THE DEVELOPMENT OF PUBLIC SECTOR IN ALBANIA
-A comparative analyze-

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ABSTRACT

This paper's aim is to analyze the role of government under a theoretical point of view.In the first we shall attempt to ask questions and provide some answers about the role of the state in Albania economy. We shall concentrate on what kind of a socialist state we inherited, and how a contemporary state should be created comparing with the development of public sector in other ex-communist countries.We are focused on the development of institutions and how long they are appropriate to a market economy, helping in the development of a new and competitive economic structure. Better management of public expenditures requires reform of institutions, which means the consistent applications of existing laws related to the budget and the improvement of the work of the budgetary institutions.

These reforms in developing countries have required a significant shift in institutional capacity under-strength governments. It is not surprised that, while economic liberalization has been relatively easy to implement in developing countries, governance reforms has been significantly more challenging.

Key -Words: public sector, developing economies, state, government's role

1. INTRODUCTION

Significant changes on the government intervention have been seen the last two decades in developed countries. These changes have broadly involved a reduction in the role of government towards greater private sector involvement. However, this public sector changes has not been limited to the developed countries only. These changes have also been suggested and implemented in many developing countries. Many ex-communist countries coming out from long years under socialist governance challenged with the strong changes regarding the role of government on economy.

In the text that follows, we shall attempt to give as short as possible a review of the state of affairs, of the problems, and some possible ways of solving some of the most important questions of public sector economics. In the first part we shall try to provide clear answer about what the role of the state in the Albanian Economy should be. We shall at the same time concentrate on what kind of a socialist state we inherited, and how a contemporary state should be created comparing with the development of public sector in other ex-communist countries.

The situation in which the public and the private sector encounter creates ideal conditions for corruption to flourish.

In the second part we shall give an exposure of the budgeting process and the fiscal institutions, the fiscal decentralization, public investment and fiscal transparency.

Since corruption is a consequence of discretionary decision-making, it is of particular importance to step up to the transparency of the budgeting process.

In third Part we will speak of the public debt. The situation and structure of the public debt, the political aspect of public debt and questions of responsibility.

In fourth part we shall analyze the Albanian taxation system. A short description of Albanian tax system is given.

Most of the topics we write about in the following pages are important, and many other topics (for example the financing of science, education and culture that we will not here discuss in detail are also important).

2. THE ROLE OF THE STATE IN ALBANIAN ECONOMY

2.1 The Socialist State Inherited

After the Communism regime felt down in 1992, Albania found itself faced with the complicated problems of transitions from a centralized economy to the free market one. Many of the states' functions had to be changed and at the same time new institutions and new philosophy of governance had to be created in order to set up a state appropriate to the market economy. Albania did a lot in the transformation of the state but it should be pointed out of the 40% of GDP from year 1997 is still allocated to public spending, and that this portion has been changed in recent years. General government final consumption expenditure includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditures on national defense and security, but excludes government military expenditures that are part of government capital formation.

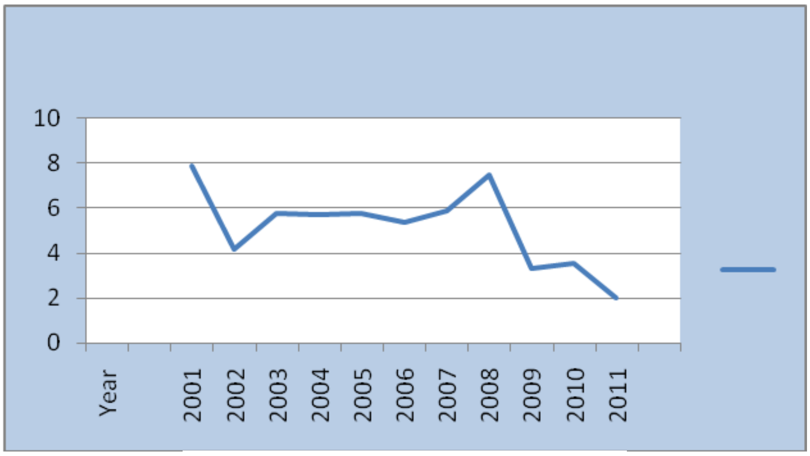
2.2 Some Indicators of Albanian's Economic Development[1]

During 2011, the growth rate of Albanian economy are slowing.
Institute of Statistics has found that during this period, gross domestic product grew by 3.1 per cent from 3.9 per cent has been economic growth in 2010[2].
"It made a preliminary assessment on the basis of three months in 2011. Gross Domestic Product (GDP) at basic prices in 2011 compared to 2010 increased by 3.1 percent. Greater weight of the trade sector and other services.Also agriculture sector.

Economic growth rates are slowing down due to the effects of the Eurozone crisis. This is due to strong trade links with Albania and European countries, foreign investment flows and remittances.
These effects are expected to affect the economy this year, regarded as one year challenge by the Bank of Albania and warned of difficult international financial institutions like the IMF and World Bank

Table 1.Real GDP Growth for Albania from year 2001 to 2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP Growth	7.9%	4.2%	5.8%	5.7%	5.8%	5.4%	5.9%	7.5%	3.3%	3.55	2%



Source: World Bank Annual Report 2011

2.3 Size and Resourcing of Government

One of the features of today's economies is the outstanding importance which "government" has assumed. In the EU, for example, the share of government is now less than the UK's 10% and in Scandinavia it can be high as a quarter (Sweden 26%).
But what is the "Government" and what kind of statistics on it are readily available? Are these statistics comparable?

[1] As for world Bank Annual Report 2011
[2]The statistics taken by INSTAT Albania doesn't match at all with the Statistics taken by World Bank Reports

Which are the indicators used for public sector's measure. These questions have largely attracted the interest about comparable figures on "Government". Present statistics on government are the obvious starting point therefore.The size of the public sector can be measured in different ways. For example, size can be measured by relating income or expenditure of the public sector to Gross Domestic Product (GDP), by measuring value-added, or the number of employees. The different measures each have their own merits, but reservations can be made against them. The most appropriate measure will depend on the context. Often the most informative approach is to use a number of different measures.

Nr.	**Summary of different measures of the size of the public sector in a specific country[3].**	Percent
1	Public sector consumption and investments	
2.	Employment in public sector exclusive publicly owned companies	
3.	Employment in public sector inclusive publicly owned companies	
4.	Public sector expenditure	
5.	Public sector income	
6.	Public sector - financial assets	
7.	Public sector - financial liabilities	
8.		
9.		

The size of the public sector from 2001 up to 2011 in certain countries.

Per cent of GDP

Table 2. General Government Final Consumption expenditure (% of GDP)

Country name/year	**2007**	**2008**	**2009**	**2010**	**2011**
Albania	10	9	10	11	N/A
Bulgaria	17	17	16	16	15
Croatia	20	20	21	22	21
Poland	18	19	18	19	N/A
Romania	13	16	15	15	16
Slovenia	17	18	20	21	21

Source: The World Bank Data[4]

Table number three shows a list of countries by government spending as a percentage of Gross Domestic Product, according to the 2011 Index of Economic Freedom by the Heritage Foundation and The Wall Street Journal. Tax Revenues is included for comparison.

Table 3. Government Spending as % of GDP as per 2011

Country Name	**Tax Burden % of GDP**	**GE as % of GDP**
Albania	24.3	32.3
Bulgaria	33.3	37.3
Romania	28.5	37.6
Croatia	23.3	40.7
Poland	34.9	43.3
Greece	35.1	46.8

Source: The World Bank Data

[3]The measures are related to GDP, even though the measure itself may not always be a part of GDP, as described below. Employment is related to total employment in a specific country

[4]*http://data.worldbank.org/indicator/NE.CON.GOVT.ZS*

World Bank national accounts data, and OECD National Accounts data files.

Catalog Sources World Development Indicators

The Government's current fiscal strategy of keeping small at approximately 30% (32.3 % as for 2011) should be maintained and consolidated. Cross-country analysis undertaken in this report for a group of high-growth countries of varying levels of income suggests that the size of Albanian's government is moderate by international standards. General government spending as a share of GDP at an average 30.5% during 200-2004 and increasing to 32.3% during 2011 places Albania within a Group of European Countries with relatively small governments, such as Estonia, Latvia and Lithuania. In the broader perspective, however the current level of spending is actually larger than in some model high-growth countries such as Chile, Ireland, Korea, Malaysia and Thailand. More detailed cross-country analysis on the relationship of the level of public spending and growth suggests that Albania's level of spending is approximately 5% points of GDP more than predicted by the model.
The overall level of tax revenues at 24% of GDP is also in line with Albanian's level of development, but the structure of revenues has been distortionary.

3. THE BUDGETARY PROCCESS AND BUGETARY INSTITUTIONS

The budgetary process is the system of the main rules that enable the executive to make decision that lead to the preparation of the Budget, its proposal and acceptance in parliament, and finally to the execution of the Budget.

3.1 The optimum level of fiscal decentralization

An essential part of fiscal decentralization reform is the transfer of expenditure responsibilities from the central government to the sub-national governments. *Fiscal decentralization is the devolution by the central government to local governments (states, regions, municipalities) of specific functions with the administrative authority and fiscal revenue to perform those functions.*
International comparative research has shown that decentralization results depend largely on the political relations between central and local institutions.
After years 1990 fiscal decentralization and local government reform have been become among the most widespread trends in development. Many of these wide range and costly efforts, however, have made only modest progress toward meeting their stated goals. Given this uneven performance, there has been extensive debate about the desirability of fiscal decentralization and how to approach it.
Relevance for developing countries
Theories by definition involve simplification and generalization. The type of abstraction that theorizing requires is problematic with respect to considering fiscal decentralization in developing countries. Although context should never be ignored in public policy analyses, there are some relatively established practices and standard institutions that must be considered in assessing macroeconomic structure and performance, international trade management and many other economic functions. The rules of the game for considering fiscal decentralization in complex and varied context are much less clearly defined, and there is much less "good practice" experience for policy makers to draw on.
The degree of decentralization of any system is measured by the share of the expenditures of central government in total direct expenditure. The use of this criterion confirms the statement that central government has the lion's share in the total expenditure.

3.2 The budget in function of economic growth- public investment[5]

Albanian's GDP in 2010 shrank 2.6% to US$ 11.578 billion down from US4 12.185 billion in 2009. In 2011, Albania GDP was 32.3% and up to 2015 it is forecasted to reach US& 15.64 billion.
Albania's population as of 2010 was 3.202 million, with 23.1 percent aged 0-14 years. 67.1 percent aged 15-64 and 9.8 percent aged 65 and over with 12.5 percent of the population unemployed. 58 percent of employment in Albania is generated through agriculture, although agricultural only contributes 20.6 percent of GDP - 15 percent of labor is contributed by industries and 27 percent in services.
Albania has rich deposits of fossil fuels and precious metals that can turn its trade deficit around however, the country's industry sector suffers from the unavailability of modern machinery to extract and exploit their natural resources, hence the need for foreign investment.
While Albania undergoes major macroeconomic transformation, substantial improvement has been seen in the economy since 2004. The country remains among the poorest in the world however. Approximately 12.4 percent of the population lives below the poverty line, a reduction from the 25.4 percent level seen in 2002.
The country's budget in 2010 indicated government revenues of $3.46 billion, investments exceeding $4.099 billion and public debt soaring ti 54.9 percent of the GDP, even as inflation remains low at 2.1 percent

[5] Source: Economy Watch http://www.economywatch.com/world_economy/albania/

3.3 Local Government

Local Government is an important element of government, whose role has grown more and more through fiscal decentralization reforms. One of the achievements of this reform has been increased financial autonomy by 31% in 2002 to 48% in 2011. Was noted that there is an increase of 4.2% in unconditional transfer of funds estimated for the year 2012 compared with the 2011 revised budget.
However the total transfer forecasted for 2012 is 138 million lower due to reduced by about 600 million rural development fund. This fund is an innovation in budget local government which started in 2010. The purpose of this fund is to encourage the development economic, the smallest administrative unit, which is the Municipality, the Municipality of up to country level.

4. PUBLIC DEBT AS PERCENT OF GDP

Debt is the entire stock of direct government fixed-term contractual obligations to others outstanding on a particular date. It includes domestic and foreign liabilities such as currency and money deposits, securities other than shares, and loans. It is the gross amount of government liabilities reduced by the amount of equity and financial derivatives held by the government.

Table 4. The Public Debt from year 2008 to year 2011

Public Debt/Year	**2008**	**2009**	**2010**	**2011**
Albania	55.1	59.8	58.3	58.9

Source: World Bank Annual Report 2011

Table 5.Public deficit (General government net lending/borrowing as a % of GDP), from year 2008 to year 2011

Public Deficit/Year	**2008**	**2009**	**2010**	**2011**
Albania	**-5.1**	**-7.4**	**-4.2**	**-3.5**

Source: World Bank Annual Report 2011

Albania has today a public debt at 59-60% of GDP or about $ 7.5 billion, which means that we have reached the maximum limit "allowed" this delicate indicator and why not dangerous in this period of global crisis.
This is definitely a heavy burden on the budget, public finances and the economy in general. IMF[6], but also other international institutions recommend that a economies such as Albania, the optimal level of debt can fluctuate in the range of 40-50% of GDP.
Meanwhile, not only for 2012 but also for the next 3-4 years the public debt reduction under 55% seems difficult. In this context, the forecast made for keeping the debt constant or in the best case, the reduction of 1% of the level of debt appears to be only solution of "conditional" in the situation where we are.

5. FISCAL TRANSPARENCY AND CORRUPTION

A transparent budgetary process ensures clear information about all aspects of fiscal policy. A key role in transparency is played by actions and procedures oriented to informing parliament and the public precisely about the intentions of the fiscal policy, about the budgetary accounts and about the projections of the Budget. A budget that includes numbers of separate accounts and that does not manage to consolidate all fiscal activities in the bottom line is not transparent. A budget that is easily available and intelligible to the public and those who take part in the decision making process, and which displays consolidated information, is transparent.
Albania has seen a decrease of 8 countries in the Transparency International rankings in terms of the level of corruption. So in the last report of this organization, Albania ranks 95th out of 183 countries in terms of corruption.
The report presented by TIA[7] (Transparency International Albania) estimates that Albania in 2011 has 3.1 points, compared to 3.3 that was in 2010 in terms of CPI (corruption perception index). While other countries in the region, Montenegro has made some progress, Bosnia did not change the level, while Serbia and Macedonia

[6] International Monetary Fund
[7] Transparency International Albania http://www.tia.al/eng/

have been moving backwards. Kosovo is ranked 112, along with Egypt, Moldova, Senegal, Vietnam and Algeria

6. CONCLUSIONS

- After twenty long years of transition, Albania still keep facing difficulties achieving her economic growth's goals.
- General governmental expenditure (% of GDP) for Albania in year 2011 was 32.3%, comparing with 29.564 % in 2010. This makes Albania number 113 in world ranking according to General Governmental total expenditure(% of GDP) in year 2010.
- The worlds average General Governmental total expenditure (% of GDP) value is 34.30 %. Albania is 2.1% less than average
- General government spending as a share of GDP at an average 30.5% during 200-2004 and increasing to 32.3% during 2011 places Albania within a Group of European Countries with relatively small governments, such as Estonia, Latvia and Lithuania.
- Fiscal Decentralization shows week progress. The management of local government taxes remains weak. Local government authorities continue to lack the administrative capacity to improve revenue collection, increase their fiscal autonomy and improve their performance accordingly. Several local governments unit were unable to approve the 2011- a situation which continued during 2012. The access of local government units to loans, as provided by the low on remained borrowing, remained limited.
- Albania has today a public debt at 59-60% of GDP or about $ 7.5 billion, which means that we have reached the maximum limit "allowed" this delicate indicator and why not dangerous in this period of global crisis.
- In terms of Corruption Perception Index, Albania has 3.1 points, compared to 3.3 that was in 2010 ranking Albania 95th out of 183 countries in terms of corruption. Albania is ranked the eighth or next to last in the region, leaving behind only the newest state of Kosovo.

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Abbreviations

GDP	Gross Domestic Product
GE	Government Expenditures
IMF	International Monetary Fund
TIA	Transparency International Albania
CPI	Corruption Perception Index