

A Citizen's Guide to the Budget



The Preparation and Publication of
this Guide is financed by CIDA



Public-Private
Finance
Institute

Publisher:**Public-Private Finance Institute**

Rruga “Dëshmorët e 4 Shkurtit”, Pall. 1,

Tirana, Albania, P.O. Box. 7476

<http://www.alb-ppfi.org>

For the publisher:

Elida Reçi

Printed in:

500 copies



Preface and Acknowledgments

Increasing transparency in the field of public finance is one of the priorities of the work of *Public-Private Finance Institute (PPFI)*. Though established in 2001, the institute benefits from many years of experience of its staff and experts. Preparation of the Citizen's Guide to the Budget is one of the first projects of the Institute in the field of public finance and at the same time is the first material of this kind in Albania. The guide is prepared in a simple fashion, in a way that it can be used by all the interested parties that would like to understand more about State Budget. This guide is addressed to members of Parliament, civil servants, academia, students, business community and citizens.

We hope that this guide will contribute to enhance the knowledge on the budget and the budgetary process, and most of all to enable all those who are interested, who have the desire and public consciousness to contribute with their opinions or participation in the process of budget preparation. This would help in the preparation, approval and implementation of the State Budget in a way that reflects the needs of the majority of the society and addresses the present and short-term development problems of the country.

We would like to thank the Canadian International Development Agency that in the framework of civil society programmes financially supported the preparation and publication of this Guide and for their continuous help during the course of the project.

PPFI is grateful to the group of public finances' experts lead by Prof. Dr. Dhori Kule, Dean of the Faculty of Economics, and members Mimoza Dhëmbi, Director of Budget Department in the Ministry of Finance, Sefedin Guri, Advisor to the Parliamentary Commission of Economy and Finance, Prof. Dr. Halit Xhafa, Head of Finance and Accounting Department, Faculty of Economics, Mitro Çela, economist journalist, Luiza Jano, Director of Macroeconomic Department in the Ministry of Finance, Fran Ibrahim, Director of Budget Department in the Ministry of Local Government and Decentralization, Diana Kalaja, Deputy Director of the Institute of Media, for their valuable opinions and suggestions during the preparation of this guide.

We would also like to thank the team members that contributed their valuable skills and expertise in preparing this guide: Ms. Elida Reçi, Director of PPFI, Prof. Dr. Sulo Hadëri, Mr. Mitro Çela, Mr. Sybi Hida, Ms. Albana Dhimitri and Ms. Manjola Tase, coordinator of PPFI project who provided logistical and practical assistance and coordinated the work of the working group.

We are grateful to Ms. Katarina Ott, Director of Institute of Public Finances in Croatia, who provided support and shared with us her expertise in designing and publication of this guide.

The guide is published in Albanian while electronic copies in English and Albanian can be found at the website of Ministry of Finance <http://www.minfin.gov.al> and at the website of the Public-Private Finance Institute, <http://www.alb-ppfi.org>.

Regardless of costs and efforts this guide is just the first publication, so we hope that in the future we will reflect changes made in the budgetary process as well as include new information. In this regard we would welcome any comment or suggestion at info@alb-ppfi.org that would help us to improve the publication making it more informative and interesting.

We hope this is only the beginning of our work in informing citizens on the issues of public finances.

ELIDA REÇI



Tirana, November 2002

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Introduction

The budget is the principal economic policy document. It should be based on an accurate assessment of the fiscal situation, and it should not have to undergo major revisions during the year in which it is being executed.

The fiscal year in Albania coincides exactly with the calendar year but the process of preparing the annual budget takes a substantially longer period of time. Formulation, enactment, execution and reporting of the annual budget demands a period of more than two years.

As many as seven months before the beginning of the given fiscal year, the Ministry of Finance is duty bound to start off the process of planning and drawing up the next Budget, including all the forecasts of macroeconomic trends and needs of budgetary beneficiaries. That is why the Ministry of Finance provides to the line ministries the “Guideline on the preparation of the draft budget”.

This Guideline provides on one side the revenues forecast and predictions of the main macroeconomic indicators, including the so-called *fiscal package*. On the other side, it provides the projected expenditure allocations for the budgetary institutions.

About ten months after the period of implementation is over, the lawfulness of the

Budget implementation is checked by the State Supreme Audit, resulting in the writing of a report that has to be accepted in Parliament.

A proper preparation and execution of the Budget is an expression and mark of the maturity and competence of a given public administration, and also a sign of the realism, quality and power of a given political will, and in this way is one of the fundamental expressions of the whole of social life.

The Budget does not, of course, reflect the conscious will of all citizens, although all of us, to a greater or lesser degree, at least unconsciously, do have an impact on the creators of the budgetary policy through our economic activities and behaviour. But once accepted and voted in by Parliament, a budget has an effect on each and every one of us.

The Budget, for example, directly or indirectly, has a powerful influence on people's ability to get jobs, how much pay they get, their pensions, child benefits, health care, and the condition, development and prices of municipal services and utilities, water, sanitation and street lighting, even on the direct security of life. *Hence, the citizens' demand for a Budget that is competently drawn up, with the highest level of expertise, is an incontestable right.*

That is why we think it is necessary to have this guide to the Budget. In Albania, there is no single resource offering complete information about the

Budget and the budgetary process. Reading over the great masses of paper involved, particularly the laws and technical articles, would take a good deal of time, as it does for both those experts who deal with the Budget and for citizens who are interested in.

A rebalance (revision) of the Budget is an almost regular occurrence in the budgetary policy of the Republic of Albania, and is quite clearly brought about by lack of realism at the planning level and by sudden U-turns in the implementation of fiscal policy. Furthermore, it is sometimes extremely hard to compare two budgets that come one after the other; the items, the places where expenditure is made, suddenly fade away and pop up in a completely different place, which occasionally makes a proper analysis or projection of the development of events impossible.

For this reason, a guide is really essential to provide at least the basic information; about, for example, how many budgets there are in Albania, the question the book starts with, and to which few people know the answer. How are budgetary resources allocated, what is the role of the extra-budgetary funds, what do members of parliament and the government debate?

To make a clear, concise and useful introduction to some area of life is perhaps the greatest challenge in any discipline, and is possible only when all the pitfalls have been sidestepped and all the main dilemmas cleared up. When things are clear in the head, they become clear on paper

as well.

The basic objective of this guide is, then, apparent: to let the reader have a more complete understanding of the system of national finances, in which the Budget has a special role, as well as the procedures and actions of the persons and institutions involved in its drawing up, approval and implementation.

It should never be forgotten that the Budget contains public money that has to be used for public interests. The guide is so conceived as to provide the fundamental information about how the state, through its budget, allocates resources, defines financing priorities, and makes decisions that result in the supply of goods and services to each individual.

Who should read the guide? It is meant for everyone who is directly or indirectly involved in the system of government finances. Members of parliament, citizens, entrepreneurs, media professionals, students and professors of the Faculty of Economics, the broader academic public that can, and should, with the help of this guide find space for itself in the budgetary process and make its own contribution to a reasoned debate about the Budget.

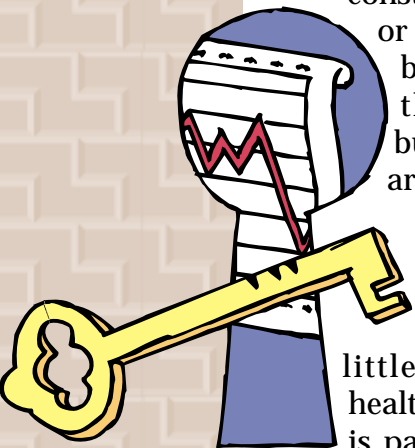
The government will satisfy the desires and needs of those who manage to express them publicly, justify them and fight for them. Whether these are our own needs and wishes will depend to a large extent upon us. The guide should be a means to make the understanding of the Budget

easier, and the process through which it is approved and executed.

What can the reader find in the guide? This is a guide, then; it offers tips and strategies for understanding the Budget and the budgetary process, but it is not intended to provide answers to all the questions. However, the list of Internet addresses and other clues, about what the laws actually say, for example, will make it possible to cope and to arrive at further, more detailed information and figures. The many instructive tables and figures should help to provide a fuller picture of the finances of the state.

I. What is the Budget?

Confusion can quite easily be created by such constructions, regularly found in the press or in public life in general, as “there are budgets of the extra-budgetary funds that are financed in part from the budget”. And yet that is really how things are.



Everyone with only elementary knowledge knows that there is a healthcare fund; people that are only a little more interested will know that healthcare funds have their budget, which is partly financed autonomously, while in part the expenses of health care are met from the State Budget. Communes, municipalities and regions have their budgets, which the state records and runs as one, the budget of units of

local government. There are few people who pay attention to the exceptionally important difference between the Budget of Central Government and the State Budget. How many budgets do we have and what is their role?

The word budget (German Haushalt, Italian bilancio), derives from the medieval English or French word bougette, diminutive of bouge, a leather bag. In English parliamentary terminology it meant the leather bag in which the Chancellor of the Exchequer brought proposal for national revenues and expenditures for the coming period to Parliament - and thus it is used for the plan of revenue and expenditure in a given period of time.

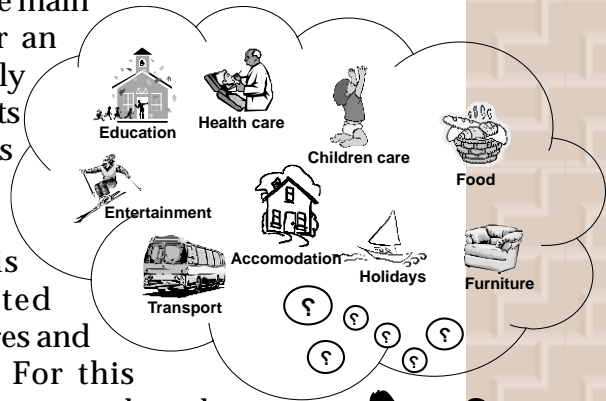
In the Republic of Albania there are three levels of the budget: Central Government Budget, Independent Budget and Local Government Budget. The three

budgets constitute the State Budget. The State Budget (hereafter referred to as the Budget) is very important as it constitutes an overall indicator of the level of revenue that government has collected and what is more important how are these revenues spent.

While explaining the concept of a budget, use is often made of a comparison with the finances of an individual or a family. For the possession of money is one of the main preconditions for an individual or family to be able to meet its needs and fulfil its wishes.

And money is usually limited compared to desires and needs to spend. For this reason it is important that the wishes or needs to be met on one hand be adjusted to financial abilities to the other. Rational behaviour enjoins that a plan of income and expenditures be drawn up for a given period of time- in other words an individual or family budget. The size of the budget depends on the level of income received in a year and expenditures made to meet the priorities of individuals or families.

Very often expenditures are higher than income, that is why there is a need to get loans or reduce expenditures. A better situation is when income



are higher than expenditures, and then money can be invested, loaned or saved for the future.

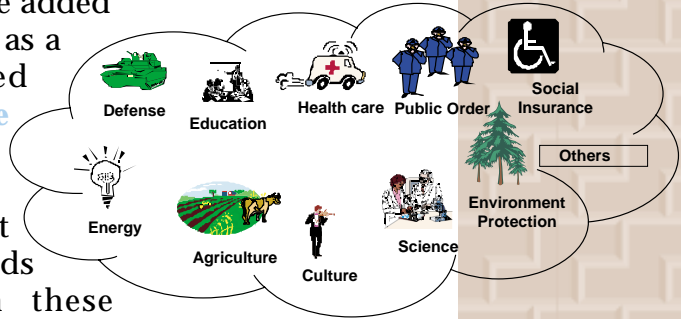
Every budget has three components: revenues, expenditures and the part of the budget to be financed. The part to be financed is the part that is not covered and shows where does the financing come from i.e. for individuals/families the financing can be a bank credit, loans from family members, etc. In this part of the budget are also included previous borrowings and principal payments in the cases when spending needs have been larger even in the previous periods and now we have to pay part of the obligations they bear. When there is no shortage, the financing account shows the surpluses and the way in which it can be used i.e. saving deposits, real estate investments or other activities, etc.

The State and individuals/families are interested on the cash inflows and outflows. For this reason the Government plans (i) **The Revenues** or money to be collected over the year and the way in which it will be collected, and (ii) **Expenditures** or money that will be spend and how it will be spend.

The Law “On Preparation and Implementation of the State Budget in the Republic of Albania” (No. 8379, dated 29.07.1998, Official Gazette No.20 of 1998) defines the way in which the State Budget is planned, prepared, approved, implemented and controlled. In Albania as mentioned above we have three levels of the budget: budget of

central government, local government budget and independent budget, which have their revenues and expenditures. In order to find the overall revenues and expenditures, the three budgets have to be added up and presented as a single or unified budget that of **the State Budget**.

Government collects and spends money through these budgets or through other subdivision of each part of the State Budget. Although it is a normal practice that independent budget and local government budget, as shown in the table, get a part of their funds as transfers from the State Budget as it is shown in the figure.



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State Budget

Central budget (1) revenue and expenditure of the budgetary beneficiaries (ministries, state agencies)

The local government units budgets (374), communes, municipalities and regions and the commune of Tirana

The independent budgets (2) Social Insurance Institute, Healthcare and health insurance Institute

Note: the number in brackets is the number of different budgets of a given kind.

All three budgets have similar procedures of preparation, approval and implementation.

In this Guide we will talk about the General State Budget or simply the State Budget (Budget). However, to give a full picture of the state finances we will also talk about the independent budgets and local government budgets.

In journal articles and parliamentary discussion, as in everyday life in general, when someone talks about the budget he refers to the State Budget. It is this Budget that we think of when someone says that less money was allocated to education or agriculture sector meaning less than what teachers and farmers wanted.

What is the State Budget? An administrative definition of the State Budget is given in the Law “On preparation and implementation of the State Budget in Republic of Albania” No. 8379 dated 29.07.1998, according to which “ the State Budget is the annual financial programme of the government consisting of appropriations approved by Parliament and which includes all estimates of revenues, borrowing and expenditures and other payments needed to exercise the functions and responsibilities of Government, Public Administration, Local Government and judiciary system. The State Budget is the main financial instrument that implements economic and social policies” .

So we have to do with a plan or an estimate of revenues, inflows and expenditures that should

be approved by the Parliament of the Republic of Albania. The Budget is usually approved in December, that is before the beginning of the fiscal year it relates to.

What is the fiscal year?

The twelve-month period for which the state plans revenue and expenditure. In the republic of Albania the fiscal year lasts from January 1 to December 31, i.e. it overlaps precisely with the calendar year. In the USA, however, the fiscal year begins on September 1, and lasts until August 31, while in the United Kingdom it begins on April 1 and lasts until March 31 the following year.

1.1. What does the Budget show and what is the budget for?

The Budget has three main functions:

1. to show the main objectives of the government in the fiscal year;
2. to serve as instrument that enables the state to have an influence on the economic situation of the country, and
3. to serve as a system that controls the gathering and spending of the budgetary resources.

Analysis of any given budget is made easier if one pays attention to this triple function. What are the objectives of the Government? Is the Government more interested to stimulate enterprises and economic growth or directing part of the revenue toward welfare spending?

Should the government borrow more or raise taxes? On the other hand the Budget answers the question how the government will spend the funds i.e. is it more important to construct the road Tirana-Shkodra or increase salaries of members of Parliament? Both sides of the Budget, revenues and expenditures, answer the question on government objectives that will be achieved by the Budget.

The Budget is an instrument of economic policies through which can be managed and influenced the economic situation (economic growth, employment, consumption, savings, inflation, etc.).

There are three objectives of the economic policies achieved by the Budget:

1. **Determine public goods (services) for citizens.** Because of its imperfections, the market is incapable of providing certain categories of public goods. These are, for example, defence, highway construction, public order, etc. For this reason certain amount of money has to be diverted from the private sector to the state so that it can produce public goods choosing the most desirable combination of them to provide, somewhere spend more and somewhere spend less.
2. **Redistribution of wealth/income.** Since we live in the same social environment it is important to reallocate wealth among different regions of the country, from a developed region to a less developed region (through subsidies and grants), from young age to an older age (pension payments) and from the rich to the poor (social services).
3. **Stability.** This is an abiding concern of the State to ensure the desired level of employment combined with a low level of inflation.

How is Budget controlled? The Budget is controlled over different periods of time, allowing for continuous control on collection and expenditure of public money: during the fiscal year, Audit Department in the Ministry of Finance and respective departments in the line ministries carry out the internal control on budgetary beneficiaries over the budget execution phase; the State Supreme Audit audits budget after its implementation.

However, citizens and taxpayers have an indispensable role in the control of the money of the budget in proportion of the course to the extent they are informed and their ability to obtain information about the budget. Failure to adhere to the provisions of the Budget or using resources in a way not intended by the Budget can of course be penalized. In our country the Budget Law foresees administrative actions and penalties on Article 51 and 52.

Article 51. The following violations, when do not violate a penal act, shall be dealt by administrative actions in the following cases: (i) failure to meet a deadline as established in article 17.1 and 45; (ii) use of funds against stipulations as established in article 24.7; and (iii) exceeding fund ceiling, even when temporary, as established in article 26.1 of the Law "On Preparation and Implementation of the State Budget in Republic of Albania".

Article 52. In addition to indemnity, violations of provisions of article 51 will result in administrative penalty from 5,000 to 50,000 lek. The Director of Budget Department of the Ministry of Finance will decide such administrative penalties. Within 5 days from the announcement of punishment, the infringer may grieve to the Minister of Finance, who will make a final decision within 10 days. A complaint against the decision of the Minister of Finance must be presented to the Court within 10 days. Procedures, terms, ascertainment, examination and execution of administrative penalties will be in accordance with Law no 7697 dated 7 April 1993 for "Administrative Contravention".

1.2. Basic Principle of the Budget

The fundamental rule about revenues and expenditures is that the budget should be balanced meaning revenues should equal expenditures. In order to meet its general and specific objectives the government uses public

money. The nature of this money requires that the government has a rational plan of financial activities, thus a balanced budget.

Where can be found the list of budget revenues and expenditures for the central government, local government and independent budgets?

Information on revenues, expenditures and budget deficit can be found on the Official Gazette, "Economy" newspaper and on the Internet <http://www.minfin.gov.al> (Ministry of Finance) and <http://www.alb-ppfi.org> (Public-Private Finance Institute).

It is unnecessary to mention that

government expenditures for a fiscal year are larger than revenues, and the difference is funded by receipts from borrowings. The definition of budgetary balance is then modified, so that the sum of revenue and receipts from borrowing has to be equivalent to the sum of expenditures and repayments of debt. To put it another way, just as much can be spent as it comes into the budget. And here comes out the question: Where does the money come from? Where is the money used? How is the money used? How is the debt and its payments evidenced?

1.3. Fiscal Policies and Revenues

In nowadays' economy, the government plays the role of referee, manager or market participant and carries out the following functions: sets and guarantees the right of private property and law, regulates externalities¹, ensures free competition, protects consumers, stabilises the economy, promotes economic security, offers public goods and services.

In the free market economies, the efficient allocation of resources is made by the market, but this can be accompanied by inequalities in revenues and fluctuation in prices, unemployment and production. This requires the government to intervene in the economy to reallocate resources and ensure economic stability.

Fiscal policy presents the methods and activities used by the government and its organs, to find, gather and efficiently use the necessary resources to implement its programmes for a period of time.

Fiscal policy presents the most important part of economic policies including the policies that ensure collection of budget revenues and taxes, budget expenditure policies and debt

¹Externalities are phenomena according to which the action of individuals has an impact on the social environment. The impact can be negative or positive. For example when purchasing an apartment people consider the interior conditions, but also things such as public transportation, security, which influence the life in the new apartment. The same logic applies to public services where people try to minimize negative externalities while maximizing positive externalities.

administration policies.

In our country the Government and the Parliament are responsible for the preparation and implementation of the fiscal policy. It is their responsibility to ensure participation in this process of all interested parties such as people from the academic field, business community, civil society and individuals, and to reflect their comments and observations in the Budget.

The Government is responsible for the preparation of the State Budget and draft laws, which are passed for approval to Parliament, and upon approval become laws. The Government collects revenues through its fiscal policy, which consists on application of taxes and expenditures. The fiscal policy is used to stabilise the economy when it is falling or has high inflation. When the economy is falling, GDP falls too, consumers spend less and businesses do not invest in machinery and equipment or lay off workers. The government can stop this fall and stimulate economic activity by increasing the demand for goods and services through increase of government expenditure, which lead to an increase in GDP.

Which are the instruments of fiscal policy that government and parliament use to stimulate GDP growth? The government might cut taxes without reducing expenditures of government programmes or increase government expenditures without changing taxes, or use both,

apply an increase in expenditures and tax cut. When the government cuts taxes, individual and firms have more money available so they can increase consumption and investments stimulating production and enabling the economy to enter the growth phase.

The instruments of fiscal policies can be used to bring down inflation, which is a concern of the economy. For example, during a period of fast economic growth prices may rise at a high speed. The government in order to control high inflation or to reduce the level of inflation at acceptable levels can use instruments of fiscal policies such as increase taxes, cut government expenditures or both of them.

If the government increases taxes, consumers and firms have less money available to spend, which leads to smaller demand for goods and services thus bringing down the inflation.

Fiscal policy is also used to guaranty economic stability. In a market economy distribution of incomes is based on the resources and productivity of individuals. Those who have more resources or have more productive resources receive higher incomes as they produce more than those who do not have the resources or the productivity. In this case it is a responsibility of the government to intervene with different programmes to ensure a minimal living standard for everyone.

Providing security and reduction of inequalities

that the market mechanism brings, is made through different payments, subsidies and health assistance, which aim to transfer the incomes from one group to another. For example the government imposes taxes for social insurance and health insurance to employees that through the respective schemes are passed on to pensions and incapable people.

The Government within the framework of budget preparation prepares two programmes. *First*, programmes that increase incomes and living standard, as social insurance programme, unemployment benefit, social assistance, etc.; and *second*, programmes that reduce causes of poverty and economic shortages. Both programmes aim to help people, giving them the opportunity for education, training and qualification in order to increase productivity.

The state participates in the economy as a producer, *providing public goods and services* such as national security, regulation of economic activities, health care, etc. This is because in a market economy there are goods and services that can not be offered by the public sector. For example: you can buy a Coca-Cola and after you purchase it the Coca-Cola can not be consumed or owned by another individual. What is more important is that when you buy the Coca-Cola you pay and by that you give the firm the possibility to make a profit from its production.

Besides these goods and services provided by the private sector, and that once bought can not be

bought or owned by another individual, there are goods and services such as national defence, which once provided they are available to anyone without any additional costs. National defence cannot be provided to a single individual who pays for it, because establishment of army and police or purchase of military equipment for one person does not exclude other people to benefit from it. This is true for other goods and services like parks, streetlights, etc.

Private firms are not ready and can not provide such goods or services as it is impossible for them to make a profit on this activity as people would have no incentive to pay for services or goods that they would eventually benefit without payment. This is why they can and should be provided for free by the public sector, who receives money through taxes and can use them for these reasons.

In fact, only a few goods and services are entirely public or private; the largest part of them is in between and is hard to draw a line between those provided by public sector and those provided by private sector. For example: some police services can be provided by the private sector as well as from the public sector.

In this category are included goods that are called “valuable” goods, which are goods and services such as education and health care that bring benefits for individuals and for the society as a whole. Though these services are offered by the private sector too, there is a general belief that

people do not benefit as much from these services if they are offered at market prices.

This is why these services should not be left in the hands of the private sector and sold at market prices as many people do not have the means to pay for the health services or education at market prices and will have serious difficulties to pay market prices. It is also possible that the people which have the means to pay for these services might not pay for long-term services in health care or education but spend more on goods that bring benefits over a short period of time. It is not only the individuals that benefit from a good health service or acceptable level of education, but also the people that live in a healthy and well-educated society.

At present in Albania the trend is to reduce the role of the government as provider of goods and services through privatisation of state property like banks, public utilities (water and energy), telecommunication, etc.

The government prepares and executes fiscal policy presented in the financial plan, the State Budget.

The State Budget is a financial plan that summarizes the forecasted government revenues and expenditures for the coming year.

When the revenues equal budget expenditures then the budget is balanced. When revenues are bigger than expenditures the budget is running a

surplus, but when expenditures exceed revenues the budget is running a deficit.

When expenditures exceed revenues the Government borrows or issues money.

Tax System in Albania

The importance of taxes and fees is very well explained by the saying of the American President Benjamin Franklin *“In this world nothing can be as certain as death and taxes.”* Taxes and fees represent one of the most arguable economic issues and a necessary reality.

Why does the Government collect taxes and fees?

- The main goal of taxes is collection of revenues to pay for public goods and services that the state offers.

- Taxes and fees are used as an economic stabilising instrument controlling the level of expenditures in the economy. High level of expenditures leads to increased inflation rate (prices of goods go up), which brings about an increase in taxes aiming to reduce people's spending.

- The government uses taxes and fees to reduce inequalities that exist. This is why higher level of taxes is applied to people that have high incomes.

- Taxes and fees are used to protect local economies from foreign competition. They are also used to limit consumption of goods such as

cigarettes.

Who should pay taxes and fees?

The answer to this question is still part of a debate. However, there are two main principles in which tax payment is based.

Principle of benefits received based on which tax subjects are charged or taxed in proportion to the benefits they receive from government services. An example of this application is road tax. Though this principle seems to be correct it has limitations, as poor families, which have a low-income level, can not afford such payments.

Principle of ability to pay based on which tax subjects are taxed in proportion to their ability to pay. Those people who have higher incomes should pay more, as they are able to pay more. Regardless of the benefits this principle is advocated by the argument that imposing high taxes to people with high incomes, you reduce only their consumption of luxury goods, whereas for people with low incomes you reduce their consumption of primary goods.

Concepts of Tax System

Tax revenues are classified in different ways. The basic classification divides them in revenues from taxes, fees and contributions.

A *fee* is a payment made by a person at the

moment he receives a services from the state. Thus, a fee is paid only when it corresponds to a service. The service should be absorbable and exploitable. For example school fees, stamp charges, etc.

On the contrary, a *Tax* is paid regardless from the benefits of the individual. It is a compulsory loan that the government gets out of any contractual scheme due to its sovereignty status.

A *contribution* is a compulsory seizure of the realized profit of an individual. The difference between a fee and a tax is explained by the basic principles of their application, that are the ability to pay and benefits received.

The *principle* can be applied when it is possible to identify the group or individuals that receive benefits from the revenues that the government collects. For example in the case of a study fee the student that pays the fee is identifiable, therefore it is possible to apply a fee that is equal to the benefit or for a part of the benefit received. In the case of tax the principle of benefits received cannot be applied. The tax on an individual cannot be calculated from the benefit it receives from the State Budget, but on his ability to pay.

Tax base and tax rate - *Tax base* is the indicator on which is applied the tax for an economic entity. It is determined by the ability to pay, which depends on the level of income, expenditure and wealth. *The tax rate* determines the level at which the basic taxable unit contributes to the tax

growth. In general it is given as a percentage or as a coefficient.

Tax subjects are economic agents such as individuals or firms that are obligated to pay taxes determined from the taxable base and tax rate.

Direct and Indirect Taxes - Direct *taxes* are applied to wealth or revenues of an economic agent, business, while *indirect taxes* are applied on goods and services at the time of production i.e. excise or VAT.

Taxpayer and tax incidence - *The taxpayer* is the subject paying the tax according to the tax legislation. While if after the payment the tax subject shifts off the tax to another subject through a business transaction by increasing prices, then we have a tax incidence. In this way the tax is shifted from the contributor to the real tax bearer.

Evasion and avoidance - *Evasion* is the case when a taxpayer finds an illegal way to avoid totally or partially a tax payment. *Avoidance* is the case when a taxpayer without changing its financial situation uses the legal spaces of the tax legislation in force to reduce his tax liability.

Redistribution Effects - progressive and regressive - The redistribution effects of disposable incomes request an analysis on how the taxes paid by taxpayers on the basis of the ability to pay, increase or reduce the disposable incomes. If the tax is paid as a constant rate for any additional unit of revenue than it is called

proportional tax. If the rate increases with the increase of revenues, then it is called *progressive tax*, but when the rate falls as incomes increase, it is called *regressive tax*. Proportional taxation does not have redistribution effects amongst tax subjects, while the other two forms have redistribution effects on opposite directions.

Tax System and its implementation in Albania

The taxation system includes all norms that regulate taxes that simultaneously exist in an historic and geographic environment. A taxation system is conceived and set up in way to achieve the maximum possible economic efficiency, administration simplicity for the state and taxpayers, policy transparency and correctness.

Economic efficiency - Introduction of a tax has an impact on individual choices as it reduces the disposable resources for public needs or personal needs. This is why the taxes should be such that minimize their obstructive role in choosing production and consumption.

Administrative simplicity – The inflows of a taxation system should take into consideration administrative expenditures that occur to the government. Such direct administrative expenditures can be high if the structure of taxes, as it happens at present, is sophisticated and complex. They have to do with the current financial management of administration and the

functioning of a control and prevention organ of fiscal evasion.

As for taxpayers they may have high expenditures, sometime quite high, due to the need to follow formalities that have to do with calculation and payment of taxes. These expenditures can be considered indirect or private; they change over time due to formalities necessary and fees related to tax counselling they need.

Policy transparency – According to this principle the government should establish a taxation system capable to give information on the burden that taxpayers carry when they pay taxes. In other words taxes should be visible and calculation procedures for the taxpayer should be simple.

Fairness – Equality is determined from two criteria: horizontal and vertical equality. Following the horizontal equality taxpayers that are similar in some important aspect should be treated the same way. Following the vertical equality, taxpayers with different characteristics should be treated differently. A taxation system can be judged to be correct if it fulfils the definition of social welfare.

The last ten years have been a period of changes and approvals of several laws and by-laws related to tax issues, hence establishing a more or less complete and contemporary tax system in which coexist and collaborate different taxes similar to those of a modern tax system. An important part

a taxation system is the tax administration, whose activity has continuously been improved.

Tax invoice is the base document for VAT. It should have all the necessary information required by law.

Purchases and Sales Books should be kept by all businesses that

are subject to taxes. A copy of monthly entries in these Books will be submitted to the VAT Office when receiving the Payment Declaration Form.

Tax on Profit - Subject to this tax are:

- Judicial Persons established as defined in the Law “On Commercial Companies”;
- All Judicial Persons that have business activity;
- Natural Persons that have registered to pay VAT and who are not subject to small business tax;
- Resident taxpayers pay this tax for all profits made in or outside Albania;
- Nonresident taxpayers pay profit tax on their activity in Albania.

The financial statements and their annexes are the documents used to determine the *taxable profit*. These documents should be prepared in line with the Law “On Accounting” and other tax dispositions. The profit used to calculate taxes is the *fiscal profit* and not the profit taken from the

The main taxes applied in Albania are:

- Value Added Tax (VAT);
- Tax on Profit;
- Small Business Tax;
- Personal Income tax.

profit and loss account. Fiscal profit is calculated by adding or subtracting from the later the expenditures that are not taken into consideration for tax calculation purposes.

Value Added Tax is paid by every natural or judicial person who runs an economic activity and have an annual turnover of 8 million leks or more. A business can choose to be subject to VAT even when its turnover is not 8 million leks when this is necessary for its economic activity i.e. pay custom duties.

Small Business Tax – Subject to Small Business Tax are individuals that have a business activity in the Republic of Albania at any time of the calendar year, and have turnover up to 8 million leks and are not subject to VAT. Businesses that have a turnover up to 2 million leks pay a fixed amount between 600,000-800,000 leks. Businesses with an annual turnover of 2-8 million leks pay a tax of 4% of their turnover.

Taxpayers are obligated to keep the ***sales book***. All the daily sales are registered in this book according to the respective sale invoices.. They also keep the ***purchase book*** by registering purchases according to their invoices. It is a legal obligation to list the final prices of goods or services provided.

Personal Income Tax - Subject to tax on personal income are:

- residents, on income received in or outside Albania during the fiscal year,

- nonresidents only for incomes received in Albania during the fiscal year.

In order to calculate the Personal Income Tax, taxable incomes are considered:

- salary and other bonuses related to the work contract;
- share dividends or other incomes earned from partner's position ;
- interests earned on bank deposits or securities hold (except treasury bonds) (10%).
- rent incomes (over two months). (10%).

This was a summary of the fiscal policies and objectives that the Government implements and an outline of the tax system in Albania.



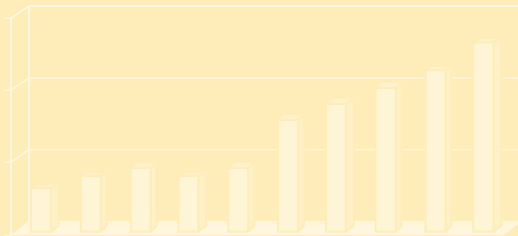
II. Budgets

In order to make it easier the understanding of the State Budget concept, we will start by first explaining each of the components of the State Budget: *central government budget, independent budgets and local government budget.*

1. Central Government Budget

1.1. Revenues

Central Government revenues are increased from year to year. Over a period of 10 years the revenues increased by 81,383 million lek



Source: Government Fiscal Statistics, Ministry of Finance

Where does the government get the money from?

Government's sources of funds are revenues and inflows. Revenues are collected mainly through taxes and the profit from state-owned companies. Inflows are subsidies as well as domestic and foreign loans (the later will be analysed in details in the Finance Account section. Revenues from privatisation (sale of state properties) are also shown in Financing Account and will be discussed later. Here we will discuss revenues that are shown in the revenues section of the budget.

Central Government revenues will be classified in:

- tax revenues;
- non-tax revenues;
- counter party fund revenues.

1.1.1. Tax Revenues

Tax revenues are revenues collected from all kinds of taxes and fees in force.

Tax revenues are the main revenues source of the State Budget. Taxes are paid directly or indirectly.

Direct taxation (on profit, revenues, etc.) is a direct payment of a taxpayer, who pays a part of his revenues or profit to the State Budget.

Indirect tax (VAT, custom taxes and custom payment) is paid to the government through purchase of consumption goods, as well purchase of other goods and services. In 2001, tax revenues represented 69 per cent of the revenues of the State Budget, while in 2002 the Albanian Government has foreseen to collect 112,800 million leks from all kinds of taxes.

The following table shows the structure of revenues from taxes taking into account the contribution of each tax source versus the total for the period 1993-2001 and the forecast for 2002. The table does not show the revenues from tax on property and local tax, which are collected and used by the local government.

Table. The proportion of given taxes in total tax revenue

Type of Tax	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Turnover & VAT	25.6	17.1	18.9	31.5	47.8	51.3	46.2	46.1	44.9	46.6
Profit tax	20.4	9.5	8.4	11.9	7.3	7.7	9.4	10.2	11.2	10.7
Excise tax	22.3	32.7	35.1	17.2	6.6	8.8	10.8	11.1	10.4	11.7
Small business tax	3.0	2.8	2.9	2.6	1.2	1.6	1.8	2.0	2.2	2.6
Personal income tax	0.4	2.0	2.1	2.2	2.5	2.1	4.9	5.5	6.9	5.6
National taxes and others	9.7	14.4	11.5	7.9	7.2	5.9	9.2	9.2	10.5	9.5
Custom duties	18.7	21.6	21.0	26.8	27.4	22.5	17.7	16.4	14.0	13.4
Total	100	100	100	100	100	100	100	100	100	100

Source: Government Financial Statistics, Ministry of Finance

According to the data in the table, *Value Added Tax (VAT)* is the main source of tax revenues for the budget. It is calculated that it represents 45% of the total revenues. This tax was applied for the first time in Albania in 1996, when it replaced

tax on turnover. At the beginning the VAT rate was 12.5% and its contribution on revenues was small. The civil unrest of 1997-1998 increased the need for revenues and VAT tax was seen as one of the main sources. The VAT tax rate was changed to 20% in 1998.

Custom Tax and Excise are the second most important group of tax revenues. The economic growth brought about increase in investment in the country hence increased the chances for previously imported goods to be now produced in the country. Thus, while these revenues in the first years represent one of the main groups of budget revenues, their contribution has fallen from 27% in 1997 to 13% in 2002.

The reason for such a reduction can be found in the Albania's commitments towards the entrance in the World Trade Organization. The same pattern is seen in revenues from excise, which due to a lower rate led to a reduction in contribution from 35% in 1995 to 10% in 2001. The main source of revenues collection is through direct taxes.

Who collects taxes in the Republic of Albania?

Tax Administration collects the largest part of taxes in Albania. However, due to lack of collection capabilities within this administrative, VAT of imported goods continues to be administered by Custom Department. Meantime the local taxes and property taxes are collected by tax administration in communes and municipalities.

1.1.2. Non-tax revenues

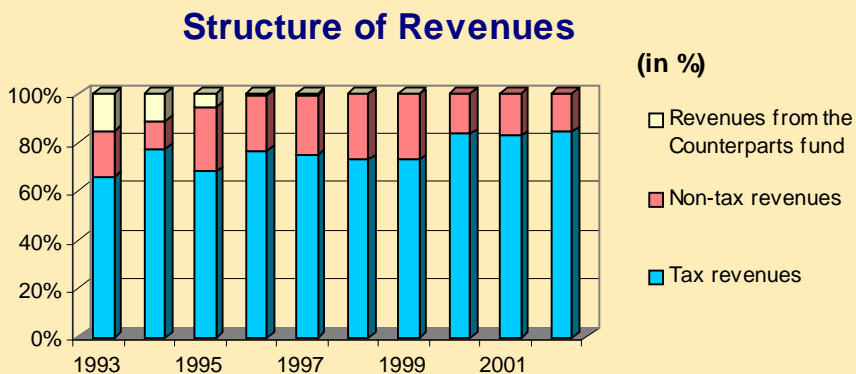
Non-tax revenues are those received from sources such as economic activity of government sector, profit transfer from Bank of Albania, etc. The profit transfer from Bank of Albania is the main source of these revenues, whereas the other revenues come from budgetary institutions including state-owned enterprises and properties, fines and sequestration, etc. Non-tax revenues for 2001 make 14.3% of total revenues.

1.1.3. Revenues by the Counterpart Fund

Revenues by the counterpart funds are those collected by selling the food aid. Counter party fund is a group used starting from 1992. In the initial phase it represented 13.4 % of budget revenues while today their weight is down to zero.

1.1.4. Structure of Central Government Revenues

The following table gives the contribution of



different revenue sources to the central budget revenues.

As we can see, tax revenues are the main source of revenues, while starting from 2000 the proportion of revenues by the counterpart fund is zero.

1.2. Budget Expenditures (What does State spend the money on?)

It is important that expenditure articles do not totally change from period to period, a trend, which was noticed in the first years of transition. One year an item is part of one article and the next year becomes part of another article. In this case it is hard to say if the planned expenditures are implemented as foreseen. It can be hard for a budget specialist to prepare budget analysis that say where and how was spend the money.

For various reasons expenditures are classified according to:

- *Economic Categories*; for statistical reports and control of financial situation.
- *Objects*; for control and internal management.
- *Functions*; for historic analysis and policy analysis.
- *Programmes*; for preparation of policies.

Meanwhile, in order to maintain a certain level of expenditures in the coming year, it is important to know their realised level in the previous year. This is possible or let say it is something easier to

achieve if for the expenditures is used the same classification.

1.2.1. Economic Classification

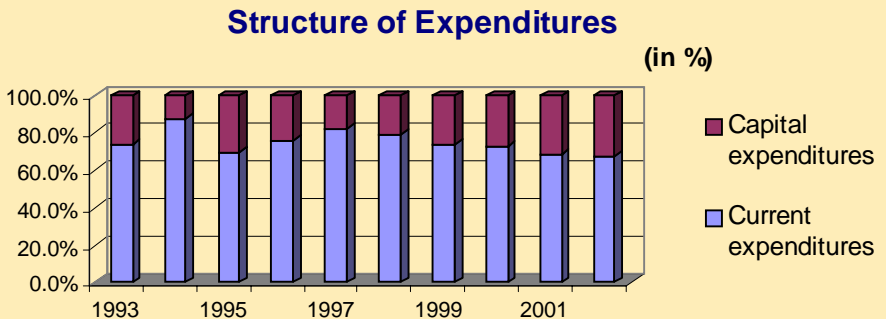
Economic Classification is necessary to analyse the budget and determine the role of macroeconomic and fiscal policies. For example, the salaries' weight in the government expenditures and the level of transfers to other non-government levels are important to analyse the impact of fiscal policies.

The main expenditure categories based on this classification are:

- 1. Current Expenditures**
- 2. Capital Expenditures**

The following table shows the current and capital expenditures as a percentage of the total expenditures for the period 1993-2002

As the data shows, during 1993-2002 the largest



Source: Government Financial Statistics, Ministry of Finance

part of state expenditures were the current expenditures that accounted for 75% of the total budget expenditures.

Current Expenditures

Current Expenditures include expenditures for services and consume goods (with a duration of less than one year), which are necessary to carry out government operations.

This group includes:

(i) Wage fund is part **of** expenditures for the staff of the budget institutions such as: gross salaries for permanent staff, gross salary for temporary staff, compensation in the form of salary, employee performance rewards, etc. after to legislation in force.

(ii) Social and Health Insurance Contribution is a payment that employer does for employees in the form of social and health contribution. The level of these expenditures is 30.7% of gross pay up to five minimal salaries and respectively 29% for Social Insurance contribution and 1.7% for Health Insurance contribution.

(iii) Goods and Expenditures (operation and maintenance), include expenditures for purchase of goods and services necessary to carry out the daily activity of the budgetary institution. This group does not include expenditures that increase the fixed assets of the budgetary institution,

except the purchasing of equipment, construction and installation of a military nature, which in compliance with international standards are considered current expenditures. In the case when an article does not meet one of the criteria (value limit or duration of over 1 year) to be a fixed asset (specified by the accounting legislation in force) it is competency of the senior official of the budgetary institution to consider the expenditure for the purchase of the good as a current expenditure or as investment.

(iv) Subsidies include all transfers to public or private enterprises or individuals that have a business activity, whose revenues do not cover the expenditures and for the difference receive financial support from the government.

(v) Domestic Current Transfers include transfers to other levels of government, transfers to social insurance and social assistance, and transfers to non-for profit organizations.

(vi) Foreign Current Transfers include transfers to foreign institutions and foreign nonresident individuals (i.e. member-fees paid to international organizations).

Capital Expenditures

Capital expenditures include expenditures for goods and services that have a usage life over one year. This category includes:

(i) Non tangible Capital Expenditures include

expenditure such as: (1) feasibility study; (2) preparation of plans (forecasts); (3) technical assistance; (4) training; and (5) project administration.

(ii) Tangible Capital Expenditures include purchasing cost of construction, rehabilitation and maintenance of building and infrastructure, land purchasing cost and equipment purchasing cost.

(iii) Capital Transfers include cost of grants for purchasing capital goods and equipment. This grants can be transferred to (1) another level of government; (2) non-budgetary funds; (3) non-profit organizations; (4) public enterprises; (5) financial institutions; (6) private enterprises; and (7) individuals. Here are not included funds that are given in form of loan or equity.

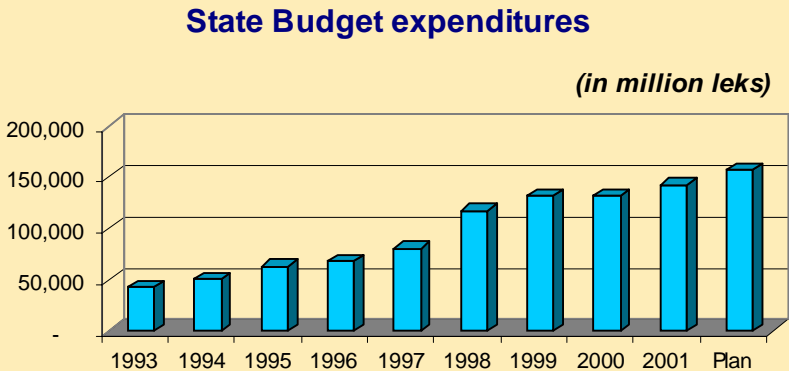
Reserve Fund

The State, as individuals do, should keep money aside for emergency and unforeseen expenditures. In order to make such expenditures in the Budget is created the Reserve Fund, whose size is determined in the annual budget law. In any case the Reserve Fund should not exceed 3% of the total expenditures planed in the Budget. Of a particular importance in this case is that who has the right to approve the use of this fund. According to the current legislation the use of the reserve fund is made only by Council of Ministers' approval. The Council of Ministers

approves the use of the fund only upon the proposal of the ministry of line and approval of Minister of Finance. The Minister of Finance reports periodically to Parliament. The amount and the use of the reserve fund can change from year to year. In 2002, the Reserve Fund was foreseen 3,140 million leks. Discussion on the use of the 2002 reserve fund will be held only in June 2003 when the parliament will debate on the implementation of 2002 Budget.

1.2.2. Total Budget Expenditures

The table on expenditure's structure showed each expenditure's share to the total of budget expenditures. How have total of expenditures changed since 1993?



Source: Government Financial Statistics, Ministry of Finance

Since 1993 budget expenditures increased four times. In 1993 budget expenditures were 50,678 million leks. Over the years budget expenditures

increased continuously. For the year 2002 the expenditures are estimated to be 212,349 million leks. It is important to look at the structure of expenditures.

For a better picture on budget expenditures we need to look at the administrative classification and functional classification. The administrative classification shows who spends the money and the functional classification shows what was the money spent for.

The administrative and Functional Classification of Budget Expenditures

Budget expenditures are classified in administrative and functional expenditures.

The administrative expenditures are shown for each administrative unit that used the budget funds (i.e. Ministry of Justice, Ministry of Health, etc.).

The functional classification shows the amount of money spent for education, health, public order, etc. It should be noted that while funds were given to a certain ministry it does not mean that the money was used in the sector covered by that ministry. For example: expenditures for the military hospital are shown as expenditures of Ministry of Defence, while based on the functional classification those are health expenditures. Expenditures for military schools are included in the Ministry of Defence, while they are education

expenditures.

In order to better understand how the budget funds are spent, it is important to look at the functional classification.

Expenditure of the national Budget according to a functional classification

Functions	1994	1995	1996	1997	1998	1999	2000	2001
01 General Public Services	7.0%	8.8%	7.4%	7.7%	10.5%	11.7%	10.3%	9.4%
02 Defence	8.3%	6.8%	6.0%	5.7%	5.1%	4.7%	4.1%	4.1%
03 Public Order and Safety	6.6%	7.1%	6.7%	9.8%	8.6%	9.3%	9.1%	8.2%
04 Education	11.1%	11.7%	13.0%	13.7%	12.9%	12.9%	12.3%	12.0%
05 Health	8.1%	7.6%	7.7%	7.6%	7.6%	9.2%	8.8%	7.4%
06 Social Security and Welfare	31.9%	26.2%	33.8%	34.7%	32.3%	26.8%	27.6%	27.5%
07 Housing and Com. Services	9.9%	6.3%	4.7%	4.5%	5.6%	8.5%	6.1%	6.0%
08 Recreation, Culture etc.	1.7%	2.3%	2.3%	2.0%	1.9%	1.9%	1.7%	1.8%
09 Energy	4.4%	0.5%	0.1%	0.7%	2.0%	0.9%	3.5%	5.9%
10 Agriculture, Forestry, Fishing	2.3%	3.8%	4.9%	4.9%	5.2%	3.9%	3.4%	3.4%
11 Mineral Resources	3.2%	2.0%	1.0%	0.8%	0.7%	2.7%	1.1%	0.9%
12 Transport and Communications	2.0%	5.6%	5.6%	5.8%	6.6%	6.9%	11.5%	11.7%
13 Other Economic Services	2.3%	1.6%	1.7%	2.3%	1.2%	0.3%	0.4%	0.2%
14 Other Expenditure	1.4%	9.6%	4.9%	0.0%	0.0%	0.4%	0.1%	1.4%
Total	100%	100%	100%	100%	100%	100%	100%	100%

According to the functional classification, during 1994-2001 most of the funds were spent for health and social assistance, education, public services and the public order. It should be noted that over this period the defence expenditures are decreased while there is an increase in the expenditures for transport and communication services. In 2001, transport and communication spending represented 11.7% of the total expenditures.

1.2.3. Classification by programmes (title)

A programme includes a number of activities that serve to meet the same goal (i.e. improving post university education). A programme consists in a number of activities and/or projects. In the budget system, the programme concept can also be used for specific activities, as well as an element of the expenditure classification system.

A programme has a defined budget and is different from a budget policy, which includes a number of activities that can be of various forms and have different direct benefits. The policies are guided by objectives and other general goals. In general, a policy is not restricted in terms of budget or time. Often it consists in a joint action of the actual and required expenditure programmes, as well as other tax and regulation policies.

Classifying expenditures in programmes can serve to two main goals: (i) defining and clarifying objectives and policies; (ii) controlling implementation by looking at the performance indicators that can be linked to the implementation steps of a programme. Classification by programmes can contribute to improving transparency and increase the level of responsibility.

1.2.4. Present Classification

The year 2001 brought about the first changes to the economic classification, while 2002 is the first year in which was applied the functional

classification, which is in line with international standards. As the following table shows, the new functional classification consists in five main code-groups:

Group Code	Program (Title)	Chapter	Chapter Description	K_Q	K_L
XX	XXX	1	Opening balance	XXXX	XXX
XX	XXX	2	Foreign financing	XXXX	XXX
XX	XXX	3	Local cost	XXXX	XXX
XX	XXX	4	VAT, custom duties	XXXX	XXX
XX	XXX	5	Own revenues	XXXX	XXX
XX	XXX	6	Revenues over ceiling	XXXX	XXX

“ the Group ” - represents the code of the central institution, and it is a two-digit number

“the Programme or title” - represents the code of the programme within a group.

The *title code* is a three digit number, the first two digits show the function of the expenditures in line with International Classification Standards, while the third digit shows the number of the expenditure programme in the respective institution. For example: code 084 of Ministry of Culture shows that this expenditure corresponds to the function 08 (Recreation, Culture and Religion) and it is the fourth programme of the Ministry of Culture named “Sport Development”.

“the Chapter” - represents the financing source of the programme within a title. It can be any number between 1 and 6. Chapter 1 shows that the financing source is ‘Budget Appropriation’

(this chapter includes all the articles of the Economic Classification of budget expenditures). Chapter 2 shows that the financing source is “Foreign Financing”; Chapters 3 and 4 show that budget expenditures are for Local Costs and VAT; Chapter 5 shows that financing source is “Institution’s Own Revenues”; and Chapter 6 shows that the financing source is “Revenues out of the ceiling” (revenues that are carried forward from previous year) and is used for those institutions that generate such kind of revenues. Chapter’s numbers are the same for every Title.

“K_Q” – represents the code of the place where expenditures are made. It is a four-digit number. The first two digits represent the number of the

Region	District	Region Code (K_Q)	Region	District	Region Code (K_Q)
BERAT	Berat	202	KORCE	Korce	1515
	Kucove	217		Devoll	1505
	Skrapar	232		Kolonje	1514
DIBER	Diber	606		Pogradec	1529
	Bulqize	603	KUKES	Kukes	1818
	Mat	625		Has	1812
DURRES	Durres	707		Tropoje	1836
	Kruje	716	LEZHE	Lezhe	2020
ELBASAN	Elbasan	808		Mirdite	2026
	Gramsh	810		Lac	2019
	Librazhd	821	SHKODER	Shkoder	3333
	Peqin	827		Puke	3330
FIER	Fier	909	Malesi e Madhe	3323	
	Lushnje	922	TIRANE	Tirane	3535
	Mallakaster	924		Kavaje	3513
GJIROKASTER	Gjirokaster	1111	VLORE	Vlore	3737
	Permet	1128		Delvine	3704
	Tepelene	1134		Sarande	3731

Region and the other two digits represent the district number. The Region and Districts that have a one-digit code are shown as with a zero before i.e. 0202 stands for Region of Berat (02) and District of Berat (02).

“K_L” – the Local code represents the code of the location where the expenditures are made. If the code is 0 than we have a national expenditure. When expenditures are local, the code shows the number of local government i.e. No. 141 stands for Municipality of Shkodra and No. 764 stands for Commune of Bushat. In cases when local expenditures are direct competence of Regional Council, the local code will be the same as the code of the Region as shown in the table below:

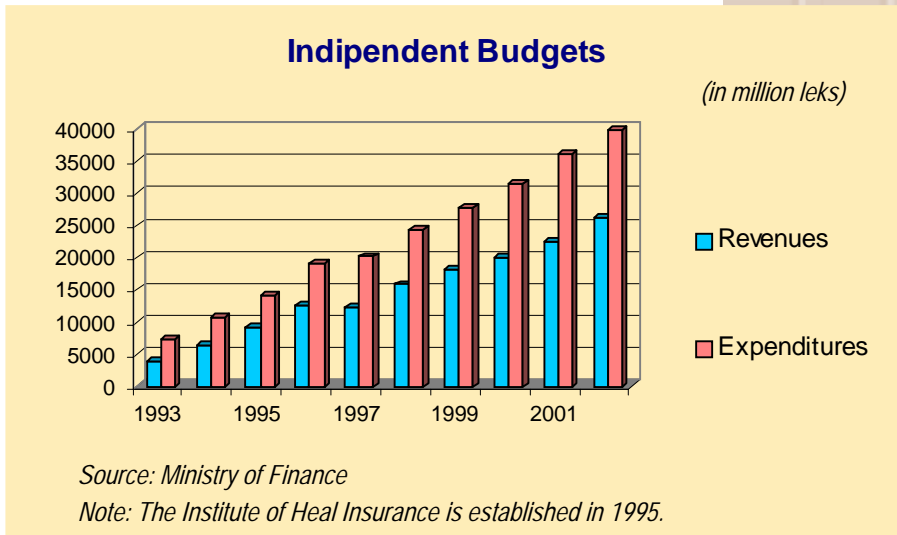
Region	District	Region Code (K_Q)	Local Code (K_L)
Berat	Berat	202	202
	Kucove	217	217
	Skrapar	232	232
Lezhe	Lezhe	2020	2020
	Mirdite	2026	2026
	Lac	2019	2019

2. Independent Budgets

The Budgets of Social Insurance Institute and Health Insurance Institute constitute what is called independent budgets. The independent budgets have their own revenues, but also receive funds from the State Budget to cover their expenditures. In the State Budget, they are shown in the expenditures and revenues sections.

Independent Budgets funds	Sources of revenue
Social Insurance Institute	Employers and employees contributions (1.7% of wages), the shortfall being made up from the Budget
Health Insurance Institute	Employers and employees contributions (respectively 29% and 9.5% of wages), the shortfall being made up from the Budget

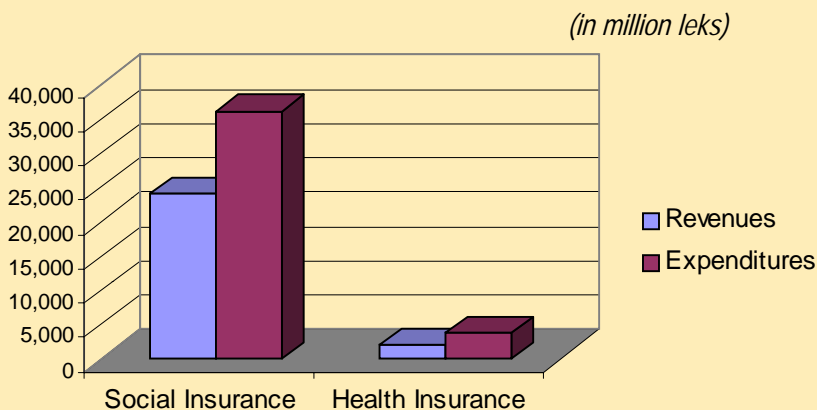
The following graph shows how revenues and expenditures have changed for the independent budgets.



As the graph illustrates, revenues of independent budgets are not sufficient to cover their expenditures. Over the period 1993-2001, these institutions have had a deficit. In 1993 the deficit was 3,445 million leks, which is increased during the following years. In 2001 the deficit was 13,567

million leks, and the estimate for 2002 indicates a deficit of 13,749 million leks.

However, the deficit level is different for each of the independent budgets. In order to figure out the deficit for these institutions we have to look at their revenues and expenditures. The following table indicates the forecasted revenues and expenditures for each of the independent budgets for the year 2002.



Source: *Government Financial Statistics, Ministry of Finance*

The graph illustrates that the deficit is present in each of the institutions and not just as a group. In 2002 the budget deficit for the Social Insurance Institute is forecasted 11,999 million leks. A solution to this situation is a fund transfer from the State Budget.

A summary of the independent budgets is published in the official gazette, while shortly will be found in the websites of Ministry of Finance

and Public-Private Finance Institute.

Preparation and approval of independent budgets.

The Independent Budgets are prepared at the same time as the State Budget. Each institution that is part of the independent budget scheme, prepares the financing plan and presents it to the Ministry of Finance by September 1st of the budget preparation year. Then a summary of the financial plan of independent budgets is included in the appendices of the state draft budget, which is submitted to Parliament. Following parliamentary debate, the Assembly approves these proposals along with the State Budget.

3. The Local Government Budget

The Law No. 8652 “On Organisation and Functioning of Local Government” dated 31.07.2000, defines the structure of the local government. After this Law, communes and municipalities are considered as the first administration level whereas the Region is a second administration level.

Law No. 8653 “On Territorial and Administrative Segregation of Local Government in Republic of Albania” dated

First Level: Commune is a territorial administrative unit and its people community in general, is considered a rural area (village). Sub-divisions of the commune are villages and in some particular cases cities. **Municipality** is a territorial administrative unit and its people community is considered an urban area (city). Sub-divisions of municipalities in the urban area is called “neighbourhood”.

Second level: Region is a territorial administrative unit, which is comprised by a number of communes and municipalities that have common geographic connections, customs, economic and social interests.

31.07.2000, determines the number of communes and municipalities in the country. In Albania there are 309 communes and 65 municipalities. The Local governance in Republic of Albania is based on the principles of local autonomy and decentralization of power. Local government organs have an independent budget. Each administrative unit has its own budget, thus its own expenditures and revenues.

3.1. Revenues

In principle, revenues of local government aim to improve the tax-collection capacity of the local government and guaranty a financial independence, hence providing a better representation of the community's preferences and improving the public services.

The main sources of budget revenues for the local government are (i) transfers from the state budget and (ii) revenues collected at local level.

3.1.1. Budget Transfers

Over the last years, the financing of the local government through State Budget transfers has improved significantly. This process has gone through the following stages:

1. Block Grant in 1999; funds appropriation was made only for personnel operative expenditures. The allocation for each sector and service was a responsibility of the local government.

2. Unconditional transfers in 2001; allocation of these funds for economic or functional purposes is a full responsibility of the local government.

Up to 2002, the Block Grant amount for each of the local government units was determined based on the previous year budget and adjusted with the expected price increases of the main local expenditures. This approach did not reflect important demographic and economic changes that were happening in various regions, thus the fund transfers from the State Budget to local government units is decided to be made based on a formula.

Transfers from the State Budget (grant) are revenues in the form of grants, with no pay-back terms, no interest, for a specific purpose or no, which are used to financing policies in accordance with the set forth policies.

(State Budget Law)

Details on the criteria, allocation coefficients for each municipality, commune and region are shown in the Annex of the 2002 State Budget.

Up to the end of 2000 the financing source of the Block Grant or Conditional Grant was not yet defined. The financing was made directly from the State Budget. In 2001, 60% of the unconditional funds for municipalities and communes came from small business tax.

The main criteria included in the **formula** used to determine the transfers of local government organs are:

- the fixed sum;
- size of the population (in accordance with the registered population in 2001);
- an estimation of communes' geographic surface;
- an estimation of municipalities' urban services (water, cleaning, roads, etc.)

3.1.2. Own Revenues

Reforms related to local government revenues aims to increase fiscal authority of the local governance, to guaranty independent local revenues and to reflect the preferences and needs for the level and quality of local public services. The main revenues collected at a local governmental level are:

taxes – revenues collected from taxes are used for general expenditures;

fees on various services (certificate fees, declaration, etc.)- these come from the activities and services provided by local government, and are used to cover the cost of these services;

revenues from economic activity and properties of local government, which are mainly used for investments;

loans, for the implementation of investment projects;

donations and grants.

3.2. Budget Expenditure of Local Government

Budget expenditures of local government, as the central budget expenditures are classified in:

current expenditures, including salaries, rewards, compensation, expenditures for goods and services, transfers and interest payments;

capital expenditures;

other expenditures to fulfil obligations deriving from the law.

4. State Budget

In order to better understand the State Budget let explain its three components: central budget, independent budgets and the local government budget. To have a complete picture of the State Budget we need to make a summary of these three budgets. In this way, by eliminating all inter-budget transactions, we get the consolidated budget.

In order to get the consolidated state budget, we have to go through the following steps:

1. Consolidating the independent budgets themselves, which means eliminating payments made within these budgets;
2. Consolidating payments made from the central to the independent budgets;
3. Consolidating payments made from the local government organs to other budgetary institutions (municipalities, communes and regions). This is the budget of local government;
4. Consolidating payments made from central government budget to local government budget, hence obtaining the Consolidated State Budget.

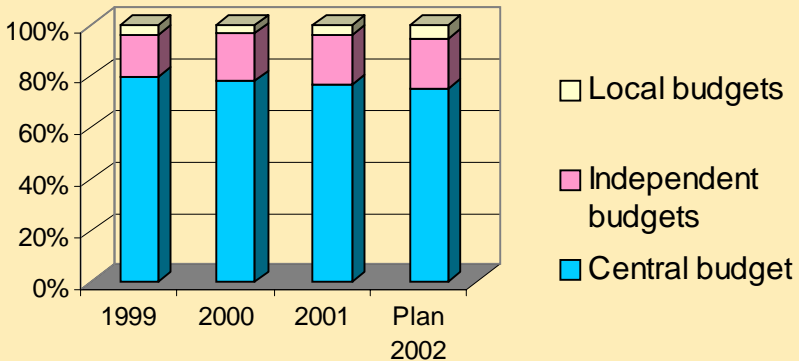
4.1. What is the structure of the State Budget?

Looking at the overall expenditure figure of the State Budget and comparing it to the three budgets' respective figure, it can be noted that:

Central budget expenditures are 77% of the State Budget; independent budgets expenditures

represent 18.5% and the expenditures in the local government budget represent 4.5% of the overall state budget. It should be emphasised that while the central budget's expenditure weight is reduced over years, the expenditures' weight of local government is increased. In 1999 the weight of the local budget was 3.8% compared to 5.8% in 2002.

Structure of the State Budget



Source: Government Financial Statistics, Ministry of Finance

To have a better understanding of government expenditures and revenues we need to closely look at the State Budget after the differences between revenues and expenditures are calculated within the various budgets. The following table shows state budget revenues and expenditures for 1993-2002.

Table. Consolidated State Budget*(in million leks)*

Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	Plan 2002
Total revenues	33476	44475	53716	51572	56645	93519	107,506	120588	135482	159425
1. Central budget	29555	37520	43640	37536	43790	76969	88456	99220	110939	130338
2. Independent budgets	3853	6407	9245	12666	12227	15827	18,165	20,053	22,506	26,087
Social insurance	3853	6407	8638	11646	11282	14566	16,814	18,523	20,710	24,051
Health insurance	0	0	607	1020	945	1262	1,351	1,530	1,796	2,036
3. Local budgets	68	548	831	1370	628	722	885	1315	2037	3000
Total expenditures	50,678	60,984	77,134	87,596	100,730	141,628	165,692	169,423	185,724	212,349
1. Central budget	43378	50294	63135	68469	80597	117299	131798	132020	142221	156974
2. Independent budgets	7,300	10,690	13,999	19,127	20,133	24,329	27,609	31,375	36,073	39,836
Social insurance	7,300	10,690	13,713	17,871	18,533	21,934	25,017	28,948	33,104	36,050
Health insurance		0	286	1,255	1,600	2,395	2,592	2,427	2,969	3,786
3. Local budgets							6,285	6,028	7,430	12,400
4. Reserve fund										3,140
Total deficit/surplus	-17,202	-16,509	-23,418	-36,023	-44,085	-48,109	-58,186	-48,835	-50,242	-52,924

Source: Government Financial Statistics

The overall State Budget revenues are increased from 33,476 million leks in 1993 to 135,482 million leks in 2001. The overall expenditures are also increased from 50,678 million leks in 1993 to 185,724 million leks in 2001.

As we can see from the table for the period of 1993-2001 there are no reserve fund figures. This does not mean that this fund did not exist during this period. Instead as this fund has been used, it is included in the current or capital expenditures of the respective years. The total amount used from the 2002 reserve fund will be calculated by the end of 2002 and then will be included in the expenditures.

We can also notice that expenditures are increased faster than revenues, leading to an increasing budget deficit.

4.2. Financing Account

The difference between revenues and expenditures in the budget year, excluding borrowings, is called budget surplus when budget revenues are higher than budget expenditures, and budget deficit when budget revenues are smaller than the expenditures of the State Budget. Legislation in force does not allow a budget deficit for local government².

If budget expenditures are higher than revenues then State can borrow in the domestic or foreign markets. Thus the Government can borrow money from the public to cover the total of expenditures. What happens in practice? The Parliament approves a budget of 185,724 million leks that are the total budget expenditures for 2001. In fact, the revenues collected during 2001 are only 135,482 million leks and the Budget is short of 50,242 million leks to cover the total of expenditures. In this case, the state might decide to borrow from the public.

It might happen the case when revenues collected during the year exceed the revenues forecast, as it happened in the case of AMC sale in 2000. The company was sold well above the estimation and

²⁾ Article 11 of the Organic Budget Law No.8379 “On Preparation and Implementation of the State Budget in the Republic of Albania”, dated 29.7.1998.

the money was used to reduce the state debt. It is also possible that the estimated revenues are not met, as in 2002 when failing to sell the Savings Bank led to shortfall in budget revenues that implied the revision of the budget and a cut in expenditures.

In other words in addition to revenues and expenditures, the state budget has a third component that is the financing account. The financing account is composed by:

revenues from financing – money that State has borrowed from World Bank, European Bank of Reconstruction and Development, European Bank of Investment, etc.;

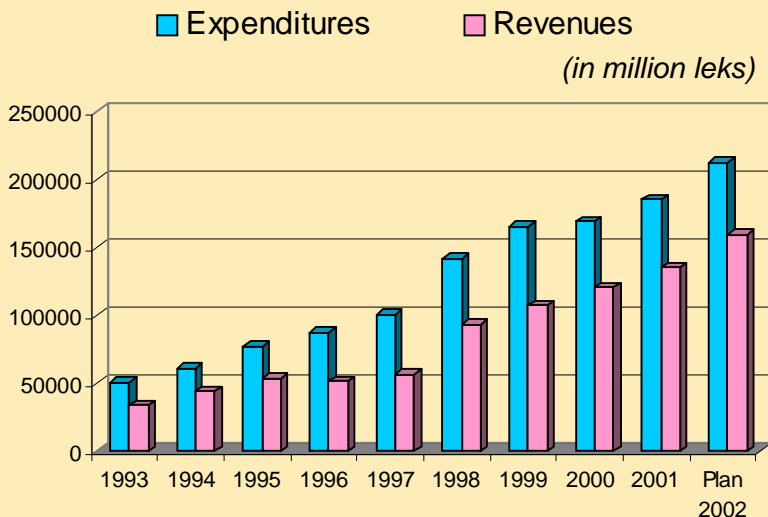
repayments – money used by the government to pay off the domestic and foreign matured debts (i.e. principal and interest);

deficit/surplus.

Through these components the financing account shows the amount that will be borrowed during the budget year, what will go for debt repayment and what will be the budget deficit.

In the case when budget revenues and expenditures are shown together, if expenditures are higher than revenues we can say we have a budget deficit (the government does not have the money to do what it planned to do).

The table below shows expenditures and revenues for the period 1993-2002. The 2002 figures are the estimates for this year.



Source: Government Financial Statistics, Ministry of Finance.

Referring to the data in the table, for the period 1993-2002, there was a budget deficit. The way the deficit is financed (or the surplus is used) is set forth in the Annual Budget Law.

The budget deficit is financed by domestic and foreign sources. Domestic resources can be privatisation receipts, net domestic borrowings and any other revenue generated. “Privatisation Receipts” are revenues received on the sale of state owned assets. “Net domestic borrowings” are revenues received on the sale of treasury bills; and “others” includes temporary deposits of independent government institutions.

Foreign financing sources of the deficit can be

credits/loans of other governments and grants given to our country from various organisations i.e. World Bank, European Bank for Reconstruction and Development, etc.

What is budget rebalancing?

Budget rebalancing or budget review is a budget change that can be a budget increase or decrease compared to the original budget approved at the beginning of the year. A budget review may take place for several reasons, i.e. lack of realism during the expenditures planning process or because of the necessity to increase certain expenditures. These are mainly related to variations in the economic activity, which have a direct impact on the normal budget inflows. Due to continuous political and economic changes, Albanian parliament is forced to do a budget review almost every year and in some cases more than once a year.

What is the Public Debt?

The Public Debt can be defined as inherited (accumulated) borrowings of the State or as the total of government obligations in a given moment of time. In relation to the Budget that we are discussing the public debt is the accumulated budget deficit that government finances through borrowing. Public debt is a synonym for public sector deficit financing (in our case state budget deficit). The term 'public debt' and 'national debt' are interchangeable.

The classification of the public debt in domestic and foreign debt depends on who are the creditors, do they live in the country or out of the

country.

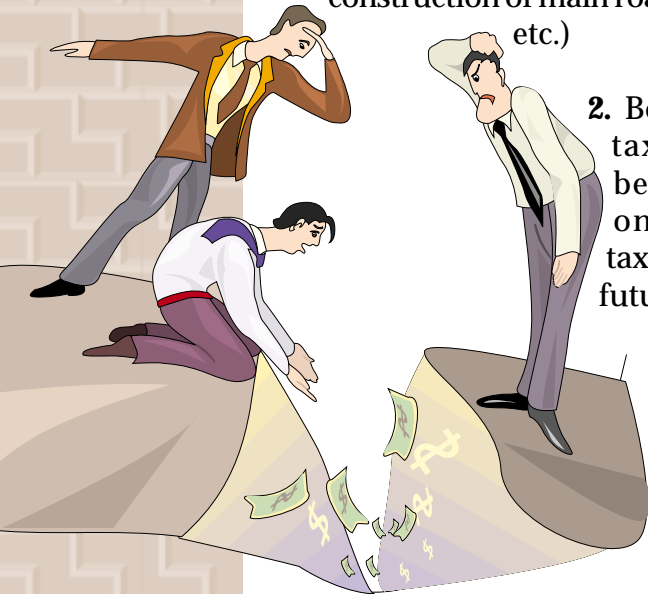
Each year the State Budget Law sets the limit of domestic borrowing and the total sum of guarantees. This decision is made by the Parliament upon the recommendation of the Government. The Ministry of Finance keeps the debts' register, credit guarantees issued by the Government, etc. Although, the national debt, sovereign guarantees and credits are ratified by the Parliament and published on the Official Gazette.

What are the main concerns related to a large public debt for a country?

1. Having to pay the debt principal and interest, less money is left to financing the public services (i.e. construction of roads damaged by floods, construction of main roads, pension payments, etc.)

2. Being covered by high taxes, the public debt becomes a burden not only for current taxpayers, but also for the future generations.

3. Government borrowing limits the amount of money available to credit the private sector (enterprises)



development);

4. A large public debt destabilises domestic economy because of possible increases in inflation rates, and increased credit interest rates for the public or companies. It also reduces the growth capacities of GDP.

Main Creditors of Albanian Government

The main foreign creditors are World Bank and European Bank for Reconstruction and Development. On the other side, domestic creditors are the second tier banks that participate in treasury bill auctions as well as individuals participating in the treasury bill auctions.



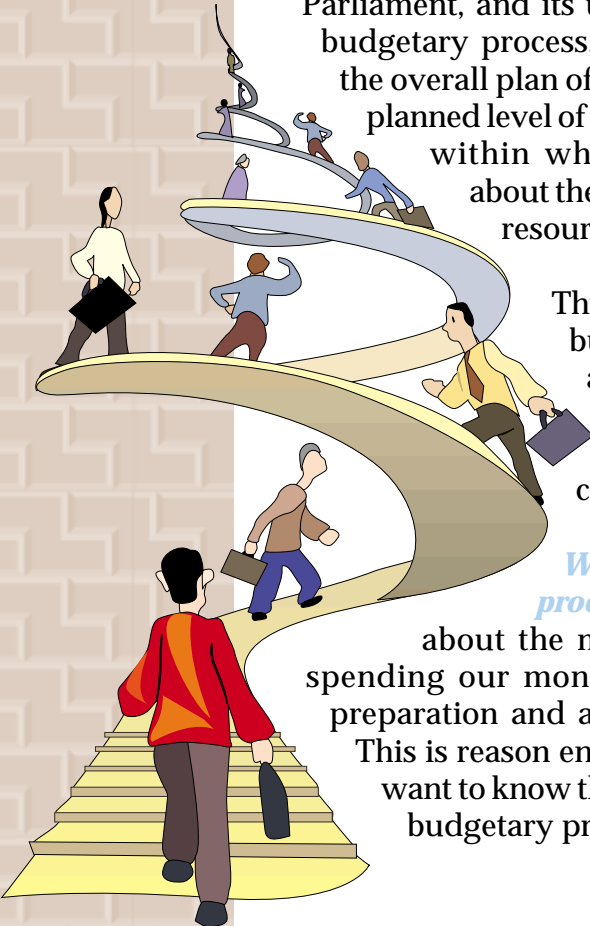
III. Budgeting Process

Preparation, approval and execution of the State Budget.

The budgetary process is the set of rules (formal and informal) that lets the executive make decisions leading to the preparation of the Budget, its proposal and acceptance in Parliament, and its ultimate execution. In the budgetary process, the government defines the overall plan of the Budget (as well as the planned level of revenue and expenditure), within which decisions are made about the distribution of budgetary resources.

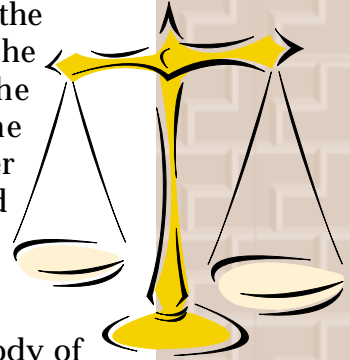
Through this distribution, the budgetary process becomes a useful resource in the provision of an effective management of the country.

Why is the budgetary process important? Decisions about the manner of collecting and spending our money are made during the preparation and acceptance of the Budget. This is reason enough, and more, for us to want to know the main participants in the budgetary process, and their roles.



1. Who are the main participants in the budgeting process?

The most important figures involved in the process of preparing and adopting the national Budget are: Parliament (the legislature), the government (the executive), the Finance Ministry, other beneficiaries of the national Budget, and the people. We shall have a little more to say about each of them.



The Parliament is the representative body of all the citizens, it keeps a check on the executive (the government) and is the legislative body of the country. Members of parliament are voted by population in parliamentary election. The Parliament is composed of 140 members. The Parliament carries out its activity in two sessions. The first session starts in the third Monday of January and the second starts in the first Monday of September. Parliament meetings are open to media and public. MPs are grouped in permanent parliamentary commissions, and they may also form special commissions established for specific purposes when it is deemed necessary. Among the permanent parliamentary commission we can mention: Commission of Law, Commission of Economy and Finance, etc. The parliament discusses the government's fiscal policy in parliamentary commission meeting and parliamentary debate. Only upon the parliament's approval, expenditures and policies for revenue collection become part of the coming

year State Budget.

The Government executes the policies approved by the Parliament. The role of the government in the budgetary process is to propose fiscal policy and define the national Budget policy within the context of economic, social and political objectives that have been laid down.

The task of the government is to define all the measures necessary to collect revenue, and makes proposals about the distribution or allocation of budgetary money for individual purposes and priorities.

For the sake of proper management and use of resources, Ministry of Finance is responsible for:

- laying down the total magnitude of public expenditure in the coming year;
- proposing to budgetary beneficiaries ways of cutting expenditure if their requirements exceed the amount of resources available in the budget;
- providing expertise relating to beneficiaries' capital investment;
- proposing ways of financing budgetary deficits;
- drawing up budgetary documentation;
- monitoring the execution of the national Budget;
- consolidating the planning of expenditure and the analysis of information about revenue, expenditure, borrowing and so on; and
- monitoring all transactions of the Budget (borrowing and repayments) related to the national debt.

It is a government's responsibility to take measures for revenues collection and to propose appropriation and allocation of budget resources according to its objectives and priorities.

The Ministry of Finance is in fact one of the beneficiaries of the national Budget. However, the Ministry of Finance also has an important role in the budgetary process. It does all the work for the government with respect to collecting resources for the budget and paying them out. The Ministry of Finance,

through its agencies, draws up and checks the Budget, that is plans and keeps an eye on the execution of public revenue and expenditure. As well as this, the Ministry of Finance is responsible for proposals and advice related to the macroeconomic framework and fiscal strategy (this will be discussed below), and predictions of the inflow of revenue and receipts into the national Budget.

The beneficiaries of the national Budget are all the institutions, ministries, state agencies and companies that are financed out of the national Budget. This group includes the Parliament, the President of the Republic, the government and the Finance Ministry, which are all at the same time key figures in the process of drawing up the national Budget. Budgetary beneficiaries have to use their budgetary resources for the purposes and objectives they were founded for (the Ministry of Transport, for rebuilding of roads and routes and so on). Keeping a check on the use of budgetary resources by budgetary beneficiaries is done via the plans showing the main programmes and intentions for which budgetary money is used.

The people. **We** live in a political community in which we elect our representatives in the government. They make the decisions about all the important questions in the country, and thus about the Budget as well. In the Budget, large amounts of money are put together, but then they are spent as well. How money is collected, and still more how it is spent, is not just the concern

of our representatives in the government, Parliament, the Finance Ministry and other ministries. The Budget is too important to be left to individual politicians and the interest groups they might represent. The people and various governmental and non-governmental establishments and organisations may be actively involved in the budgetary process.

The government spends limited budgetary resources without very many checks. Sometimes, the government will even finance private firms through the Budget. Our representatives in the government can lay down budgetary priorities

in financing that do not necessarily reflect the desires of us who elected them. And yet, through the media, through academic institutions, NGOs and interest groups the public and public opinion really ought to be involved in the debate about the adoption of the Budget and the allocation of budgetary resources. Interest groups like unions or employers' associations do try, and

very often manage, to push through their own interests. For this reason, anyone who understands the budgetary process can get involved in it more easily and thus make some impact on the proper management of budgetary money.

What can every citizen do?

According to Article 81 of the Albanian Constitution, Council of Ministers, members of parliament, and a group of 20,000 voters have the right to propose laws to parliament.

In line with the Constitution, article 48, every citizen has the right to send a complaint or to make proposals to national and other public bodies and to receive replies from them within the deadlines and conditions defined in the law.

2. Basic phases of the budgetary process

The Budget is the outcome of the budget process. This is a whole set of relations among the main participants, on the basis of which Parliament debates and adopts the Budget. For this reason it is necessary to understand the whole procedure of the preparation, adoption, execution and control of the Budget, so that we can ourselves affect the allocation of budgetary resources.

MTEF Objectives:

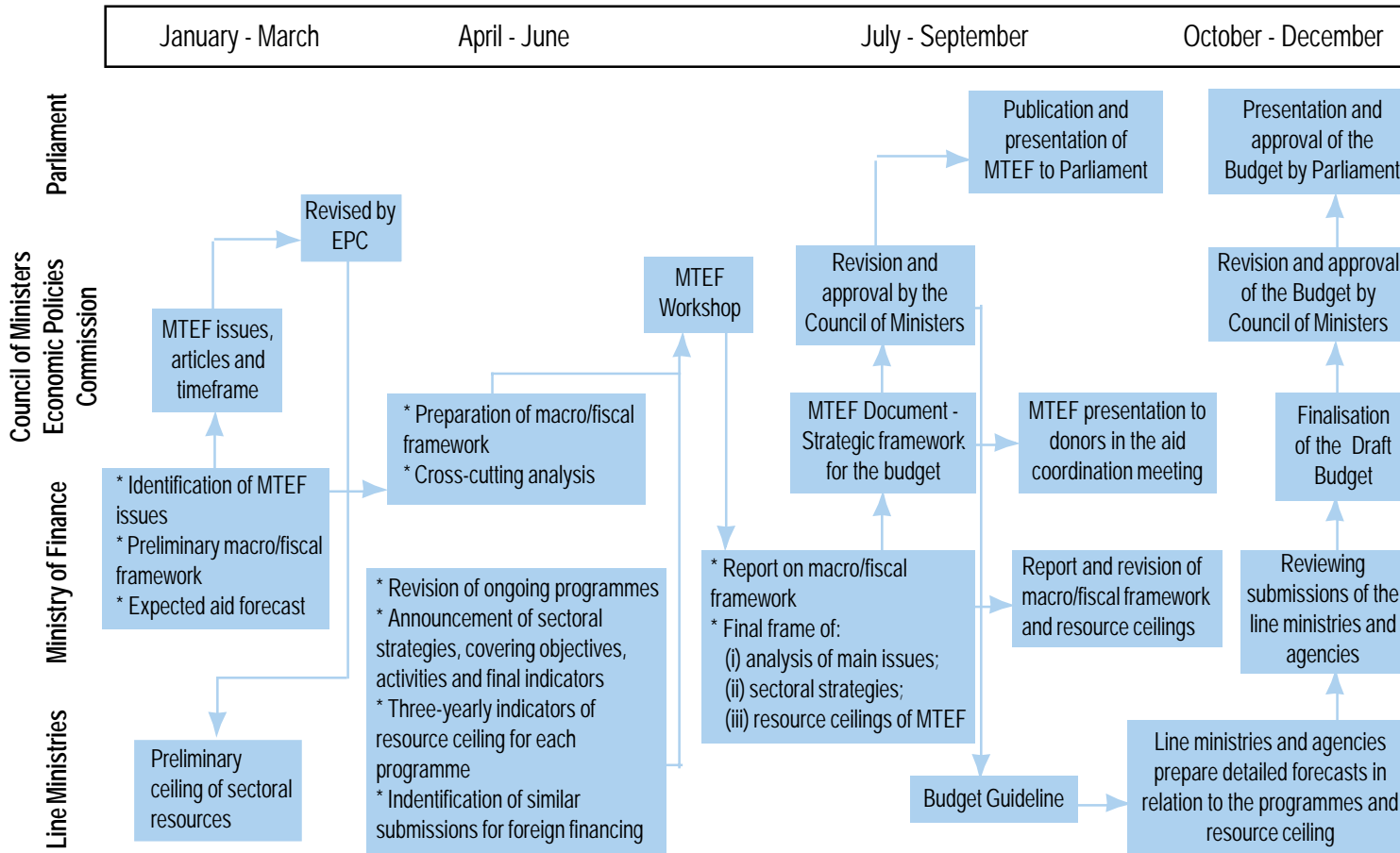
- To ensure a fiscal discipline for a midterm period and improve the predictability of the budgeting process;
- To improve effectiveness of public expenditures by creating a framework that links government policies with public expenditure plans, in particular those included in NSSD;
- To improve the efficiency of the budget resources utilization.

Main Elements

- Review the revenue estimates and the framework of resources on the basis of which are planned expenditures;
- Analyse the interconnected and inter-sectoral issues of public expenditures and their implication in the budget planning;
- Develop sectoral expenditure strategies related to sectoral policies and strategies of public expenditure distribution;
- Develop sectoral expenditure plans in line with the macro and fiscal framework and sectoral expenditure strategies.

Since 2000, Midterm Expenditure Framework (MTEF) has become an essential component of the budgeting process. MTEF has facilitated

Midterm Expenditure Framework (MTEF) and Budget Calendar



implementation of a number of reforms in the field of public expenditures and has considerably improved the budget preparation process. MTEF ensures a preliminary estimation of budget resources and sets expenditure priorities for the next three years and is presented to the Government before the preparation of the annual budget. MTEF is focused in policies and a better predictability of the budgeting process.

To better understand the budgeting process let have a look at the 2001 Budget. What is the life span of a Budget that has been through all the phases of budgeting process? Which are these phases?

Budgeting process in Albania has three phases:

First Phase is *preliminary phase of budget* in which are planned the budget revenues and expenditures. This phase is about six months –

How does the budget planing differ from budget implementation?

Budget planning is the amount of revenues and expenditures that government intends to collect and spend in the coming year, while implementation is the way in which the plan is put into practice. In practice, the plan is different from the fact as it is impossible to exactly plan the level of revenues and expenditures for many reasons: political, economic and social. In order to evidence the differences, within the 15th of May of each year, Ministry of Finance prepares the final statement of fact revenues and expenditures for the previous year. This statement includes explanation on discrepancies. Then it is presented by Ministry of Finance to the Council of Minister, and later, by June of the budgeting year, is sent for approval to the Parliament.

the preparation of the 2001 budget started in April 2000.

Second phase is *parliamentary debate*. The parliamentary debate for the 2001 budget took place from November to December 2001.

Third phase is *budget execution*, which includes implementation, supervision and audit. The period January-December 2001 is the execution and supervision period, while the audit period is January-November 2002.

Budgetary Process according to phases and times

Time	Actions
PHASE 1	PREPARATION AND PLANNING OF THE STATE BUDGET
<i>Step 1</i>	<i>Proposal for the fiscal policy for the coming fiscal year</i>
April - May 2000	Ministry of Finance prepares the report on the macroeconomic and fiscal situation of the current fiscal year, and proposes the objectives in relation to fiscal policy and makes estimates for main groups of revenues and expenditures for the current budget year.
within June 2000	Ministry of Finance presents the report to the Council of Ministers for approval.
<i>Step 2</i>	<i>Guidelines for the preparation of the Budget Proposal</i>
by July 10 th	Ministry of Finance forecasts expenditures for the next year and delivers to line ministries the "Guideline for the preparation of budget proposal for 2001" where are also included the projections for the level of revenues and expenditures for the coming year and the way in which the budget submissions should be presented.
Within September 1 st 2000	Budgetary institutions hand in their submissions to the Ministry of Finance.

Step 3	<i>Negotiations and adjustments to the budget submissions</i>
Sept - October 2000	Ministry of Finance analysis the budget submissions presented by budgetary institutions. In this phase budgetary institutions and Ministry of Finance negotiate this budget submissions and make the necessary adjustments.
by October 2000	Ministry of Finance prepares the draft budget and sends it for review and approval to the Council of Ministers.
PHASE II	<i>PROPOSAL AND APPROVAL OF THE STATE BUDGET</i>
Step 4	<i>Parliamentary debate and budget approval</i>
no later than November 20 th 2000	Council of Ministers reviews the draft budget and sends it for approval to the Parliament.
up to December 30 th 2000	Parliamentary debate and approval of the State Budget.
PHASE III	<i>EXECUTION OF THE STATE BUDGET</i>
Step 5	<i>Implementation of the State Budget</i>
January 1 st – December 31 st 2001	Budgetary institutions get and spend the budgetary sources in line with the plan and report to the Ministry of Finance following the standards and deadline advised on the Budget Guideline.
Jul-01	Ministry of Finance presents to the Council of Ministers a report on the status of the State Budget implementation. Later this report is send to Parliament.
Step 6	<i>Execution of the Budget and closure of budget funds</i>
before the end of fiscal year	Ministry of Finance issues a Guideline on the closure of revenues and expenditure accounts of all budgetary institutions
Step 7	<i>Preparation of final Balance Sheet</i>
by March 31 st 2002	Budgetary institutions prepare their balance sheet of revenues and expenditures for the year 2001 and present it to the Ministry of Finance.
by May 15 th 2002	Ministry of Finance prepares the balance sheet of revenues and expenditures of the 2001 State Budget.
by June 2002	The balance sheet is presented to the Council of Ministers and upon review is send for approval to Parliament.

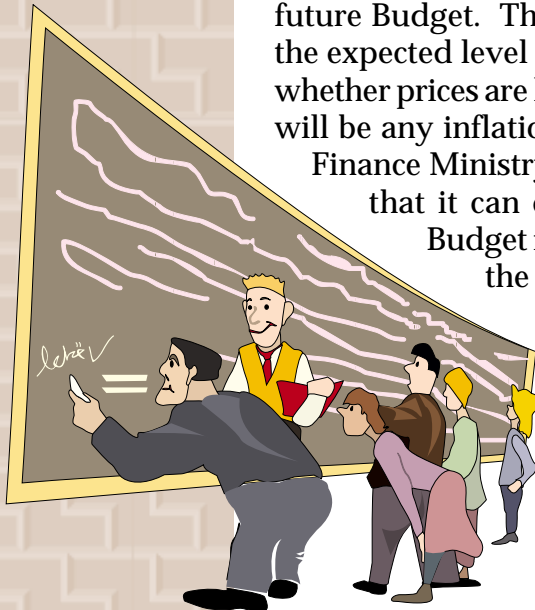
So the “life” of the budgeting process is longer than 2 years. To fully realise what happened with the 2001 Budget we need to look at the phases of the budgeting process from the beginning to the end of the budgeting year.

As we can see the various phases of the budgeting process have a number of steps.

A. First Phase: Preparation and Planning of the State Budget

Step One: The proposal for the fiscal policy for the next year. The first step is taken by the Finance Ministry, which in April 2000 draws up a proposal for fiscal policy for 2001. This proposal outlines the main economic indicators that should mark the implementation (realisation) of the future Budget. The fiscal policy proposal states the expected level of GDP, of unemployment, of whether prices are likely to change, whether there will be any inflation, and if so, how much. The Finance Ministry states all this in its report so that it can estimate the total size of the Budget for 2001. Thus in April of 2000, the Finance Ministry is preparing the proposal of fiscal policy for 2001.

The first step in the making of the State Budget ends in July 2000, when the Minister



of Finance proposes to the government a projection or proposal of fiscal policy for 2001, with explanations, that is with guidelines for and the objectives of fiscal policy, and in which the plan for the main kinds of revenue and outline expenditure for 2001 is stated. When the government accepts this, then these principles of a fiscal policy for 2001 become the point of departure and basis for the implementation of the other steps in the budgetary process.

Step two: Budget Guideline. In the second step, Ministry of Finance has to lay down the planned expenditures of the budgetary beneficiaries so as to be able to define total budgetary expenditure for 2001. For this reason, by July 10th 2000, the Ministry gives beneficiaries of the Budget a document called the State Budget Guidelines. The main aim of the Guideline is to acquaint beneficiaries of the Budget with the outline plan of resources that has been drawn up by the Ministry of Finance for each of them. Budgetary beneficiaries are able thus to become acquainted with the macroeconomic framework (nominal and real GDP, the expected rate of unemployment, reconstruction of the country, promotion of the private sector and so on) of the making of the Budget for 2001, which has already been defined in Step One.

In the Guideline, budgetary beneficiaries are asked to draw up and explain, on their own behalf, on the basis of the data obtained, their requirements for the necessary budgetary resources. Budgetary beneficiaries, while

drawing up their proposals and applications for resources, have to bear in mind the amount of resources available and other constraints.

Budgetary beneficiaries should pay particular attention to the definition and maintenance of a register of capital projects. For economic growth, that is, it is particularly important how the capital part of the Budget is ordered, for the success of the government and the contribution of overall economic development and growth is often measured by the success of the capital part of the Budget.

After drawing it up, Budget beneficiaries send their plan of revenue and expenditure to the Ministry of Finance, by 1st of September at the latest. This ends the second step, and the third step starts:

negotiations with beneficiaries, and the necessary adjustments to their applications.

Step Three: Negotiating and adjusting beneficiaries' submissions.

Budgetary beneficiaries are bound to supply the Finance Ministry with their draft applications for budgetary resources; the Ministry is duty bound to adjust with the available planned resources of the budget. If it does not manage, then the government will do so. It can happen that the needs for budgetary resources exceed the planned level of budgetary revenue. Then the Ministry of Finance plans and lays down the manner in which budgetary shortfalls will be financed.

The Ministry of Finance has three ways of financing a planned deficit:

1. Raising the rate of a tax, of VAT, for example, or income or profits tax. This is the least popular option.
2. It can sell off state assets, such as state owned companies or banks, i.e. Savings Bank, ALBTELKOM, etc. part of strategic sector privatization process;
3. It can borrow, at home, but particularly abroad. This is the option most frequently used.

The third step, negotiations between the Ministry of Finance and beneficiaries or users of Budget and adjustments to budget submissions ends in October. The last day of negotiations is determined in the annual Guideline “On the preparation of the budget proposal”. Then the Ministry of Finance will prepare the final budget proposal (revenues, expenditures and borrowing), which later is presented to the Council of Ministers for it to consider.



B. Second Phase Budget Debate and Approval

Step four: Budget debate and Approval. Step four begins when the government meets in a session to discuss the proposal of the Budget and the Budget Execution law. The 20th of November is the final deadline by which the government is bound to confirm the proposal for the State Budget and deliver it to the Presidency of Parliament, together with the proposed Budget Execution Law.

The Draft Budget arrives in the hands of the Chairman of the Parliament, who gives it to the parliamentary commissions and members of parliament.

Before the parliamentary debate starts, all the members should have received in good time the proposal of the Budget and Law so that they can

look carefully through them and understand all the figures.

Parliamentary Commission of Economy and Finance and the Commission of Laws play an important role in this process. These two Commissions have to give their opinion (reports) to the Parliament. There is a real possibility that the proposed Budget and the Budget Execution law have not been drawn up with the due professional expertise, and that the Chairman of the Parliament at the recommendation of these two committees, sends them back for reconsideration by the government and the Ministry of Finance. That is why these two committees should have well-informed and professional personnel to be able to pick up any shortcomings in the proposal of the Budget and the Law.

Every member of the Parliament, parliamentary commission and the government can give the Chairman of Parliament their proposals for changes or additions to the Draft Budget. Such suggestions are known as amendments. The Chairman sends copies of all amendments to all members and to the government before the start of the plenary session. Amendments are also sent to the Commissions for Legislation and Finances and the Economy, and they too can give their opinions about the proposed changes to the Budget.

In to date practice, a considerable number of members of parliament (who have different professions and educational backgrounds) have found it difficult to cope with the numerous tables, and the copious paperwork that they are supposed to have studied before the session devoted to the Budget. In a large number of cases the members receive the proposal some dozen days before this session. Many of them do not find this period of time adequate to study the figures in detail or to define their attitude to the Budget, which they are supposed to be able to state at the session.

Finally, in December of each year (in our case, December 2000), at a session of the Parliament, there is a debate about the Draft Budget. On the whole, the resources allocated to individual beneficiaries are not big enough. The debate in the Parliament is an opportunity for members to give justified arguments on behalf of line ministries or constituencies they are lobbying on behalf of. Members of parliament are representatives of the people, elected at the elections, from various different parties. Thus the adopting of the Budget is also a political affair, which depends on the balance of forces in the parliament.

What is the provisional budget?

In cases when the budget is not approved by the Parliament, or if for any major force the Parliament fails to meet in a session before year-end then there is need for a "provisional budget". According to the Law "On Preparation and Execution of the State Budget in the Republic of Albania" (article 23) if the Draft Budget for the coming year is not approved by the Parliament by December 31st, the Council of Ministers approves and implements a 3-months budget starting the first day of the new budget year. After the 3-months period, any budget expenditure is made only on decree of the President of the Republic, but for no longer than three months. During this period, the Parliament should take a decision on the draft budget of the year.

The debate has its own particular timetable. First of all there is a general discussion about the Budget. Then the amount of funds allocated to line ministries and other beneficiaries financed out of the budget is debated. Only at the end of the debate on the Draft Budget there is voting.

In the voting, the Budget and the Budget Execution Law are adopted; the Law means that all the participants in and beneficiaries of the Budget are obliged to carry out the Budget in the way enjoined.

After the debate, and the approval of the Budget in Parliament, comes the fourth step in the budgetary process, which is the first step in the phase of the execution of the Budget.

C. Third Phase Budget execution (implementation, supervision and control)

After the Budget is voted in by Parliament, the Finance Ministry informs the line ministries and other beneficiaries what resources they have been allotted. On 1 January the fiscal year officially begins; the implementation of the Budget starts, that is, revenue is collected, money spent, and these operations are supervised and controlled.

Who is responsible for the execution of the Budget?

Naturally, the government, the line ministries and other beneficiaries of the resources of the State Budget; however a special role is played in the execution of the Budget and the control of the use of its resources by the Ministry of Finance and particularly by Debt and Treasury Department, which is a part of it.

What is Treasury?

This is nothing like a safe or a vault, but the complex budgetary and financial management of national revenue and expenditure. Treasury plans, executes, supervises and manages the cash and the public debt. To carry out its duties the Debt and Treasury Department works closely on public accounting with the Accounting Department and on budget execution with the Budget Department. The point of the co-work of these departments is that the state should know at any moment what funds it has at its disposal. The government account at the Bank of Albania shows the balance of all government activities, revenues, expenditures or any payment made.

Cash and debt management provides information on the liquidity of the government account and the government's needs for money. This management provides information on expenditures of budgetary beneficiaries, revenue flows and the balance in the budget account. Ministry of Finance uses this information to impose limits on the funds used by line ministries or budgetary institutions as well as on issue or maturing of treasury bills, used for short-term financing of the budget.

Debt and Treasury Department provides information on domestic and foreign debt. This includes information on terms of credits, transaction and issue of treasury bills. Public debt management implies timely information on withdraws and debt repayments.

Public Accounting sets standards of public accounting, prepares statistical data that serve as the basis in spending budget funds and financing the budget by issuing debt. Daily accounting

provides information on the cash and public management. Planning and execution of the budget depends on the public accounting system and on the accounting classification system. Accounting standards and principles are defined by the Ministry of Finance.

Budget implementation is controlled through the execution. The Internal Auditing Department in the Ministry of Finance controls the budget to ensure that budgetary funds are used in compliance with the law. The Department is also responsible for the control of budget reserves.

Budget Supervision

The internal budget supervision is not in place yet. A number of problems have arisen due to lack of internal audit in line ministries. In 2000, a new department was created in the Ministry of Finance; Department of Internal Audit, which has an office in all ministries and work is underway to create the legal framework. Supervision of budget should be carried out not only from Treasury, but also from line ministries. The law requires that



the Minister of Finance before the end of July of each year shall submit a review of the status of the State Budget, first to the Council of Ministers and then to Parliament i.e. in July 2002 the Ministry of Finance prepared the review on the execution status of the State Budget for the first half of 2002.

What is the objective of the half-yearly report on the Budget?

Ministry of Finance and budget beneficiaries are bound to prepare a report on budget execution for the first half of the year and submit it to the government. The Government must send it to the Parliament no later than July. In addition to the budget execution report, the Government shall send to Parliament reports on the execution of extra budgetary funds and execution of local government budget. In cases of violations of the budget execution law, the Parliament may charge the Government to take the necessary measures to ensure execution of the planned budget funds. This action has an immediate effect on budgetary beneficiaries i.e., will make sure that they use budgetary resources lawfully and effectively. If the government does not take appropriate measures to remedy the discrepancies noted, the House can have a vote of no-confidence in the government and the Finance Minister.

The fiscal year ends on 31 December 2001. A number of payments have been made during the year into and from the Budget. A part of the deficit has been covered by borrowing abroad, and part by the sale of state-owned banks and firms.

From the 1st January 2002, then, a whole series of actions have to be undertaken by the Finance Ministry to draw up the final report about the

use of budgetary resources in 2001. Ministry of Finance draws up the annual account of the State Budget by 15 May 2002, for 2000. The Minister of Finance must supply the government with the Report on the Execution of the State Budget for 2001, by the end of June 2000.

The whole budgetary process and the execution of the Budget is finished when Parliament accepts the report about the annual account of the State Budget and the report of the State Supreme Audit (usually it coincides with the time when the new draft budget is discussed).

The State Supreme Audit is the top auditing institution that exercises economic and financial control. It is an independent institution established in 1997 (Law on State Supreme Audit No.8270 dated 23.12.1997), and pursuant to article 165 of the Albanian Constitution reports only to the Parliament. State Supreme Audit controls the economic activity of state institutions and state judicial persons; use of state funds from central and local government; economic activity of judicial people in which the state owns more than half of the shares or when their credits and obligations are guaranteed by the government.

The State Supreme Audit calculates the level at which budget expenditures are in compliance with the planned and approved allocations. The State Supreme Audit reports once a year to Parliament on the audits it carried out.

After the parliamentary debate, the report of the State Supreme Audit becomes a public document and is available to the public and media.





Appendix

LAW

No. 8379 Date 29 July 1998

On

PREPARATION AND EXECUTION OF THE STATE BUDGET OF THE REPUBLIC OF ALBANIA

According to article 16 and 28 of the law no. 7491 dated 29.04.1991
“On main constitutional articles” upon proposal of Council of
Ministers

THE PARLIAMENT OF THE REPUBLIC OF ALBANIA

Decided:

Chapter I GENERAL DEFINITIONS

Article 1

This Law regulates the principles governing the preparation, proposal, and approval of the State Budget and responsibilities for its implementation.

Article 2

2.1. State Budget is the annual financial program of the government consisting of appropriations approved by Parliament and which includes all estimates of revenues, borrowing and expenditures and other payments to implement Government,

Public Administration, Local Government and judiciary functions and responsibilities. The State Budget is the main financial instrument that implements economic and social policies.

2.2 Local Government Budget is the annual financial program of local governments and which includes all approved revenues and expenditures for implementation of local government functions and responsibilities in the areas they are active.

2.3 Approved Funds is the right given from the State Budget to use a given fund within a certain period.

2.4 Funds are various types of revenues used to pay expenses approved by this law.

2.5 Consolidated Fund is the fund that includes all the revenues from the State Budget and the directions for its use.

2.6 Special Funds are tax and non-tax funds established by law and spent to finance specified activities. Special funds are funds of institutions, established by law, the operation of which are financed through such special revenues.

2.7 The Consolidated Fund and Special Fund form the State Budget.

2.8 Budget Institutions are entities whose activities are financed by the State Budget.

2.9 Budget Request is the request for funds from the state budget, starting as a budget institution proposal and prepared according to instructions by the Minister of Finance.

2.10 Request for supplements and reductions are requests for fund distribution modifications in one or more approved funds, which after being approved by the Council of Ministers are sent to Parliament for approval.

2.11 Maximum number of employees is the maximum number of employees that can be employed by a budget institution, as set in the State Budget.

- 2.12 Dividend is revenue arising from state capital usage.
- 2.13 Expenditures are all government payments made under the authority of approved State Budget appropriations except repayments of loan principal.
- 2.14 Grants are revenues received as gift, grant or donation, with no interest or repayment required, with or without a restricted purpose, to finance activities according to particular policies.
- 2.15 Loans are revenues to be repaid, with or without interest, to finance particular projects planned by approved funds or to finance budget deficit.
- 2.16 Interest and fees are amounts paid to creditors based on rates and terms set in a contract. These represent a loan's cost and are part of budget expenditures.
- 2.17 Principal is the amount of loan payments without interest and fee payments.
- 2.18 Investment funds are used to pay capital investment, stock, securities and loans.
- 2.19 Budget Structure is the organizational, functional, economic, and geographic classification of revenues and expenditures based on source of formation and utilization.
- 2.20 Receipts are state resources not classified as revenues.

Article 3

The budget year is the same as the calendar year, starting the first of January and ending the thirty-first of December.

Article 4

State Budget revenues and other receipts consist of:

- 4.1 Tax revenues;
- 4.2. Non-tax revenues including economic activities of budget institutions, administrative fees and user charges, fines and

forfeitures, repayment of loans and other non-tax revenues according to the law;

4.3 Revenues from the sale of state property;

4.4. Domestic and external grants, both grants in cash, in-kind and commodities;

4.5. Domestic and external borrowing by the Government for financing capital investment and any budget deficit; and

4.6. Other revenues in accordance with law.

Article 5

5.1. All revenues raised or received pursuant to Article 4 of this Law shall form one Consolidated Fund.

5.2. Cash resources of the Consolidated Fund are maintained in one account called the Unified Treasury Account at the Bank of Albania. The Treasury may maintain, as necessary for efficient management of treasury functions, a limited number of treasury accounts to manage cash in and out of the Unified Treasury Account.

5.3. The balance of the Consolidated Fund may be invested by the Minister of Finance after consultation with the Governor of the Bank of Albania.

Article 6

Local government revenues and other receipts consist of:

6.1. Local tax revenues, including taxes given by law to Local Government;

6.2. Transfers approved by State Budget;

6.3. Domestic and external grants administered by Local Government and recorded at the Unified Treasury Account;

- 6.4. Other revenues paid to local government in accordance with law; and
- 6.5. Borrowing from the Government.

Article 7

Budget Institution expenditures and other payments consist of:

- 7.1. Current expenditure including salaries, wages and allowances, expenditure on goods and other services, current transfers, and interest payments;
- 7.2. Capital expenditure including construction, reconstruction, acquisition and transfer of capital assets;
- 7.3. Lending and equity participation; and
- 4.4. Repayment of principal on borrowing.

Article 8

Local Budget expenditures consist of:

- a. Current expenditure including salaries, wages and allowances, expenditure on goods and other services, current transfers, and interest payments;
- b. Capital expenditures; and
- c. Other expenditures for implementation of functions in accordance with law

Article 9

- 9.1. No expenditure not appropriated by the State Budget shall be made by the Council of Ministers from the Consolidated Fund except as appropriated by special law.
- 9.2. Where law requires or permits the repayment of a loan received by the Council of Ministers and there is no special fund available, the Council of Ministers has the right to use the Consolidated Fund for the repayment.

Article 10

10.1 Budget classifications, structure, and other technical parameters of the local government draft budget and the way it is drafted must be in compliance with this law, whereas the authority of Local Government for the budget is regulated by a special law.

10.2 Budget requests for special funds are developed, submitted and approved in compliance with budget classification, procedures and deadlines determined by this law.

Article 11

The difference in a given fiscal year between revenues, excluding borrowing and expenditure, is a surplus if revenues are larger than expenditures of the State Budget, or a deficit if expenditures are larger than State Budget revenues. The budget of local government shall not be in deficit.

Article 12

The proposed State Budget and the approved State Budget shall stipulate the use of a budget surplus or the means of financing a budget deficit. The budget deficit shall be financed by domestic or external borrowing.

CHAPTER II BUDGET PREPARATION, PRESENTATION AND APPROVAL

Article 13

13.1. The preparation of the Proposed State Budget is based on the requirements of economic development, analysis of macroeconomic stability, and the policies and regulations determined by the Council of Ministers and the Minister of Finance.

13.2 The Minister of Finance shall conduct macroeconomic analyses in advance of budget planning and make them available to the Council of Ministers.

13.3 The approval of an appropriation in one State Budget does not establish right to the item in the following budget.

Article 14

In June of each year, the Minister of Finance shall report on the macroeconomic and fiscal situation of the current fiscal year. The Minister of Finance shall also propose directives and fiscal policy targets, and estimate the main categories of revenues and appropriations for the coming budget year, and submit these to the Council of Ministers.

Article 15

15.1. On or before July 10, based on decision of the Council of Ministers, the Minister of Finance will issue a Circular providing guidelines for ministries and other government agencies. This Circular will indicate policy objectives, key parameters to be used, and the procedures and timetable for budget request preparation. The Circular will also indicate total levels of appropriation for each budget institution.

15.2. Minister of Finance guidelines determine the format and data requirements for the preparation and submission of the budget requests of budget institutions as below indicated:

- a. Revenue and appropriation estimates for the budget year for categories of expenditure prescribed in budget classifications issued by the Ministry of Finance;
- b. Appropriation estimates for the following two fiscal years in budget classifications approved by the Minister of Finance;
- c. Summary of proposed maximum employment level for which appropriations are requested, indicating any proposed variation from current levels;

- ç. Explanation of the estimates to permit the Minister of Finance analyze and review all budget proposals;
- d. Budget requests involving future commitments or multiyear expenditure, including investment projects, shall be submitted for each future year; and
- dh. All requests for major capital projects shall be included in the annual budget.

Article 16

16.1 Local Government budget requests are presented and approved in accordance with the criteria and budget classification provisions in article 15.

16.2 Budget requests for special funds shall be prepared, submitted and approved in accordance with the criteria, budget classification, procedures, and timetables as provided in this law.

Article 17

17.1 Budget requests from budget institutions to the Minister of Finance shall be submitted by September 1st of each year.

17.2 The Minister of Finance shall examine revenue, appropriation, and employment level requests, propose necessary adjustments, and determine borrowing requirements and examine possible sources of revenues.

17.3. In the event of disagreement during discussion of the proposed State Budget between the Minister of Finance and other institutions, the Minister of Finance will prepare a report, giving details about both institutions attitude. The Prime Minister reviews the report and makes his final decision.

Article 18

The Minister of Finance shall prepare a draft of the State Budget for submission and approval by the Council of Ministers in October of each year.

Article 19

19.1 The State Budget proposal submitted for approval shall include a statement of budget revenues and expenditures as follows:

- a. Revenue items in detail, pursuant to Articles 4 and 6;
- b. Expenditure items in detail, pursuant to Article 7; and
- c. The Consolidated Fund balance at the beginning and end of the year, and balances of the other funds included in the proposed State budget.

19.2. The Minister of Finance shall in the case of a proposed surplus, propose arrangements for its use, and in the case of a proposed deficit, propose the sources of financing. The deficit level shall be considered an upper limit and be consistent with Articles 33 through 35.

19.3. A functional classification of expenditures shall be consistent with international standards.

19.4. Revenues, appropriations, and expenditures shall include actual data for the previous fiscal year, revised estimates for the current fiscal year, and proposed estimates for the budget year.

19.5. Budget institutions shall estimate revenues and appropriations for the two years beyond the budget year.

19.6. The annual estimate of expenditures for investment projects shall extend over more than one fiscal year together with details of the expected aggregate costs.

19.7. The budget proposal shall identify revenues proposed for special purposes and expenditures and proposed legal provisions to facilitate budget implementation.

Article 20

20.1. Revenue estimates for collections shown in the approved budget shall not constrain actual collections to amounts recorded

there. Revenue collection shall be based on current revenue laws or new laws enacted in the course of the year.

20.2. Changes introduced to Parliament for the State Budget shall be consistent with the stated upper limit on the size of the deficit. Proposed appropriation increases shall be accompanied by measures to increase revenues or decrease other budget appropriations by corresponding amounts.

Article 21

The State Budget will include a reserve fund to meet unforeseen expenditures. This cannot be more than 3 percent of total appropriations. Expenditures may only be made from this reserve after proposal by the Minister of Finance and approval by the Council of Ministers. The Minister of Finance shall periodically report to Parliament on details of expenditures from the reserve.

Article 22

22.1 The Council of Ministers, after reviewing and approving, submits the proposed State Budget to Parliament by November 20 each year, for its examination and approval.

22.2 The Minister of Finance, on behalf of the Council of Ministers, presents the State Budget to Parliament and gives details about it.

22.3. After approval by Parliament, amounts appropriated in the State Budget, with the exception of payment of interest and principal on government borrowing as determined in article 9.2, shall be regarded as maximum amounts. Actual expenditures may not exceed an appropriation.

22.4 The Parliament may make changes to the proposed State Budget after the proposal of the Council of Ministers, when the main indicators of revenues change, when expenditures are above the limit determined in article 29.2, and when the deficit or other financial resources change.

22.5 The annual State Budget and approved changes shall be published in the Official Gazette.

22.6 For any law submitted to Parliament, the Ministry of Finance shall provide before approval, analysis of its expected impacts on State Budget revenues and appropriations.

Article 23

23.1 If the proposed State Budget is not approved by December 31, the Council of Ministers approves and implements a 3-month budget starting the first day of the new budget year. This budget is implemented with the purpose:

- a. To provide expenditures for Budget Institutions to exercise their functions and responsibilities according to the law;
- b. To fulfill functions and responsibilities of the Council of Ministers and other contractual obligations according to their respective agreements; and
- c. To develop and implement projects and other services on condition that approved funds for this purpose were foreseen in a provision of the previous year State Budget. However Budget institutions' approved expenditures each month may not exceed 1/12 of actual expenditures the previous budget year, with no financing for expenditures not in the previous budget.

23.2 Upon expiration of the three-month period described in article 23.1, expenditures may be made in accordance with special decree of the President of the Republic but not for more than three months. The Parliament must approve the proposed State budget by this period.

23.3 If revenues provided by specific legislation do not cover expenditures referred to in article 23.1, the Council of Ministers may borrow funds for current operations, up to a maximum of 1/12 for each month of the total borrowed in the previous budget year.

Chapter III

STATE BUDGET EXECUTION

Article 24

24.1 After the State Budget is approved, the Minister of Finance shall inform each Government institution, Public Administration institution, Local Government and Judiciary organ, of their approved budgets no later than 20 working days after approval.

24.2 Budget institutions defined in article 24.1 shall assign revenue and expenditure allocations in accordance with the approved State Budget to the other budget institutions.

24.3 Budget institutions shall be responsible for the collection of all revenues and execution of all expenditures in conformity with the appropriations approved by this law.

24.4. Every agency which administers revenue or expenditures shall have a finance office, where finance officer shall be directly subordinate to the head of the agency.

24.5. The finance officer shall be responsible for preparation of documents required for financial planning, the annual budget request, and executing the budget. In addition, the finance officer shall maintain a register of all commitments entered into by the agency and its subordinate units in accordance with directions issued by the Minister of Finance.

24.6. Within the scope of their functions, budget institution finance and budget officers are responsible for implementation of policies and regulations regarding the State Budget and the local budget, as appropriate. Such responsibility may be delegated as necessary, but delegation shall not relieve the finance officer of ultimate responsibility.

24.7. Finance and budget officers are required to observe principles of efficiency, economy and sound financial management in carrying

out their duties. In addition, they should ensure that obligations are paid in a timely manner, provided that sufficient funds are available under the relevant appropriation.

Article 25

Government agencies responsible for revenue collection must ensure full and timely collection of amounts payable to the Government according to relevant laws and directives of the Parliament, Council of Ministers, and Minister of Finance. Monies received by the Government must be banked promptly in the Consolidated Fund created pursuant to Article 5.2 of this Law.

Article 26

26.1. Expenditures of each Budget Institution defined in article 24.1 shall be in accordance with fund allocations pursuant to Minister of Finance directives. Allocations shall be determined on the basis of funds available to the Government and shall be communicated to each Ministry at least ten working days before the start of the period to which they refer. In determining allocations the Minister of Finance may keep a reserve of up to one per cent of all budget funds for unexpected circumstances.

26.2 According to their priorities, Budget Institutions defined in article 24.1 shall allocate funds provided by the Ministry of Finance to budget institutions through the Treasury, in accordance with priorities established by the relevant Minister. All institutions are obliged to respect the budget in their disposition as a maximum limit for the specified budget period.

26.3 Based on fund allocations, Ministries may enter into commitments for the supply of goods and services pursuant to prevailing regulations stipulated by the Minister of Finance. These regulations may exempt commitments on operations, including investment projects that require commitments for a longer period.

26.4 Expenditures and authorizations for future commitments may be effected or used only for the purpose set out in the State Budget and as long as that purpose lasts, but only up to the end of the fiscal year, with the sole exception that payments specified in article 33.1. may be made until the fiftieth day of the next fiscal year.

Article 27

Pursuant to provisions of article 21, when urgent and foreseen requirements for appropriations arise, budget institutions defined in article 24.1 may submit amendment requests to the Minister of Finance. Amendment requests shall state the amount sought and the basis for calculation of this amount according to instructions of the Ministry of Finance.

Article 28

Each budget institution shall report to the Minister of Finance details of its revenues and expenditures in a manner and in accordance with a schedule determined by the Minister of Finance. Likewise, details of transactions of the special funds and local governments shall be reported to the Minister of Finance by the relevant authority. The Minister of Finance shall furnish the Council of Ministers with a report based on these details.

Article 29

29.1 Approved appropriations may be reallocated among Ministries only with the approval of the Council of Ministers. Reallocation under this provision shall not exceed ten per cent in total of the appropriation being reduced.

29.2 With approval of the Minister of Finance, budget institutions defined in article 24.1 may reallocate appropriations among items of expenditure.

Article 30

In the case of the local government budget, powers exercised by the Minister of Finance in the execution of the State budget pursuant to this Law, shall be exercised by the relevant council according to specific regulations.

Article 31

31.1. Before the end of July each year, the Minister of Finance shall submit to the Council of Ministers a review of the status of the State Budget. This review shall include:

- a. An update of macroeconomic and fiscal developments;
- b. Comparative summaries of actual levels of revenues, expenditures, deficit and borrowing compared to levels in the approved State Budget, with explanations of major differences; and
- c. Proposals by the Minister of Finance for any remedial actions.

Article 32

32.1 As a result of the review identified in article 31, the Council of Ministers shall take measures necessary to ensure the budget is adjusted to meet new economic circumstances, and inform the Parliament of such changes.

32.2 When measures identified in article 32.1 require State Budget changes for the use of additional appropriations, this shall be made pursuant to article 22.4.

Article 33

33.1. The authority for expenditure from appropriations under the annual budget law shall lapse at the end of the budget year. Unpaid obligations shall be met from appropriations approved in the budget of the next fiscal year, except when orders have been received before the end of the previous budget year, in which case

payment may be made up to and including January 15th of the next fiscal year.

33.2. Revenues received after the budget year shall be recorded as revenues of the State Budget of the next fiscal year, unless otherwise provided by law.

Chapter IV

GOVERNMENT BORROWING AND DEBT

Article 34

34.1. The annual State Budget shall set a limit on the annual increase in total existing government debt, including any overdraft arrangements established pursuant to Article 5.3. Third party debt taken over by the Government shall be included in this limit.

34.2. Loans from the Bank of Albania shall also be submitted to the limit prescribed in the law “No.8269 dated 23.12.1997, On the Bank of Albania.”

34.3. The annual budget law shall set a separate limit on total government guarantees in favor of third parties.

Article 35

35.1. The Council of Ministers shall be solely entitled to borrow from any legal entity or individual in compliance with actual laws or other legal decisions. This is the only organism which gives guarantees to National Institutions, other States, or legal entity loans in compliance with actual laws or other legal decisions.

35.2. Special funds and local governments are entitled to borrow only from the Government and these loans shall be made only under specific budget appropriations.

Article 36

36.1. Government debt may be in the form of loan arrangements, securities issues, or records in a book of accounts. Details of security holders shall be maintained on behalf of the Government by the Bank of Albania or may be kept by financial institutions authorized by the Bank of Albania.

36.2. Provisions in the law on securities shall also be applicable, where appropriate, to debt issued in book-entry form.

Article 37

The Consolidated Fund is appropriated to the extent necessary to meet all interest and redemption payments on government debt principal and government guarantees pursuant to terms and conditions previously contracted by agreement of the Council of Ministers.

Article 38

38.1. Within limits set in the annual budget and under general guidelines the Government may approve, decisions regarding government debt and guarantees shall be made by the Minister of Finance. The Minister of Finance shall represent the Government in all borrowing and guarantee contracts.

38.2. The Minister of Finance shall be allowed to borrow in any form acceptable to him and to lenders and shall be free to choose the type of financial instrument characteristics and conditions. Insofar as these matters may be relevant for monetary policy, the Minister of Finance shall act in consultation with the Bank of the Albania.

38.3 Under written agreement with the Minister of Finance, the Bank of Albania shall provide all services required for the execution of decisions on government debt.

Article 39

39.1 The Minister of Finance shall maintain a record of government debt and guarantees, loans granted by the Government and shall be responsible for their management.

39.2 The Minister of Finance is responsible for the accounting and internal inspection of borrowing and debt transactions made by Council of Ministers.

Article 40

40.1 The Council of Ministers is not permitted to unilaterally modify contractual terms of debt established pursuant to this law, except to offer modified conditions to creditors which shall be validated to the extent individual creditors voluntarily accept them.

40.2 Resolutions by the Government or Minister of Finance on the conditions of any borrowing or guarantee transaction shall be published in the Official Gazette.

Chapter V**BUDGET ACCOUNTING, INSPECTION, AND AUDITING****Article 41**

41.1. The Minister of Finance shall issue directions for, and require adherence to standard accounting procedures and reporting requirements for budget institutions, special and extra-budgetary funds and local governments.

41.2. The Minister of Finance may issue different directions for each category of entity.

41.3. All revenues and expenditures shall be recorded in gross terms, regardless of the amounts actually credited or debited to or from the Consolidated Fund.

Article 42

42.1. Ministers are responsible for accounting and internal inspection of the revenue and expenditure transactions of budget institutions defined in article 24.1 and for which they are accountable.

42.2. The Ministry of Finance has the right to inspect the records of revenues and expenditures of budget institutions, special funds, and local authorities. Procedures for inspection are determined by the Minister of Finance. Inspections may be conducted periodically or unannounced any time during the budget execution process.

Article 43

Before the end of each fiscal year the Minister of Finance shall issue instructions to budget institutions for closing and production of final revenue and expenditure accounts.

Article 44

Officers in charge of budget institutions and special and extra-budgetary funds shall prepare revenue and expenditure final statements and submit them to the appropriate Budget institution as defined in the article 24.1, by the first of March.

Article 45

All Budget institutions identified in article 24.1, shall examine and settle final statements of their subordinate units, then consolidate these accounts and prepare final statements of revenues and expenditures within their management scope. Final accounts are to be sent to the Minister of Finance not later than the thirty-first of March.

Article 46

Based on final statements of accounts of Ministries and special and extra-budgetary funds on revenues and expenditures as stipulated in Articles 44 and 45, the Minister of Finance shall examine actual revenues and expenditure items and shall then prepare the final annual statement of accounts of the State Budget by the fifteenth of May.

Article 47

Any monies remaining in a Ministry or budget institution bank account opened by the Minister of Finance, at the thirty-first of December shall be repaid to the Consolidated Fund, unless the Minister of Finance otherwise approves.

Article 48

48.1 The contents of the final accounts document presented to Parliament shall be in accordance with the content and classifications of the State Budget as set out in Articles 19.1 through 19.5. In addition it shall include:

- a. The beginning and end-of-year balance of the Consolidated Fund;
- b. An explanation of major discrepancies;
- c. A report of all government borrowing or other debt management operations; and
- ç. A report of the spending from the reserve provision in the budget, and guarantees granted during the fiscal year.

Article 49

The final accounts of the budgets of local governments shall be prepared by the responsible officer following provisions consistent with those stipulated in Article 48.

Article 50

The Minister of Finance shall present the accounts of the actual revenues and expenditures of the State Budget to the Council of Ministers and Parliament for examination and approval by the end of June.

Chapter VI**VIOLATIONS AND PENALTIES*****Article 51***

If the below mentioned violations do not violate a penal act, they shall be dealt with by administrative action in the following cases:

1. Failure to meet a deadline as established in articles 17.1 and 45;
2. Use of funds against stipulations as established in article 24.7; and
3. Exceeding fund limitations, even when temporary, as established in article 26.1.

Article 52

In addition to indemnity, violations of provisions of article 51 will result in an administrative penalty from 5000 to 50000 lek. The Director of Budget Department of the Ministry of Finance will decide such administrative penalties. Within 5 days from the announcement of punishment, the infringer may grieve to the Minister of Finance, who will make a final decision within 10 days. A complaint against the decision of the Minister of Finance must be presented to the Court within 10 days. Procedures, terms, ascertainment, examination and execution of administrative penalties will be in accordance with Law no. 7697 dated 7 April 1993 for “Administrative Contravention”

Article 53

The Minister of Finance may issue orders, instructions and regulations for implementation of this law.

Article 54

The Law No. 7616 dated 30.09.1992 for approval of changes made at decree no.266 dated 22 July 1992, for “Preparation and Execution of the State Budget of the Republic of Albania” and other by laws that are against this law are hereby abrogated.

Article 55

This law is effective 15 days after its publication in the Official Gazette.