# Strengthening the Public Administration Management in Albania, Needs Reforms to Counter Growth Slowdown

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#### Abstract

Albania transitioned away from an extremely closed, autarchic socialist system only in 1992. At that time, Albania's administrative system was considered chaotic and ineffective. Its administrative culture - a combination of many influences - emphasized security over service delivery. The capacity of public administration was weak; the system, stemming from a party focused environment, was highly politicized. Corruption was pervasive in every facet of the public sector. Citizens feared public administration and did not trust it to provide even the most basic services in a fair or impartial way. Until recently, Albania coped with the unfavorable external economic environment quite well. The economy avoided a sharp fall in output, inflation stayed low and stable, and the banking system remained sound. Albania's main external links are through exports, banks, and remittances, mainly with its two next door neighbors—Italy and Greece. Despite the problems in Europe, spillovers to Albania through these channels have been limited so far. There are several reasons for this. Albania's exports are a small part of the economy. And, since the onset of the crisis, the country has been able to reorient and redirect some of its exports towards new products and markets.

Keywords: Administrative culture, Administrative system, implementing financial reforms, EU recommendations, banking management,

### 1. Introduction

Public Administration Reform/Institutional Strengthening [PAR/I.S.] initiatives are based on identifying the strategic mandate, current institutional gaps that hinder delivery, and a capacity development plan that includes staff development along with improvements to the enabling environment and organizational design. The aim is to build a lasting institutional legacy in critical and linked areas. The operational strategy for PAR/I.S. project contains two components: public administration management programmed that provides practical training in common management skills (business planning, performance management, evaluation and risk management); and development of Local Governance (LG) (Vision of Albanian Government 2013)

These paper researches consist in study, which serves as a platform for future local governance intervention through road map and sequence of required activities. Albania's public debt is high. Its debt-to-GDP ratio today—at around 60 percent—is among the highest in the region. A large part of this debt is domestic and of short term duration and is held by foreign-owned commercial banks. Further increases in debt could affect the confidence of the existing debt holders, worsen the rollover risks, and crowd out private credit and investment. As a result, we think that further fiscal stimulus financed by new debt would be counterproductive. (Scholarek A (2004)

## 1.1 Albanian local governance intervention through road of reforming

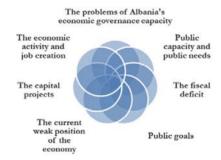
In its National strategy for socio-economic development (Republika e Shqiperise, 2001: 53), the Albanian government recognized PA reform as fundamental for the attainment of the medium-term objectives for growth and poverty reduction.

The Government strategy for State administrative and institutional reform included strengthening the coordination of public policies; improving policy and program implementation; transparency, effectiveness and accountability in resources management; and government-citizens relationships and public accountability. (Cipiki & Mittitelu 2010)

The Government of Albania has received a Multi Donor Trust Fund (MDTF) from the International Development Association (IDA), toward the cost of this project for IPS, and intends to apply part of the proceeds of this grant to payments under the contract for Strengthening management capacities in Albanian public administration capacity development and training support. (Gottin S 2013) The Training Institute of Public Administration (TIPA) functions under the supervision of Department of Public Administration and is charged with the delivery of training for the public administration. TIPA implements the Strategy on Training of Public Administration, and coordinates and facilitates all civil service training. The new developments of the country require a new strategic vision in assessing the existing capacities, analyzing the situation and taking the necessary interventions to face the new challenges. (World Bank 2000, Albania - Public Administration Reform Project. Washington, DC: World Bank)

Enhancing the overall administrative capacity of Albania through the modernization of the Albanian public administration, and strengthening its key institutions, is among the key priorities of the EU in the European Partnership document, as well as the Government of Albania's National Plan for the implementation of the Stabilization and Association Agreement (SAA). Although most banks in the country are foreign owned, they depend largely on domestic deposits. This is partly the result of sound regulatory policies adopted by the central bank prior to the global crisis, which helped contain systemic risks. As a result, the Albanian banking system has not experienced the kind of withdrawal of funding we have seen in some other countries in the region. (Abbas, S and Christensen, E (2007)

But while we have advised the authorities to undertake fiscal consolidation, our advice takes into account the structure of Albania's debt as well as the current weak position of the economy. How quickly the fiscal deficit is brought down needs to be balanced against the need to minimize the negative effects of the consolidation on growth and the poor and vulnerable. So it is all about getting the pace of fiscal consolidation right. And we recommend spreading the adjustment over the next five years, to allow for a more gradual pace of adjustment. At the same time, to make the adjustment credible, it has to be accompanied by a solid anchor and well specified consolidation plans. We have also advised the authorities to not cut back on capital projects because such spending enhances economic activity and job creation, particularly in lean times



Source: Dumi A "Global Advanced Research Journals" USA 2014, January

The financial collapse in 1997 was a watershed event in Albania's transition from its communist past. It highlighted the problems of Albania's economic governance capacity and, from an administrative standpoint, reaffirmed and highlighted the inefficacy of a public administration, unable to enforce its laws and regulations. As the public's confidence in Albanian¹ institutions had been significantly eroded by the recent events, restoring the public's trust in the government became the main priority of the government. In order to achieve this objective the capacity of the public administration needed to be dramatically strengthened.²

The discussion focuses on the main identifying features of the business organization, including ownership and decision-making structures, as they adapt in differing geographical contexts. It is emphasized that the multinational enterprise (MNE), central to international business activities, covers a variety of organizations, large and small and the

<sup>2</sup> Structural Adjustment Credit (SAC & ICR Ministry of finance, Supreme Audit Institute, year 2009, 2010

<sup>&</sup>lt;sup>1</sup> The Project Development, Project Appraisal Document (PAD) (Report No. 2000, page 59-ALB)

growing interactions between organizations, governmental and societal players are resulting in a broader view of the business organization in society. This argument looks at varying perspectives on globalization, often argued to be the defining characteristic of our times.

#### 1.2 The purpose of this study

This study empirically examines the impact of debt management policies on borrowing costs incurred by state governments when issuing debt in the municipal bond market. Based on positive political theory and the benefit principle of taxation, it is proposed that states that adhere to best practice debt management policies transmit signals to the credit ratings, investment community and taxpayers that the government should meet its obligations in a timely manner, resulting in lower debt costs. <sup>3</sup>The donors concurred with this assessment. IDA, starting with the 1998 CAS, considered governance and institution building as one of the central planks of its intervention and identified the need to adopt and implement reforms to build an accountable and transparent state as the most important challenge facing the Government of Albania.

## **Expected Outputs:**

- Key central government institutions staff capacitated their skills on business planning, performance management, evaluation and risk management resulting in cross-ministerial cooperation.
- Local Governance Vision Paper developed outlining main principles and components of local governance system and provided recommendations to the government to streamline policy and legal framework including a road map.
- Albania and reforming strategy of managements.

#### 2. Literature Review and Hypotheses

The Public Administration Reform Project aims to strengthen Albania's weak institutional and governance capacity. The project has four components. The public expenditure component addresses five elements of the public expenditure system, plus strengthening of the management of the Ministry of Finance itself: budget formulation; budget execution (treasury); macroeconomic and fiscal forecasting and analysis; accounting; procurement; and management of the MOF. The second component, the strengthening of human resource management, includes three sub-components: implementation of the recently enacted Civil Service Act; strengthening of the Department of Public Administration; and support of the establishment of an Albanian Institute of Public Administration.

The third component, policy coordination, strengthens the capacity of civil service professionals to provide the council of ministers with policy analysis and support its coordination function. The last component ensures project management and implementation, including supporting all the required project administration capacities (accounting, audit, procurement, disbursement management, monitoring and evaluation) and supports several specific initiatives for monitoring and publicizing the intermediate impacts of the government's institutional and public administrative reform program (World Bank. 2000. Albania - Public Administration Reform Project. Washington, DC: World Bank)

Over the next several years, the Albanian Government, in partnership with donors, emphasized institutional reform and capacity building and developed a comprehensive strategy to strengthen the public institutions for more effective governance. What matters over the medium term is how rapidly Albania can embark on a high and sustained economic growth path. Attracting investment from domestic and international sources is critical. In addition to the measures discussed above, the authorities need to address the constraints that hinder private sector investment in Albania today. These are uncertain property rights, weak enforcement of the rule of law, and inadequate physical infrastructure.

H 1: Most of Albania's banks are foreign owned. In light of this, has the banking sector suffered from deleveraging? The partnership and business take place worldwide, in a huge diversity of societies and between widely varying organizations. Actually, the business environment has become more complex, with expanding and deepening ties between societies and between the many organizations within those societies. Moreover, many large organizations now see themselves as truly global in scope, not rooted in any one society. T5he aim of this article is to present an overview of the international environment, highlighting the differing levels, from local and national, to regional and international.

<sup>&</sup>lt;sup>3</sup> Donors and government investments, IDA

<sup>&</sup>lt;sup>4</sup> Ida & CAS report for developing in Albania

<sup>&</sup>lt;sup>5</sup> Albanian Governance report , year 2009

#### H2: What other challenges does Albania need to tackle?

As a result of a multi-block multivariate regression model<sup>6</sup> the implication of adhering to debt policies aimed at promoting transparency results in a borrowing cost savings in terms of true interest cost (TIC) of close to \$8,000 for every \$1,000,000 of debt issued (-.769, p<.10). However a comprehensive debt policy is not a significant indicator of borrowing costs. These results suggest a product of a pull push process between the economic forces of the bond market on one hand and politics on the other, pulling the administrative function toward efficiency in the former and democratic values of responsiveness and transparency in the latter.

### 2.1.1 Financial control and cost calculation systems

Most enterprises are used to keeping accurate records for tax purposes, often using electronic tools, such as spreadsheets, to elaborate and present the data. However, only a few of the enterprises use the same kind of tools for cost calculation, break-even point calculation, simulation and sales forecast, etc. MS Excel has built-in formulas and templates for this type of calculations, but few SMEs make use of them. Among the interviewed enterprise owners/managers, marketing skills is the number one perceived training need. *Thessaloniki, (2011)*. The credit targeted governance and institution building to support both the public expenditure management and the human resource management agendas. It was complemented by a long series of policy based adjustment operations and extensive economic and sector-related work as well as related activities financed by other donors.



**Source:** Georgy Mankiw (2002): "Principles of Economics", *URL:http://economicus.ru/mankië\_economics/0716752379\_15.pdf* 

During the first years of the reform, the government focused<sup>7</sup> on improving the legislative framework to ensure that its objectives could be achieved. By 1999, and prior to the approval of the credit under review by this ICR, the Government had identified and adopted a large number of measures which provided important institutional capacity to strengthen the public administration. Supported by the Structural Adjustment Credit (SAC),<sup>8</sup> and Public Expenditure Support Credit, the government undertook a number of pivotal actions which defined the framework of reform. Among them, Parliament revised the Civil Service Law in November 1999, and an independent Civil Service Commission (CSC)<sup>9</sup> was created and staffed. The recruitment of 50 civil servants under transparent, competitive, merit-based procedures as established under the human resources management legislation was completed. The Public Administration Reform Project (PARP),<sup>10</sup> under review in this ICR, was an investment credit aimed at supporting the implementation of this ambitious reform agenda.

<sup>&</sup>lt;sup>6</sup> The finance theory, B Ciceri, H Xhafa January 2000, Capital Cost, (RADR)& (camp) pg 323

<sup>&</sup>lt;sup>7</sup> Credit report & general Albanian BANK, YEAR 2008

The Project Development, Project Appraisal Document (PAD) (Report No. 20059-ALB)

<sup>8</sup> Structural Adjustment Credit (SAC) Report 2009, CSC Report 2010

<sup>&</sup>lt;sup>9</sup> Civil Service Commission (CSC) For Micro Business Financing

<sup>&</sup>lt;sup>10</sup> The Project Development, Project Appraisal Document (PAD) (Report No. 20059-ALB)

#### 3. Methodology and Research Goal

One of the successful strategies for increasing the social responsiveness is the funding of development projects in Albania. These projects are mainly focused on Health, Education, Poverty Alleviation and Environment. APA is carefully implementing social responsiveness strategies following six traditional social initiatives that according to Cutler are "six options for doing well". (pg. 23)The first social initiative successfully implemented by Vodafone following the financing of different programs in raising public awareness in some of social concerns in the country is Cause Promotions explained as:

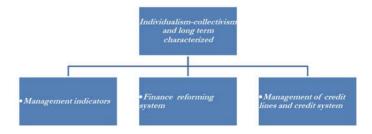
"...providing founds, in-kind contributions, or other resources of the company to increase awareness and concern about a social cause, or to support fundraising, participation, or volunteer recruitment for a cause. The corporation may initiate and manage the promotion on its own" (Cutler & Lee, 2005.Pg. 23)

The Government of Albania has adopted a comprehensive policy reform program to strengthen Albania's weak institutional and governance capacity. This policy reform program is being supported by a Structural Adjustment Credit, which was approved by the Bank in June of 1999. The overall objective of the proposed Public Administration Reform Project is to provide required resources for technical assistance, training, goods and incremental operating costs that are needed to implement the Government's Institutional and Public Administration Reform agenda effectively. *Coëan et al* (2006)

The Development Credit Agreement (DCA) states the objective of the project to be: The objective of the Project is to assist the Borrower to improve its capacity with regard to policy formulation and coordination, and administrative performance so as to create conditions that will encourage the Department of Public Administration of the Borrower to improve their service delivery. *Thessaloniki, (2011)*. Direct beneficiaries of the project will be the Training Institute of Public Administration of Albania and the Ministry of European Integration. The technical assistance will require a team of experts, comprised of both international and local experts, with knowledge and experience in human resource management issues and capacity building programs. It is envisaged that the assignment will be undertaken by a small team composed by two or three experts, respectively for approximately 150 person days of work and with the following skills (if necessary distributed across three experts)

This article was made created by respecting all the methodological rules.

Tab 2: Long term characterized and short term perspectives. Source: Dumi A, MJSS, Nr 3 2012



The studies bring about interesting results on the extent to which NPM-style reforms fit the context conditions in transition countries and on the potentialities of the new field as an interpretative model. Both countries have generally started civil service reform before a structural overhaul of the PA. This condition is common to other post-communist countries (*Verheijen*, 2002).

#### 3.1 Original Project Development Objectives (PDO)

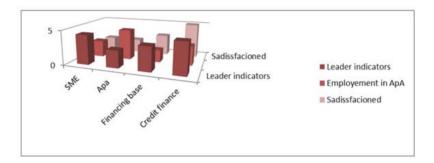
The main objective of the project is to assess the existing capacities in the Albanian public administration in the framework of implementing the National Strategy for Development and Integration (NSDI) and SAA, develop a new training strategy that will focus on addressing the above specific needs, and develop the internal capabilities and capacities of TIPA to meet the strategy. (Georgy Mankiw (2002)

Bank of Albania assesses that the difficult situation the international financial markets are going through, augments the risk for the Albanian financial system. Due to certain factors related to the characteristics of the local financial activity,

such a difficult situation in the international markets is not expected to impose a real and considerable impact on the internal financial market. *Pattillo et al.* (2004)

However, the situation in the financial international markets remains unstable, thus its impact on the internal financial market could change. For that reason, it is needed that the financial institutions and the regulative authorities of the Albania follow and analyse carefully these events.

The methodology of this article was based in two parts: Studying the foreign and Albanian literature, bibliographic studies, collecting data from official sources as MoF, BB and EU Report in Albania, MOH, and DHR Resources and from different publications such as magazines. And practicing, which is related with the interviews with leaders and employees of the Public Administration. To collect the data for this article we made interviews, questionnaires and other researches. We created also a questionnaire, which was composed by 130 questions and 5.8% of the employees in the central level of the public administration answered.



**Source:** The impact of the integration process in public administration, Georgy Mankiw (2002): "Principles of Economics", pp 416, URL:http://economicus.ru/mankië\_economics/0716752379\_15.pdf

The methodology used has passed the following phases: 1. The impact of the integration process in public administration. 2. Analyses of the current legal framework, which has undergone changes and challenges facing. 3. Highlighted improvements in civil statutes respective officers on the recommendation of the European Union. The Consultant (consulting firm) will undertake the following tasks: a) Assess and evaluate the training needs of central institutions to deliver and achieve NSDI and SAA requirements; b) Assess the existing training capacities in the public administration and TIPA's role and capacities by assessing and evaluating the coherence of the existing training curricula with SAA's requirements. c) Update the existing set of curricula of the TIPA d) Support the TIPA in drafting the new Training Strategy for the medium term period, based on the identified fields where steps should be taken and on the training needs assessment process. e) Update and design of new curricula that will address the above needs and will better support the NSDI and SAA

processes.

#### 4. Policy and Public Expenditure Management, One Important Key for Progress

Policy and Public Expenditure Management: (i) aggregate fiscal discipline including inflation rate, revenue predictability, and fiscal aggregates; (ii) strategic prioritization including policy volatility, delays in auditing, and deviation from functional appropriations and (iii) operational efficiency including representative deviation by spending units at sector level, and transparent, competitive procurement Public Sector Human Resource Management: (i) fiscally sound pay and employment practices including the number of civil and public servants in comparison with international practices, and fiscal weight of public employment in comparison with international practice; (ii) competitive and non-arbitrary remuneration including civil service pay (vertical and horizontal compression), and comparisons with the private sector; and iii) human resource management based on rules, performance and fairness including rule credibility, and limited incidence of political appointees in the civil service project were complemented by several other investment operations, including health, education, social services, land development, agriculture services. (Georgy Mankiw (2002 Pattillo et al. (2004)

It also increased the need for disparate skills within the supervision team. In this context it is important to note that the Bank tends to make standard allocations for supervision notwithstanding the project's complexity. However, these

measures would have significantly delayed Board presentation of the project and there were merits perceived to have the investment project approved at the same time as the SAC as leverage from the SAC helped spur the Government to move on key preparation elements. Albanian report Banka Botërore, (2006)

Given this strategic choice to go ahead with Board presentation despite the inadequate preparation of the Treasury System component, the project's implementation timeframe should have been extended to take into account the system's incomplete design. As Mint berg has wisely noticed with reference to eastern European countries, the leap between State and private ownership can be made more easily than a more balanced shift to cooperative, non-profit organizations. In some of these countries, 'State control seems to have given way to equally devastating control by the private sector' (Mint-zberg 1996), while in others a slower and more difficult balance has been successfully pursued (Osborne and Kaposvari, 1998).

The Albania experiences provide evidence that downsizing measures can help achieve fiscal stability in the short term, while prove to be ineffective in setting the conditions for a longer term sustainable development and also give rise to some unexpected problems of their own. In retrospect, the case studies seem to confirm the position found in the literature which recommends that matters of constitutional governance should be dealt with before matters of administration; that legal frameworks should be in place before dealing with administrative arrangements; . (Ministria e Financave (2012)

#### 5. Conclusions

The paper aimed at addressing the issues associated with the non-diversified systemic risk, as an inherent endemic risk within Albanian financial system, caused by the monocline bank-based development approach, implemented since the fall of communism. The paper suggests, inter alia, the need to develop capital market and long-term instruments, especially corporate bonds. The Albanian economy needs to ensure a sustained economic development, which calls for a more balanced and competitive development of its financial system, based on a two-pillar approach (bank and nonbank sector) and the presence of capital market and the development of long-term instruments. *Cipiku & Mittitelu*, 2010) As factors that presently safeguard the Albanian financial system from the un-favorite events occurring in the international financial markets, we can mention as follows: a) the quite well financial situation of the system and particularly of the banking sector;

- b) the absence of the similar and sophisticated financial products, whose value was recently shocked throughout the international financial markets; c) the rather low levels of the need for financing in the international financial markets from the Albanian financial institutions, and particularly from the banking sector, as there is a lot of space to provide for its financial needs by the internal sources;
- d) the rather restricted direct and indirect exposure of the Albanian financial institutions, and particularly of banks, in other institutions and financial products, whose value is negatively impacted by the difficulties of liquidity in the international financial markets. *Thessaloniki*, (2011)The landscape of the Albanian financial system obviously needs a professional mechanism, modeled as a multidimensional financial market profile, which can engage and stimulate all idle economic and financial capacities, within the national Albanian economy. (Guxholli Z 2014)

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