



FMC Reform in Albania

Anila Çili,
Head of CHU/FMC
Ministry of Finance

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Establishment of a modern FMC system

- ▶ Current Status of FMC reform
- ▶ FMC Implementation process
 - Starting point (example of analysis)
 - Key success factors
 - Pilot activities
- ▶ Difficulties / Lessons learned
- ▶ Challenge / Future activities

Status of FMC reform in Albania

- Albania is making a lot of effort in creating the preconditions for development of a modern FMC as a main pillar of PIFC.
 - ✓ Accomplishment of FMC legal framework (Law, Instructions and Manual).
 - ✓ PIFC board established and functional from 2011;
 - ✓ MoF instruction on annual declaration and reporting for internal control system.

- **Now we are in the phase of implementing the FMC requirements.**
 - FMC implementation Plan 2011–2015;
 - ✓ Pilot activities;
 - ✓ Awareness seminars and Training
 - ✓ Monitoring the performance of public institutions

- Clear objectives for FMC are defined in the *Strategy for Development of Public Finance during 2013–2020*.

Starting point – Analyses of the current situation in Albanian institutions

Before starting the implementation of FMC, the CHU/FMC required support from SIGMA during 2011 to make a joint detailed and high quality analysis of the existing situation in Albanian Institutions.

Why the reference analyses:

- For the CHU staff to better understand the benefits of FMC and the “managerial accountability” concept
- Analysis helped the CHU/FMC to better decide about the way we should build the strategy for implementation in the coming years
- During the monitoring process, CHU can compare the results with the reference analyses in order to identify progress achieved so far and the possibilities for further developments.

Main Results from the analyses

- ✓ The quality of objectives and performance indicators is limited. Strategic management groups are mostly functioning during the planning process but during the implementation of the budget they are not effective strategic management instruments within budget institutions.
- ✓ Management structures are not necessarily defined in a way that supports programme objectives, do not recognise the practical implications of a requirement to deliver services efficiently and effectively and there is confusion between programme and managerial unit or activity management.
- ✓ The finance director, who ought to be the financial adviser, has little influence except over budgetary control. By tradition the finance directorate is considered as two different structures, without any coordination between them and are underestimated by management.
- ✓ The finance directors are not sufficiently well trained to enable them to carry out the financial management role.
- ✓ The financial information made available to senior management through the Financial Information System, administered by Treasury is good but limited to control against the budget and does not provide managerial reports for line managers..

Focus during the implementation

How the process is considered from CHU/FMC and presented to institutions:

- ✓ Consideration of FMC reform as part of and closely related with the Public Administration System.
- ✓ FMC requirements harmonized with budgetary requirements.
- ✓ Presentation of FMC requirements as necessity for further development of existing managerial system in each institution, with focus on delegation of powers.

CHU consider important Heads of Institutions and line Managers to understand that the FMC system is not an additional requirement and is not related with a specific organizational structure.

Key success factors

1. *Raising awareness, establishing regular communication and close collaboration with the MoF General Secretary, General Budget Department and General Treasury Department.*
 - ✓ Revision of the budget planning and budget implementation procedures (2011-2012). Integration of FMC requirements in all above instructions.
 - ✓ Common understanding for the need to revise the status of the Financial Director within the Line Ministries and other institutions and monitoring the process.
 - ✓ Common understanding for the need to improve the quality of budget planning and monitoring, closely linked with well defined management structures and the respective responsibilities.
 - ✓ Upgrade existing Financial Information System to a Financial Management System that provides more managerial reports, and combine it with alternative management information solutions. Allow institutions direct access to the Financial Information System at the same time upgrading their skills through providing professional training.

Key success factors

2. Raising awareness, establishing regular communication and close collaboration with the Department of Public Administration (DoPA) as the main driver of the public administration reform

- ✓ Common understanding of the important role of the Financial Department within an organization and the need to revise the status of the Financial Director (FD) within the Line Ministries and other institutions.
- ✓ Law for Organization of State Administration (approved in Sept 2012, in line with main FMC requirements).
- ✓ Joint monitoring for upgrading the FD role within the organizations.
- ✓ Active participation of CHU/FMC in discussions related to the PAR strategy 2013-2020 and other acts regulating the public administration.
- ✓ Training courses organised with Training Institute of Public Administration to all managers on FMC with focus on risk management and audit trails.

Key success factors

3. Efforts in introducing the risk management process

- Direct assistance to central institutions (General Secretaries, Finance Directors and Managers of budgetary programs) to identify risks during the planning process and to prepare their own risk register:
 - Establishment of a proper risk identification, evaluation and mitigation process during the budget planning phase from bottom-up to the top management leads to an effective and functional top-down delegation of competencies during the implementation of the budget.
- Organization of seminars and short term trainings to line managers.
- Experiment and allow for change arising from experience (and mistakes) - Pilot activities within Albanian Roads Authority;
- Establishing the forum/network of Finance Directors and other selected finance officers.

Key success factors

4. Monitoring role of CHU and collaboration with SAI

- ▶ Monitoring the delegation of management responsibilities from the political level (Line Ministers) to the Technical level (Authorizing officers).
 - ***Status:*** *Authorizing officers appointed in compliance with law requirements in 100% of institutions.*
- ▶ Monitoring the status and the professional background of the Finance Directors.
 - ▶ ***Status:*** *20% FD out of 1430 institutions are not well placed or do not meet the criteria of professional education.*
- ▶ Good collaboration with SAI during all the process.

Key success factors – Recent development

5. Preparation of a monitoring methodology with predefined indicators for measuring the performance of the public institutions combining reports from several departments within MoF.

✓ Strong collaboration and commitment of the CHU/FMC, General Dept of Budget, General Dept of Treasury, CHU/IA and IT Dept.

Expectations:

- An improved Annual Report on PIFC;
- Promotion of the 10 best institutions for the year from the list of 436 institutions.
- Detailed analysis for the performance of each Line Ministry and 24 Local Govt. institutions.

Pilot activities within Albanian Roads Authority (ARA)

- ✓ Assessment of ARA status and proposals for changing the ARA law to comply with FMC requirements.
- ✓ Revision of Service Level Agreement between Ministry of Public Works and Transport and ARA, including proposals for improvements with regard to FMC requirements.
- Together with ARA managers, review of the internal regulations and job descriptions.
- Direct technical advice from Swedish Transport Agency long term advisor to line managers during their daily operational work and introduction of risk management.
- Several workshops in sharing experience with Swedish partners for budgeting procedures, risk management, contracting and maintenance.

Pilot activities within Albanian Roads Authority (ARA)

- Assessment of existing Information Systems within ARA, identifying Budget Institution needs and finding alternative solutions for improvement of management reporting (combining financial and non-financial information).
- ✓ *Collaboration with Treasury to make MPWT and ARA online users of existing Financial Information System (upgrading skills for financial information).*
- ✓ *Collaboration with Budget during upgrade of existing Financial Information System to a Financial Management System.*
- Designing a Training Course for Line Managers, 10 days divided in 3 months and with follow up mentoring.
- Preparation of curricula for professional training of Financial Officers, risk coordinators of public institutions using also ARA case.

Difficulties/Lessons learned from pilot

- ❖ Managerial Accountability is closely related to the integrity of managers (public administration recruitment, performance evaluation and career arrangements). Line managers very skeptical of proposed FMC improvements, increased reporting requirements, and responsibility for defining and reporting outcome objectives.
- ❖ Because of cultural/expertise differences, it takes a long time for LTA to understand the management culture & internal procedures of the beneficiary.
- ❖ Probably lack of coordination during the preparation of legal acts between international institutions who provide technical advice/consultancy to line ministries (or between them and MoF).

Difficulties / Lessons learned

First: *The CHU/FMC staff to understand what FMC and “managerial accountability” mean and how it can be implemented in its own country, using the technical assistance, and lessons learned in other countries, **but also** through discussions with the line managers (trying to understand their needs, the environment where they work and limitations).*

Second: *The main stakeholders such as First Authorizing Officer, DoPA, Budget and Treasury Depts. to strongly support the CHU/FMC in implementing the reform and to be willing to trust the line ministries and other institutions (to decentralize controls from MoF to line ministries).*

Difficulties / Lessons learned

Third: *Managers to understand the benefits of FMC not only through awareness seminars but mainly through specific training programs designed for Line Managers, including performance based management modules, basics to understand and use of financial information.*

Fourth: *CHU/FMC cannot build a sound FMC system without a very accountable and committed Authorizing Officer, and a skilled Finance Director placed in the right position within the institution.*

The Challenge

Implementing the FMC with focus on new “Managerial Accountability” concept is very difficult and needs time.

It requires:

“Willingness to Trust, Delegate powers and Continuous Monitoring”

Future developments

- Continuing development of FMC as integral part of existing management processes (selecting other pilot institutions as well as development on a larger scale).
- Continuing collaboration with DoPA/Budget Dept/Authorizing officers for improvement of organizational management structures designed to support programme objectives.
- Establishment of risk management process in all institutions, monitoring closely the large ones.
- Improvement of Financial and Managerial Accounting.
- Development of trainings for line managers and authorizing officers.
- Collaboration with Internal Auditors of the organizations and SAI.
- Trying to harmonize and provide similar arrangements to the institutions for the management of all public funds (meaning State budget, EU funds and other donor funds).