

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC59199

Project Name	Second MDTF for Capacity Building Support to Implement the IPS
Region	EUROPE AND CENTRAL ASIA
Country	Albania
Sector(s)	Central government administration (100%)
Theme(s)	Public expenditure, financial management and procurement (60%), Managing for development results (30%), e-Government (10%)
Lending Instrument	Lending Instrument
Project ID	P159520
Borrower Name	Ministry of Finance
Implementing Agency	Ministry of Finance
Environment Category	C - Not Required
Date PID Prepared	10-Mar-2016
Estimated Date of Approval	25-Mar-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Albania is an upper-middle income country and an aspiring candidate for EU accession. Albania has experienced higher rates of growth than most other countries in the ECA region. Albania made significant progress in poverty reduction up until 2008 which has since been reversed. Albania was propelled from being one of the poorest countries in Europe in the 1990s to middle income status in 2008. Between 2002 and 2008 alone, Albania's poverty was halved, falling from 25.4 percent in 2002 to 12.5 percent in 2008. Since 2008, poverty has been on the rise. Results from the latest available LSMS data show an increase in poverty to 14.3 percent in 2012. Albania's long term goal is to join the EU and in June 2014, it was granted EU candidate status. Since the early 2000s, Albania has implemented a range of institutional and structural reforms. After Albania received the EU candidate status, the European Commission adopted Albania's Instrument for Pre-Accession Assistance (IPA2) in August 2014. It focuses on Governance, Public Financial Management (PFM) and Competitiveness. In particular, public administration, PFM, the justice sector, property rights and civil society are considered to be the key areas in need of reform. Sound macro-fiscal management with a high level of transparency and accountability in the management of public resources, and a strong policy planning and results monitoring framework will be crucial to the country's sustained progress toward its strategic priorities.

Sectoral and Institutional Context

Albania had taken some important steps in improving public financial management, and has

approved a Public Financial Management strategy at the end of 2015. Albania has a strong legal and procedural framework for budget formulation, but some elements have never been fully implemented, whilst others have been eroded, especially since the 2008 crisis. The Integrated Planning System (IPS) was launched in November 2005 as a broad planning and monitoring framework to ensure that the core policy and financial processes of the Government of Albania function in an integrated manner. The IPS was designed to facilitate a top-down budget process. The links in this chain were the National Strategy for Development and Integration, the sector plans, the Medium Term Budget Planning (MTBP) and the annual budget. Given the present state of the PFM environment what is required is a fundamental re-think of the role of public finance within Government. The Ministry of Finance needs to be restored to the institution at the center of economic and fiscal policy making, seen as responsible for formulating and implementing the core financial functions of the government and providing high quality analysis to the Council of Ministers. The Government needs to address the institutional fragmentation of roles and responsibilities, fostering an environment of cooperation, communication and clarity of accountability. Preparation and analysis of reports on budget execution is one of the key functions of the Ministry of Finance. These reports present an important source of information for monitoring and evaluation of the government performance and decision making at different levels. Albanian Financial Management Information System will enable improvements in reporting and monitoring.

Relationship to CAS/CPS/CPF

The IPS 2 Trust Fund comes as a legacy from the previous Country Partnership Strategy, but fits very well with the ongoing Country Partnership Framework that was approved by the Board on May 21, 2015. It falls under the Focus Area 1 "Restoring macroeconomic balances" and it supports the achievement of the 3 objectives under this FA, but in a more direct way contributes to Objective 1a - improved fiscal sustainability and 2a - strengthened public investment management. The additional financing will support the ongoing activities of the Trust Fund and will finance the gap to complete AFMIS and Integrated Planning System Information System. The additional financing will not affect the PDO.

II. Project Development Objective(s)

Proposed Development Objective(s)

The PDO does not change with this additional financing of the IPS 2 Trust Fund. The PDO is to "Strengthen the implementation of the Integrated Planning System, by creating the conditions for introducing a performance orientation in the policy planning and budgetary processes and by improving institutional capacity to monitor results at the strategy and program levels".

Key Results

- (a) Improved consistency in annual and medium term budgets execution evidenced by reduced divergence in revenue and expenditure outturns from the originally approved budgets;
- (b) Selected line ministries develop prioritized and costed sector strategies and regularly report on program-level results indicators and annual National Strategy for Development and Integration progress reports update values of key results indicators;
- (c) AFMIS is operational and enables monitoring of performance indicators at the level of budget programs;

III. Preliminary Description

Concept Description

The additional financing will be used to close the financing the gap that arises as a result of the higher cost of AFMIS/IPSIS and External Assistance Management Information System relative to earlier estimates.

The ongoing project consist of three substantive components and a fourth component for project management:

Component One – Strengthening Public Financial Management. The two most important outcome indicators for this component measure improvement in the quality of Macroeconomic and Fiscal Forecasts and improvements in MTBP monitoring and evaluation of the capacity of Line Ministries. These outcomes have not yet been achieved. Despite the support in this area, the positive results that were achieved until 2013, proved to be not sustainable due to changes in the structure of the Ministry of Finance. The IPS Trust Fund along with other TA provided by the Bank, including the Functional Review of the Ministry of Finance, and most importantly the EU budget support, will continue to support this component.

Component Two – Improving Policy Coordination and Aid Management. The proposed outcomes for this component include approval of the National Strategy for Development and Integration, support for the establishment of Delivery Unit, and streamlining of the structure of sector strategies an improvements in strategy prioritization and costing.

Component Three – IPS Management Information Systems. This component will support the integration of the PFM and policy processes. This will be facilitated through the integrated AFMIS that will link the MTBP to Treasury, thereby enabling the regular tracking of results at the program level (outputs) and their linkage to budgetary inputs. In parallel, the IPSIS system, which will be linked to the AFMIS, will facilitate the monitoring of program-level outputs as well as policy implementation and strategy-level intermediate outcomes.

The additional financing will only support the scale up of the Albanian Financial Management Information System and Integrated Planning System Information System.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1.38058079	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
SWEDEN Swedish Intl. Dev. Cooperation Agency (SIDA)			1.17881434

Single Purpose Trust Fund	0.000001
SWITZERLAND Swiss Agency for Dev. & Coop. (SDC)	0.20176545

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