmet targets in the following year against the original target if there is a positive trend and the government did not reach the target because of external shocks. Such cases should be specified in the indictor documentation sheets.

**Table D: Weight of the variable tranches**

Where in Table E, the option of partial payment is indicated, the disbursement for each indictor may be 0, 50% or 100% of the maximum amount indicated below. In case the option of partial completion is not available (N/A), the disbursement for each indictor may be 0 or 100%.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Indicators as per Table E** | **Baseline as per Table E** | **Weight** | **Year 1**  **maximum amount EUR** | **Year 2 maximum amount EUR** | **Year 3 maximum amount EUR** |
| 1. Improved legal and fiscal framework, | As per 1.1,1.2,1.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 2. Improved planning and budgeting of public expenditure | As per 2.1,2.2,2.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 3. Enhanced expenditure controls, | As per 3.1,3.2,3.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 4. Improved Tax Administration | As per 4.1,4.2,4.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 5. Strengthened public procurement review systems | As per 5.1,5.2,5.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 6. Improved transparency | As per 6.1,6.2,6.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 7. Fight against corruption, fraud and conflict of Interest | As per 7.1,7.2,7.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| 8. Strengthened external audit indicator | As per 8.1,8.2.,8.3 | 12.5% | 1,250,000 | 1,250,000 | 1,250,000 |
| Total |  | 100% | 10,000,000 | 10,000,000 | 10,000,000 |

**Table E: Detailed description of the targets of the variable tranches**

| **Sector Reform Contract for Public Finance Management** | |  |
| --- | --- | --- |
| **First Variable Instalment**  **Achievement: by end 2015**  **Assessment: by June 2016** | **Second Variable Instalment**  **Achievement: by end 2016**  **Assessment: by June 2017** | **Third Variable Instalment**  **Achievement: by end 2017**  **Assessment: by June 2018** |
| **1 - Improved legal and fiscal framework** | |  |
| **1.1** The Organic Budget Law is amended setting out the requirements for legally binding medium term budget ceilings | **1.2** The Fiscal Council is established and publishes a report about its operation in 2016 | **1.3** The Fiscal Council publishes a report about the MoF application of the fiscal rule as set out in the amendment to the Organic Budget Law from fiscal year 2017 |
| Baseline: No requirement is set in the current Organic Budget Law for binding medium term ceilings and no Fiscal Council, as well as no fiscal rule, is in place. | | |
| Source of verification:  Official Journal on the amendments to the Organic Budget Law adopted by the Parliament | Source of verification:  Official Journal publication of legislation about the establishment of the Fiscal Council  Report of the Fiscal Council | Source of verification:  Report of the Fiscal Council  Official Journal |
| Partial completion: Draft amended Organic Budget law submitted to Parliament for approval | Partial completion: The Fiscal Council is legally established | Partial completion: Law on fiscal rule is adopted by the Parliament by amendment to the Organic Budget Law or similar legislation |
| **2 - Improved planning and budgeting of public expenditure** | | |
| **2.1** Improved Medium Term Budget Program (MTBP) 2016-2018 adopted by Parliament containing:  - alternative macro-fiscal assumptions  - fiscal risks assessment  - planned, contracted and ongoing mid-term investments and priorities included | **2.2** Public Investment list is updated and aligned to the MTBP 2017-2019 and takes into account:  - ongoing capital projects  - prioritisation and appraisal (including cost benefit analysis) of planned capital projects | **2.3** Regulation outlining the institutional responsibilities on the preparation, prioritisation and appraisal (including cost benefit analysis) of Government capital investment projects linked to the MTBP adopted by Parliament (as per page 27 of the PFM 2014-2020 Strategy) |
| Baseline: current MTBP has limited information on fiscal risks and alternative macroeconomic scenarios.  Public Investment programming is weak: public investment management was assigned to the Ministry of Economy (MoE) from the Ministry of Finance (MoF). World Bank PIP diagnostics report of March 2015 outlines areas for improvements. Indicatively 60 contracts are not fully reflected in the MTBP. Prioritisation and appraisal (including cost benefit analysis) of PIP and alignment to MTBP is limited. | | |
| Source of verification:  MTBP 2016-2018 adopted | Source of verification:  Updated Public Investment List adopted as part of MTBP 2017-2019 | Source of verification:  Council of Ministers decision or Official Journal |
| Partial completion: N/A | Partial completion: N/A | Partial completion: N/A |
| **3 - Enhanced expenditure control** | | |
| **3.1** The Treasury Automated Governmental Financial Information System is able to record multiyear commitments against multiyear ceilings for all budget institutions for fiscal year 2016-2018 | **3.2** 100% of government arrears as of end-December 2013 cleared | **3.3** MoF action plan of June 2015 addressing the recommendations of the external auditors of arrears clearance implemented |
| Baseline: multiyear commitment control against multiyear ceilings is not yet integrated in the Treasury system. In order to do that the Treasury needs a hardware and software update | Baseline: 5.3% of GDP or 72.5bn LEK accumulated arrears were recorded by the Government at the end of 2013. As of June 2015 46.3bn LEK was paid and 13.4bn LEK was netted off out of 72.5 bn LEK | Baseline: preliminary action plan prepared by MoF in June 2015 to be updated on the basis of final audit report and finalised by September 2015 |
| Source of verification: MoF reports | | |
| Partial completion: N/A | Partial completion:. At least 80% of government arrears as of end-December 2013 cleared | Partial completion: 50% of the number of actions completed |
| **4 - Improved Tax administration** | | |
| **4.1** 50% increase or more in the issuance of fiscal receipts in 2015 compared to 2014 | **4.2** 20% increase of average additional taxation identified for large taxpayers and other taxpayers compared to 2014 | **4.3** Fiscal cadastre is established leading to a 20% increase in the number of properties effectively paying the tax |
| Baseline: Number of fiscal receipts issued in 2013: 115,660,210 and in 2014: 167,311,514  Average additional taxation identified for large taxpayers in 2014: 13,36 million LEK (number of controls in 2013: 441and in 2014: 606 - additional taxation identified through controls in 2013: 9,968 million LEK and in 2014: 8,097 million LEK).  Average additional taxation identified for other taxpayers in 2014: 1.76 million LEK (number of controls in 2013: 3467 and in 2014: 2919 - additional taxation identified through controls in 2013: 3,456million LEK and in 2014: 5,143 million LEK).  Establishment of 2015 baseline for the number of properties paying the property tax in January 2016. | | |
| Source of verification: GDT for target 2015 and 2016, MOF statistics for target for 2017, Official Journal adoption of the legislative changes for the introduction of fiscal cadastre, comparative annual property taxes collection data for target for 2017. | | |
| Partial completion: 30% increase or more | Partial completion: 10% increase or more | Partial completion: 10% increase or more increase in the number of properties effectively paying the tax) |
| **5** - **Strengthened public procurement review system** | | |
| **5.1** The draft public procurement legislation submitted to Parliament outlines guarantees for institutional independence of the public procurement review body in line with the relevant provisions of the new Remedies Directive 2007/66/EC | **5.2** The public procurement review body operates a more independent, transparent, effective and efficient remedy system, confirmed with a score of 3 (out of 5) or more | **5.3** The percentage of cases when the review body exceeds the legal maximum processing time is below 10% |
| Baseline: currently the Public Procurement Commission (review body) is a public legal body subordinate to the Council of Ministers.  SIGMA score for indicator 2.6 for independent, transparent, effective and efficient remedy system is assessed as 2 in 2014.  % of cases when the review body exceeds the legal maximum processing time: 39.6% in 2014. | | |
| Source of verification:  Council of Ministers’ approval amendments to the Public Procurement Law | Source of verification:  SIGMA assessment | Source of verification:  Public procurement review body annual report |
| Partial completion: N/A | Partial completion: N/A | Partial completion: percentage below 15% |
| **6 – Improved transparency** | |  |
| **6.1** MOF - after public consultation with civil society actors - adopts action plan for producing a Citizens Budget | **6.2** MOF publishes a pilot version of 2017 Citizens’ Budget at the same time as the Enacted Budget | **6.3** MOF publishes the 2018 Citizens’ Budget at the same time as the Enacted Budget |
| Baseline: No Citizens’ Budget produced and published | | |
| Source of verification: MoF invitation to public consultation with civil society actors, as the presentation of the action plan | Source of verification: MoF publication | Source of verification: MoF publication |
| **7 - Fight against corruption, fraud, conflict of interest** | | | |
| **7.1** Annual increase of final convictions and sanctions as per article 257 and 257/a of the Criminal Code as from 2012-14. | | **7.2** Annual increase of final convictions and sanctions as per article 257 and 257/a of the Criminal Code as from 2015. | **7.3** Annual Increase of final convictions and sanctions as per article 257 and 257/a, of the Criminal Code as from 2016. |
| Baseline: Number of convicted persons as per Article 257,257/a of the Criminal Code during the period 2012-14: 5. | | | |
| Source of verification: criminal statistics provided by the Ministry of European Integration to the European Commission in June in view of the publication of the annual Progress Report. | | | |
| Partial completion: N/A | | Partial completion: N/A | Partial completion: N/A |
| **8 - Strengthened external audit** | |  |
| **8.1** The High State Control adopts a regularity/compliance audit manual and a financial audit manual in line with the INTOSAI standards. | **8.2** The High State Control conducts at least 3 pilot financial audits and 10 pilot regularity/compliance audits in line with the INTOSAI standards. | **8.3** The High State Control prepares its medium term development strategy on the basis of a peer review, including an assessment of work load, conducted by one or several partner State Audit Institutions in line with the ISSAI standard 5600. |
| Baseline: High State Control audit operations not in line with INTOSAI | | |
| Source of verification:  - HSC manuals,  - HSC explanatory note on the alignment of manuals with INTOSAI | Source of verification:  - HSC report, SIGMA Assessment | Source of verification:  - Peer review report on the High State Control  - High State Control Medium term development strategy covering the period 2018-2020 |
| Partial completion: High State Control adopted financial audit manual in line with the INTOSAI standards. | Partial completion: The High State Control conducted at least 2 financial audit and 5 pilot audit pilot regularity/compliance audits in line with the INTOSAI standards. | Partial completion: Peer review report on the High State Control, conducted in line with the ISSAI standard 5600. |

**Annex 3: Complementary activities: indicative budget breakdown and planning for contracting procedures**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget (€)** | | **Timeline[[3]](#footnote-3)** | |
| **Implementation modalities** | **Total** | **EU contribution** | **Launch of procedure** | **Contract signature[[4]](#footnote-4)** |
| Procurement |  |  |  |  |
| Service contract to be launched in Q3 2015 | 2 000 000 | 2 000 000 | Q3 / 2015 | Q1 / 2016 |
| **TOTAL** | 2 000 000 | 2 000 000 |  |  |

1. The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible. [↑](#footnote-ref-1)
2. As required, the Secretary General and the following Departments: Budget; Financial Treasury; Fiscal Policies; Public Revenue; Taxes; Customs; the Central Harmonisation Unit for Financial Management and Control and the Central Harmonisation Unit for Internal Audit. [↑](#footnote-ref-2)
3. Timeline: QUARTER (Q1, Q2, Q3, Q4) YEAR [↑](#footnote-ref-3)
4. Contract signature date: if relevant; i.e. for Direct Grants mainly [↑](#footnote-ref-4)