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BUDGET SUPPORT AND SECTOR APPROACH MECHANISM IN ALBANIA LESSONS LEARNED

EU Policy Hub

INTRODUCTION

Sector Budget Support (SBS), in the framework of IPA 2 funds, is the European Union's financial mechanism supporting partner countries in achieving concrete results and sustainable development. This policy paper will briefly examine the implementation of SPS, IPA 2 in Albania since 2014, and the benefits that this mechanism has compared to the previous one. The "evolution" of the legal and institutional framework in the establishment and implementation of the sector approach on which this funding mechanism is based, is also the focus of this document, and in this context, the changes that the institutionalization of the sectorial approach has undergone will be analyzed. Although five years have passed since the signing of the First Sector Reform Contract of Budget Support, this paper is an attempt to identify some of the lessons learned and propose recommendations for further improvement in the implementation of this instrument and in maximizing benefit from it.

What is Budget Support?

Budget support involves '(i) *dialogue with a partner country to agree on the reforms which budget support can contribute to, (ii) an assessment of progress achieved,*

(iii) financial transfers to the treasury account of the partner country once those results have been achieved, and (iv) capacity development support'.

Budget support is applied by European Commission in **three contractual forms**:

- Sustainable Development Goals (SDGs) Contracts to support national policies and strategies in progressing towards the SDGs
- Sector Reform Contracts to support sector reforms and improve service delivery (SCR).
- State Building Contracts in fragile and transition situations.

According to the European Commission data, the ongoing commitments, of the three contractual forms of budget support, implemented in 90 countries or territories around the world by the end of 2017, is estimated to be around 12.7 billion euros. The new budget support commitments undertaken in **2017 estimated 1.6 billion euros.**

All three budget support forms mentioned above are subject to the following four eligibility criteria covering:

- National/sector policies and reforms ("public policies");

- Stable macro-economic framework;
- Public financial management;
- Transparency and oversight of the budget.

The applied form of budget support in Albania is through the Sector Reform Contracts. Until the signing of the SCR is reached, it is passed through a negotiation process between the European Delegation and the institution/institutions in charge of the sector agreeing on objectives, products, targets and indicators through which the sector progress will be measured. This planning should be referred in existing strategic documents in order to ensure sustainability. In the SCR it is specified the modalities and criteria for obtaining budget support or technical assistance.

Budget support is used according to the financial management systems of the respective countries responsible for managing these funds. The European Commission responsibility is to ensure that the stipulated conditions have been met and that resources are transferred to the national treasury in accordance with the agreement. The responsibility for the management of these transferred resources rests with the partner government. Monitoring the progress of the objectives and the results is also in the focus not only of the beneficiary institutions but also of the European Commission based on agreed indicators and targets. [Determining realistic indicators and setting up institutional monitoring systems](#) are key to the success of budget support programs.

SECTOR APPROACH AND BUDGET SUPPORT IN ALBANIA: BRIEF OVERVIEW

Priorities for EU financial assistance for the period 2014-2020 to support Albania on its path to EU accession are set out in the

[Indicative Strategy Paper for Albania \(2014-2020\) revised on 3 August 2018.](#)

This document translates the political priorities defined in the framework of the enlargement policy framework by assessing the key areas for which financial assistance is most useful to meet the admission criteria. The amount dedicated to financial support under [IPA II 2014-2020 is 649.4 million euro for priority sectors](#): democracy and governance, rule of law, growth and competitiveness, environment, transport, employment education and social policies, agriculture and rural development, cooperation regional and territorial.

Most of the IPA II interventions are envisaged to be implemented through Sector Reform Contracts. According to the [European Commission's reports](#), the IPA II Sectorial Budget Support has been positively accepted by the Albanian Government. There are currently five signed Sector Reform Contracts, started in 2014 with the Financial Management Program. In 2015, two more contracts are signed on Public Administration Reform and on Employment and Skills.

Table 1: Sector Reforms Contracts Albania

- **Financial Management Program (PFM) (42 million Euros) aiming of 'fiscal discipline, more prudent financial management towards efficient public service delivery'.**
- **The Public Administration Reform Program (32 million euros)** aiming at supporting the Albanian government in increasing the transparency, accountability and effectiveness of public administration with a greater focus on the needs of citizens and businesses in order to create a solid base for implementation of the EU acquis.
- **Employment and Training Program (30 million euros)** aiming at supporting the Albanian government in employment and skills development policies, for a more inclusive and effective labor market.

- **Transport Program (24 million euros)**, in support of high-traffic transport. Supports the implementation of the National Transport Strategy 2016-2020 to contribute to an efficient integrated transport in the region and in the EU network, which promotes the economic development and quality of life of citizens by focusing on road transport
- **Fighting Corruption Program (10 million euros) aiming** at implementing the cross-cutting strategy against corruption to improve prevention, repression and awareness-raising on corruption.

Summary by the author.

Sector approach: 2014-2018 evolution

The Sectorial Approach sets the tools for planning the integrated public policy through ensuring coordination of sectorial policies and programs in all priority areas and sectors of particular importance to the country. In this context, in 2015, the first institutionalization of this approach was realized, re-organized and consolidated at the end of 2018. Prime Minister Order No.129 date 21.09.2015 *"On taking institutional and operational measures for the implementation of the sectorial approach and the creation of integrated policy management groups"* institutionalizes for the first-time the sector approach within the Integrated Planning System (SPI) which is the main decision-making system that determines strategic direction and resource allocation of the country.

Integrated Sector Management Mechanism was set up with the aim of developing, implementing and monitoring sectorial reforms in Albania. This would be achieved through the drafting of national sectorial programs and the creation of a single list of priority projects for strategic investments.

This mechanism was based on the establishment of four Integrated Policy

Management Groups (IPMGs) in four priority areas:

- a. Integrated Water Management;
- b. Employment and the Social Sector;
- c. Competitiveness and Innovation;
- d. Good Governance and Public Administration.

The role of IPMGs is also emphasized in Sector Reform Contracts. For example, the Employment and Skills Sector Reform Contract specifies that *'The IPMG function is to advise, instruct and coordinate the institutions involved in this sector ... to develop and implement the National Employment and Skills Strategy and Action Plan (including this Sector Reform Contract), provide consensus on key issues affecting the sector ... '*.

The deadline for establishment of IPMGs was December 21, 2015. The line ministries in charge (former) Ministry of Social Welfare and Youth, (former) Ministry of Economic Development, Tourism, Trade and Entrepreneurship and (former) Minister of State for Innovation and Public Administration, had to prepare the legal framework for setting up technical secretariats and making them operational. The Integrated Water Management IPMG functions would be run by the National Water Council, attached to the Prime Minister's Office. Since the Water Council Secretariat was a functional unit at that time, it served as the IPMG's Technical Secretariat, and it was the most consolidated one. In the other three IPMGs, the establishment of dedicated technical secretariats has been a real challenge.

All three leading line ministries underwent organizational changes starting from September 2017. Concretely, the Ministry of Social Welfare and Youth merged, delegating areas of responsibility

on three other ministries. The Ministry of Economic Development, Tourism, Trade, and Entrepreneurship joined the former Ministry of Finance. The State Minister for Innovation and Public Administration competences also merged.

In this new set-up of the institutional organization of the Central Administration, it was a necessity to reorganize IPMGs which turned out to be almost non-functional. The reorganization of the sectorial integrated mechanism was formalized in October 2018. Through the Prime Minister's Order no. 157, (adopted on 22.10.2018) '*On taking measures to implement the sectorial / cross-sectorial approach as well as the establishment and functioning of the integrated sectorial / cross-sectorial mechanism*', the IPMG mechanism is reorganized in support of taking organizational, inter-institutional and operational measures to implement a wide sectorial / cross-sectorial approach. Again, it is emphasized that this mechanism is in function of the Integrated Planning System (IPS) as the main system that sets the tools and mechanisms for an integrated public policy planning.

Comparative analysis: innovations of the Sectorial Access Mechanism reorganization

In this new set-up, IPMGs are intended to operate in support of *integrated sectorial and cross-sectorial approaches in priority areas*. In this regard, the cross-sectorial perspectives are added compared to the first organization which only emphasized sectorial approach. In addition, a new form of organization is set: Sector Steering Committees (SSC). SSCs have limited

responsibility and *are targeted to operate within sectors of particular importance for reform and inter-institutional coordination*. Also, a new IPMG on Integrated Earth Management priority joins the existent ones.

Secondly, the institutional representation and leading institutions responsible for ensuring the performance of technical interaction with development partners within specific sectors of these groups are redefined. According to the Prime Minister's Order 2015, the highest governing political authority of an IPMG is the Minister responsible for the sector. In 2018, the highest political authority convening the IPMGs and SSCs is the Deputy Prime Minister, besides the Minister in charge of the respective priority area. At a more technical level, the thematic groups that were convened by senior management, with the highest authority reorganization, they are defined as the Minister or the Deputy Minister.

Thirdly, in the Prime Minister's Order of 2018 the functions of IPMGs and SSCs are widely specified compared to the Prime Minister's Order of 2015. Also, it is of high importance the specification of the role that this mechanism has in using and implementing the Financial Instrument for Sector Budget Support. In the Prime Minister's Order of 2015, it is only mentioned that: '*this mechanism aims at developing, implementing and monitoring sectorial reforms in Albania through the development of national sectorial programs and the creation of a single list of priority projects for strategic investment, in accordance with... EU accession process and international obligations of Albania*'.¹

¹ Prime Minister Order No.129 dated 21.09.2015 "On taking institutional and operational measures for the implementation of the sectorial approach and the

establishment of integrated policy management groups"

Meanwhile in the Prime Minister's Order of 2018, the main function of EU financial support to IPMGs and SSC is specified, entrusting with *'the role of the Sectorial Monitoring Committee for IPA (IPA-sector monitoring committees) by providing reporting on the monitoring of IPA funds by sectors (Budget Support etc.), in accordance with Article 53 of the*

Framework Agreement with the European Union and in accordance with relevant methodologies applicable to this purpose'.² These groups are also intended to provide the preliminary preparation and support in the framework of the EU accession process as well as the fulfillment of commitments to achieve sustainable development objectives.

Table 2. Summary of Changes and Innovations of Sectorial Approach Organization

	Sectorial Approach 2015	Sectorial Approach 2018
Sub-legal act	Prime Minister Order no. 129 dated 21.09.2015	Prime Minister Order No.157, dated 22.10.2018
Perspective	Sector	Sector / Cross-cutting
Organization	Four Integrated Management Groups	Five Integrated Management Groups Five Sectorial Steering Committees
IPMG's highest authority	Minister of the relevant sector	Deputy Prime Minister / Minister
The Higher Authority/ Thematic Groups	Senior Administrative Officers	Minister / Deputy Minister
Priority Areas and Leading Institutions	<ol style="list-style-type: none"> 1. Integrated Water Management, under the National Water Council; 2. Employment and Social Sector, under the direction of the Minister of Social Welfare and Youth; 3. Competitiveness and Innovation, under the direction of the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship; 4. Good Governance and Public Administration, under the direction of the Minister of Innovation and Public Administration. 	<ol style="list-style-type: none"> 1. IPMG-Good Governance and Public Administration, under the direction of the Deputy Prime Minister; 2. IPMG-Competitiveness and Investment, under the direction of the Minister of Finance and Economy; 3. IPMG Employment and Training, under the direction of the Minister of Finance and Economy; 4. IPMG - Integrated Earth Management, the function performed by the Integrated Land Management Reform Committee, under the direction of the Minister of Justice; 5. IPMG Integrated Water Management, under the guidance of the National Water Council; 6. SSC Justice Reform, under the direction of the Minister of Justice; 7. SSC Internal Affairs, under the direction of the Minister of Interior; 8. SSC Public Finance Management, under the direction of the Minister of Finance and Economy; 9. SSC Environment, Climate and Waste Management, run by the Minister of Tourism and the Environment; 10. SSC - Liaison, run by the Minister of Infrastructure and Energy.
IPMG's Role in Budget Support	Not specified	Performs the role of the Sectorial Monitoring Committee for IPA (IPA-sector monitoring committee)

Author's analysis

² Prime Minister's Order no. 157, dated 22.10.2018 "On taking measures for the implementation of a wide sectorial / cross-sectorial approach, as well as the

establishment and functioning of the sectorial / cross-sectorial integrated mechanism"

BUDGET SUPPORT AND SECTORIAL ACCESS: THE BENEFITS

In an interview conducted by experts on drafting the External Assessment of the Instrument for Pre-Accession, IPA (2015) at the Directorate General for Neighborhood and Enlargement Negotiations (DG NEAR) of the European Commission, it was noted that: *'The BS has brought a major change in the mentality of the institutions involved in IPA II. This is already an effect of giving support. It has been a great challenge to prepare and implement but promotes "profound change" unlike other types of assistance. However, the lack of administrative capacity can put the MB at risk. The sectorial approach in Albania is still being understood.... However, there is progress in general.'* The BS benefits extend not only to supporting the objectives of the sectors but also to the impact on the administrative culture.

'Budget support finances reforms and the activities are part of a country's policy-making, planning, budgeting, and executive system.' Expected results of SCRs should be an expression of sectorial policy/reform priority of the government and as a result, this mechanism stimulates the inter-institutional co-operation. The Institutions part of the budget support have a 'strong argument' to present in order to ensure the obtaining of sufficient funds to implement the measures agreed in the Sector Reform Contracts. These commitments may even have a financial effect beyond the EU Budget Support deadlines. *'Therefore, it is easier to maintain results by providing, for example, ongoing funding for infrastructure maintenance, teacher salaries, or teaching materials.'*

Unlike the previous interventions within the IPA I projects that are fragmentary, the

sectorial approach creates the opportunity for wider impact at sectorial level. The agreed indicators can be set to achieve sectorial policy outcomes, but they may be also processes to improve this policy, such as improving the legal / sub-legal framework. For example, in the Contract on Sector Reform of Employment and Training, the indicators that measure the achievements in terms of increasing participation in the labor market and job opportunities for all are: (i) youth employment rates; (ii) the gender gap in employment, and (iii) the share of unemployed jobseekers redundant at work through PNPs. Meanwhile, two of the 10 agreed indicators are focused on improving the legislative framework of the sector: [development of the Albanian Qualifications Framework and Adoption of a revised Labor Law and supporting legislation](#) aimed at improving the sectorial employment and training policy.

Another benefit of the BS instrument is the minimizing of the problem related to the lack of absorption capacities of IPA funds. This does not mean that in this new mechanism the administration doesn't imply a process of selection in order to benefit budget support but it is obtained on the basis of results-based. The financial disbursement is made on the basis of the level of implementation of agreed indicators and the agreement on disbursement of financial tranches. In this form, where the reward is linked to the outcome, the political and administrative will is stimulated towards achieving the defined objective.

Avoiding the high number of administrative staff responsible on the technical processes of designing/drafting/ implementing interventions within IPA funds is another concrete benefit. Several

fragmented administrative processes are avoided, for example drafting of Project Application Reference Terms, tracking of project activities and outcomes, reporting, follow-up of financial disbursement procedures, and so on. In the IPA I mechanism, apart from the staff of the European Integration Directorates and the dedicated IPA Sector Projects, it was necessary the involvement of widely staffing also from the content units that supplied the IPA units with the policy content.

Although more restricted staff is involved in comparison with IPA I, the needs are of a different nature, such as capacity building at the planning level (setting of realistic and relevant objectives and indicators) and monitoring ones. In the current contracts, this process is facilitated by experts contracted by the European Delegation. However, the benchmarking stage is a 'healthy' exercise for the Albanian administration and political leaders. This exercise stimulates visionary but also realistic planning within the sectorial reform.

An important process in the implementation of IPA II is the process of monitoring the overall policy or reform performance as well as the agreed indicators that are part of the strategic document on which sector policy/reform is based. Hence the establishment of monitoring mechanisms is crucial. In Sector Reform Contracts, Monitoring and Evaluation are clearly defined. In the Sector Reform Contract of Employment and Skills, it is foreseen that: *'Progress in the sector shall be measured and monitored through different indicators of achievements (input, process, output/outcome and impact indicators). An interim evaluation of the NESS to analyze the*

results achieved, the management of resources and the quality of its implementation is planned. It will assess the success of the measures undertaken, the resources invested and the extent to which the expected effects have been achieved.

In order to supporting this "philosophy" and requirement, the Sector of Monitoring, Priorities and Statistics become functional in the beginning of 2016, at the former Ministry of Social Welfare and Youth. This unit was responsible for coordinating the process of monitoring the Employment and Skills Strategy and Budget Support Indicators. With the restructuring of Central Administration in 2017, homologue sectors are established in several line ministries, marking progress in strengthening the institutional monitoring staff in the central administration.

The culture of monitoring and evaluating policies in the Albanian administration needs to be strengthened. Facing the obligation to set up or consolidate monitoring mechanisms positively affects this path. While external monitoring carried out by the European Commission, impacts on increasing accountability and public transparency. Accountability and transparency are also stimulated by the modalities of financial management of support. *'Financing provided through budget support becomes part of the state budget and is therefore subject to external auditing and parliamentary scrutiny. Civil society participation is encouraged, for example, through support for 'citizen budgets' and by encouraging governments to systematically involve civil society in policy-making and monitoring processes.'*

To conclude, another positive element is that Sector Reform Contracts can provide

not only budget support but also technical assistance aimed at enhancing the capacity of the beneficiary institutions. More concretely, in the Financial Management program, 2 million Euros are dedicated to technical assistance; in the Employment and Skills Program, 3 million euros are dedicated and in the Public Administration Program, 10 million euros are dedicated to complementary support.

BUDGET SUPPORT: CHALLENGES AND RECOMMENDATIONS

The link between strategies, budget, and outcomes is a key criterion and an exercise for public administration and decision-makers. Further awareness should be raised on this mechanism benefits and the obligations of the political decision-makers. For example, the modality of obtaining financial disbursement is an important element to be highlighted and clarified. Budget support is not allocated directly to the 'account' of the beneficiary institution(s) but it is allocated to the State Treasury and the Government determines where it will allocate the funds received according to its priorities. Participation in a BS program should be used as *'argumentative weapons'* in the state budget allocation negotiations. Budget Support *'rewards'* the Albanian government for the results showed in sectorial reforms. Institutions should be aware of planning and submitting budget requests to the Ministry of Finance and Economy to support the realization of the targets set within the Sector Reform Contracts.

As noted in the IPA II External Evaluation Report 2017, the increase of human resources capacities that are engaged in some of the key stages of identifying the indicators is important. Defining indicators that are realistic and

expressing the vision of achievement aimed at sector reform/policy is still a difficult exercise for the Albanian administration and decision-makers. This is confirmed by the fact that technical support from EUD is still provided, as *'the capacity for strategic planning and realistic programming in Albania has been poor so far (2017), and (consequently) the relevant support is required.'*

The monitoring process still requires support for capacity building and monitoring systems. Despite the positive impact on the development of the monitoring culture in the public administration stimulated by the format of fundraising, further capacity building of human resources in charge of this process is crucial. This process goes in line with the consolidation of the Integrated Planning System and the establishment of monitoring systems of sector and cross-cutting strategies.

Among other things, another challenge is the further consolidation of the institutional framework of the sector approach, more specifically the functioning of IPMG-SSCs. Awareness of the participating institutions in IPMG-SSCs is important to ensure coordination and co-operation between different institutions and *'to think sectorially'*. The establishment of Technical Secretariats of IPMGs and SSCs dedicated to coordinating the activities of these groups is necessary to coordinate and ensure their functionality.

Technical assistance in setting up this mechanism and making it operational is also provided. However, the promotion and recognition of the role of these structures, by the administration as a whole, are important. The institutional representation by competent policy officers by sector and their institutional awareness on the role of

this mechanism is as important as the effective management of these groups.

Conclusion

The Sector Budget Support under IPA II funds is the European Union's financial mechanism applied in Albania since 2014. This mechanism is supported by a consolidation process of legal-institutional framework of the Sector Approach Mechanism, based on SBS 'philosophy'. In 2015, the first steps of institutionalization of the Sector Approach Mechanism are put forward and in 2018 its reorganization is

marked by consolidating this mechanism further. An important step has been taken: starting thinking 'sectorially wide' from different institutional actors. However, further steps should be taken towards the understanding and awareness on BSM and the sector approach mechanism. Let's consider that the benefit of this funding mechanism will further be applied for the Albanian state by bringing the institutional actors of the respective sectors to a table for a 'Sector Wide Cooperation' in order to produce tangible results for citizens.



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HUB MONITOR

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