**Project: Increasing Parliament's Responsiveness to Citizens**

Findings and Recommendations

Policy Paper: Parliament and its role in overseeing the drafting, execution, and effectiveness of fiscal policies

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Through the presentation of Policy Documents, our aim is to present findings and recommendations on aspects related to strengthening the role of the Parliament, its cooperation with institutions or other civil actors in improving processes of drafting, consultation and monitoring of the Budget State and Public Finance.

The findings, conclusions and recommendations are solely those of the authors and do not necessarily reflect the views of the Donor and Partners.

# **Conclusions and Recommendations**

**Conclusions**

Deviations from the forecast show that there is still a **lack of accuracy in predicting** the analytical indicators of income and expenses concerning the medium-term and annual period. Deviated forecasts of fiscal indicators have undermined the credibility of Albania's medium-term budget framework.

The government's economic and fiscal plans are not subject to independent evaluation or confrontation with those of independent forecasters. There is **no independent fiscal council** to assesses the government's plans and the government fail to provide explanations for discrepancies between each new forecast and its predecessor.

Changes in fiscal indicators suggest **weak financial programming**, indicating that the allocation of public funds is not based on analysis and priorities. Instead, it seems to be driven by *ad hoc* requirements, turning medium-term programming into a superficial process, with serious implications for public finances. The failure to meet income and expenditure indicators, compared to those approved by the Parliament, highlights weaknesses in the budget execution system.

Over time, approved budgets have overestimated revenues, fostering **unrealistic expenditure plans** and compelling the government to implement spending cuts throughout the year. Conversely, when income forecasts have been underestimated, it has led to unrealistic planning that enable higher levels of public spending.

The **repeated revisions** to the budget plan through normative acts have conferred legislative attributes upon the Council of Ministers. The frequent amendments indicate a shift away from managing public financial administration according to the initially approved budget law in the Parliament, replacing it with reliance on Normative Acts. The significant number of revisions suggests that the initial budget lacked realism, thereby undermining the credibility of the planning process.

Changes to the budget through **Normative Acts have infringed upon the Parliament’s authority** as outlined in the Constitution[[1]](#footnote-1). The approval of amendments to the budget after parliamentary endorsement indicates a disregard for the Parliament and highlights a concerning dominance of the Executive branch. This is evident in the prioritization of budget revisions, signalling a lack of respect for the legislative body.

The current tax system is **complex and fragmented**. Exemptions and preferential treatment for various groups and sectors of taxpayers have been added in response to pressure from lobby groups and challenges with administration, undermining the stability and transparency of the system. Exemptions and reduced tax rates have increased tax expenditures.

The fiscal system has resulted in a **narrowed tax base**, especially for VAT, and has led to arbitrary differences in the tax burden, creating favourable conditions for an informal culture and a market competition without clear rules and effective control.

Frequent ***ad hoc* changes to the tax system** have undermined its stability and transparency. The challenges in revenue realization can be attributed to a narrowed tax base, primarily caused by exemptions and preferential treatments, difficulties in tax and customs administration, as well as the high level of informality.

The **administration of public investments** is characterized by a series of weaknesses, such as the lack of comprehensive reviews of capital investment projects, the lack of monitoring and reporting on capital investment projects, the lack of evaluation, selection and implementation of projects, the non-publication of cost-benefit analysis for large projects, lack of contracting with open and competitive tender procedures, in accordance with the law on public procurement, non-realization of investments in accordance with the approved budget plan, etc.

The audit of capital investments with internal financing has revealed issues related to concentration of investments in the **final fiscal month**, significantly affecting the effectiveness of the implementation of public contracts concluded during the year, with consequences in the term, cost and quality of service provision and public works, the implication of the impact of increased liquidity on financial markets.

Investment projects have been presented and approved in a **fragmented manner**, in some cases the investment details have not passed the cycle of investment management, detailing investment funds without having approved funds, etc. The administration of foreign investments has shown lack of commitment to transparency, starting with the missing publication of the list (only starting from 2018), as well as the approval of foreign projects without specifying the source of funding.

The rapid **expansion of Public Private Partnerships** (PPP) has increased the risks associated with their impact on fiscal indicators, including public debt. Moreover, the absence of measurable indicators of their performance, the timely achievement of their objectives of economy, efficiency and effectiveness remain questionable.

Improving the **administration of PPPs** requires strengthened institutional control and joint processes of planning PPP projects along with public investments projects. Parliament should increase its oversight role over the transparency and administration of investment projects, including PPPs.

A notably deficiency in financial administration and control remains the use of the **Council of Ministers’ Reserve Fund**. The use of the reserve does not comply with the criteria defined in the law, which requires its use for cases that are not known and are impossible to predict during the budget preparation process.

Upon examining166 cases of Reserve Fund usage between 2016-2022 period, it is estimated that only 90 cases or 54% of them align with the criteria outlined in the Organic Budget Law. According to SSA, it emerges that the Reserve Fund was used, in more significant cases, to finance expenditures that are known and could have been foreseen during the budget preparation process.

A notable deficiency is apparent in the **oversight role of the Economy and Finance Committee** of the Parliament in the process of approving the Budget. In general, the report of the Committee on Economy and Finance is a repetition of the draft budget report sent by the Ministry of Finance.

The Committee appears to be lacking its proactive stance by not putting proposals for fiscal reform or improvement of public spending administration and, in particular, of public investments. The reports lack an analysis of the fiscal risks and in particular, of those generated by the expansion of the PPP. On the contrary, the Committee's proposals are mainly made for reallocation of funds within the same program, salary increase, or relative increase in the budget of the independent institutions.

On average, the revisions proposed in the 2021-2024 period are about 0.4% of the draft Budget sent by the Executive for approval in the Parliament. Conversely, revisions by the Council of Ministers, through the Normative Acts, of the Budget approved in the Parliament are on average over 4%, and in certain years, they even exceed this level. The Economy and Finance Committee has never approved amendments proposed by the opposition.

The Committee’s public consultation process has been limited to a small number of interest groups, along with the participation of the Association for Local Autonomy or the Association of Municipalities. However, the report from the Economy and Finance Committee lacks specific details regarding the feedback received from these interest groups after the public consultation.

**Recommendations**

The Parliament should strive to **enhance the credibility of the Medium-Term Macroeconomic and Fiscal Framework**. To achieve this goal, the Legislative body will have to urge the Executive to continuously improve both the mid-term and annual budget planning process, aligning them for greater coherence. Additionally, efforts should be directed towards ensuring accuracy and quality in the implementation of strategic priorities, with the aim of establishing a realistic, well balanced and stable annual budget.

The Parliament should engage in discussions regarding the imperative for establishing **an independent Fiscal Council** (and if it is possible to be granted independence from political interference), emphasizing its pivotal role in promoting sustainable public finances. The proposed Fiscal Council would be tasked with monitoring compliance to fiscal rules, approving macroeconomic plans and advising the government on medium-term fiscal policy matters.

The Parliament should insist on and ensure the enforcement of Article 160 of the Constitution, which grants the legislative branch the authority to **propose revisions to the Budget throughout the financial year**. It is essential that such amendments align with the procedure stipulated for the drafting and approval of the Budget itself, avoiding the use of the Normative Acts for this purpose.

The structure of **business taxation needs to be adjusted** to mitigate distortions, arbitrage, avoidance and income leakage. It would be preferable to consolidate all corporate income tax rates into a single unified standard rate.

The **tax system** should be simpler and fairer to improve the fulfilment of the taxpayer's tax obligations. In light of prevalent informality, it is essential to design the tax system with a relatively limited number of taxes, featuring a single or very few tax rate applied across a broad basis.

**Tax expenditures** resulting from exemptions, reduced rates and preferential treatments need to undergo regular reviews and evaluations to assess their effectiveness and impact on revenues. The tendency should be the gradual reduction of tax expenditure, in order to increase income.

The Parliament should go beyond just approving a ceiling in the estimated value of the contracts as a percentage of the Gross Domestic Product (GDP), for all Concessionary/PPP projects, while these approvals should be reflected **transparently and in accordance with international public accounting standards**.

The Parliament must call for the implementation of a set of recommendations aimed at enhancing the **PPP administration.** These measures should include only projects with competitive offers, which are in line with strategic priorities, the assessment of future obligations, the administration of PPP to be unified with the administration of public investments, their impact on fiscal indicators and public debt, monitoring the performance of Concessionary contracts, as well as the publication of the PPP summary report once a year.

The Parliament should request the implementation of Article 5 of Law no. 9936, dated 26.6.2008, "*On the management of the budget system in the Republic of Albania, as amended*", on the use of the Reserve Fund of the Council of Ministers. This article underscores the importance of restricting the use of **Reserve Fund** only for cases of financing expenditures, which are unknown and impossible to predict during the Budget preparation process.

The overseeing role of the **Finance and Economy Committee should be strengthened,** enabling it to demand from the Executive for a high-quality information about the general economic, social and financial situation in the country, including cases when the approval of the budget law is being discussed.

The Committee should broaden **public consultation with all interest groups**, during discussions on fiscal policies, as well as the allocation of public funds across on respective sectors. In addition, the Committee should allow for more space in the discussion and better consideration of potential amendments, proposed by the representatives of the opposition.

The Finance and Economy Committee should ensure the **promotion of sustainable public finances** through the monitoring of compliance with fiscal rules, the adoption of realistic macroeconomic and fiscal forecasts, the adoption of effective fiscal policies, as well as the administration of expenditures in accordance with the Organic Law of the Budget.

Based on the best practices from other countries, the **establishment of a committee or sub-committee structure** under the Finance and Economy Committee, with the main objective of reviewing the effectiveness of fiscal policies and public spending and giving the government the incentive to gravitate towards the results or performance of the use of financial resources, should be considered.

1. Nenit 160 i Kushtetutes parashikon qe gjatë vitit financiar Kuvendi mund të bëjë ndryshime në buxhet. [↑](#footnote-ref-1)