

Incentive Issues Underlying the Budget Process in Albania

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Abstract

Albania has been reforming its policy, planning and budgeting systems since the end of communism and now, in principle, has sound public expenditure management (PEM) systems and procedures within an Integrated Planning System (IPS). In practice, the PEM system has yet to operate fully as intended. Such reforms take time to implement properly, especially where incentives to implement remain weak or perverse.

The 1998 Organic Budget Law created an enabling framework for the budget process that permitted, but did not explicitly require, an output focussed system based on medium term planning. Formal rules and regulations explicitly requiring such a system now exist (under the Law on Management of the Budgetary System (LMBS)) but the budget process continues to have weak planning during budget preparation and retains excessive flexibility during budget implementation. There is a vicious circle: weak planning leads to chaotic budget implementation which requires excessive flexibility in execution to compensate; the flexibility in practice is a key disincentive for implementation of the intended PEM system. It also produces an opaque policy, planning and budgeting process.

There are four categories of incentives influencing the extent and pace of achievement of the ideal system:

Political commitment to implementing the ideal system.

Civil service commitment to implementing the ideal system.

The ability of both the political and technical strata to manage the change from the emerging system to implementation of the ideal system.

External influences on the implementation of the ideal system.

The Integrated Planning System is a sound one. If applied as intended PEM performance will be strong. Some of the incentives for application are weak. The IPS design includes the means of strengthening most of these incentives so continued implementation should bring positive results in PEM performance. The IPS design does not deal with the detail of performance management incentives (job descriptions and organisation missions reflecting service delivery performance measurement, career development, personal performance appraisal) and these need particular intention. The critical incentives are those for good management not just good budgeting. Good management will deliver good budgeting.

Keywords: Incentive Issues, Budget Process, Albania.

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