

PUBLIC EXPENDITURE ANALYSIS OVER THE YEARS IN ALBANIA

March 2005

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Printed: albPAPER

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Abbreviations

IMF	International Monetary Fund
KESH	Albania Electric Corporation
NGO	Non Government Organization
OECD	Organization for Economic Co-operation and Development, Paris
OSCE	Organization for Security and Co-operation in Europe, Vienna
CRD	Centre for Research and Development, Tirana
MoF	Ministry of Finance
MSI	Management Systems International
GDP	Gross Domestic Production
PDR	New Democratic Party
NSSED	National Strategy for Socio-Economic Development
USAID	United States Agency for International Development

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Executive summary

This Report provides a comprehensive analysis of implementation of the budget in Albania, and in particular of the development of public expenditure over the last 10 years, as well as the main characteristics of the 2004 and 2005 budget plan. Such analysis is based on information provided directly by the Ministry of Finance, mainly taking into consideration the economic and functional classification of public expenditures.

Special attention was paid also to the overall analysis of public expenditures in Albania by analyzing in particular the factors that have prevented Albanian Government to further increase public services. Such analysis showed that after 1994, the public sector in Albania has gradually decreased in size, which is reflected by a reduction of total public expenditures after 1995. By the end of 2003, the total public expenditures as a percentage of GDP were estimated about 29 percent. This level is 10-15 percent below the average of other countries in transition and about 20 percent below that of EU Member Countries. The low level of public expenditures is a reflection of a relatively low economic level and institutional weaknesses. Weaknesses in tax collection are reflected by low levels of budget revenues, which don't respond to GDP growth. Decreasing of public expenditure in Albania has been also affected by the need to reduce the budget deficit.

The economic classification of public expenditures helps to understand the purpose

of the use of public expenditures. The expenditure analysis according to economic classification proved that, in general, all expenditure categories funded by the state budget have undergone a decrease as percentage of GDP, which reflects the overall decreasing tendency of budget expenditures in Albania. Thus, as percentage of GDP, it is noticed a decrease in expenditures on the personnel wages and social insurance, investments and, especially, those on the maintenance and unemployment benefits. In the last two years, it has been observed a decrease of expenditures used for interests payment of the public debt, which has generated a coercive effect on the state budget, especially, in the mid transition period. Subsidies, in general, have had not a significant weight in the Albanian budget, whereas expenditures of social nature have experienced no changes at all in the 10-year transition period. The budget plan for 2004 and 2005 reflect the same tendency of public expenditures according to the economic classification.

Functional classification of public expenditures aims to show the direction in which public funds were spent. The analysis of this type of public expenditures identifies discrepancies between mid-term priorities of the economic development and expenditures planned for priority sectors such as education and public health. The health sector in particular was the most underfunded sector

as compared to the financial support received by the sector from other developed nations.

A series of deficiencies have been noticed in the budget plan of 2005, with regards to the planning of public expenditures, especially on the general administration. In 2005, the expenditures planned for the general administration are about 30 percent lower than the expenditures in 2003. This incongruity can generate problems in the operation of central institutions during the implementation of the 2005 budget.

The comparison of public expenditures spent each year with those initially foreseen in the plan approved by Parliament is another task of the working group. Such analysis revealed big deviations, especially regarding expenditures on social insurance and unemployment benefits during the 1999-2002 period (up to 101 percent), housing in year 2000 (up to 642 percent), public order and security in 1999 and 2000 (up to 113 percent), etc. Such deviations prove the lack of periodic control by the Parliament over budget expenditures and low management capacities of state budget by line ministries. The comparison with 1999-2001 results in an improvement of planning and control of state budget plans in 2002 and 2003, indicating a better performance of the Ministry

of Finance as regards the enhancement of the discipline and efficiency in the use of budget funds.

The Ministry of Agriculture and Food, the Ministry of Public Health and partly that of Education (in the last two years) are the ministries that have continuously shown inability to use all the funds allocated in the state budget. Such non-accomplishments of the budget vary from 7 percent for education, 13-14 percent for public health and 48 percent for agriculture. This is a clear expression of the weak performance by the respective ministries regarding the harmonization of the programs funded by the state budget, as well as those funded by foreign donors resulting in the non-accomplishment of the domestic funding.

Finally, the implementation of the project "Analysis of public expenditure in Albania years" and the preparation of this Report showed the importance of the involvement of independent institutions in analyzing and monitoring public expenditures. Moreover, this report will further encourage the other research institutions to be involved in the process of the preparation and implementation of the budget at both government levels, national and local.

Chapter I

Objectives and Methodology

1.1 Introduction

For more than 10 years, Albania is undergoing a stage of transformation, with the public sector increasingly becoming determinant in the allocation of the resources, providing at the same time a significant help to the GDP formation. The public sector in Albania has been going through a process of transformation by shifting most of the economic activities managed by public entities to private sector. Actually, the private sector is the most dynamic in Albania providing in 2002 about 75 percent of the value added tax, 62 percent of employment in non-agricultural sectors and contributing to about 2/3 in the GDP formation¹. However, like other countries with developed market economies, a significant part of the national wealth (ranging from 25-50 percent of GDP), is distributed and re-distributed by government. In order to accomplishing its function the government should first find out sources of financing public expenditures, which could be either through taxation, issuing treasury bills, or emitting money (inflationary method). Having available a significant amount of financial resources, as well as being entitled to the right to tax, issue treasury bonds or emitting money, the government could play a key role in promoting growth and stability.

Likewise, the analysis on the government performance could be twofolded. First, the objective of the analysis could focus on the aspect of the budget revenue and secondly, on the expenditures or outlays. The total budget

revenues and expenditures planned to be collected and spent during a period of 12-months of activity is known as the budget plan of a fiscal year. In Albania, the fiscal year corresponds to the calendar year. By the end of each year, the Parliament should, as a rule, approve both revenues and expenditures planned for the coming year. Consequently, the Budget Law is one of the most important legislative activities of the government.

This Report provides a comprehensive analysis of implementation of the budget plan in Albania, and in particular, on public expenditure. This Chapter provides some definitions and methodological aspects of the analysis of public expenditures, which will help specialized users of this report to undertake similar analysis of public expenditures at central and local levels.

The analysis of public expenditures is very important for the following reasons:

1. The economic activity carried out by the government is of specific nature and it does not follow the same rules that regulate the economic activity of private agents in the private sector. The main principle that regulates the economic activity in the private sector is the voluntary exchange, which Adam Smith presents as the "invisible hand". The government activity is not based on a voluntary exchange of provided services. Consequently, the analysis and transparency of expenditures incurred by the government is not only a

- necessity, but also the only way that helps the public assess whether the activities and services offered by government fulfill public needs and are provided at a low cost.
2. The analysis of governmental expenditures needs to be carried out in order to understand the sources of financing the budget deficit when the expenditures exceed the revenues. Theoretically, there are three ways to finance budget deficit: (1) using monetary reserves or selling public assets; (2) issuing treasury bonds in local or international financial markets; and (3) money emission. Each of these three ways produces different impacts on the economy, consequently making such an analysis very important.
 3. The analysis of public expenditures is also required to determine the cost of the public services provided by the government. The cost analysis, i.e. the analysis of government efficiency, is particularly essential in the decentralization process during which, considering the subsidiary principle, the efficiency of the two governmental levels consists of a basic criteria for the division of functions between local and central government.
 4. The control of budget expenditures is an important process to keep control on the bureaucracy. The analysis of the public sector in various countries has proved that the lack of public control on public expenditures has increased budget expenditures for the maintenance of the general administration, by reducing at the same time both quantity and quality of public services with a direct impact on the public.

This Report consists of five Chapters. In the following sections of this Chapter, are introduced some methodological elements for the analysis of public expenditures. Chapter two contains an overall analysis of the size of the Albanian public sector and the factors that have affected its change. Chapter three provides an analysis of the public expenditures, according to economic classifications. Chapter four analyzes public expenditures according to functional classification, i.e. the areas in which public expenditures are incurred, during the last 10 year period and the main characteristics of

the 2005 draft budget. The last Chapter presents the conclusions, recommendations and future steps of CRD regarding the analysis of the public sector.

1.2 Methodology

1.2.1 Classification of public expenditures

In general, the methodological aspects regarding the analysis of budget expenditures are related to budget expenditure classification and the performance and tendency indicators of the public expenditures. Considering the type and scope of the analysis we want to accomplish, there are many ways of classification of public expenditures. Subsequently, the public expenditures could fall into two groups, (1) expenditures totally used by public administration; and (2) expenditures re-allocated by the state budget. In the first group are identified expenditures related with personnel expenditures and capital expenditures. This type of expenditures are totally used in the form of wages, personnel insurances and investments. The second group includes expenditures for social assistance and various subsidies. Such expenditures are not used by the public administration, but by certain groups of individuals in need, who benefit from the re-allocation of funds to their advantage.

The main classification of public expenditures and most commonly used for the purpose of analysis are:

- (i) Economic classification
- (ii) Functional classification
- (iii) Institutional classification

Economic classification of public expenditures helps to understand the purpose of the use of public expenditures. Considering their nature, they do not show the direction of the allocation, but the economic nature of public expenditures, such as:

- a. Public sector consumption (for salaries and social security of the personnel staff)
- b. Maintenance expenditures
- c. Subsidies
- d. Capital transfers
- e. Payment for interests of treasury bonds

The analysis of public expenditure according to

economic classification could provide an answer to questions such as: How has the nature of public expenditures on public administration changed as compared to capital investment? Are maintenance expenditures stable? What is the effect of public debt? What is the intervention scale of the government through subsidies? In Chapter three of this Report we try to provide an answer to some of these questions.

Functional classification of public expenditures aims to show the direction in which public funds are spent. According to the international classification of public expenditures, the functional classification is related with:

- a) maintenance of central administration
- b) defense
- c) public order and security
- d) education
- e) public health
- f) housing and territory adjustment
- g) art and culture
- h) energy
- i) agriculture and forestry
- j) mining industry
- k) transport and telecommunication

Chapter four of this report provides a detailed analysis of the expenditures, according to the operational classification, focussing specifically on analyzing the tendency of such expenditures in the last decade, as well as on assessing the efficiency of the budget drafting through identifying the deviations between incurred operational expenditures and those initially allocated in the state budget draft.

Institutional classification of expenditures sorts expenses according to the institutional destination. For each public institution, the draft budget allocates operational expenditures and expenditures for investments to be used in the exertion of the activities by the relevant institutions. The analysis of such expenditures has not been incorporated in this Report, considering that it was very difficult for the working group to collect data about relatively longtime intervals of budget expenditures, according to institutional classification. Annex 1 provides general information regarding the list of institutions and funds they have spent during the 2003 fiscal year and those planned for 2004 and 2005.

1.2.2 Public expenditure indicators

The public expenditures can be presented in several ways . Some of the most used are as follows:

1. ***In Absolute value.*** Public expenditures can be determined as absolute value in the drafting and implementation process of state budget, considering that the identification of the expenditures in the treasure is always made by absolute value. The indicator in percentage of the ratio between current versus \ planned budget expenditures derives from the and will be widely used in this report to analyze the efficiency of budget drafting . The indicator of budget expenditures expressed in absolute value is used only in cases when we need to compare changes in expenditures budget year to the other.
2. ***Percentage of increase compared to the previous year.*** Such indicators show the dynamics of the increase (or decrease) in public expenditures. It is important to mention that in this form, these indicators have a limited use. This is due to the fact that these indicators are result of the comparison of the indicators in absolute value. When there is a comparison of two consecutive years, other factors that may have led to deviations in budget expenditures are taken into consideration. Such factors may be, for instance: inflation, exchange rate, variations in the GDP formation, etc.
3. ***Percentage to total expenditures (structural indicator).*** Structural indicators are frequently used in the analysis of public expenditures, according to functional classification. The variations in the structure of expenditures, from one year to the other show the variation of the specific weight of a particular/determined category of public expenditures to total expenditures. The use of this indicator is specifically limited to comparative analysis of international level. This is due to the fact that, in many countries, the expenditures for the payment of interests for public debt may be of such specific weight that can deform the accurate presentation of the structure of expenditures and complicate the comparison of data to other countries.

In this case, it is recommended that the weight of expenditures on debt interest be eliminated.

- 4 **Percentage of GDP.** The indicator of public expenditure as percentage of GDP is one of the most frequently used indicators. This is because it shows tendencies of public expenditures at a specific time. It could as well as be used as a comparative international indicator. Presentation of the public expenditures as percentage of GDP reduce a number of weaknesses that indicators in absolute value contain.

5 **As a GDP ratio adjusted with purchasing power parity index PPP.** This type of indicator is used for international level comparisons of public services cost. In this way, we can accurately assess the expenditures incurred for education of one student or those incurred on public health for one hospitalized individual, etc.

(Footnotes)

¹ See: Ministry of Economy and SME Agency Report "Small and Medium Enterprises in Albania" Annual Report 2004, October 2004.

Chapter II

Overall Evaluation of the Budget

2.1 Introduction

The Economic developments in the last 100 years have proved true one paradigm presented by one of the representatives the German Historical School, Adolph Wagner (1835–1917), who claimed that public expenditures would increase over time as market economy grows. The Wagner has explained the increasing amount of the public expenditures by the government with the increasing government role in more developed market economy. Such role is related with market characteristics which would require the government to play a more active role for guaranteeing a normal operation of institutions, as well as the development of an infrastructure needed to support balanced economic developments and, especially, the increased public demand for an improved public health system, education system, public order and security, urban development, etc.

The economic literature tells us that an increase of public expenditure is related to the four following factors:

First, the urbanization growth and the internal migration of large part of population from rural to urban zones led to an increase in needs of the population for public services goods, such as infrastructure, public schools, hospitals etc.

Second, technological improvements condition the qualitative improvement of services in general, in particular, of those provided by public sector, which consequently lead to an increase of cost per unit of service and the increase of public expenditures needed to purchase such services.

Third, the global development requires a larger involvement of governments in conflict resolution and intervention in various regions in the World. Therefore, war expenditures or those for peacekeeping or aid missions keep also growing.

Fourth, the increase of income and living standards of the population lead to a higher demand for improved public services and consequently to increased expenditure to afford them.

However, the overall increase of public expenditures and public sector is conditioned by these factors:

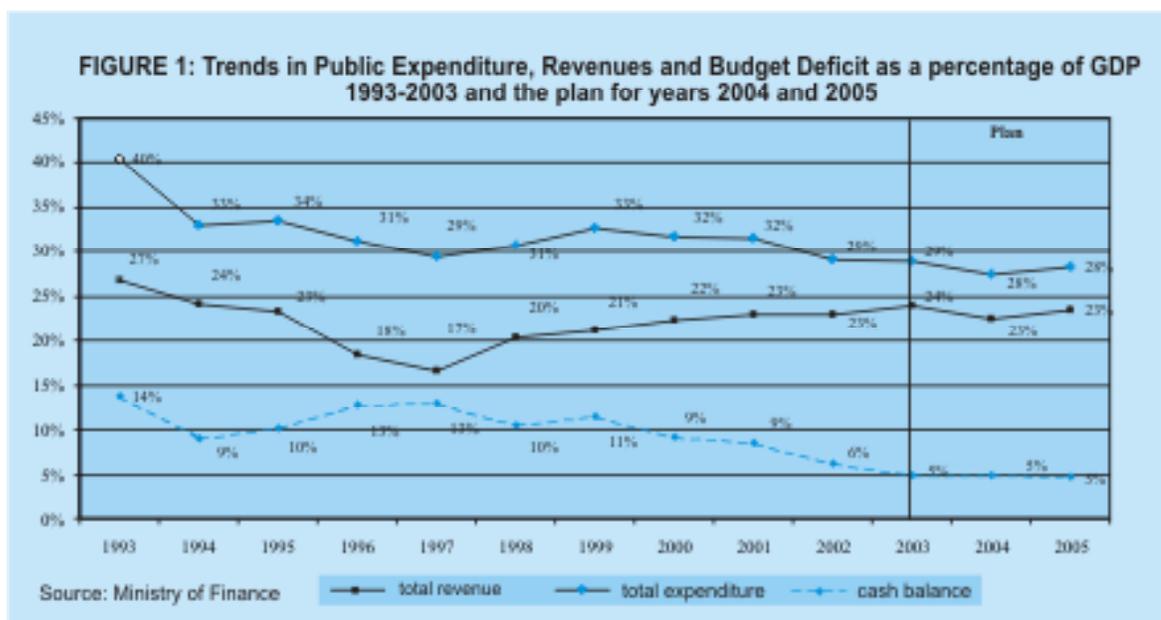
First, by tax levels, as it is known, taxes represent in itself a subtraction from private consumption or a reduction of businesses profit, which means that taxes cannot be increased beyond a limit which is undesirable for the businesses or public in general. Based on this fact, it has been tested that the relation between the level of taxes, on one side, and revenues on the other, is a "U" turn shape function, which means that an increase beyond a certain limit of the taxes would lead to the decrease of budget revenues and not to their increase.

Second, the size of budget expenditures is in disproportion with the size of public debt. The larger is the public debt accumulated from the budget deficit, the larger is the part of expenditure that goes for the debts interests and, consequently, the smaller is the part of budget expenditure that goes for public services.

Third, the size of the public sector depends even on the confidence of the public towards government with respect to the fair and efficient administration of the available budget revenues. When the business community and public in general think that the government shows no efficiency in the allocation of resources, no transparency for incurred expenses and further more that there is corruption in the use of public funds, they do not respond to fiscal liabilities and try to impede every effort made by government to increase budget expenditures.

2.2 Factors that determine the size of public sector in Albania

In 1993, the size of the public sector in Albania comprised approximately 40 percent of GDP (see Figure). In the following years, the public sector has gradually shrunk up, which is reflected by decrease in the total of public expenditures. Figure 1 shows that the total of budget expenditures in 1994 went down to 33.1 percent of GDP, 31.2 percent in 1996 and 29.5 percent in 1997, the latter being the year with the biggest budget deficit by 12.9 percent of GDP and the lowest level of budget revenues – 16.6 percent.



After the crisis of 1997, the size of the public expenditures as a percentage of the GDP shows a slight increasing trend, with its highest level of 32.7 of GDP in 1999 and the lowest level of 28.8 percent of GDP in 2003, a result which, under the conditions of unvaried budget revenues (as a percentage of GDP), has led to the decrease of the budget deficit with 5 percent of GDP in 2003 (the lowest level throughout the transition period).

Figure 1 helps us also realize that the decrease of budget expenditures in Albania from 1994 and on is a consequence of the inability of the tax department at Ministry of Finance to respond to the GDP growth and, consequently, the revenues do not correspond with the GDP growth. Thus, the generating rhythm of revenue from tariffs and taxes has

either decreased from year to year or remained unchanged. Another factor that has conditioned the decrease of public expenditures in Albania, especially after 2000, was the need for a decrease of the budget deficit, which, as we already highlighted, went down from 9.3 percent in 2000, to 5 percent of GDP in 2003. In the draft budget for 2004 and 2005, it has been foreseen no increase of budget expenditures as percentage of GDP; on the contrary, the level of public expenditures tends to go down, whereas the budget deficit remains the same.

2.3 Comparison of public sector size

As we already highlighted in the first section of this Chapter, the size of public sector, i.e. the

level of public expenditures is correlated with the level of the economic development of a country. This hypothesis is proved also by the data in Figure 2, which shows the size of the

public sector as percentage of GDP for a number of European Countries with various characteristics, Members or Non-members of EU and their prospect of joining the EU family.

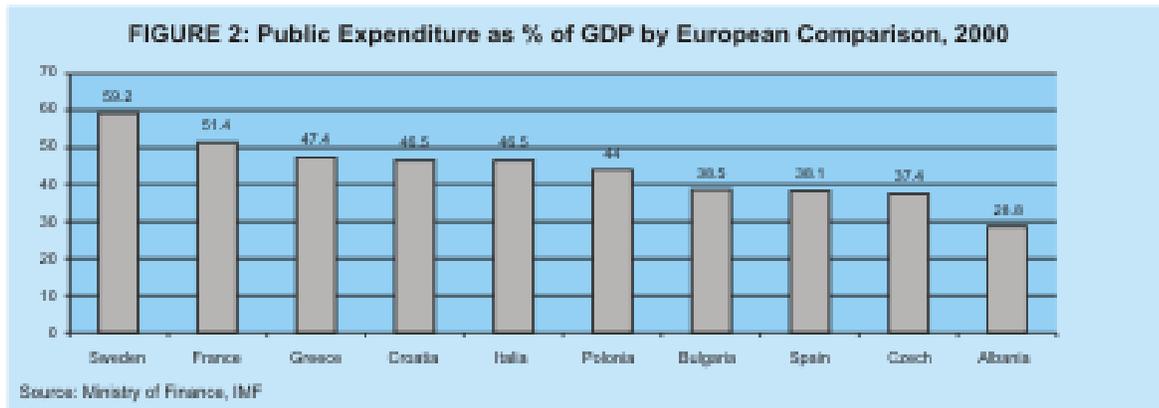
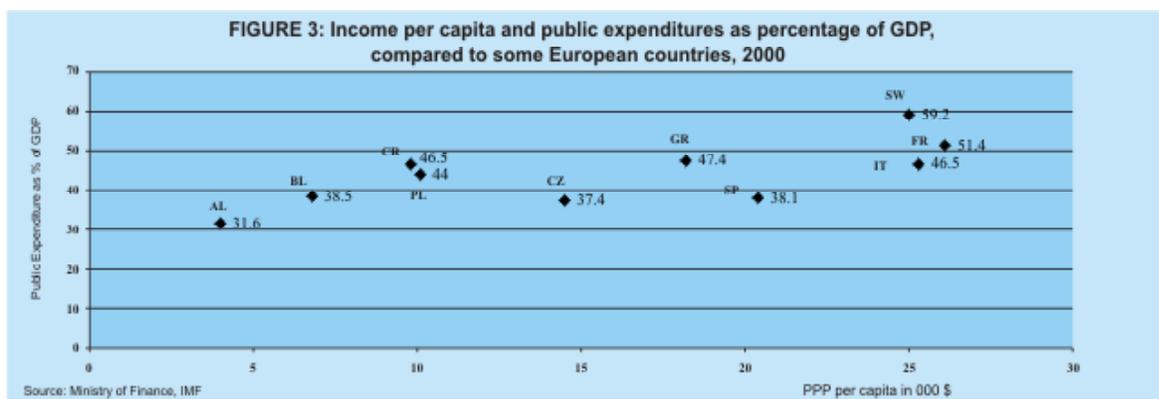


Figure 2 shows that among countries selected in 2000, Sweden has the largest public sector as percentage of GDP; its expenditures go up to 59 percent. In the rest of the EU countries, public expenditures comprise 50 percent of GDP; Spain and Italy ranking last, with respectively 38 percent and 44 percent. Public expenditures in Poland are very close to the European level (44 percent) followed by the Czech Republic with 37.4 percent, whereas in the other group of remote-prospect countries we see Croatia with a public expenditure of 46.5 percent and Bulgaria with 38.5 percent of GDP. Among the European Countries, Albania

has the smallest public sector size with about 29 percent of GDP in 2003.

The same results are noticed when we compare the size of public sector with income *per capita*, given in Figure 3, where the GDP indexed by purchase power parity has been taken as an assessment basis. This indicator is calculated and published by IMF. Albania, with a *per-capita*-income indicator of \$ 4,000, has also the lowest level of public expenditure, followed by Bulgaria, etc. Certainly, this rule has got its own deviations, as the size of public sector is affected by other factors as well, such as social democratic traditions (Sweden, for example), etc.



The data presented in Figure 2 and especially those in Figure 3, clearly show the correlation between the economic development and the size of public sector on one hand, and the institutional development, a pre-requisite that guarantees economic development, as well as increases the opportunity for generation of higher budget revenues (in proportion with

GDP) and consequently, a better satisfaction of public needs through the program of public expenditures.

2.4 Conclusions

After 1994, public sector in Albania has gradually decreased, which is reflected by a reduction of

total public expenditures in the following years. By the end of 2003, total public expenditures given as a percentage of GDP were estimated to be about 29 percent, which is 10-15 percent below the average of other countries in transition and about 20 percent below that of the EU member countries. The low level of public expenditures responds to the low

economic level and institutional weaknesses. Weaknesses of taxation institutions have been reflected by the low level of generated revenues, which do not respond to GDP growth rhythms. Decrease of budget expenditure in Albania has been also affected by the need to reduce the budget deficit.

Chapter III

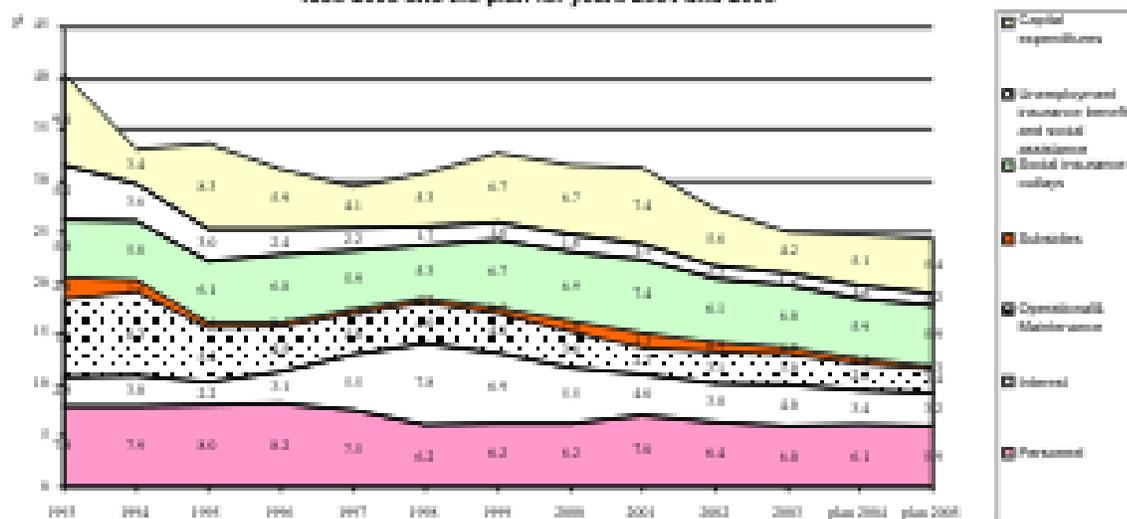
Public Expenditures According to Economic Classification

3.1 Introduction

The Chapter one highlights that the economic classification of public expenditures enables us identify which are the directions where budget funds are used, according to the nature of these expenditures: expenditure on wages and social insurance, subsidies, capital expenditure, etc. Such analysis is important as it provides an

answer to a series of questions, such as, what is the trend of public expenditures over the years according to their nature, for example, the change in expenditures on salaries, what is the change of the level of capital expenditures or investments? Are subsidies significant in the Albanian budget? How has the budget deficit affected the size of expenditures on interests? To what extent is the state budget accomplishing the function of re-allocation of funds, etc?

Fig. 4: Public expenditure as percentage of GDP according to economic classification, 1993-2003 and the plan for years 2004 and 2005



Source: Ministry of Finance

To answer the above questions, we have presented Figure 4 showing all the public expenditures incurred according to economic classification for the 1993-2003 period and those planned for 2004 and 2005.

3.2 Personnel expenditures

Figure 4 shows that in the first period of transition, 1993-1996, expenditures on personnel wages and social insurance consisted of the largest part of the public expenditures,

being at an almost stable level of about 8 percent of GDP. Gradually, this share of expenditures has decreased in contrast with GDP, reaching its lowest level of 6 percent in 2003. Expenditures planned on wages and social insurance in the projected state budget for the 2004-2005 period are at the same level.

3.3 Capital expenditures

Capital expenditures, which have been covered by state budget funds, have had a relatively high fluctuation over all the transition years in Albania. Thus, according to Figure 4, capital expenditures in 1993 consisted of 9 percent of the GDP, whereas a year after, they result with a fall to 3.4 percent; in 1995 they consist again of a sufficiently high level of 8.3 percent of GDP. After 1998, an increasing trend of capital expenditures was noticed, reaching its highest level in 2001 which was an electoral year, with 7.4 percent of GDP, to decrease again in the last two years, with a relatively low level of capital expenditures in 2003 (4.2 percent of GDP). In the draft for 2004 and 2005, capital expenditures consist of respectively 5.1 and 5.4 percent of GDP.

3.4 Operational and maintenance expenditures

Figure 4 shows that maintenance expenditures, that include all procurement expenditures incurred by the administration, other than those on wages and social insurances or capital expenditures, have shown a decreasing trend from year to year. Maintenance expenditures in 1993 and 1994 comprised respectively 7.7 and 8.2 percent of the GDP, going down to 4 percent in 1998 and further going down until 2003, with the lowest level in their history 3 percent of the GDP. According to the projections for the draft of 2004 and 2005, the maintenance expenditures that are covered by the state budget will be still decreasing to the level of 2.4 percent of GDP in 2005, which will certainly be reflected in the quality and quantity of public services that will be offered by the state budget in 2005.

3.5 Subsidies

Figure 4 shows that the share of subsidies in the total budget expenditures of Albania is relatively low throughout the transition period. However, the figure shows that subsidies in 1993 consisted of 2 percent of GDP, due to the scheme of subsidies for certain sectors and products such as fuel or urban transportation, whereas in 1996, subsidies went down to 0.4 percent of GDP. In 2000 and in 2001, subsidies marked a rise again to 1 and 1.3 percent of GDP, due to an increase in subsidies by government to KESH (Albanian Energetic Corporation) in this period. In 2003, subsidies fell to 0.7 percent of GDP, with a further decrease foreseen in the draft budget for 2004 and 2005.

3.6 Expenditures on interest payment

In Figure 4, we see that following 1998, the payment of interest for the internal debt has exerted a considerable pressure on budget expenditures. Such expenditures in 1998 comprise 7.8 percent of the GDP, from about 3 percent they used to be 2-3 years ago. After 1998, there is a gradual decrease of the pressure, with payments for interests in the last two years consisting of approximately 4 percent of the GDP. The decrease in expenditures for interests has mainly resulted from the gradual reduction of the budget deficit, especially after 2001, as well as the decrease of interest rates for this debt, due to the control over the inflation in Albania, which was reflected by the continuous decrease of bank interests. Increased pressure of interest rate payments in the years 1997-2000 influenced the decrease of the quota for other expenditure categories covered by the state budget, such as those for the personnel and maintenance expenditures.

3.7 Expenditures on unemployment benefits and social assistance

Expenditures on payment of unemployment benefits and social assistance express the re-allocating dimension of the state budget, as they are transferred to groups of population in need. In Figure 4, such expenses are presented as expenditure on unemployment benefits and social assistance. Expenditures on the payment of unemployment benefits as percentage of GDP have decreased from 5.2 percent in 1993

to 1.2 percent of GDP in 2003, and are foreseen to remain at the same levels in years 2004 and 2005. In the meantime, other social expenditures have undergone a fluctuation that marked the highest levels in 2000, especially in 2001, when they reached 7.4 percent of GDP and the lowest levels in 1993 and 2003, respectively 5.8 and 5.9 percent of GDP, which shows that the re-allocating function of the state budget has not experienced significant fluctuations in the 10-year transition period.

3.8 Conclusions

The analysis of the expenditures according to the economic classification proved that in general all expenditure categories funded by the

state budget have had a decrease as percentage of GDP, which reflects the overall falling trend of budget expenditures in Albania. Therefore, as percentage of GDP, we observe a decrease in the expenditures on personnel wages and insurance, on capital investments and, especially, those on maintenance and unemployment benefits. In the last two years, we see a decrease of expenditures for the payment of the public debt interest rates, which has had a coercive effect on the state budget in the mid transition period. Subsidies hold an insignificant weight in the state budget, whereas expenditures of social nature have experienced no changes in the 10-year transition period. The draft budget for 2004 and 2005 does not affect the trend of public expenditures according to economic classification.

Chapter III

Public Expenditures According to Economic Classification

Chapter IV

Public Expenditures According to Functional Classification

4.1 Introduction

The analysis of expenditures according to their function is very important, as in this way we can identify the sectors in which public expenditures have been used. This serves to the first and final aim of the public, which is to know in what sectors were invested the funds. In addition, the analysis shows in fact how and to what extent were accomplished the political priorities determined to support specific sectors. The analysis of expenditures according to their function by means of the given indicator as percentage of GDP can also help to better determine future goals, considering that we cannot define accurate prognoses without first knowing the history of public expenditures for the past periods. Finally, the analysis of expenditures according to their function is significant from the point of view of comparing the level of expenditures incurred in Albania with those of other countries that have equal or higher economic level.

In this Chapter, the analysis of expenditures according to their function will be carried out by means of indicators which express expenditures as percentage of GDP, as well as in the absolute form. Based on the latter, we will be able to assess the efficiency of the draft budget, by calculating the percentage ratio of differences between expenditures incurred and those projected in the budget.

4.2 Expenditures on education

Education consists of a priority sector in almost all the developed and developing countries. The main goal of public expenditures on education is to create an education system that can help all children under 14 years to access basic education, as well as facilitate a quality secondary and university education to all the students who have got the capacities and desire to attend it. The development history of all Western Countries has proved that the investment on education has been a determinant factor in the domestic economic development through the increase of labor productivity, incitement of technology improvement and utility of advantages created by the increase of market space. This is the main reason that western countries have relatively high levels of public expenditures on education. Consequently, Figure 5 shows that countries like Sweden and Estonia invest 7.8 and 7.5 percent of the GDP out of public funds on education. The average of the EU member countries in 1999 was 5 percent, whereas for Candidate Countries it was 4.9 percent of the GDP. However, countries like Bulgaria have lower expenditures on education as compared to the average of other European Countries, with 3.8 percent of GDP.

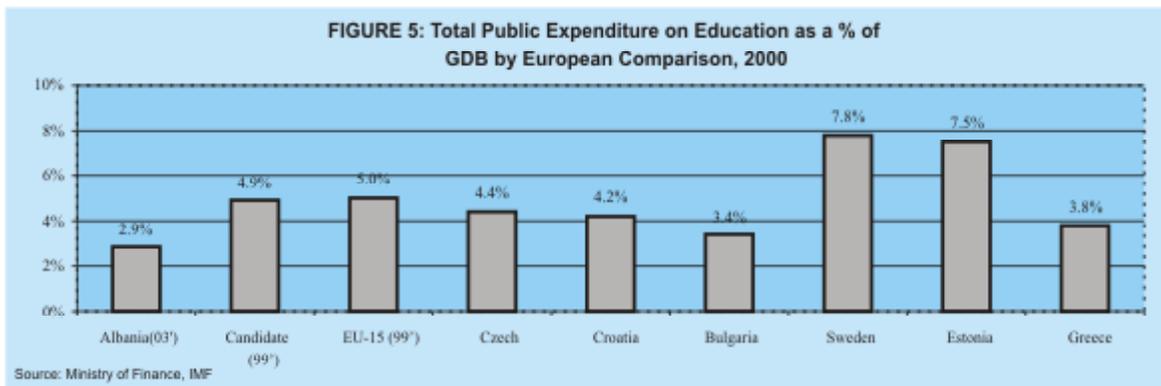
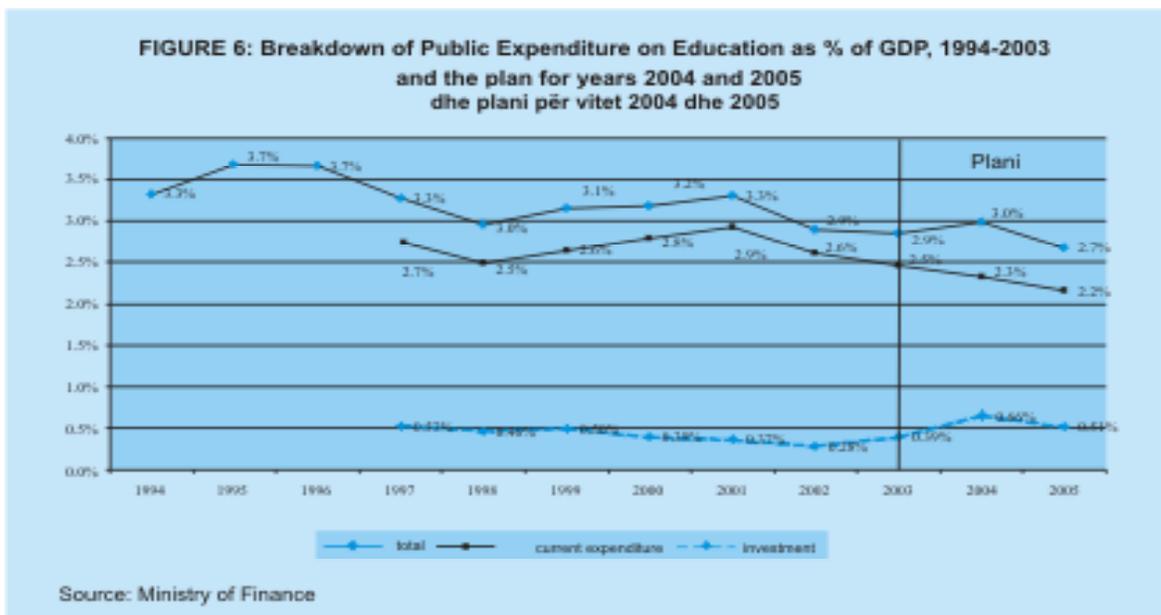


Figure 6 indicates that expenditures on education in Albania as percentage of the GDP have been decreasing in the last 10 years. In 1995, the level of expenditures on education as percentage of the GDP marks the highest level in its history, with 3.68 percent. The level of expenditures remains the same in 1996. In the successive years it marks a fall to, respectively 3.28 percent in 1997, while in

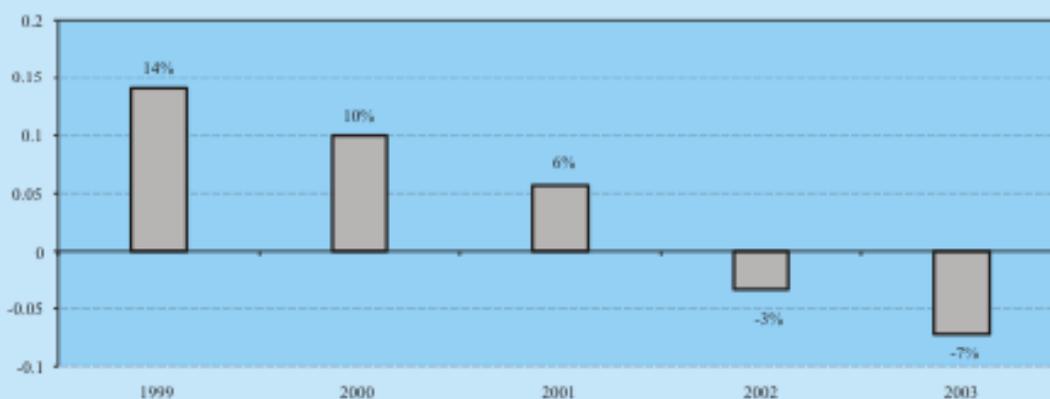
1998 expenditures on education went down to 2.96 percent of GDP. An insignificant increase of the expenditures on education is noticed in 1999-2001, but such increasing rhythms are not maintained in the next two years. On the contrary, in 2002 the expenditures on education experienced the lowest level of 2.89 percent. In 2003, the expenditures on education reached at an even lower point, 2.85 percent of GDP.



According to the 2004 draft, the expenditures on education are expected to be higher as compared to 2003, but the increasing rhythms are not constant. The opposite case proves in the 2005 draft, with the expenditures on education expected to undergo further

decrease. Such a situation shows that there is a total lack of conformity with the priorities defined by the government in the National Strategy for Economic and Social Development, where education is viewed as a priority sector in the draft budget of 2004 and, especially, that of 2005.

**FIGURE 7: Changes Fact as % of Plan on Education:
1999-2003**



Source: Ministry of Finance

The indicator that expresses the deviations of the incurred expenditures from those foreseen in the draft shows that the expenditure incurred in the sector of education in the 1999-2001 period was higher than what was projected, with practically 14 percent in 1999, 10 percent in 2000 and 6 percent in 2001. Meantime, in the last two years, the budget revenue was not accomplished; in spite of the low level of draft budget in 2003, the generated budget funds were 7 percent lower.

4.3 Expenditures on public health

Public expenditures in the sector of the public health aim to meet all the needs of the population for the pre-detection/vaccination, primary health care system and hospital services. A complete, well-organized and efficient health system is an important prerequisite to improve the standard of living in general, to increase the working capacities and the longevity.

In developed market economies the cost of the health service is covered both by public and private resources through the health insurance system. In total, for all OECD countries, the expenditures on public health in 2000, consisted of approximately 8.1 percent of GDP, about 70 percent out of which, that equals 5.5 percent of GDP, is covered by public funds and the rest by private resources.

Table 1: Total Expenditure on Health as a percentage of GDP by International Comparison

	2000	2001
Austria	7,7 (5,6)	7,7
Belgium	8,6 (6,2)	9,0
Canada	9,2 (6,6)	9,7
Czech Republic	7,1 (6,6)	7,3
Denmark	8,3 (6,8)	8,6
Finland	6,7 (5,0)	7,0
France		
Germany	10,6 (8,0)	10,7
Greece		
Hungary	6,7 (5,1)	6,8
Italy	8,2 (6,0)	8,4
Netherlands	8,6 (5,5)	8,9
Poland	6,0 (4,2)	6,3
Portugal	9,0 (5,8)	9,2
Spain	7,5 (5,4)	7,5
Switzerland	10,7 (5,9)	10,9
United States	13,1 (5,8)	13,9
OECD average	8,1 (5,8)	8,4 (6,0)
Croatia	(8,0)	
Macedonia	(5,1)	
Bulgaria	(3,0)	
Albania	(2,53)	(2,0)

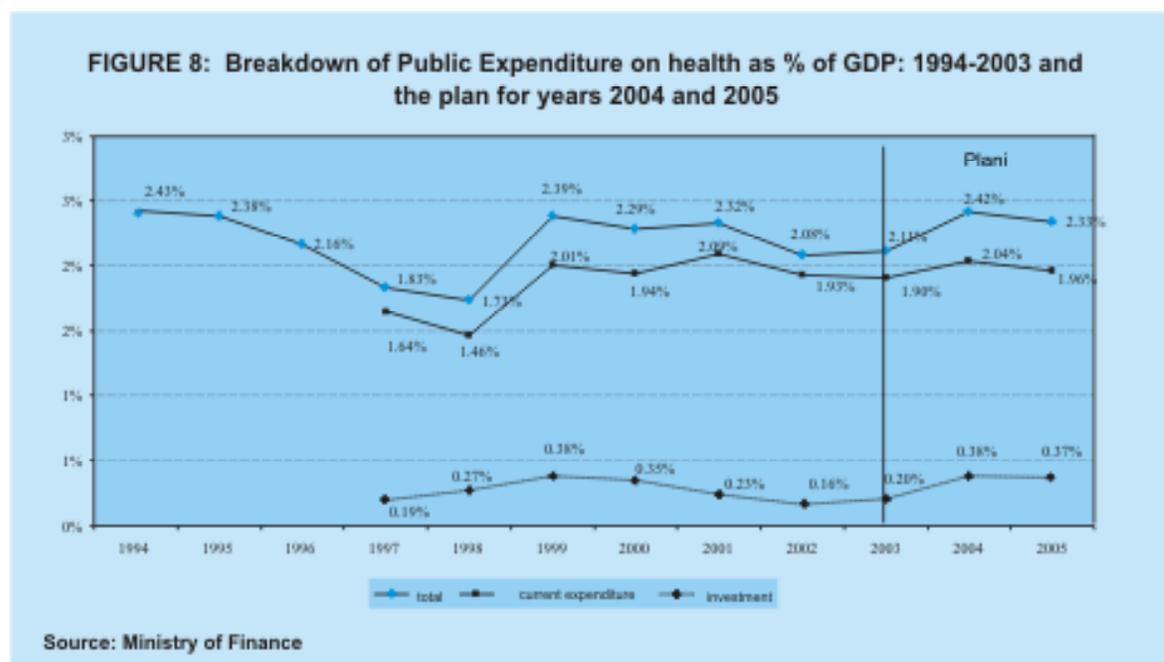
Table 1 shows that in 2001 the expenditures on public health have an increasing trend in all OECD member countries. In this table, we can also see that the highest level of expenditures covered by public funds is observed in countries such as Germany and Croatia, with 8 percent of GDP, France with 7.2 percent and Denmark with 6.8 percent, etc. The only country among OECD members where private expenditures on public health are higher than the public investments is the U.S., where out of a GDP total of 13.1 percent (highest level), 5.8 percent is covered by public funds and 7.3 percent by the private ones.

Such data shows the importance and relatively significant weight that expenditures on public health comprise in developed market economies, which is not the case of Albania, with the latter having a very low level of public expenditures in the sector of public health and practically never reaching beyond 2.5 percent of GDP over the last decade. There are three factors by which could be explained the low level of funds allocated in the sector of public health:

- First, the overall low level of public expenditures, which conditions the lower

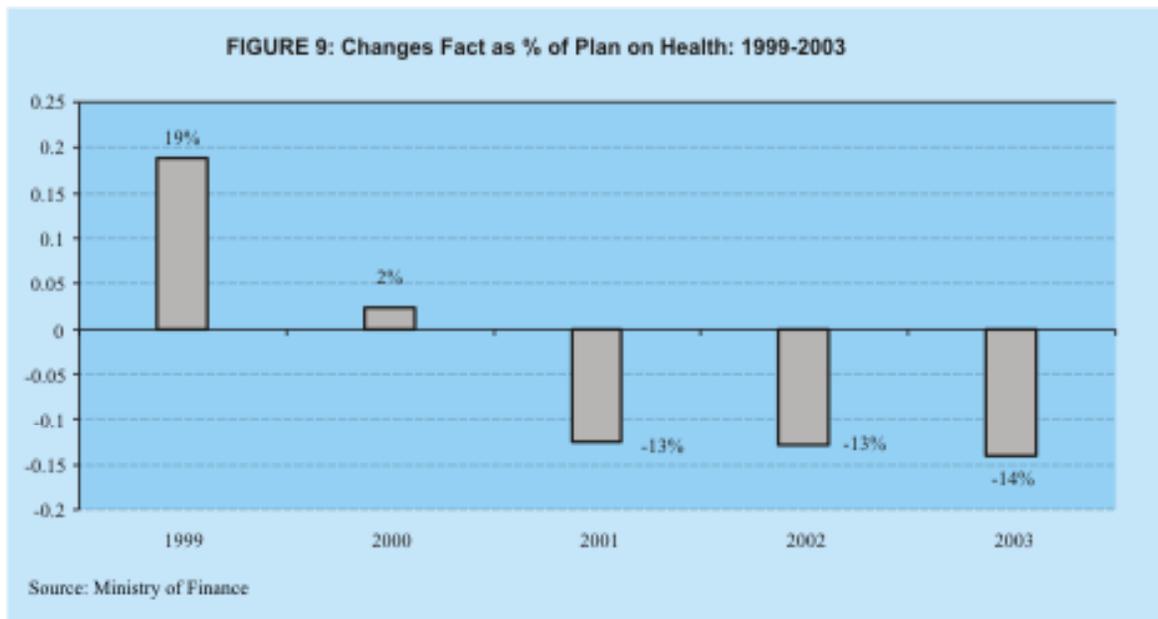
share to the public health sector.

- Second, despite of programs and strategies developed by the Albanian government, with public health declared as priority sector, in figure 9 we can see that public expenditures on public health in years have experienced a decreasing trend. Thus, in 1994, expenditures on public health comprised 2.43 percent of GDP, whereas in 1998 they fell to 1.73 percent. While expenditures in 1999 increased to 2.39 percent, they were reduced again to the level of 2.08 percent. Likewise, the 2005 draft budget plan of 2005 foresees a decrease of budget expenditures on public health as compared to the draft of 2004.
- Institutional weaknesses of the Ministry of Public Health, the lack of a clear strategy for the reformation of the public health system have led to the absence of necessary pressure and lobbying with the government and Parliament on the increase of public expenditures on the public health sector and the creation of an efficient system that would attract private funding of public health through the scheme of health insurance.



The institutional weaknesses of the Ministry of Public Health can be proved also by the deviation indicator of incurred to projected expenditures. Figure 8 shows that, over the last three years, the

Ministry of Public Health has not been able to manage all the funds available in the state budget, cancelling in this way 13 percent of the funds in 2001 and 2002, and 14 percent of funds in 2003.

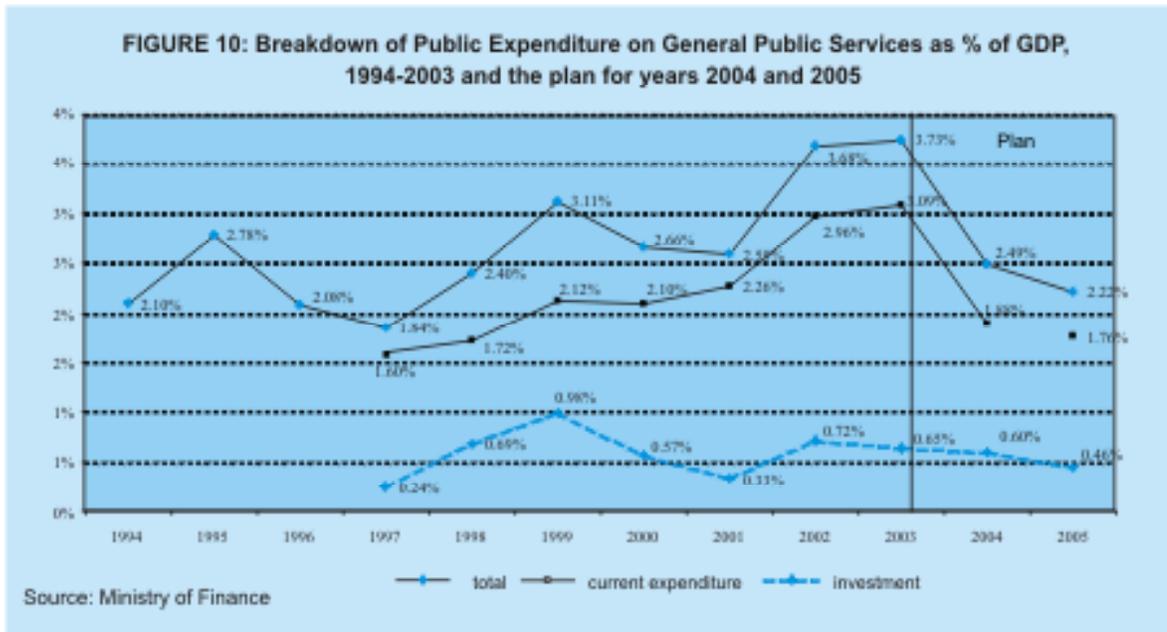


The failure to use all the funds allocated for the public health sector, is mainly a deficiency to carry out investments, which may have been of the nature of co-funding by international donor programs/ projects and leading the Ministry of Public Health to a failure to use the public funds.

4.4 Expenditures on general public service

The group of expenditures for general public service includes all direct expenditure incurred for the operation of central institutions (ministries), as well as the expenditure for the maintenance of judicial administration and other institutions subordinate to the Council of Ministers, such as agencies or various committees created on basis of the legislation in power. Figure 10 shows that, in 1995 those expenditures on general public service increased to 2.8 percent of the GDP as compared to 2.1 percent in 1994. Following this year, expenditures on general public service

went down in 1997 to the lowest level in their history, to 1.8 percent of GDP. In 1999, the expenditures on general public service grew to the level of 3.1 percent of the GDP, mainly due to the increase in the investments made by the general public service, which consist of 0.8 percent of the GDP. During the electoral year of 2001, expenditures on general public service experience an evident decrease, going down to the level of 2.6 percent. But the physical expenditures incurred by the general public service experienced quick rhythms of increase in 2002 and 2003, becoming in this way the budget item with the strongest increase of expenditures incurred. In 2003, such expenditures reached the highest level ever, 3.7 percent of GDP, which indicates a growing pressure of the Albanian bureaucracy for the increase of administration expenditures on the back of expenditures directly offered to the public, such as those on education and public health.



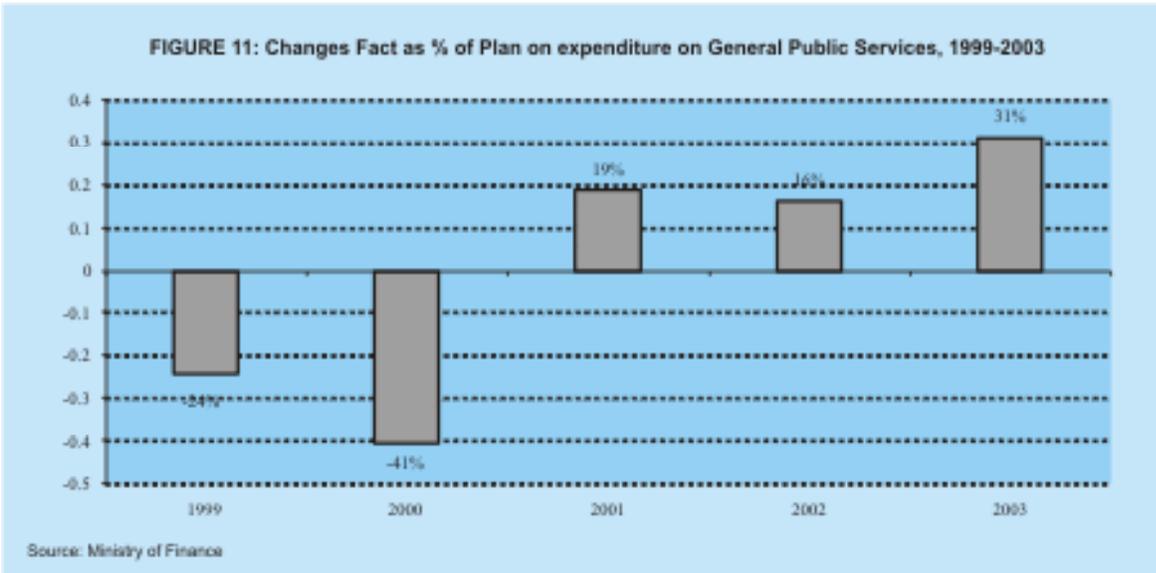
The evaluation of expenditures planned for 2004 and 2005, as a percentage of GDP, shows that expenditures on general public service will undergo an obvious decrease. In fact, such a decrease of expenditures planned for the general public service does not comply with what we find in the governments reports about the changes regarding downsizing of current structures of the

general public service, in terms of the number of institutions, number of employees and the level of salaries. For a detailed picture on this issue, we have carried out a detailed analysis of budget indicators for the absolute expenditures on general public service, considering both expenditures in the draft and those really incurred. Such data is presented in Table 2.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Plan 2004	Plan 2005
Plan						20780	24211	12868	20846	21218	20783	20359
Fact	3865	6383	5850	6303	11065	15723	14366	15293	24220	27806		
(fact central)						8488	9740	9873	17496	19593		
(Fact local)						7234	4626	5420	6724	8213		
Current expenditure				5470	7905	10737	11318	13355	19499	22985	15742	16181
Investment				833	3160	4986	3048	1938	4721	4821	5041	4178

Table 2 shows that the absolute values of expenditures projected for 2004 and 2005 are almost equal, with about 20 trillion Lek for each year. This level of expenditures corresponds with the planned level of expenditures for years 2002 and 2003, whereas expenditures practically incurred in 2002 are about 24 trillion Lek, whereas in 2003 such expenditures go up to about 28 trillion Lek. The high deviation of expenditures planned for years 2004 and 2005 from what was practically incurred in 2002 and, especially, in 2003, shows an anomaly of the

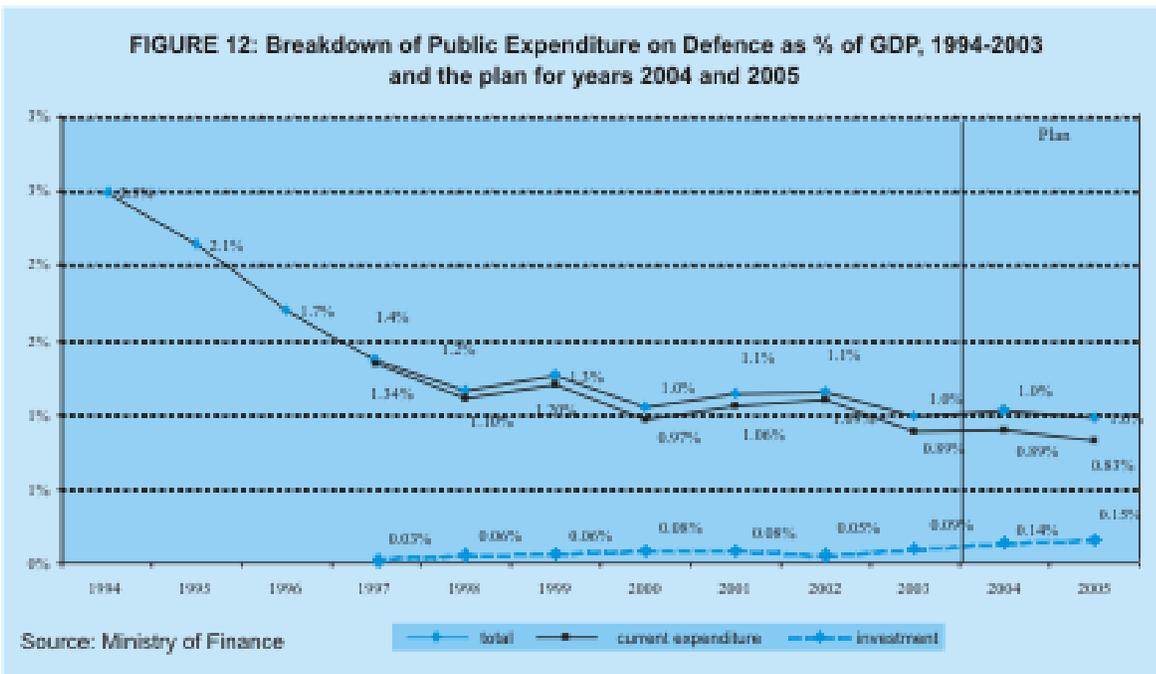
budget drafting process in those two years, which will certainly force the government go beyond planned expenditures to enable a normal operation of general public service. Moreover, Table 2 shows that in the last two years, 2002 and 2003, the public expenditures for the central government has been much more quicker than the local ones. The government finances extrabudgetary expenditures for the central administration by using either the reserve fund of the Council of Ministers or by changing the budget during current fiscal year.



In fact, figure 11 indicates also the anomaly of the budget drafting regarding the paragraph of expenditures on public administration. In 2000 we see a non-accomplishment of public expenditures that went up to 41 percent of the projected ones, whereas in 2001 we see that incurred expenditures are higher than those planned by an amount that varies from 19 percent in 2001 to 16 percent in 2002 and 31 percent in 2003.

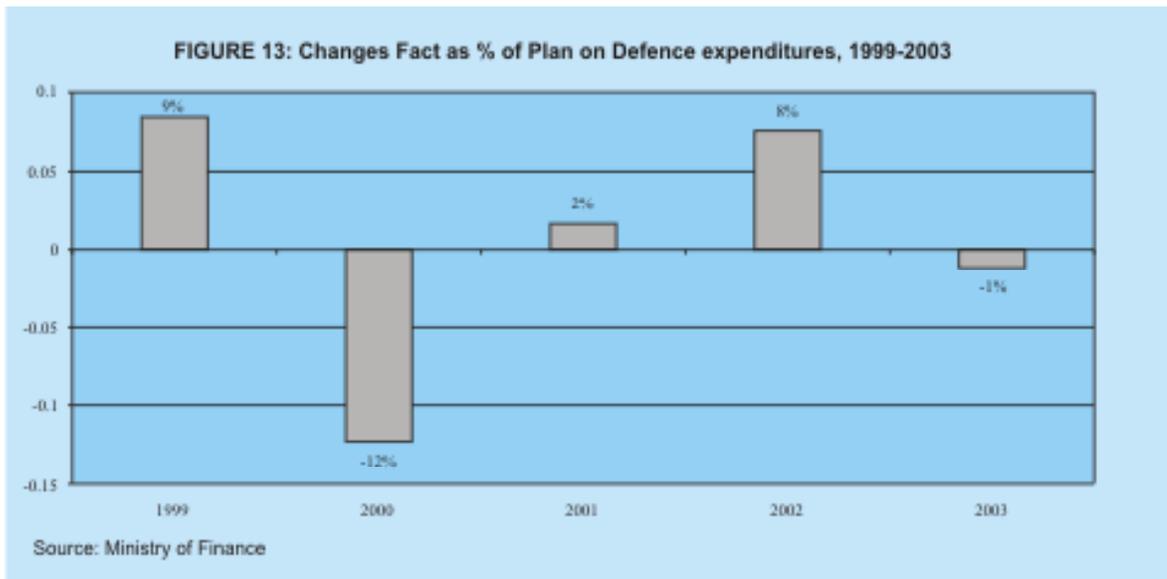
Figure 12 shows that, in 1994, the expenditures on defense in Albania comprised a relatively high level, 2.49 percent of GDP. Following this year, a decrease of expenditures on defense is noticed year in year. They fell to 1.16 percent in 1998 and maintained this level for several successive years, facing another decrease in 2003, when expenditures on defense marked 1.05 percent of GDP. About 90 percent of the total expenditures on defense fall under current expenses and only 10 percent comprised by investments (0.10 percent of GDP).

4.5 Expenditures on defense



In the 2005 draft, expenditures on defense are again foreseen to be lower, reaching 0.98 percent of GDP. Such a level of expenditures

for the defense is one of the lowest among the Balkans countries and beyond.



The deviation indicator of incurred expenditures compared to those projected on defense (figure 13) shows fluctuations of their direction in various years. In 1999 we notice that the incurred expenditures are 9 percent higher than the plan, whereas a year later they are 12 percent lower from what was projected. In 2002, the incurred expenditures on defense are 8 percent higher than what was planned.

4.6 Expenditures on public order and security

Expenditures on public order and security the 1994-2003 period experienced evident

fluctuations. Looking at figure 14, we can realize that in 1994 expenditures of this type comprised 2 percent of the GDP. The following year they increase to 2.2 percent and decrease again to 1.9 percent in 1996.

After 1998, it seems that expenditures on public order and security have become a priority to the government. This is proved by the fact that expenditures, as a percentage of GDP, increased from 2 percent in 1998 to 2.3 percent in 1999, and 2.4 percent in 2000. After this period, we see a relatively lower level of expenditures; in 2003, they experience the lowest level ever going down to 1.6 percent of the GDP.

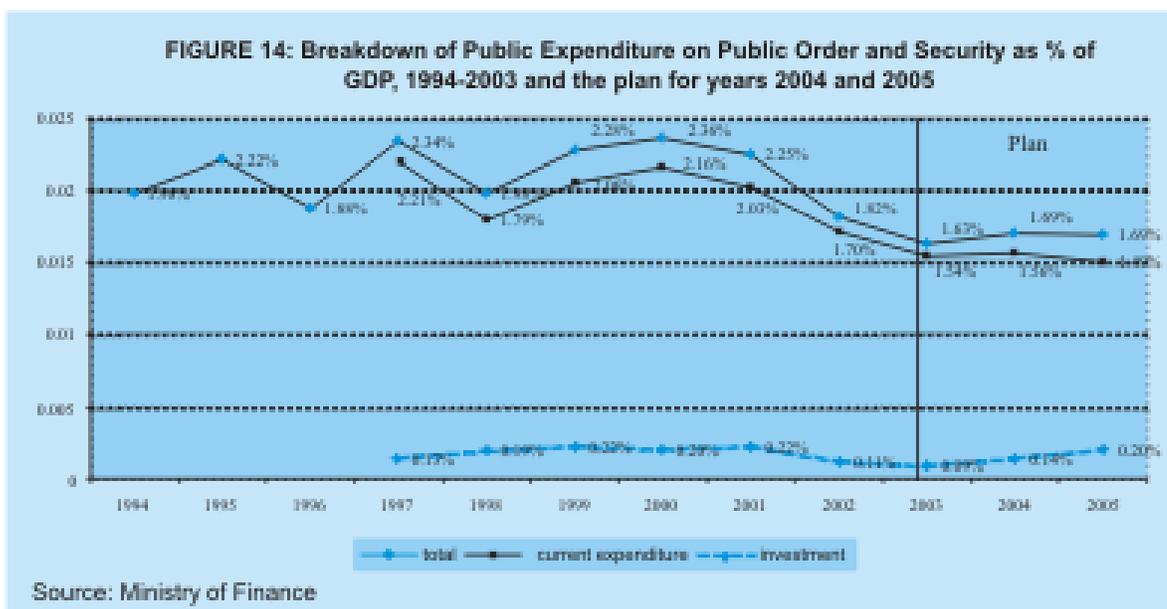
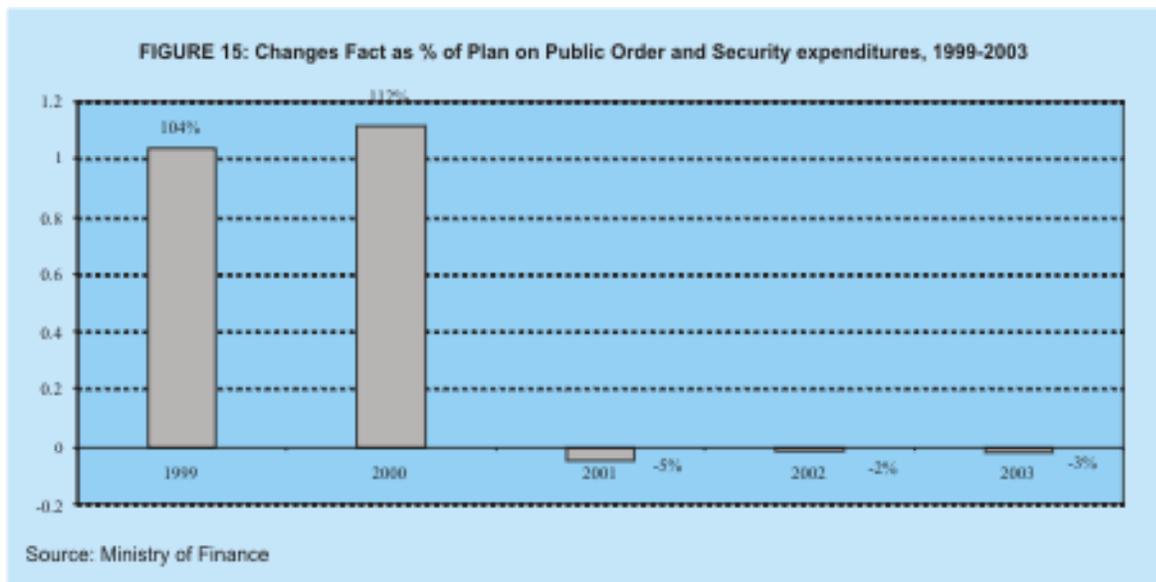


Figure 14 show that current expenditures comprise the largest part out of total expenditures on public order and security. Whereas, investments are only 01-02 percent of the GDP for almost the entire period of 1997-2003. In the draft of 2004 and 2005, a slight

increase of 1.7 percent is foreseen as percentage of GDP for expenditures of this group, which remain in this way one of the items with the smallest weight in the budget expenditure forecasts especially for 2005.

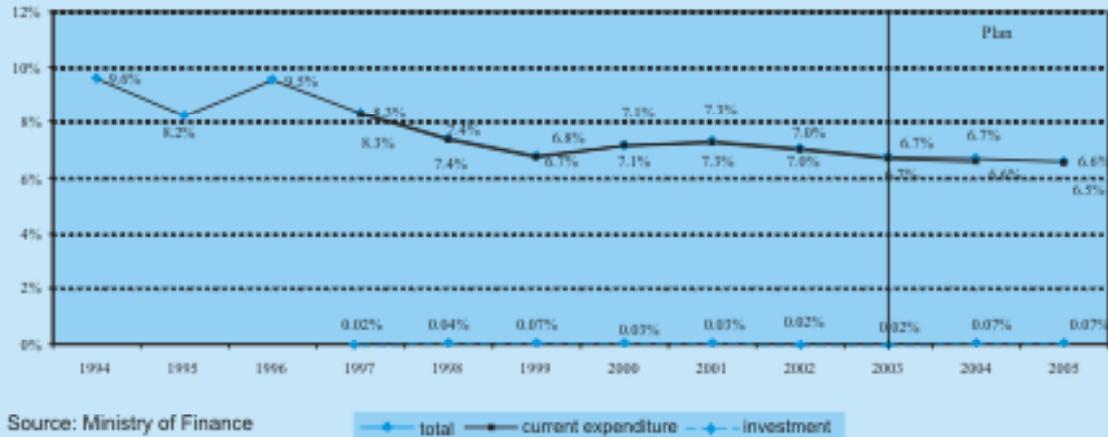


In years 1999 and 2000, current expenditures on public order and security were two times higher than those foreseen in the budget estimate (see figure 15), which shows that increase of expenditure on public order and security in those two years was an initiative by the government, approved later by the Parliament as current expenditure. After that period, the indicator of deviation of current expenditures from those planned indicates insignificant differences. On the contrary, current expenditures are lower than those planned by 2.5 percent in 2001.

4.7 Expenditures on social security and welfare

Expenditures on social protection for families with insufficient income and unemployment benefits are funds that reflect the allocating function of the state budget. Figure 16 shows that such expenditures comprise a considerable part of public expenditures, which surpass even the expenditures allocated for education and public health altogether for the entire 10-year period of 1994-2003. In 1994, such funds comprised 9.58 percent of the GDP. After 1997, we observe a decrease of such expenditures as percentage of GDP practically they went down to 6.77 percent in 1999, reaching their lowest level in 2003, when current expenditures on social security and welfare comprised 6.71 percent of GDP.

FIGURE 16: Breakdown of Public Expenditure on Social Security and Welfare as % of GDP, 1994-2003 and the plan for years 2004 and 2005



In the draft of 2004 and that of 2005 was foreseen a further decrease of such expenditures, respectively to the level of 6.65 percent and 6.58 percent of GDP. In spite of

this decrease, expenditures on social security and welfare comprise again the largest share of budget funds allocated by the state budget.

FIGURE 17: Changes Fact as % of Plan on Social Security and Welfare Expenditures, 1999-2003

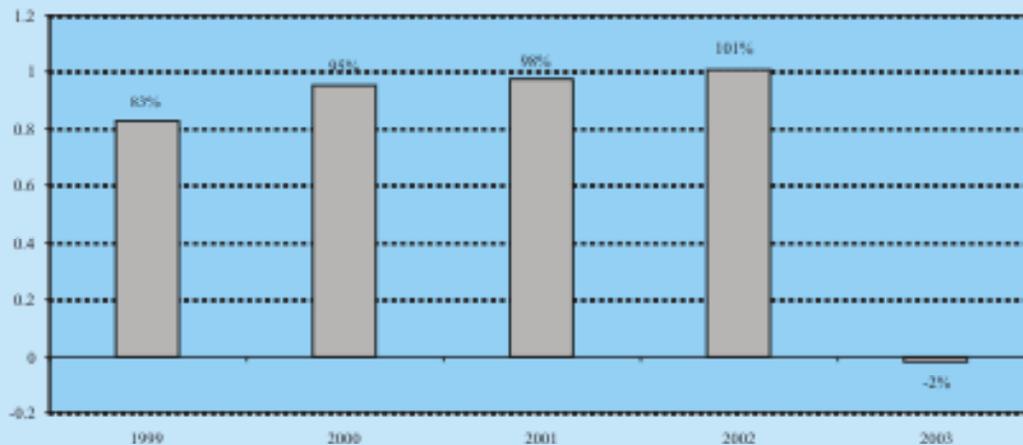
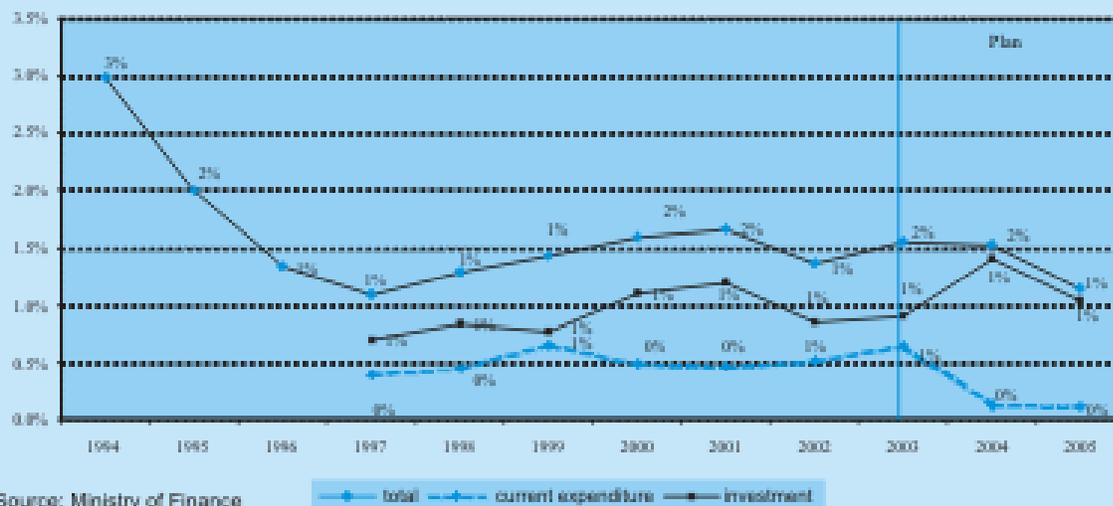


Figure 17 shows that, in the period from 1999 to 2002, there were obvious deviations between incurred and projected expenditures on social insurance and welfare. In this period, current expenditures are estimated to be higher than those in the draft, by 83 percent in 1999 and 101 percent in 2002, which reflects obvious anomalies in the planning process of the budget for such expenditures.

4.8 Expenditures on housing community and amenities

Current expenditures on housing through National Housing Entity, in 1994, comprised 2.98 percent of GDP. After that year, expenditures went down continuously, reaching their lowest level in 1997 by 1.08 percent of the GDP. In 2000 and 2001, expenditures on housing community and amenities seem to be again a priority of the government, as current expenditures increase to 1.59 and 1.66 percent.

FIGURE 18: Breakdown of Public Expenditure on Housing Community and Amenities, 1994-2003 and the plan for years 2004 and 2005

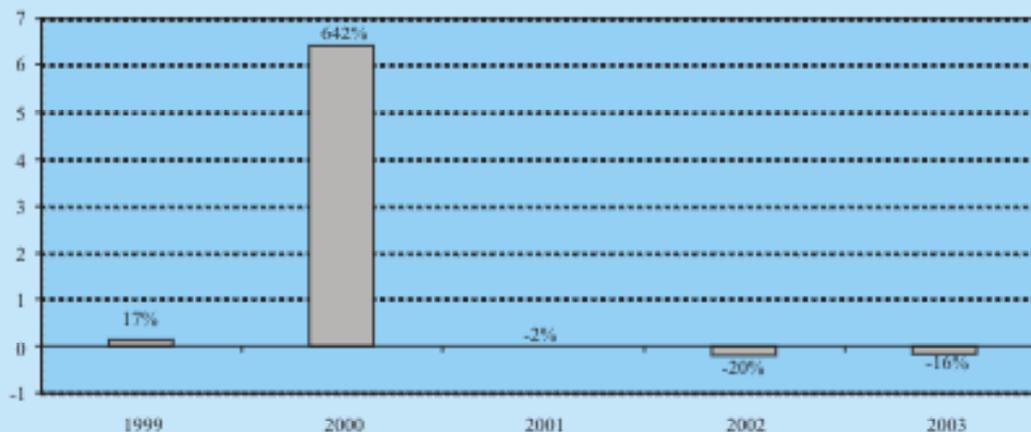


Source: Ministry of Finance

In the plan of 2004, current expenditures for housing community and amenities are planned to be lower than current expenditures in 2003, which comprised 0.12 percent of GDP. The decrease of expenditures for this item seems to be a consequence of decentralization, and

their largest part needs to be covered by the local budget. The same tendency is evident in the plan of 2005, where we notice a decrease both in current expenditures and investments as well, reaching the lowest level in their history, by 1.14 percent of GDP.

FIGURE 19: Changes Fact as % of Plan on Housing Community and Amenities Expenditures, 1999-2003



Source: Ministry of Finance

The indicator of current expenditures as compared to those planned (figure 19) shows that, in 2000, the government has spent funds 642 percent higher than those planned. Increase of current expenditure in this year is explained by the changes that government made in the housing procedure, using budget funds to provide loans for housing to high officials of state administrations. The same procedure

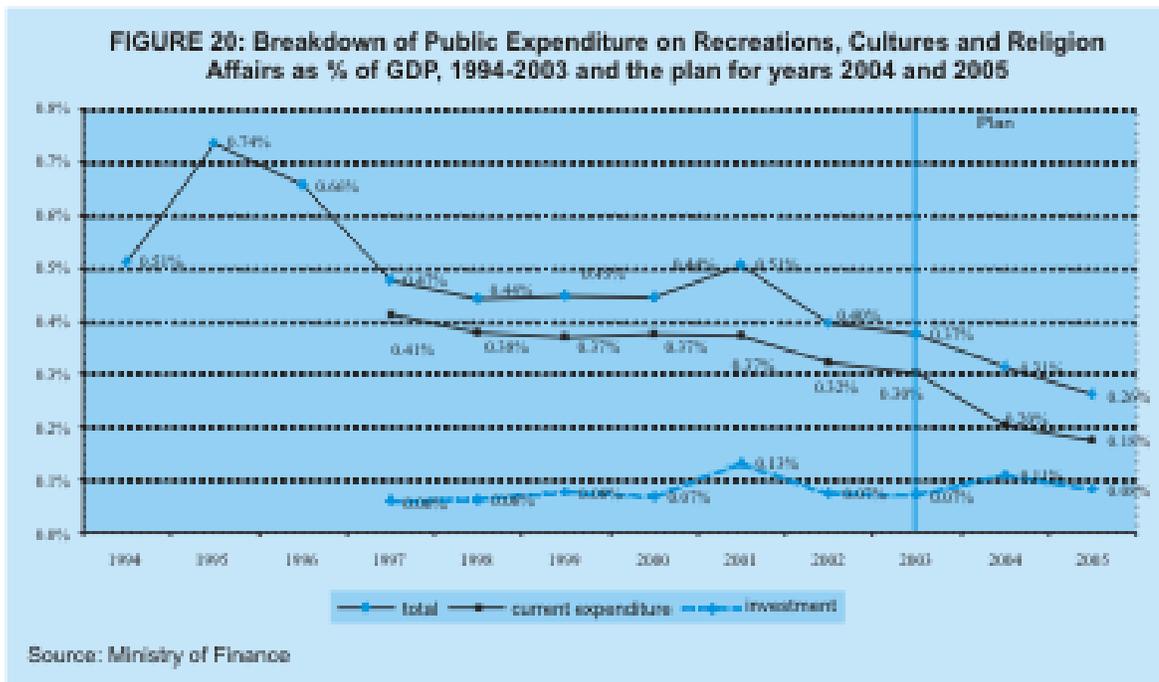
followed also in 2001. Whereas in 2002 and 2003, we notice that current expenditures were 16 to 20 percent lower than those planned.

4.9 Expenditures on art and culture

Art and culture seems to have had the largest support in the years 1995 and 1996. In figure 20 we see that expenditures in this direction

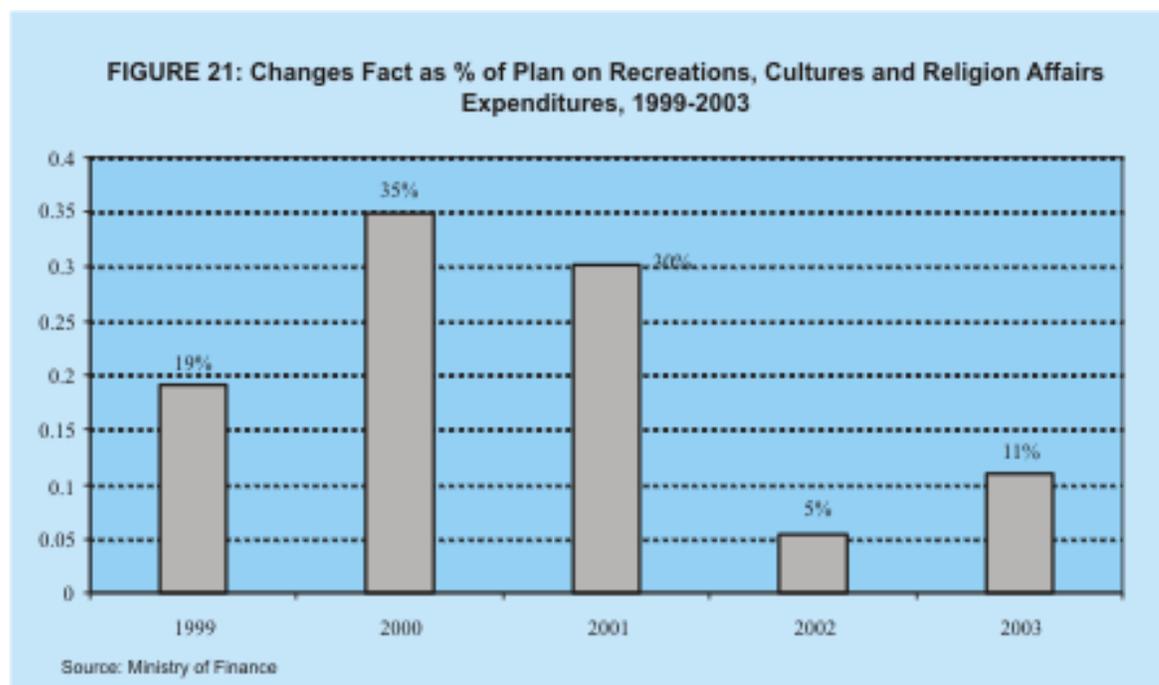
comprise respectively 0.74 and 0.66 percent of GDP. In the years 1997-2000, expenditures in this sector remain constant, but at a lower level, fluctuating from 0.44 - 0.47 percent of the GDP. Due to the increase of expenditures for investments ("Return to Identity" project

that aimed at restructuring of facades ministries in "Dëshmorët e Kombit" Boulevard) in 2001, we notice a slight increase of such expenditures, reaching up to 0.51 percent, but in 2003, current expenditures on art and culture marked their lowest level, 0.37 percent of GDP.



The draft budget of 2004 and especially that of 2005 marked a further relative decrease of

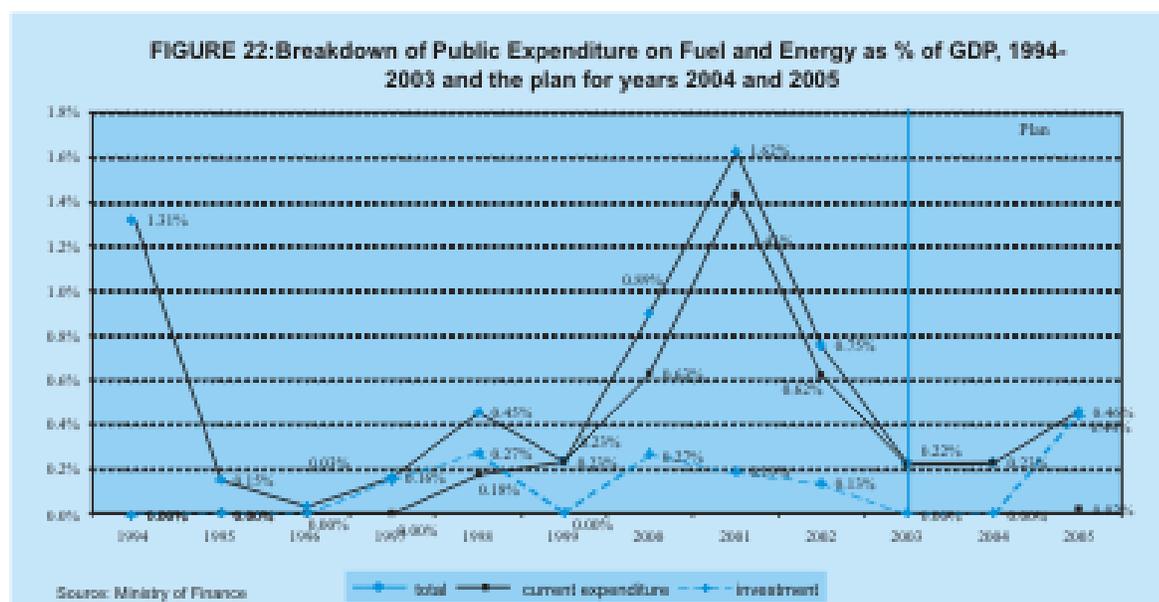
budget support for art and culture, as forecasts of expenditures for this year went down to 0.26 percent of GDP.



By comparing current expenditures to the projected ones (figure 21), it is noticed that in the 1999–2003 period expenditures on art and culture have been continuously projected below their optimal level. This was result of the fact that current expenditures have always been above the foreseen level. The largest deviations of current expenditures to those planned are mainly noticed in the 1999–2001 period, with a level up to 35 percent in 2000. Whereas in the years 2002 and 2003, current expenditures were higher than the projected ones, respectively by 5 and 11 percent.

4.10 Expenditure on fuel and energy

Figure 22 indicates the dynamics of deviations in expenditures used by the state budget as subsidies for fuel and electricity. Referring to the figure we see that in 1994, expenditures on this budget item comprised a relatively high level, practically about 1.31 percent of the GDP. In this period, one of government policies was to subsidize the production of wood lumber and import of liquid gas so that the increase of their consumption was stimulated, in hope that consumption of electricity for household needs would be reduced. In 1995, due to further liberalization of economy, such subsidies were almost eliminated, going down to insignificant levels (0.03 percent of the GDP) in 1996. In 2001, due to the increase of their consumption was stimulated, in hope that consumption of electricity for household needs would be reduced. In 1995, due to further liberalization of economy, such subsidies were almost eliminated, going down to insignificant levels (0.03 percent of the GDP) in 1996.



After 1999, expenditures of state budget in this direction were , reaching their highest level in 2001, when their total comprised 1.62 percent of GDP. Out of the total, the largest part was comprised by current expenditures, practically 1.43 percent of GDP. The major factor that led to increase of expenditures on fuel and energy, was the financial support the government provided to KESH (Albanian Corporation of Energy) to face the energy crisis resulting from the very long drought weather of years 1999–2001 and the difference between the purchasing prices in regional energy markets and the average consumer price in Albania.

KESH used such budget funds to subsidize the price of electricity imported at abroad. Improvements in KESH management of combined with the increase of consumer prices in the domestic market, led to a decrease of funds from state budget to support KESH. In this way, subsidies for electricity after 2001 experienced an obvious decrease, reaching the lowest level of 0.22 percent GDP in 2003.

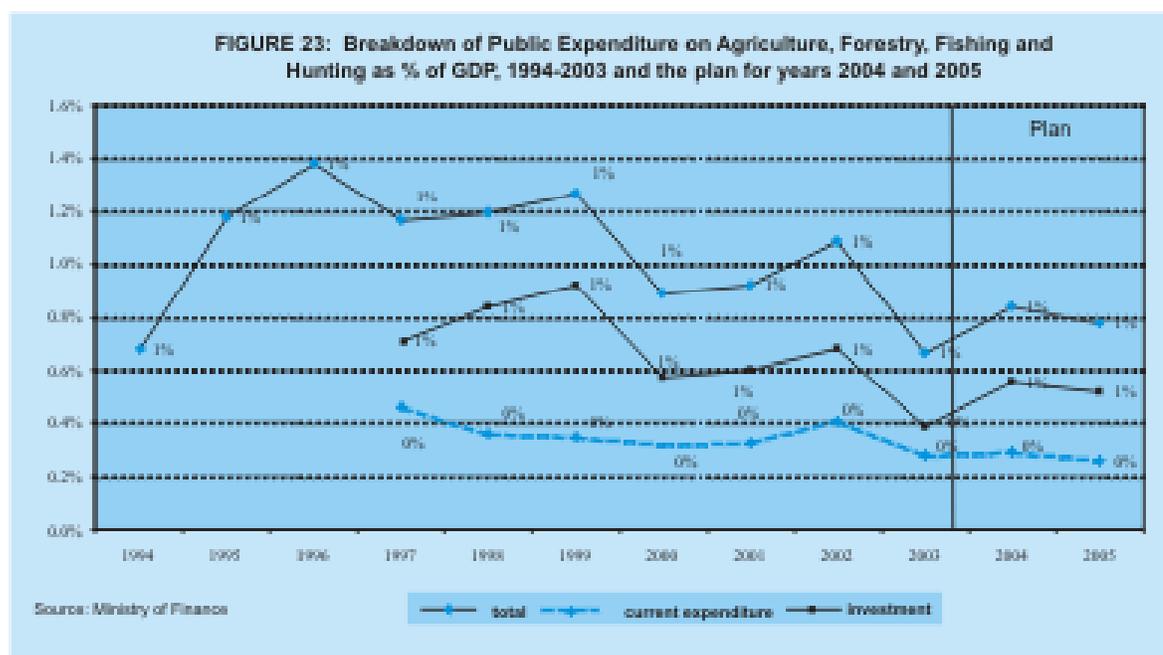
A characteristic of the 2005 draft budget is the reduction to zero of current expenditures, i.e. subsidies for energy and fuel resources, increasing to some extent expenditures on investments in this sector, which are expected to go up to the level of 0.44 percent of GDP in 2005.

4.11 Expenditures on agriculture, forestry, fisheries and hunting

Agriculture is one of the most important sectors of Albanian economy. About 50 percent of active labor forces are engaged in this activity. In the mid 1990s, the contribution of agriculture to the GDP was about 50 percent, but it fell gradually, though it continued to mark relatively high levels during 2002–2003, with about 23–25 percent, as compared to the input of agriculture in other European Countries which comprises less than 10 percent of the GDP. Although agriculture does not have an evident

contribution in the European economy, a considerable part of the state budget is funded in the form of various subsidies to this sector.

Figure 23 shows that starting from 1994, funds to this sector increased from 0.68 percent of the GDP to 1.38 percent in 1996. Following this year, budget expenditures on agriculture, forestry, fisheries and hunting have decreased, reaching the lowest levels in 2003, when total expenditures for this sector reached the lowest levels ever, 0.66 percent. Such a decrease was largely affected by the significant reduction of funds for investments; practically they were reduced from 0.68 in 2002 to 0.38 percent of GDP in 2003.



In the draft of 2004, expenditures on agriculture, forestry, fisheries and hunting were foreseen to increase to 0.84 percent, with an evident increase

of expenditures on investments, but such increasing rhythms are not proved in 2005, when funds for this sector go down to relatively low levels.

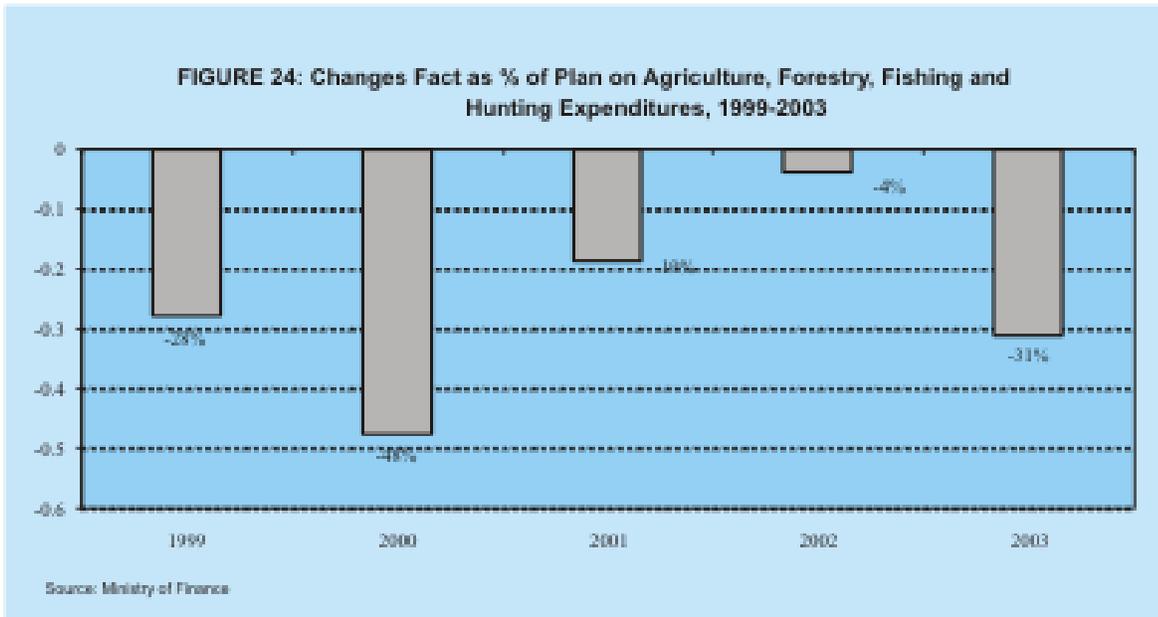
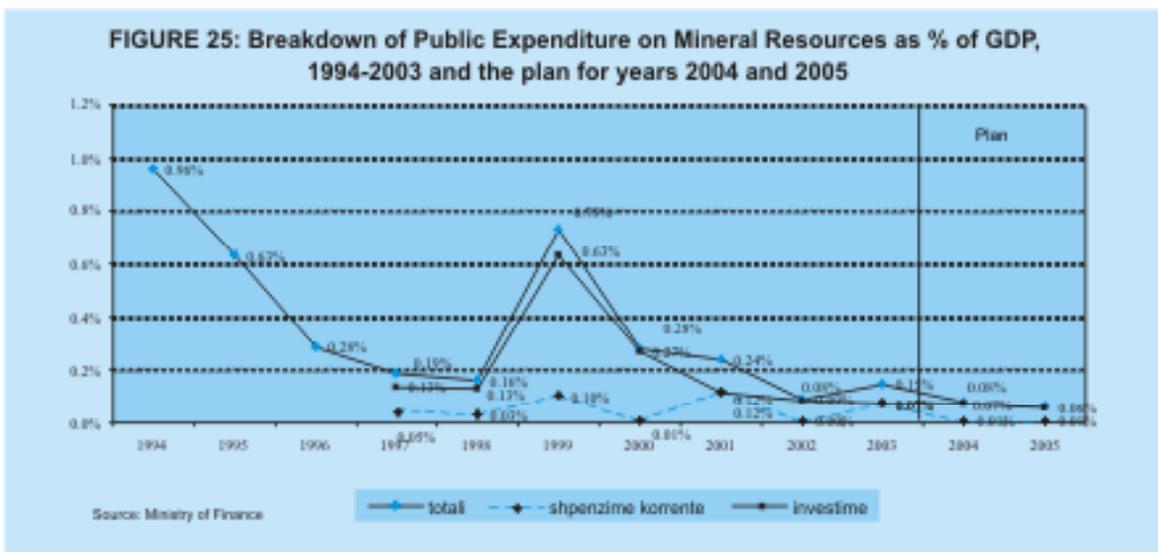


Figure 24 shows that current expenditures on agriculture, forestry, fisheries and hunting have always been lower than those planned for this sector. Such deviations increase from 28 to 48 percent in 1999 and 2000, while we see a relative improvement in years 2001 and 2002, when such deviation went down to 4 percent of GDP. But in 2003 the Ministry of Agriculture and Food was not capable to accomplish all planned programs, leading thus to the canceling of 31 percent of foreseen funds.

4.12 Expenditures on mineral resources

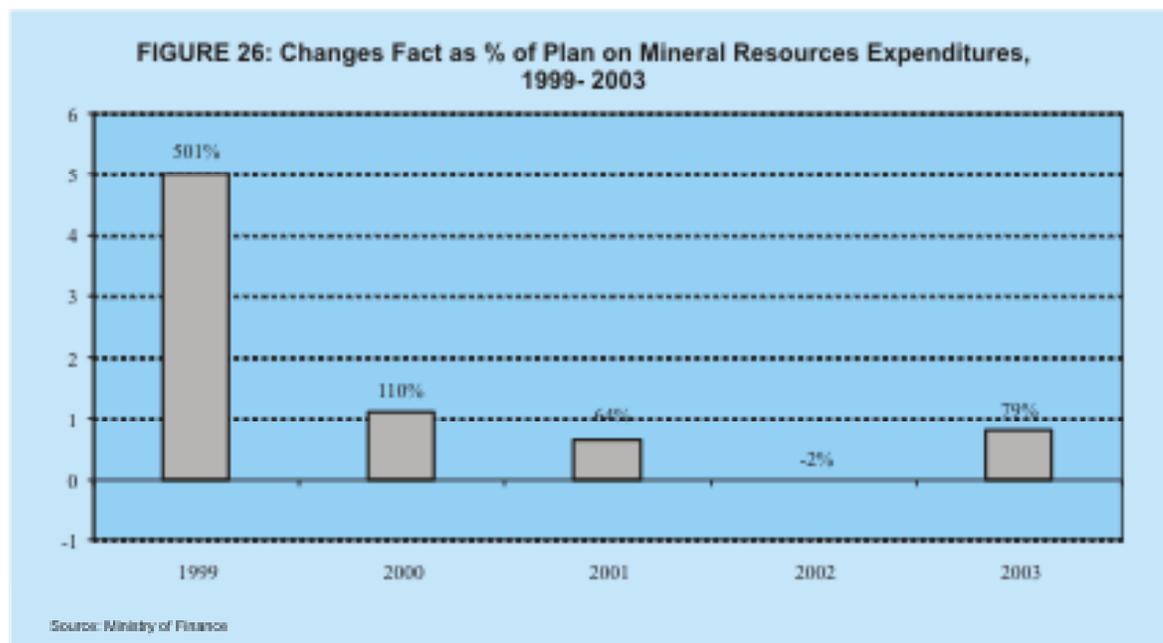
Expenditures on mineral resources have been decreasing from 1994 to date. From figure 25 we can tell that such expenditures comprised

0.96 percent of GDP. This relatively high level of such expenditures in this period is explained with the need of funding after (omission of word, specify) the closing down of the largest part of mining industry, which asked for an increase of expenditures to conserve the mines and especially compensate the miners. In 1998, such expenditures went down to a very low level of 0.16 percent. In 1999, an immediate increase of 0.73 percent was noticed, which resulted from the increase in funds for investments in this sector; in spending such funds, in fact the government went beyond what was planned in the budget estimates for that year. Exactly in 1999, we see that current expenditures overpass those planned by 501 percent (see figure 26).



After 2000, an immediate decrease of such expenditures followed, that mark the lowest level ever in the 2005 draft budget, where public

expenditures on mineral resources comprise only 0.06 percent of GDP.



In figure 26, we can see that current expenditures have been almost always higher than those planned (except for 2002, when they are 2 percent below the plan). The deviation goes from 501 percent in 1999 to 110 percent in 2000, 64 percent in 2001 and 79 percent in 2003, which talks of obvious weaknesses in the planning process of budget for this sector.

4.13 Expenditures on transport and communication

Transport and communication are key factors to the economic development of a country. Under the conditions of a market economy, transport and communication are fundamental elements that affect the cost of economic transactions and the stable development of a country, especially the development of rural and suburban zones. In Albania, the need for support to this sector in the transition period was indispensable, due to the very low level and the overall backwardness that Albania inherited in the sector of transport and communication.

In figure 27, we see that in 1994, the expenditures on transport and communication

comprised only 0.59 percent of GDP. In 1995, this category of expenditures increased to 1.76 percent of the GDP. In this period, the work for the construction of Tirana-Durrës highway started with funds by the state budget. After a period of relative decrease, in the years 96-97, referring to figure 27, we see that expenditures on transport, especially those for investments, are continuously increasing, starting from 1998 and reaching their peak in 2001, with a total of 3.23 percent of the GDP, 2.94 percent out of which were for investments. In years 2002 and 2003, current expenditures on transport and communication undergo an obvious decrease, reaching in 2003 the level of 1995 by 1.76 percent.

In the 2004 draft is foreseen a relative increase of expenditures for this sector, but such an increasing trend is not evident in the 2005 draft, where expenditures comprise 1.67 percent of the GDP. From figure 27, shows as well that in the 2005 draft there is a decrease of operational expenditures for this sector to 0.20 percent of GDP, from 0.37 percent in 2003, indicating therefore a relative reduction of expenditures for maintenance of transport and communication infrastructure networks.

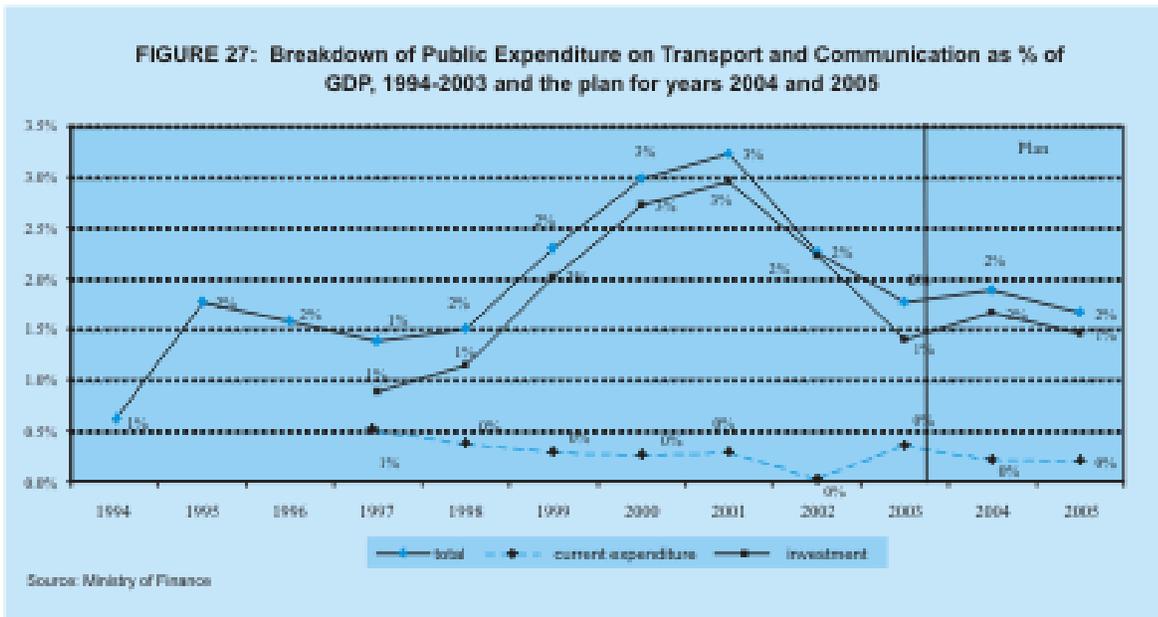
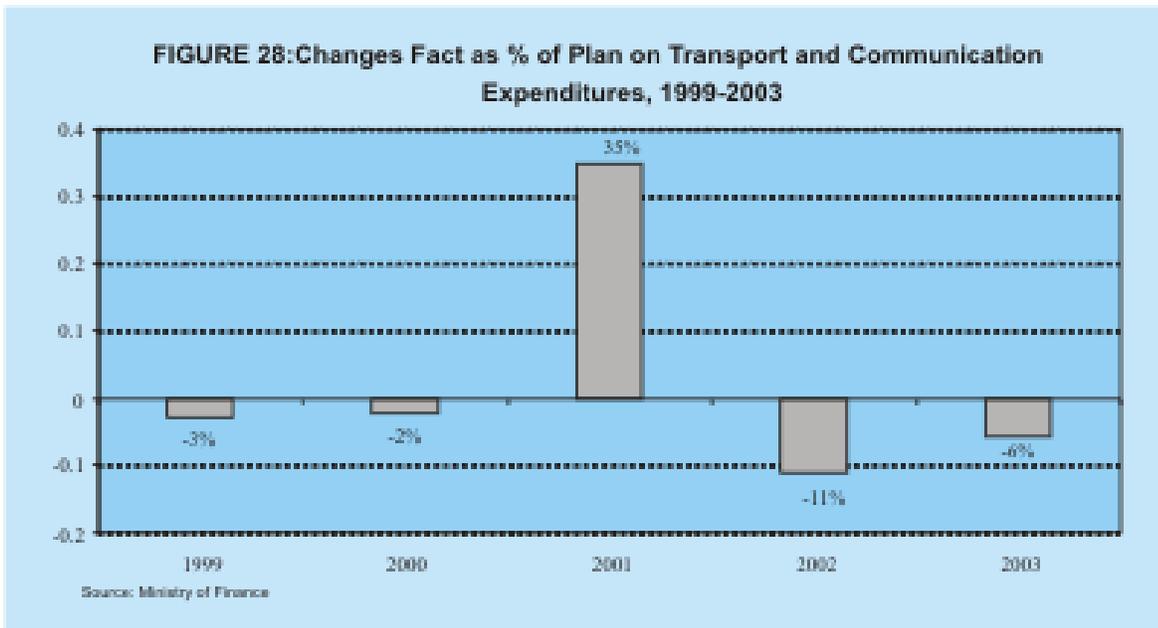


Figure 21 shows that in 2001 current expenditures were 35 percent higher than those in the initial annual draft budget . In all other years subject of the analysis, we notice that

expenditures on investments are lower as compared to the draft, from 2 and 3 percent in the years 1999 and 2000, to 11 and 6 percent, respectively in 2002 and 2003.



Considering these deviations and the fact that 2001 was the year of general parliamentary election, we can draw the conclusion that

projected budget expenditures in this year were exceeded due to electoral pressure that may have been exerted on the government about increase in expenditures for that year.

Chapter V

Conclusions, recommendations and future actions

Conclusions

Some of the major conclusions that resulted from the overall analysis of public expenditure indicators are:

1. The size of the public sector in Albania reflects the low level of the economic development.
2. The gradual downsizing of the public sector has resulted from the need to reduce the state deficit and the incapability to generate budget revenues at higher rhythms than the GDP growth level.

The analysis of public expenditures according to economic classification showed that:

1. The last two years have been characterized by a gradual decrease of expenditures on investments and maintenance, which will affect the stable economic rhythms for the coming years.

The analysis of public expenditures according to the functional classification highlighted the following important issues:

1. There are discrepancies between midterm priorities of the economic development and expenditures projected for priority sectors such as education and public health.
2. Public health is the sector with the highest deviations of allocated funds as compared to other more developed countries.

3. In the draft budget of 2005 we notice handicaps, especially on expenditures allocated to the central administration. In 2005, the expenditures planned for the central administration are about 30 percent lower than current expenditures in 2003, which can cause anomalies to the performance of central institutions in the process of budget implementation.
4. Comparison of current expenditures to those in the draft was characterized by obvious deviations, especially regarding expenditures on the economic aid and unemployment benefits in the period 1999–2002 (up to 101 percent), housing in 2000 (up to 642 percent), public order and security in 1999 and 2000 (up to 113 percent), etc. Such deviations are a clear expression of the lack of periodic control by Parliament over budget expenditures and poor capacities in the management of state budget by line ministries.
5. Comparison with 1999–2001, shows an improvement of drafting and monitoring of the state draft budgets in 2002 and 2003, which indicates a better performance of the Ministry of Finance regarding the improvement of discipline and the efficiency in use of budget funds.
6. The Ministry of Agriculture and Food, the Ministry of Public Health and partly that of Education have been (in the last two years) continuously unable to use all the funds allocated in the state budget. Such non-accomplishments of the budget vary from

7 percent for education, 13–14 percent for the public health and 48 percent for agriculture. This is a clear expression of a poor performance by the respective ministries as regards the harmonization of programs funded by the state budget, as well as those by foreign donors with consequences in non-accomplishment of funding domestic resources.

Recommendations

In the implementation stage of this project, the working group underlined some recommendations, remarks and suggestions for the members of Parliamentary Commissions and especially the Commission of Economy and Finances, with regard to the draft-budget of 2005. Below, you can find a summarized version of these recommendations:

1. In spite of relatively limited opportunities to re-allocate the budget funds among various budget items (due to the overall low level of public expenditures), it is recommended that expenditures on social protection and unemployment benefits be re-considered and brought down, following at the same time more direct policies to alleviate poverty through encouraging of employment. The same can apply on expenditures on public order and security and increase by the same amount expenditures on education and public health.
2. Re-consider again the opportunities for an increase of 2005 budget revenues beyond the level projected by the Ministry of Finance, increase public expenditures on items such as maintenance and investments in priority sectors.
3. Further improve the way of presentation for budget indicators, especially regarding allocation of expenditures on investments, as well as determine fairer and clearer criteria about the way the reserve fund for the Council of Ministers and the contingency fund (created first in 2005) will be used.
4. Make improvements to the organic budget law in order to improve transparency and participation in initial discussions of groups or lobbies that are interested in directions of implementation of budget expenditures.

Future actions

While organizing the training and informing activities with the Parliamentary Commissions, journalists for economic and social issues, representatives of NGO-s, state and international institutions, the working group welcomed many remarks and suggestions about the role that independent organizations should play regarding their enhanced participation in the drafting and implementation process of the state budget, in country level. The following are some of them:

1. Training/informing activities with deputies to Parliament should be carried out periodically and be of a more intense and technical nature, especially in the first years of Assembly legislatures.
2. The overall presentation of the training material and the qualification level of the working group from CRD were considered as highly professional, especially highlighting the simplicity and objectivity of the presentation for various indicators regarding accomplishment of budget expenditures. Thus, the training material was positively commented and evaluated by all Parliament members, independently of their political preferences. Based on this reality, they suggested that such presentations be made every year while the state budget packet is being discussed.
3. Comparison of the indicators of state budget expenditures were requested to involve not only developed countries, but also the Balkans region and be illustrated with comparative indicators for budget expenditures according to economic classification.
4. Special evaluations and request were also made by deputies on budget revenue indicators and they raised the need for an independent evaluation of the taxation system and the level of budget revenues in Albania.
5. Independent presentations and monitoring of state budget should be periodically accomplished during the calendar year, according to various accomplishment stages of the draft budget.
6. The experts of World Bank who were present in the final meeting highlighted the

need that along with the state budget expenditures be analyzed the revenues as well. They requested that more detailed analyses are carried out with regard to budget expenditures, especially regarding the most important and priority sector, along with the cost analysis of services provided, contrasted this to the level and efficiency of such expenditures in other countries.

The above-mentioned suggestions and recommendations were considered and analyzed by the Board of Directors in CRD, which concluded that:

1. CRD has all the necessary professional capacities to further deepen the analysis of budget expenditures and revenues, according to the above mentioned directions.
2. In 2005, within the existing structure of CRD will be created the section of public sector analysis. From 2005 and on, this section will focus on the accomplishment of the following activities:
 - a) Analyze budget revenues and the efficiency of taxation administration in the collection of tax revenues.
 - b) Analyze and monitor, according to administration levels, (local and central) budget expenditures on education and public health.
 - c) Organize training and informing activities for local government, aiming to increase community participation in drafting and implementation of local state budget, as well as in the harmonization of midterm development programs with the annual budget.
 - d) Organize a more complex training and informing activity for deputies coming out of general elections of summer 2005.
 - e) Prepare at the end of 2005 the second annual report on the state budget, which will represent the synthesis and analysis of budget expenditures and revenues.