

GREEN BUDGETING IN ALBANIA

STUDY

August 2022

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Prepared by:
Milieukontakt Albania
Studio D – Development and Dialog



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Abbreviations

ALL	Albanian Lek
ASA	Agreement for Stabilisation and Association
CoM	Council of Ministers
EU	European Union
EC	European Commission
GDP	General Domestic Production
LULUCF	land-use, land-use change and forestry
MBS	Management of Budgetary System
MoFE	Ministry of Finance and Economy
MFF	Macroeconomic Fiscal Framework
MoTE	Ministry of Tourism and Environment
MTBP	Medium Term Budget Programme
MP	Member of the Parliament
NEA	National Environment Agency
NPEI	National Plan of European Integration
NSDI	National Strategy for Development and Integration
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Cooperation and Development
PFM	Public Financial Management
PPR	Program Policy Review
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change

Executive Summary

The study “Green Budgeting in Albania” comes for the first time, even though there is not an obligatory regulatory framework for its implementation. Green budgeting is a form of priority budgeting, as new priorities are emerging for policymaking and governments are deploying novel budgeting approaches that aim to help attain these priorities. In the last decades European Union (EU) member states have started to integrate policies to address environmental challenges, including budgetary policies. Regardless, few countries have green budgeting practices in place and those are heterogenic.

The study reviews the national strategic framework in Albania to confirm compliance and coherence with green budgeting and the associated global commitments towards Climate Change action, as well as to assess the existing tools to undertake green budgeting in Albania. In the context of Albania implementation of environmentally sustainable economic activities is a priority confirmed in response to the local needs/situations analysis but also bound to the implementation of the Stabilisation and Accession Agreement (SAA) signed with EU.

Green budgeting can be implemented through several tools, including budget tagging of environmental programs, environmental impact assessments and environmental expenditure reviews, with the aim to measure budget funds for this function and simultaneously to monitor indicators of environmental objectives through increase in monetary assets.

The study concludes that there is a lack of legal and institutional or administrative capacity to plan, budget, implement, enforce or monitor climate change and environment protection efforts. In the organic law of the state budget as well as in the annual budget laws, it has not been introduced so far, any budget program/product/economic code, with the title "Green Budgeting". Environment protection is one of 127 programs funded by the state budget and budget allocated for it is very low. In the last 4 years the budget has been 0.23-0.18% of the total budget of the government, much lower value than other countries of the Balkan.

The study recommends a clear and enabling legal framework to support green practices at each entry point of the budget process and provides flexible mechanisms when contingency spending and other types of government support are needed for those adversely affected by climate and environmental events.

The definition of the economic-fiscal elements according to the economic classification and of the respective fund, is the only method of green budget implementation. Such models are already applicable in Albania, such as gender budgeting, the allocation of the reserve or the emergency fund.

Fiscal forecasting and modelling at macro level that incorporate climate and environmental impacts can inform the preparation of the fiscal strategy and the budget. The fiscal trajectory specified in a Medium-Term Budgeting Programme (MTBP) should be consistent with the findings of budget sustainability analysis, and cover the effects and risks related to climate, including through scenario analysis. This would inform policymakers in the implementation of risk mitigation measures.

Introduction

'Greening' the national budgets is an important part of the ecological transition towards green economy and achieving Sustainable Development Goals, SDG. In the last processes of the EU, such as the Green New Deal or Green Agenda for the Western Balkans and in their respective communication, the European Commission, (EC) expresses that "a greater use of green budgeting tools will help to redirect public investment, consumption and taxation to green priorities and away from harmful subsidies"¹ (European Commission, 2019; 17). As budgets are one of the main expressions of how a government wants to implement its political ambition, aligning budgets with environmental objectives is a crucial tool for the ecological transition². In the EU, while all Member States have introduced policies to address environmental challenges, including budgetary policies, coherence and coordination of these policies could be improved.

Assessing the overall greenness of a budget is a necessary step to promote consistency vis-à-vis environmental objectives. EU defines green budgeting '*as a budgetary process whereby the environmental contributions of budgetary items are identified and assessed with respect to specific performance indicators, with the objective of better aligning the budgetary policies with those environmental one. This includes evaluating environmental impact of budgetary or fiscal policies and assessing their coherence towards the delivery of national and international commitments. Green budgeting can also contribute to informed, evidence-based debate and discussion on sustainable growth*'.

Green budgeting is a new concept not only for Albania but also for other developed countries. It is a form of priority budgeting³, as new priorities are emerging for policymaking and governments are deploying novel budgeting approaches that aim to help attain these priorities, such as gender budgeting, green budgeting and wellbeing budgeting. Few countries have green budgeting practices and those are heterogenic.⁴

This study reviews the national strategic framework to confirm compliance and coherence with green budgeting and the associated global commitments towards the Climate Change action, as well as to assess the existing tools to undertake green budgeting in Albania. The study tends to give answer to the questions like:

- i) *Why green budgeting is useful for the Albanian environment, and which are the main benefits from it?*
- ii) *Does labelling currently apply as a green budgeting in local/national level in Albania?*
- iii) *What are the useful and appropriate factors to successfully implement green budgeting in Albania? What are the gaps [if any] and mitigation steps/ measures?*
- iv) *Is there a political will to successfully implement green budgeting practice in Albania? What are knowledge and attitudes of the policy and decision makers?*
- v) *What are the recommended steps for improving policies and legal framework to effectively implement green budgeting in Albania in local and national level?*

¹ [resource.html \(europa.eu\)](#)

² The ecological transition is defined here as the transition to transform the EU into a clean, resource-efficient and circular economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.

³ As identified in the [Paris Collaborative on Green Budgeting - OECD](#), (2018)

⁴ [Green Budgeting Practices in the EU.pdf](#)

Methodology

The EU Classification System for environmentally sustainable activities identifies six environmental objectives and associated activities: (i) climate change mitigation; (ii) climate change adaptation; (iii) sustainable use and protection of water and marine resources; (iv) transition to a circular economy, waste prevention, and recycling; (v) pollution prevention and control; and (vi) protection of healthy ecosystems. Experience in EU and OECD countries confirms that to achieve/ implement all or some of the objectives/activities listed above a common language and a clear definition of what is 'sustainable' is needed. Therefore, the action plan on financing sustainable growth called for the creation of a common classification system for sustainable economic activities, or a "taxonomy". This could play an important role in scaling up sustainable investment and implement the European green deal. In the context of Albania, implementation of environmentally sustainable economic activities is a priority confirmed in response to the local needs/situations analysis but also bound to the implementation of the Stabilisation and Accession Agreement signed with the EU. To this point the EU taxonomy is a policy alignment and standard-setting tool applicable in Albania, as part of the Stabilisation and Accession Agreement, i.e., EU accession process.

The project team in preparing the study was based on:

- A. Review and analyse of the main strategies and documents** of the Albanian Government in the environment sector, climate change and of the budgetary processes accompanying the programs of the national and local government⁵. Referred to the OECD framework (which is a basis for the EU – OECD Green Budgeting survey) our analyse consisted of:
- Review of the national strategic framework [National Growth Strategy, sector related strategies, enacted legislation MTBF] to identify evaluation linkages between environment and climate strategic priorities and objectives are in place to inform fiscal planning.
 - Identify [existing] tools for evidence generation and policy coherence to obtain data [evidence] on the impact of budget measures to environmental and climate objectives.
 - Identify reporting standards/guidelines to facilitate accountability and transparency, which can facilitate scrutiny of the quality and impact of green budgeting.
 - Review of the national budgetary governance framework to sustain green budgeting practices in different sectors and administrative-territorial units.

Document analysis has the following advantages:

- **Efficient:** Document analysis is less time-consuming and therefore more efficient than other research methods. It requires data selection, instead of data collection.
- **Availability:** Many documents are in the public domain. This makes document analysis an attractive option for researchers.
- **Cost-effectiveness:** is less costly than other research methods and is often the method of choice when the collection of new data is not feasible. What remains is for the content and quality of the documents to be evaluated.

⁵ In Reference section are given main sources of the information reviewed by the team of experts.

- **Stability:** documents are stable. The investigator's presence does not alter what is being studied. Documents, then, are suitable for repeated reviews.
- **Exactness:** references, and details of events makes documents advantageous in the research process.
- **Coverage:** they cover a long span of time.

B. Semi structured interviews. Additional information was collected through questionnaires and semi structured interviews with Members of the Parliament (MP's)⁶ and key personnel in line ministries, central institutions and local government units. As in the case of documentary review, the whole information collected is presented in the study and its findings.

C. Meeting with different actors of the civil society. Draft findings of the study related to the review of the national strategy framework and environmental programs together with the respective budgets for the last three years were part of the discussion organised with MPs, representatives of the political parties, of the Civil Society Organisations, of the central government and international organisations. Problems raised served as a further confirmation of the information /answers taken during the semi-interviews.

Limitations in the methodology

Two main approaches are usually observed to preparation, implementation of MTBFs and relevant application of green budgeting instruments. In our assessment, we focused only on the first approach, a '**procedural**' one, which considers the MTBFs as the structural sets of arrangements and procedures that preside over the production of three-year budgetary figures. Nevertheless, we can draw out some figures and facts on the general 'tagged' budget for environment at least in the last three years and the percentage in the overall budget of the Government and compared with the objectives of the strategies/plans.

The choice is imposed by assumption that green budgeting is a novel practice for local institutions and applicable standards and norms must be developed. This approach is much more comprehensive as it looks at the overall 'architecture' of the budgetary processes (actors, procedures and products).

The second approach, a more "**quantitative**" one, interprets the MTBPs as the set of figures itself, or budget plan, expenditure, revenue, and tax expenditure in the budgets and assigns a 'tag' based on their relevance to climate or environmental objectives. What makes the application of second approach difficult for project team, is the time limits and related resources allocated.

However, using the systematic tracking and assessment (environmental and socio-economic) of disaggregated national budget would not only bring both unprecedented transparency and accountability to the use of public funds, but also encourages government to better design and plan for public spending.

⁶ In annex is given the questionnaire form used.

Analysis of the national strategic framework

The key national planning document currently in place is the National Strategy for Development and Integration 2015-2020 (NSDI-II), which was adopted by the Government of Albania in May 2016. This strategic document reflects the vision, priorities, objectives and means for social and economic development of the country up to 2020⁷. Around 37 sectorial strategies adopted by the Albanian Government (and in three cases, by the Parliament) complement the NSDI-II. The document is organised in four main sectorial pillars: i) growth through macroeconomic and fiscal stability ii) economic growth through enhanced competitiveness and innovation iii) investing in social capital and social cohesion iv) growth through sustainable use of natural resources and territorial development.

The overarching goal of NSDI-II is the accession to the EU. As part of the process, the country is transposing and implementing parts of the EU legislation including in the environmental domain. Albania is also considering the EU's strategies and plans for the Western Balkans such as the EU Economic and Investment Plan for the Western Balkans⁸, adopted in October 2020, and the EU Green Deal for the Western Balkans, adopted in November 2020.

Republic of Albania is an active participant in multilateral organisations and agreements. Albania is a signatory Party of the United Nations Framework Convention on Climate Change (UNFCCC) from 1994 and in 2016 has signed the Paris Agreement⁹. In line with UNFCCC standards, the government prepared a document outlining the actions it planned to undertake to address climate change, also known as the Nationally Determined Contribution (NDC), in 2015. Albania signed the Paris Agreement, the most ambitious multilateral climate change agreement, in April 2016. To achieve its objective, all Parties to this agreement are expected to update and enhance their NDC every 5 years. Albania's greenhouse gas (GHG) average annual emissions, according to the national inventory prepared for the 1st Biennial Update Report (BUR), amounted to 10.8 Mt CO₂e/y in the period 2009-2016¹⁰. Compared to the rest of Europe, this level of emission is low. While the level of emissions per inhabitation is 8.7 t CO₂e/cap in the EU-27 in 2018, the mean level of emission per capita in Albania is 3.5 t CO₂e/cap in 2016. The NDC relies on the comparison between a Business-as-Usual scenario (BAU) and a mitigate scenario considering mitigation measures so-called the NDC scenario. Projections rely on macro-economic assumptions such as the Gross Domestic Production (GDP) and population forecast as well as on historical trends, strategies and plans as endorsed at national level. In July 2019 Albania approved a National Climate Change Strategy and corresponding national mitigation and adaptation plans. Albania aims to reduce emissions relative to business-as-usual by 2030, with the implementation of mitigation actions in the main emitting sectors of the economy: Energy, Agriculture, Waste and land-use, land-use change and forestry (LULUCF).

⁷ The strategy is under revision.

⁸ This investment plan, which will mobilise up to €9 billion of funding for the region, aims to spur the long-term economic recovery of the region, support a green and digital transition, foster regional integration and convergence with the EU.

⁹ The Paris Agreement is almost universally ratified and shifts responsibility to countries for determining appropriate climate responses. Hence, all those adhering must adopt policies and laws that strive to achieve the Paris Agreement's temperature goal — "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

¹⁰ [First Biennial Update Report for Albania EN.pdf \(unfccc.int\)](#)

The inclusion of Agriculture, Waste and LULUCF are an enhancement since the first NDC only covered Energy.

Albania considers the working towards a “green economy” as fundamental. First, it is clear that the green economy does not replace sustainable development but should be considered as a new path to progress toward it, being instrumental for the reduction of environmental risks and ecological scarcities, as well as to the improvement of human well-being and social equity. In a green economy (which is low carbon and efficient natural resource), growth in income and employment should be driven by public and private investments, which reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services. Along the same line, in the medium to long run, an effective green economy strategy will be a powerful drive for delivering growth, increasing employment and eradicating poverty.

To ensure Albania aims at this path towards a green economy, it is the task of Government to define regulatory frameworks that support private sector commitments to green investments and provide a good basis for development that aims to be economically viable, socially acceptable and environmentally rational.

Government of Albania has adopted a good Policy Corpus on Environment and Sustainable Development. As integration into the EU is the main political objective of the country, national strategic framework has been developed in compliance with the objectives and targets of the EU policies and the Acquis Communautaire. This framework,

ENVIRONMENTAL OBJECTIVES NSDI-II

1. Achieving measurable results in air quality by 2020 through:
 - 1.1 Reducing pollution levels in urban areas.
 - 1.2 Reducing the impact of air pollution on human health.
2. Reaction towards climate change and the contribution to protect the ozone layer by 2020 through:
 - 2.1 Reducing greenhouse gas emissions, compared to a baseline scenario for reduction of CO₂ emissions, by 2030.
 - 2.2 Reducing the amount of HCFCs.
3. Intensifying and strengthening nature protection by:
 - 3.1 Increased surfaces of protected areas through growth and integrated management of protected areas.
 - 3.2 Establishment of Natura 2000 ecological network.
 - 3.3 Ensuring conservation status of endangered/threatened species and habitats.
4. Strengthened management and conservation of forestry and pasture resources through:
 - 4.1 Reduction of illegal logging in forests by 2020.
 - 4.2 Formulation of management plans for all forestry economies in the country.
 - 4.3 Rehabilitation of degraded areas.
5. Strengthened water resources management and preservation through:
 - 5.1 Adoption of the National Strategy on Integrated Water Resources Management.
 - 5.2 Establishment of a national cadastre of water resources.
 - 5.3 Introduction of a water resource inventory.
 - 5.4 Formulation and implementation of water basin management plans.
 - 5.5 Meeting water quality levels.
 - 5.6 Rehabilitation of damaged riverbeds.
 - 5.7 Aligning national legislation with EU legislation.

Source: NSDI-II, 2016.

summarised below, is very important to ensure that both policy and legislation in Albania are compatible with the principles of sustainable development.

- i. Albania Post-Disaster Needs Assessment (2020)
- ii. Integrated waste management strategic policy document and national plan 2020-2035 (2020)
- iii. National Strategy on Climate Change (2019)
- iv. Climate Resilient Road Assets in Albania (2019)
- v. National Plan for Air Quality Management (2019)
- vi. National Strategy of Water Resources Integrated Management 2018–2027 (2018)
- vii. Nationally Determined Contributions (2016)
- viii. Third National Communication on Climate Change (2016)
- ix. Strategic Policy Document for the protection of biodiversity (2015)
- x. National Strategy for Development and Integration (2013)
- xi. Albania DRR Assessment Report (2011)
- xii. Second National Communication of Albania to the UNFCCC (2009)
- xiii. Albania’s Technology Needs Assessment (2005)
- xiv. First National Communication of Albania to the UNFCCC (2002)

In addition, domestic fiscal policies are an important component of governance to respond with an integrated strategy on environment and climate change. To be implemented efficiently, NDCs resulting from the 2015 Paris Agreement should be translated into precise and granular government policies. Similarly, climate dimensions of SDG should be reflected in development priorities and be incorporated into the medium-term planning and annual budget allocation decisions. While regulation plays a key role, climate commitments have already fed into domestic expenditure and tax policies, through various measures supporting climate change mitigation or adaptation. The urgent and existential nature of the threats, their potential impact on the macroeconomic and macro-fiscal outlooks as well as the scope of the required policy changes make policies to fight climate change and increase resilience one of the biggest challenges of our times. While the sharp economic slowdown during the COVID-19 pandemic is expected to have only a small, temporary positive effect on greenhouse gas (GHG) emissions, how we perceive and drive the post-COVID recovery—through infrastructure investment in particular—will shape the environment and the climate in the longer run.

Available Instruments for Budget Assessment

Assessment of existing tools for evidence generation and policy coherence

Green budgeting can be pursued through several tools, including green budget tagging, environmental impact assessments as well as green spending reviews, in order to have the greatest effect on green objective per euro.

Data will be central to successful climate and environment action. Government will need data and information from all the sectors about baselines, impacts, successes, and failures, and for reporting within the Paris Agreement’s enhanced transparency framework. Climate risk

information is particularly pertinent to adaptation planning. It helps to identify governance priorities for building resilience. To this point, data sharing requires clear frameworks and authorities to enable the communication of information between sectors and ministries. Further, to optimize data inputs and centralized analysis, the government needs to facilitate data collection, sharing, and reporting under a measurement, reporting, and verification framework. Framework climate and environment legislation can mandate data sharing and reporting responsibilities, making data sharing easier.

Fiscal policies should be supported by sound public financial management (PFM) processes and frameworks to ensure their effective design and implementation. PFM is concerned with the laws, organizational schemes, systems, and procedures within the government to secure and use public resources effectively, efficiently, and transparently. In a nutshell, PFM is what makes fiscal policy work, it is about the institutional and practical arrangements that can ensure that the fiscal policies are optimally designed and implemented.

To reduce the impact of climate change on our fiscal environment and development agenda, it is essential to mainstream environment and climate change aspects into the process of macro-fiscal planning. This may include a fiscal responsibility framework that duly acknowledges the institutional susceptibility to environment, climate change and disasters to continue supporting government's efforts towards stability and growth. This would entail considering climate risks, vulnerability, loss and damage assessments, and monetizing losses. Climate and environment actions that will impact fiscal revenue will require close policy collaboration among key government stakeholders, relevant Ministries and the Ministry of Finance and Economy (MoFE) in the budget formulation process. Modelling could play an important role to inform decisions on green policy integration into macro-fiscal frameworks.

Integration of green policies with the macro-fiscal framework involves multiple stakeholders and has polycentric dimensions, necessitating a phased approach, taking local capacities into account.

The Albanian budget system is defined in law, most of which has been enacted over the past few years. Albania enacted its first Organic Budget Law in 2000 and the current Organic Budget Law, the Law on Management of the Budgetary System of the Republic of Albania, in 2008. Albania has enacted a broad spectrum of related public financial management legislation: the Law on Organisation and Functioning of Local Governments, the Debt Policy Law, the Public Procurement Law, the Internal Audit Law, the Law on Public Financial Inspection, and the Law on Financial Management and Control.

The Management of Budgetary System (MBS) Law, enacted in 2008, provides legislative specifications for programme budgeting, sets out a clearer budget preparation and monitoring calendar, clarifies budgetary roles and responsibilities, and establishes "authorising officers" (AO) for each budgetary institution.

The MBS establishes requirements for budget classification and specifies provisions for establishing special funds. It also improves the framework for PEM at local levels, requiring balanced budgets, common classification systems, and accounting standards to be determined by the MoFE.

The Stabilization and Association Agreement with the EU has both provided a catalyst for PEM reforms and contributed significantly to Albania's legal framework for financial management, as Albania has moved toward the Acquis Communautaire expressed in treaties and secondary legislation and policies of the EU.

State budget as a green budget function

In the Republic of Albania, state budget is drafted based on the Law nr.9936/2008, "On Management of the Budgetary System in the Republic of Albania (amended) as well as other sublegal acts that define "Standard procedures for drafting Medium Term Budgeting Programme - MTBP".

In the organic Law of the state budget and in the laws of annual budgets, there is not any budgetary programme or product tagged as "Green Budget". Based on such a finding, in the analyse of the benefits from the state budget, the Ministry of Tourism and Environment (MoTE) has been chosen, that doesn't yet have the classification of the green programme /product budget, but it is the institution responsible for environment and climate change in Albania.

If we analyse the official data of the MoTE, the programmes it administers are:

- ☼ Planning, Management, Administration
- ☼ Forest Administration
- ☼ Tourism Development
- ☼ Environment Protection

The policy objectives of the "Environment Protection" programme are:

- i. Drafting legislation for the approximation of the environment and Climate Change acqui according to the National Plan for European Integration (NPEI 2018-2020).
- ii. Enforcement of the legislation related to:
 - a. Environment monitoring from the staff of the National Environment Agency (NEA) for the air quality sector, noise, water quality, waste and biodiversity.
 - b. Review and approval of the Environment Impact Assessment report and of the environment permits.
- iii. Inspection control for industrial and production activities related to air emissions, industrial and urban waste management and noise.

In the "Environment Protection" programme are reported as products:

- ✓ *"Inspection realised"*
- ✓ *"Monitoring report"*
- ✓ *"Files reviewed for environment permit released"*

In the official web of the MoTE and NEA, there is not any information or report where we can base our budget analyse.

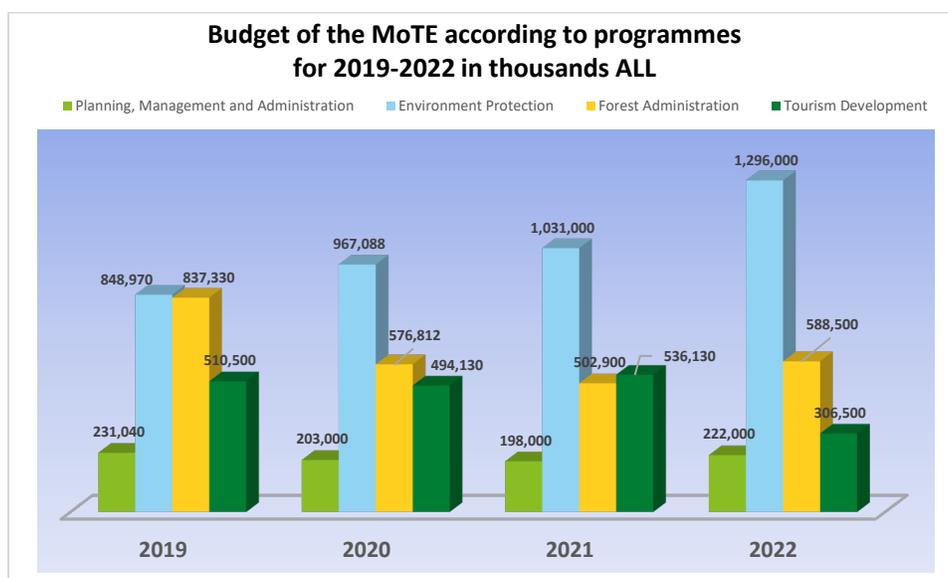
Budget of the Ministry of Tourism and Environment 2019-2022

From the official data of the Ministry of Finance and Economy¹¹, the budget of the MoTE in the last 4 years is given in the below table:

Table 1 Budget of the MoTE for 2019-2022¹²

Programmes	Budget 2019	Budget 2020	Budget 2021	Budget 2022
	Thousand / ALL	Thousand / ALL	Thousand / ALL	Thousand / ALL
1. Planning, Management and Administration	231,040	203,000	198,000	222,000
2. Environment Protection	848,970	967,088	1,031,000	1,296,000
3. Forest Administration	837,330	576,812	502,900	588,500
4. Tourism Development	510,500	494,130	536,130	306,500
Total for the MoTE	2,427,840	2,241,030	2,268,030	2,413,000

Graph 1 Budget of the MoTE according to programmes for 2019-2022



From the data given in the table 1 and in the graph 1, we notice that the total budget of the MoTE from 2019 to 2022 has fluctuations and in financial terms in the year 2022 is decreased by 14,840 thousand ALL or is 1% lower than in 2019.

If we assess that the budget used for the programmes environment protection and forest administration is a budget that has a direct impact in the green budget the situation would be:

- ✓ Budget for the environment protection programme in 2022 is increased by 447,030 thousand ALL (66% higher).

¹¹ <https://www.financa.gov.al>

¹² Source: [Law nr. 99/2018](#) On budget for 2019, [Law nr.88/2019](#) On budget for 2020, [Law Nr.137/2020](#) On budget for 2021, [Law Nr.115/2021](#) On budget for 2022

- ✓ Budget for the forest administration programme in 2022 is decreased by 248,830 thousand ALL (42% lower).

In the annual budget¹³ there is information on the source of funding (*domestic or foreign*) and on the nature of the current expenditures (*salary expenses 600, social security 601 operational maintenance 602, other transferable 603-606*) and capital expenditures (*projects 230 and investment 231*). In the table below, such data is processed in order to analyse the source of the financing, the purpose of the use in 4 years as well as the specific weight out of the total.

Table 2 Budget of the MoTE according to budget sources and capital expenditures 2019-2022

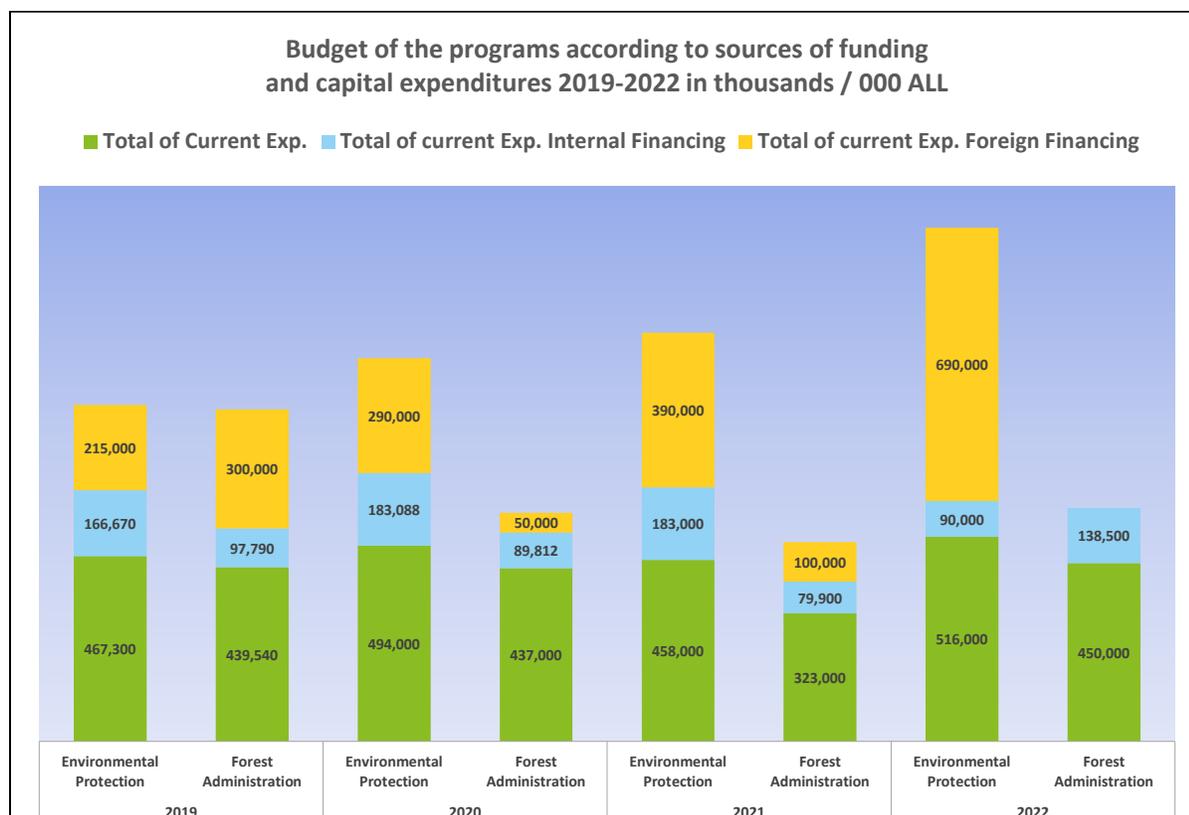
BUDGET OF THE MoTE ACCORDING TO BUDGET SOURCE AND CAPITAL EXPENSES 2019-2022 in thousand / ALL								
Code	Programme	Total of the Current Expenditure	Capital Expenditures				% of capital expenditure vs current expenditure	Total of Budget Expenditures
			Domestic Fund	Foreign Fund	% of capital expenditure vs domestic fund	Total of Capital Expenditure		
	YEAR 2019							
01110	Planning, Management and Administration	220,000	11,040	0	0.0%	11,040	5%	231,040
05320	Environment Protection	467,300	166,670	215,000	56.3%	381,670	45%	848,970
04260	Forest Administration	439,540	97,790	300,000	75.4%	397,790	48%	837,330
04760	Tourism Development	157,000	353,500	0	0.0%	353,500	69%	510,500
	TOTAL	1,283,840	629,000	515,000	45.0%	1,144,000	47%	2,427,840
	YEAR 2020							
01110	Planning, Management and Administration	201,000	2,000	0	0.0%	2,000	1%	203,000
05320	Environment Protection	494,000	183,088	290,000	61.3%	473,088	49%	967,088
04260	Forest Administration	437,000	89,812	50,000	35.8%	139,812	24%	576,812
04760	Tourism Development	178,630	265,500	50,000	15.8%	315,500	64%	494,130
	TOTAL	1,310,630	540,400	390,000	41.9%	930,400	42%	2,241,030
	YEAR 2021							
01110	Planning, Management and Administration	192,000	6,000	0	0.0%	6,000	3%	198,000
05320	Environment Protection	458,000	183,000	390,000	68.1%	573,000	56%	1,031,000
04260	Forest Administration	323,000	79,900	100,000	55.6%	179,900	36%	502,900
04760	Tourism Development	170,630	265,500	100,000	27.4%	365,500	68%	536,130
	TOTAL	1,143,630	534,400	590,000	52.5%	1,124,400	50%	2,268,030
	YEAR 2022							
01110	Planning, Management and Administration	216,000	6,000		0.0%	6,000	3%	222,000

¹³ Data from the table 1 of each annual budget law.

05320	Environment Protection	516,000	90,000	690,000	88.5%	780,000	60%	1,296,000
04260	Forest Administration	450,000	138,500		0.0%	138,500	24%	588,500
04760	Tourism Development	191,000	115,500		0.0%	115,500	38%	306,500
	TOTAL	1,373,000	350,000	690,000	66.3%	1,040,000	43%	2,413,000

Source: Table nr.1 in the [Law nr. 99/2018](#) On the budget for 2019, On the budget for 2020, Law nr.137/2020 “On the budget for 2021, [Law nr.115/2021](#) “On the budget for 2022”

Graph 2 Budget of the programs according to sources of funding and capital expenditures 2019-2022



From the data given in the table 2 and in the graph 2, we notice that the total budget of the MoTE for 4-years has fluctuations in terms of the source of financing as well as on the use for current or capital expenditures, and more specifically:

- ✓ Budget for the environment protection programme (code 05320) is increasing for the capital expenditures vs the current expenditures, from 45% in 2019 to 60% in 2022.
- ✓ Budget for the forest administration programme (code 04260) is decreasing for the capital expenditure from 48% in 2019 to 24% in 2022.
- ✓ Budget for the environment protection programme (code 05320) is financed every year with more foreign vs domestic funds.
- ✓ Budget for the forest administration programme (code 04260) has fluctuation related to source of financing.

State budget for the environment protection function

In each annual budget law, it is presented the division of the budget according to 10 basic functions representing legal responsibilities of the state:



Figure1 Basic functions of the state

As it is shown in the figure 1, the environment protection is a specific function and budgetary funds are grouped and measurable not only for classification purpose but for monitoring the SDG indicators too.

This is the main reason that the study on green budgeting it is focused on this function. Other functions can use budgetary funds to accomplish their scope that can indirectly influence in the improvement of the environment/climate, etc., but none of the 127 programmes funded by state budget, except MoTE, has a programme/product that can be tagged as green budget. To support the above statement, below are listed the institutional functions, on which the main performance indicators are build and measured according to all ministries (*not including MoTE that is analysed separately*):

1. HEALTH AND SOCIAL PROTECTION
2. EDUCATION
3. AGRICULTURE AND RURAL DEVELOPMENT with the programmes:
 - a) Planning, management and administration
 - b) Food security and consumer protection
 - c) Drainage and irrigation infrastructure management
 - d) Rural development by supporting agriculture, livestock, agroindustry, and market production
 - e) Agriculture counselling and information
 - f) Sustainable management of the agriculture land
 - g) Support for fishery
4. INFRASTRUCTURE AND ENERGY with the programmes:

- a) Planning, management and administration
- b) Road transport
- c) Water supply and sewage
- d) Support for energy, with products:
 - 1. "Improved legal framework in the nuclear energy field"
 - 2. "Improved legislation in the energy efficiency field"
 - 3. "Arbitration assistance service performed in the energy field"
- 5. JUSTICE
- 6. INSTITUTIONS OF JUSTICE STRUCTURE
- 7. FINANCES, ECONOMY, LABOUR AND PROFESSIONAL EDUCATION
- 8. DEFENSE
- 9. PUBLIC ORDER AND SECURITY
- 10. CULTURE
- 11. FOREIGN POLICY

In order to analyse budgetary expenditures in this function, we refer to the data from the Organic Budget Law, which details budgetary values according to the categories:

○ Salary	600
○ Social security	601
○ Goods and services	602
○ Subsidies	603
○ Other internal current transfers	604
○ Transfers for household budget and individuals	606
○ Intangible capital expenditures (Projects)	230
○ Tangible capital expenditures (Investments)	231
○ Other unclassified expenditures ¹⁴	

From the data in the annual budgets, we have analysed funds for the environment protection that are presented in the below table. Funds for this function and its specific weight vs the total state budget are compared for the period 2019-2022:

¹⁴ In the budget category "other unclassified expenditures" are included: (i) debts service payments, (ii) contingency for salary and pension policies, (iii) reserve fund, and (iv) local government expenses. Reserve fund it is within this expenditure and its value can be drawn out from the periodical sublegal acts, according to its distribution criteria.

Table 3 Budget specific weight analyse for environment protection programme in the state budget 2019-2022, in thousands ALL¹⁵

Nr	Description	Year	600	601	602	603	604	605	606	230	231	Other unclassified expenditures *	Total
			Salary	Social Security Contribution	Goods and services	Subsidies	Other internal current transfers	Foreign current transfers	Transfers for household budget and individuals	Intangible capital expenditures	Tangible capital expenditures		By year
01	Environment protection	2019	378,360	65,520	136,000	0	7,000	0	0	10,000	604,170	0	1,201,050
02	Annual total budget		65,642,603	11,110,488	29,023,699	1,490,000	186,690,361	1,681,963	26,993,411	1,309,905	88,198,095	107,436,372	519,576,896
	Specific weight		0.58%	0.59%	0.47%	0.00%	0.00%	0.00%	0.00%	0.76%	0.69%	0.00%	0.23%
03	Environment protection	2020	436,760	73,320	106,920	0	7,000	0	0	2,000	571,088	0	1,197,088
04	Annual total budget		70,414,053	11,488,508	30,407,833	1,290,000	196,798,613	1,505,328	28,507,190	1,303,388	79,335,612	128,323,650	549,374,174
	Specific weight		0.62%	0.64%	0.35%	0.00%	0.00%	0.00%	0.00%	0.15%	0.72%	0.00%	0.22%
05	Environment protection	2021	339,260	56,820	169,320	0	10,000	0	0	12,000	666,000		1,253,400
06	Annual total budget		71,084,517	11,699,437	28,461,251	1,550,000	203,839,145	1,408,213	34,300,399	938,061	91,093,939	148,425,768	592,800,731
	Specific weight		0.48%	0.49%	0.59%	0.00%	0.00%	0.00%	0.00%	1.28%	0.73%	0.00%	0.21%
07	Environment protection	2022	339,260	56,920	151,940	0	10,000	0	0	10,000	603,000		1,171,120
08	Annual total budget		75,630,450	12,459,553	35,001,125	1,550,000	219,587,377	4,267,030	34,736,468	2,567,412	94,700,088	157,194,812	637,694,314
	Specific weight		0.45%	0.46%	0.43%	0.00%	0.00%	0.00%	0.00%	0.39%	0.64%	0.00%	0.18%
09	Environment protection 4-year 2019-2022	2019- 2022	1,493,640	252,580	564,180	0	34,000	0	0	34,000	2,444,258	0	4,822,658
10	Total budget 4 years		282,771,623	46,757,986	122,893,907	5,880,000	806,915,496	8,862,534	124,537,468	6,118,766	353,327,734	541,380,602	2,299,446,115
	Specific weight vs total budget	0.53%	0.54%	0.46%	0.00%	0.00%	0.00%	0.00%	0.56%	0.69%	0.00%	0.21%	

¹⁵ Source: Table nr.6 in the [Law nr. 99/2018](#) On the budget for 2019, [Law nr.88/2019](#) On the budget for 2020, [Law Nr.137/2020](#) On the budget for 2021, [Law Nr.115/2021](#) On the budget for 2022

According to such a detail, it is evident that the budget for environment protection is lower than the budget for the MoTE in both programmes analysed (Environment Protection and Forest Administration).

It is understood that the budgetary fund for Environment Protection according to functions is a direct fund for green budget and analyse of its level through the years and according to budget details, should be part of the performance indicator assessment from the MoTE, commission of economy, commissions or ad-hoc sub commission for environment in the Albanian Parliament, for the implementation of the NSDI and SDG, and for reaching EU standards.

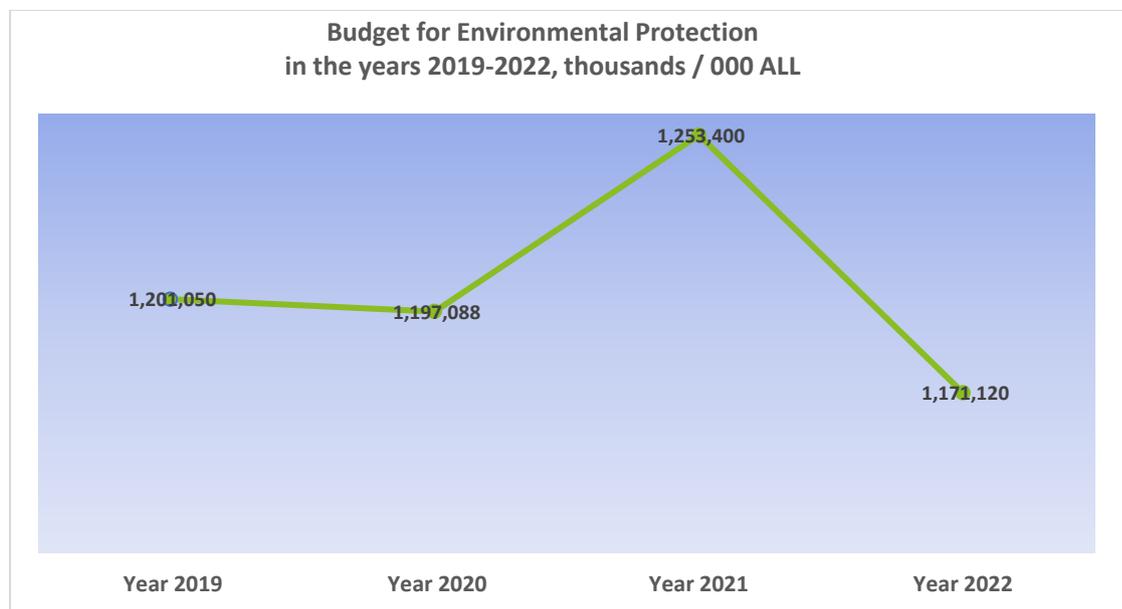
If we assess budgetary funds for the function of environment protection, it is important to emphasise:

- i. *Level of the budget for environment protection function vs total budget of the functions.*
- ii. *Level of the budget for environment protection function detailed according to budget lines.*

Level of the budget for environment protection function vs total budget of the functions for the 4-year period, as expressed in the above table, it occupies in average 0.21% of its total and for each year it is decreasing:

- ✓ In 2019 it occupied 0.23% of the total budget
- ✓ In 2020 decreased in 0.22% of the total budget
- ✓ In 2021 decreased in 0.21% of the total budget
- ✓ In 2022 decreases in 0.18% of the total budget

Graph 3 Budget for environment protection in the years 2019-2022



In 2019, when the budgetary situation in the beginning was normal, the planned budget for this function was 1,201,050 thousand ALL.

Considering the extraordinary situation created in 2019 (two earthquakes with consequences of the need for reconstruction) in the following year, 2020, the budget decreased to 1,197,088 thousand ALL.

Year 2019 was the Covid-19, and the budget decrease is justifiable.

In 2021, even though for this function there is budget increase with 1,253,400 thousand ALL, still there is a decrease of 0.21% vs total.

In 2022, the budget has recorded the biggest drop in 4 years, in the amount of 1,171,120 thousand ALL and occupies only 0.18% of the total budget.

Based on the above data, (*and considering them measurable*) if we were to compare them with the standards of the countries from the region, like our country, referring to the document “*Climate budget tagging in the Republic of North Macedonia*”, for 2019, the Republic of North Macedonia has budgeted 5.17% of the total budget expenditures for the green budget (Climate and environment).

The level of the specific weight of the budget of environment protection function vs total budget, it is a very important measuring indicator for monitoring/assessing aims/objectives for introduction of green budgeting elements, further aiming at:

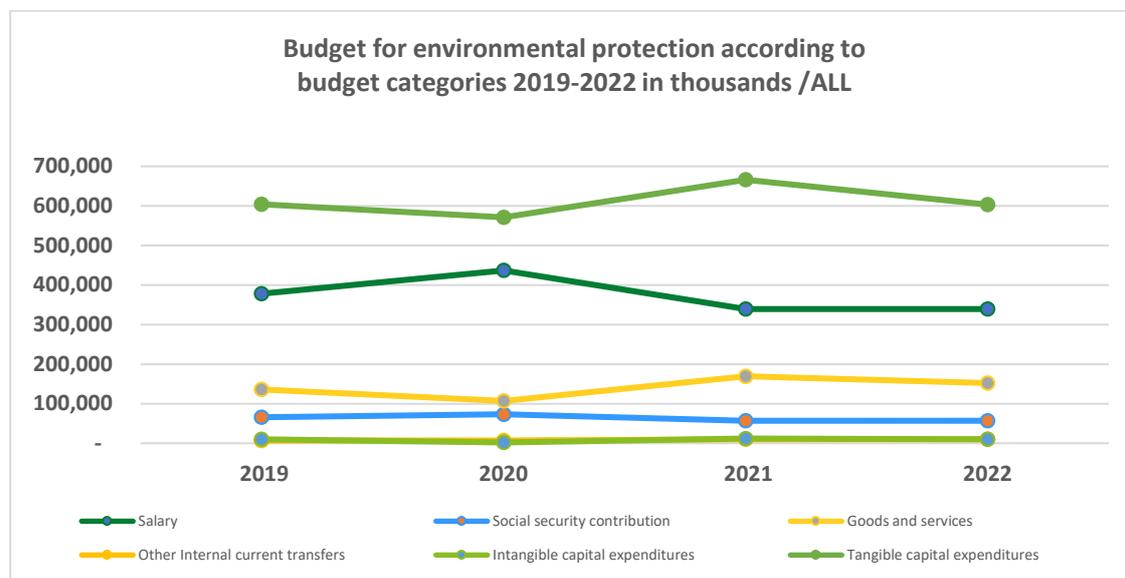
- ✓ Setting a relative value determined in the budget and MTBP planning.
- ✓ Setting budgetary products and measuring the achievement level for the performance indicators according to deadlines set in the strategic plans of the SDGs.

The level of the budget for environment protection function for 2019-2022, according to budget categories is given in the below table and graph in thousands ALL:

Table 4 Budget of the function ‘Environment Protection’, according to budget categories for years 2019-2022 in thousands /ALL

Environment Protection	Salary	Social security contribution	Goods and services	Other Internal current transfers	Intangible capital expenditures	Tangible capital expenditures
Year 2019	378,360	65,520	136,000	7,000	10,000	604,170
Year 2020	436,760	73,320	106,920	7,000	2,000	571,088
Year 2021	339,260	56,820	169,320	10,000	12,000	666,000
Year 2022	339,260	56,920	151,940	10,000	10,000	603,000

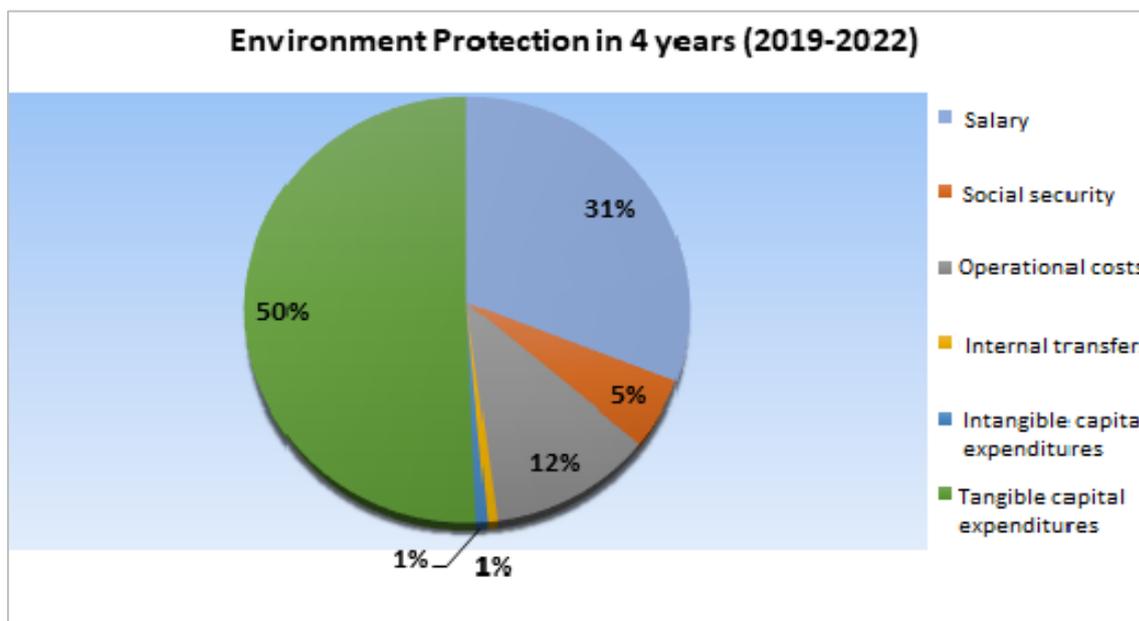
Graph 4 Budget for environmental protection according to budget categories 2019-2022



If we analyse the presented data, it is evident that the fluctuations through the years is very small and the specific weight of each budget category in 4 years is more or less the same:

- ✓ Salary, budget category 600, it occupies 31% of the budget specific weight for this function.
- ✓ Social security contribution, budget category 601, it occupies 5% of the budget specific weight for this function.
- ✓ Goods and services, budget category 602, it occupies 12% of the budget specific weight for this function.
- ✓ Other internal current transfers, budget category 604, it occupies 1% of the budget specific weight for this function.
- ✓ Intangible capital investments (Projects), budget category 230, it occupies 1% of the budget specific weight for this function.
- ✓ Tangible capital investments (Investments), budget category 230, it occupies 50% of the budget specific weight for this function.

Graph 5 Specific budget weight according to budget category for the function 'Environmental Protection' 2019-2022



In the budget performance evaluation models for the efficiency of the economic-financial budget use, the use of the investments at the level above 50% (*investments in buildings, machinery, equipment, system, projects*) it is a positive indicator that shows that the budget is capitalised in stable assets.

Meanwhile, the use for administration staff salary and social security contribution at level of 36%, it is not a positive indicator.

But in the case when there is no reporting data on the implementation of the annual budget or periodic monitoring reports from the line ministry and the dependent institutions responsible for the function, it cannot be analysed other performance budgetary indicators.

Structure and classification of the budget

The budget of Albania is composed of the State Budget, Local Budget and Special Funds: social insurance, health insurance and ex-owners' compensation. Revenues, expenditures and balance for each component are presented separately in the annual budget.

Budget classification requirements are established by Article 11 of the Law nr 9936/2008 on Management of Budgetary System. Budget classifications are specified by the Minister of Finance in compliance with international standards. At a minimum, budget classifications cover an administrative classification, an economic classification, a functional classification, a programme-based classification and a classification of the source of financing. Budget decisions are taken on a programme basis. Allocations are approved by administrative unit, programme and major economic category: current and capital, personnel, interest, operations and maintenance, and subsidies. All general governments are subject to the same classification requirements.

Annual budget formulation cycle

The annual budget cycle of Albania is set out in detail in the Law no 9936/2008 On the Management of Budgetary System. The process is centred on the development of a programme-oriented Medium Term Budget Programme (MTBP). The annual budget calendar is approved by government decree in December, one year before the budget year begins. The finance minister proposes to the Council of Ministers (CoM) the detailed deadlines for the public expenditure management process as an element of the strategic planning calendar. The calendar takes effect on 1 January, the first day of the fiscal year. The major steps in the budget formulation calendar are shown in Table 5.

Table 5 Calendar of Budget Formulation

Month/ period	Action / Result
<i>December</i>	Preparation of detailed calendar for coming year.
<i>January</i>	Preparation of macroeconomic and fiscal framework
<i>February</i>	Approval of programme expenditure ceilings by the Council of Ministers.
<i>February</i>	Budget preparation instructions.
<i>March/April</i>	Line ministries draft Medium Term Budget Programme.
<i>May</i>	Requests submitted to the Ministry of Finance.
<i>May/June</i>	Ministry of Finance analyses requests, holds hearings.
<i>June</i>	Draft Medium Term Budget Programme presented to the Strategic Planning Committee and the Council of Ministers
<i>July</i>	Revised macroeconomic and fiscal framework.
<i>July-August</i>	Ministries prepare revised Medium Term Budget Programme.
<i>September</i>	Ministry of Finance analyses revised budget, second round of hearings.
<i>October</i>	Medium Term Budget Programme and Annual Budget Law presented to the Strategic Planning Committee and the Council of Ministers.
<i>31 October–beginning of November</i>	Budget presented to parliament.

<i>November</i>	Parliamentary commissions hold hearings on budget with the Ministry of Finance and other ministers.
<i>1st week of December</i>	Budget approved.
<i>1 January</i>	Budget enters into force.
<i>January</i>	3 rd round of Medium-Term Budget Programme produced, incorporating changes made by the Council of Ministers and parliament.

Macroeconomic and Budgetary Forecast

The first step in the process is for the MoFE to prepare the Macroeconomic Fiscal Framework (MFF). The framework reviews the past two years, the budget year and the following three budget years (out-years). It includes assumptions and methods used in making the forecast, comparisons to recent forecasts, estimates of general government revenue and expenditure under both existing policies and proposals for new or amended policies.

In February, the Ministry of Finance issues budget preparation instructions including expenditure ceilings for the MTBP, unconditional transfers for local government units, methods of calculating conditional and unconditional transfers to local governments, and regulations for sharing functions between central and local governments. Budgetary Institutions are required to submit the MTBP in compliance with the requirements and deadlines specified in the instructions.

Medium Term Budget Programme

Line ministries and other budgetary institutions and spending units (secondary level) develop their initial MTBP in March and April (strategic Phase), consistent with the expenditure ceilings and budget guidance. The MTBP presents programmes, sub-programmes and projects according to the objectives of the government units. The draft MTBP is reviewed and assessed by the MoFE. Each ministry's recommendations, output targets, performance on previous years' budgets, and questions of fact are discussed by the MoFE and in a series of hearings with ministry budget officials according to a pre-established calendar. The conclusions of the hearings are consolidated into a draft MTBP which is then presented to the Strategic Planning Committee (SPC) and the CoM for approval by the end of June. The MoFE submission includes the Ministry of Finance's proposals for revised expenditure ceilings and adjustments to the draft MTBP and any additional requests. The CoM revises and approves the draft MTBP by 10 July. The MoFE then prepares revised instructions and expenditure ceilings by government unit. Government units are required to incorporate changes into the MTBP by 1 September (Technical Phase).

In the Law nr 9936/2008 On the Management of the Budgetary System in the Republic of Albania are defined responsibilities of the ministries/institutions on drafting MTBM, and the respective deadlines of both phases, until the complete approval at the Parliament of Albania.

Performance and results

Programme budgeting began in Albania in 2001. Pilot efforts were undertaken during a five-year period. In 2006, programme budgeting was implemented in all ministries. In 2008, programme budgeting was incorporated into the Organic Budget Law of the MBS Law and became the central legal structure for the budget. The programme budget is intended to strengthen the link between government policies and the allocation of resources while achieving value for money. It incorporates policy objectives, goals, outputs and performance indicators. According to the MBS Law, local governments have been required to prepare and approve medium-term budgets since 2009. It is a sound expectation that the preparation of medium-term budgets at the local level are co-ordinated with regional and national policies and planning processes.

The MTBP process begins with ministries preparing a programme policy review (PPR) for each programme. Each programme is expected to be based on one or more specific policies that should be clearly expressed in the National Strategy for Development and Integration (NSDI). The PPR produces a policy statement for each programme, including: a mission statement, programme policy goal, a programme policy objective and programme policy standards. The second component of the MTBP process is the programme expenditure and investment planning (PEIP) used to allocate resources among programmes and builds on the PPR process. The main outputs are identified and costed for each programme. As noted above, the MTBP process is an ongoing iterative process beginning with the approval of expenditure ceilings, continuing through two rounds of MTBP development with ministries and reactions by the MoFE, and concluding with the presentation of the annual budget. The process is a rolling budget planning process where the annual budget and medium term are reviewed and revised to reflect results and changing budget constraints.

Green PFM does not require a novel approach, but rather an adaptation of existing PFM processes and tools. Similar to gender budgeting, the implementation of green PFM does not require new and separate PFM systems as that could potentially fragment and undermine the effectiveness of the core PFM and budget processes. It rather aims at leveraging existing PFM systems and tools of budgetary policymaking to achieve climate commitments through increase of the budgetary funds and its identification/classification in a green budgeting.

Assessment of the reporting standards

Assessment of the reporting standards serves to facilitate accountability and transparency and enables measurement and efficacy of the impact of the green budget from the public institutions. Also, the adequate reporting to relevant stakeholders (e.g. parliament and civil society) facilitates scrutiny of the quality and the impact of green budgeting. For example, a key reporting tool is a Green Budgeting Statement accompanying the budget, in achieving objectives/standards/ commitments for sustainable development of the country and indirect in the green budgeting.

As a common assumption, detailed budget documents are not easily understood by parliamentarians or the public. Significant effort is needed to limit information to what non-experts can understand and to present the information in simple enough language to clearly present relevant facts about the programmes.

While reviewing and analysing relevant secondary data including previous assessment of budgetary planning practices at central and local level, applicable compliance standards, legal and other binding regulations, progress and performance results towards policy commitments [at Global and European level] were identified a collective list of legal and regulatory gaps and relevant challenges for Albanian institutions. These findings were very useful to complete our study, obtaining a comprehensive understanding on why green budgeting is an essential practice and how it can be duly implemented in the given context. The following conclusions pave the road for active participation and further capacity development of stakeholders in enabling a participatory governance and improving law-making practice in Albania.

Gaps and challenges identified the following critical points:

- ÷ **Lack of legal and institutional or administrative capacity to plan**, budget, implement, enforce or monitor climate change and environment protection efforts, including laws and regulations, often due to a lack of ability and availability of legislative drafters or parliamentarians, ministries and other officials on local level.
- ÷ Other related challenges include **inadequate or unreliable data** to support necessary decision-making, lack of mechanisms for information sharing and knowledge management across sectors, lack of monitoring and evaluation mechanisms and requirements and insufficient accountability and reporting systems.
- ÷ **Multiple and conflicting interests** among stakeholders in the implementation of mitigation and adaptation measures, which require bridging efforts to resolve disagreements among ministries and stakeholders. Efforts are often hindered by rapid turnover in ministries and directorates and by local communities' limited awareness and access to information, which is frequently the result of the lack of a regulatory framework to encourage information sharing and public participation (including vulnerable groups most impacted by climate change).
- ÷ **Fragmentation and duplication of authority** or governance for legislation and administration among ministries, planning agencies and other stakeholders impede or delay cross-sectorial goal achievement. Weak public management can be addressed by determining which institutions are responsible for implementing actions and by clarifying respective responsibilities across government agencies to contribute to effective implementation.
- ÷ Duplication of efforts and contradictory actions, as well as **overlap of responsibilities between implementing agencies**, leads to inefficient and ineffective implementation of measures. Such gaps can be bridged by harmonizing laws and regulations across sectors, enhancing cooperation between government agencies (at all levels) and the business sector, and by establishing inter-ministerial committees or councils on climate change.
- ÷ **Lack of supportive regulatory frameworks** to describe and enable implementation on a detailed level or to provide guidance for the specific and localized application of legislative purposes. Legislation lacking adequate and timely regulatory support is often highly ineffective.
- ÷ **Lack of enforceability of beneficial laws and regulations**, often due to a lack of resources and/or fragmentation of authority and sometimes due to or lack of capacity, buy-in and/or a valuation of enforcement in general among those responsible for law

enforcement. This leads to an overall weakening of the law in force and a loss of credibility and effectiveness of the legal framework.

Process of the budget approval

The Constitution {Article 158 (III)} stipulates that on behalf of the Council of Ministers, the Prime Minister presents the Parliament with a draft budget law during the autumn session.

According to Article 25 of the Organic Budget Law, in July of each year, the Minister of Finance must provide the Parliament with a copy of the MTBP approved by the CoM and must answer questions about it upon request of the parliamentary commission responsible for public finances.

The deadline for approval of the annual budget is 31 December according to the MBS Law. The budget is approved in principle, meaning it is voted on the total amount of expenditure, adopting policies and priorities that the government aims to realise across the economic branches and sectors for the budget year.

The annual budget law provides appropriation totals for expenditures, revenues and deficit, specified on state and local governments and special funds (social insurance, health insurance and ex-owners' contribution). The budget law also provides some appropriation specifications, namely the composition of state revenues (grants, taxes and non-tax revenues) and the composition of state expenditures (current, capital and special fund expenditures). The state's current and capital expenditures are furthermore specified for line ministries and other central government budget institutions and their programmes. The state's unconditional transfers to local and regional governments are also detailed in the law. In addition, the total expenditures (state, local and special funds) are specified in a table showing classification of the functions of government and economical classifications.

Budget monitoring

The Parliament monitors the budget's execution during the fiscal year through quarterly and yearly reports presented by the Ministry of Finance. Budget execution and monitoring reports are prepared no fewer than four times per year (Article 65, Organic Budget Law). Within one month after the end of the reporting period, the Minister of Finance presents the budget monitoring and implementation reports to the Council of Ministers and the Parliament. These reports are performance based and consist of:

- ÷ the financial performance of each programme
- ÷ the products produced by each programme
- ÷ the objectives achieved by each programme

Based on these reports, the Parliament has the right to examine the budget's implementation. Changes to the budget law must be approved by Parliament. A lack of capacity for analysing these reports in the Parliament seems to be a major obstacle to the exertion of the monitoring rights.

While the performance information and framework meet the advanced standard requirements, in practice it plays a limited role in policymaking or improving public services. The very large number of targets at the program and output level limits their value in providing strategic direction for policy or in scrutinizing the performance of ministries. While

monitoring reports are produced, ministries have not been systematically held accountable for shortfalls against performance targets. Moreover, the medium-term plans have not been realistic in the past which undermines the credibility of the process.

Review of the national budgetary governance framework

The national budgetary framework should be able to support green budgeting practices in different sectors and in each territorial administrative unit.

Albania is impacted from extreme weather such as: flooding, prolonged drought, erosion, etc., and one of the most vulnerable countries in the region regarding climate change. In the last two decades there is an increase in temperature, decrease of precipitation and a more frequent display of the extreme weather phenomena.

The most vulnerable sectors are agriculture and energy.

Flooding and drought are the main climate hazards affecting agriculture, and they can be very destructive by altering the landscape, fauna, flora and vegetation, and also destroying public infrastructure, property, productive land, agricultural assets and upcoming harvests. Climate change and the increase in frequency and magnitude of these hazard events are expected to increase food insecurity, especially in rural areas. This is critical because around 37 % of people in Albania live in rural areas¹⁶ and 36 % of the total population works in the wider agricultural sector¹⁷.

Albania has based the production of the energy in hydro resources, making the sector very vulnerable as results of the long drought periods.

Also, the land erosion, deforestation and irregular buildings have an impact in the extreme weather events, as opposed to rural-urban migration, leads in the increase of non-formal dwelling and increase of the level of the sensitivity to these changes.

From a general analyse of the impact of the climate change and environmental factors, the following findings can be listed:

- ÷ **Albania is rich in natural resources, but revenue from royalties is small.** Proven reserves of oil are the 63rd largest in the world, and the country also has gas and mineral deposits, including chromium. Concessions for the exploitation of mineral resources are awarded by the National Agency of Natural Resources
- ÷ **The ‘traditional’ state budget shows receipts from royalties, but the government does not publish annual estimates of the volume and value of major natural resources.** Some data on the annual volume of oil, coal, and other energy products, as well as timber production, are published by the Institute of Statistics.
- ÷ **Environmental risks are discussed, but not quantified in budget reports.** The annual budget reports also consider the importance of rainfall for the subsidies or guarantees the government would need to give to electricity sector, which are reliant on hydroelectricity.
- ÷ **Albania is vulnerable to floods, earthquakes, and other environmental risks, but as a practice of last 10 years, costs have been low.** According to the Civil Protection Agency, Albania is one of the countries with the highest economic risk in the world from

¹⁶ [GFA Standard \(konsultimipublik.gov.al\)](http://konsultimipublik.gov.al)

¹⁷ ILOSTAT 2019

multiple hazards, with 86 percent of its territory prone to two or more disasters¹⁸. Earthquakes are a high hazard according to the European Seismic Hazard Map. The most frequent disasters are major floods, which are especially common in the Northeast and Southeast of the country. The government pays some of the costs caused by floods, but the annual costs were only 0.02 percent of GDP on average in the past 10 years. Other risks include forest fires, droughts, and industrial accidents.

In general, the use of indicators to meet national needs, or serve national policy, can be considered in the early stages. The State of Environment report covers main environmental themes (water, air, forestry). Data in the report is limited based on information about economic sectors or their impact on the environment. Neither there is a cross-sectorial analysis.

The central government does not produce an accessible summary of the budget for citizens, and there are few opportunities for the public to participate in budget deliberations.

There is no assessment of the long-term sustainability of public finances, no disclosure of the lifetime fiscal costs of the public-private partnerships, and insufficient reporting of natural resources. In some other areas, the standard of basic practice is met, but the government's exposure to risks is high. For example, the budget shows transfers to public corporations and the accounts of each major corporation are publicly available, but the government does not publish a report on the liabilities or financial performance of the sector, even though it has often had to subsidize many of the companies, including those in the electricity and water-supply sectors.

Is there any political will to successfully carry out green budgeting practice in Albania? Which are the knowledge and attitudes of the policy and decision makers?

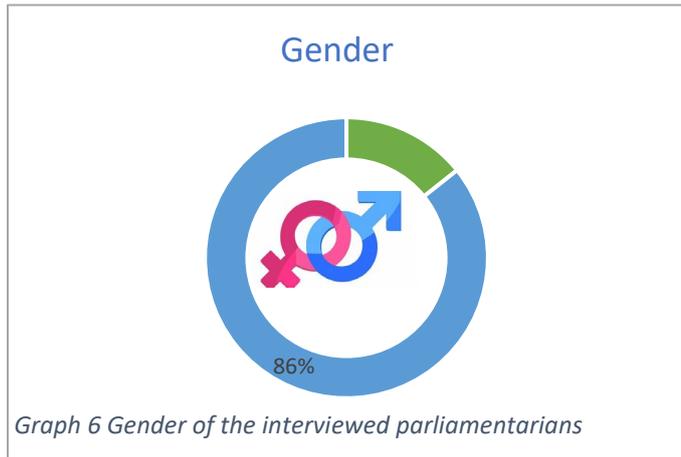
In June 2022, a questionnaire was prepared for the members of the parliament aiming to know the application of the green budget in practice, knowledge and attitude of the members of the parliament related to it.

The questionnaire was composed by 9 closed questions, developed in google form to be easily accessible from the parliamentarians. The questionnaire was addressed to members of three commissions and respective sub commission:

- i. Commission for Legal Affairs, Public Administration and Human Rights.
- ii. Commission for Economy and Finances, for Education and Public Information Means.
- iii. Commission for Production Activity, Trade and Environment.
- iv. Sub-commission for budget.

¹⁸ Diagnostic report: Emergency Preparedness and Response Assessment [World Bank Document](#)

First communication with MPs started in the beginning of July via the official address of the Albanian Parliament and later with the administrative staff to seek access to MPs from the respective commission, and at the end, individual e-mails were sent to 40 MPs of all the parliamentary parties having a seat in the commissions. Only 8 MPs filled in the questionnaire. Five were MPs for the first time (September 2021), 7 were women and only one man.



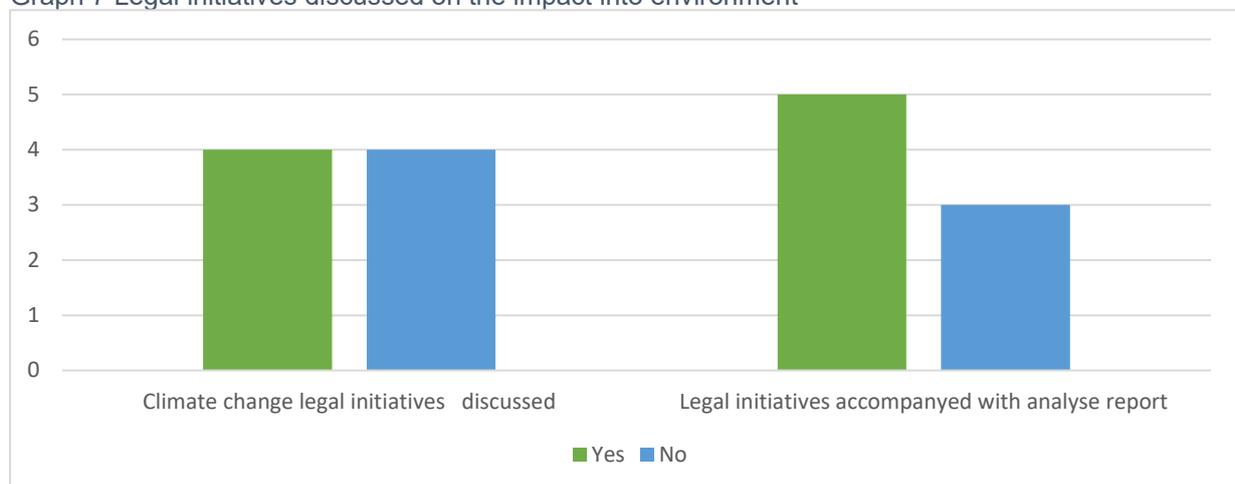
To your knowledge, have legal initiatives, related to climate change, protection of natural resources and pollution reduction, been discussed during parliamentary activity in the last 3 years?

Half of them confirm that there has been discussion in the parliament on the legal initiatives related to climate change, protection of natural resources and pollution reduction.

Are the environmental implication of the proposed/reviewed legislation part of the report submitted in the Parliament?

Only five of the interviewed MPs confirm that during the discussion of the legal initiatives, in the report submitted, the environmental implications are part of the proposed/reviewed legislation.

Graph 7 Legal initiatives discussed on the impact into environment



During the discussion of the legal initiatives in the Parliament, is there any supportive instrument [guideline, criteria list, indicator] to verify the environment impact of the proposed / reviewed legislation?

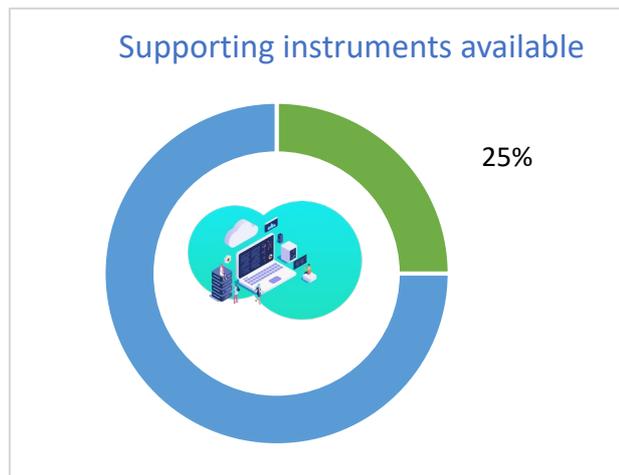
Six from the interviewed MPs confirm that there is an instrument for verifying the environmental implication of the proposed/reviewed legislation.

Is an impact analyse of the implementation of the approved laws carried out in the parliament?

Only three MP's think that the impact analyse is done in the Albanian Assembly as a procedure of the implementation of the approved laws.

If yes, does such an analyse break down the implications or impacts on the environment that the law under review has given during its implementation?

Only three MPs think that such analyse breaks down the implications or the environment impact of the reviewed law during its implementation.



Graph 8 Supporting Instruments Available

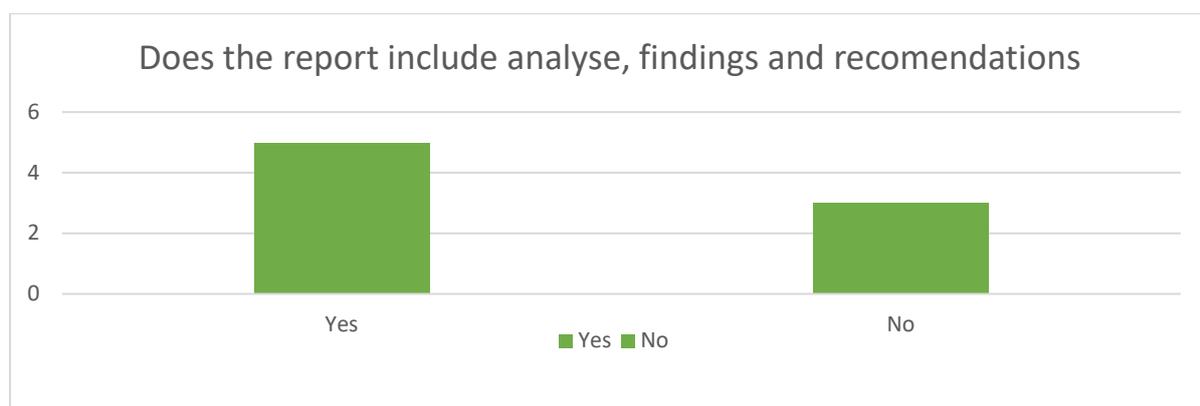
Do you think that the accompanying analyses of each legal initiative that is reviewed in the parliament should include clear indicators of the implications or potential environment impact for the proposed/reviewed legislation?

All members of the parliament interviewed are aware and confirm that the accompanying analyse of all legal initiatives to be reviewed in the parliament should contain clear indicators on the potential environment impact of the new proposed law.

During the reporting of the independent institutions in the Albanian Assembly, do the respective reports contain analysis, findings and recommendations regarding the environmental impact for the period the implementation of the legislation in power has been observed?

Five members of the parliament confirm that during the reporting of the independent institutions on the implementation of the regulatory framework, their respective reports contain analyse, findings and recommendations related to environment impact.

Graph 9 Do relevant sectorial reports include environmental impacts



To your knowledge, in the Commission for Economy and Finances, and the Commission for Production Activity, Trade and Environment, have hearings been held for green budgeting, initiated by MoTE or civil society actors?

Majority of the MPs (six of them) think that in the commission they are part of, are held hearing sessions on green budgeting initiated by MoTE and civil society actors aiming to:

- ✓ Reflect environmental problems for the function of including them in the green budgeting.
- ✓ Increase transparency and public information on the initiatives, parliamentary activity and the draft laws directly or indirectly impacting integration, tagging and increase of the green budget.

In relation to the attitude of the policy and decision makers on the importance the green budget should have, they see it linked with:

- Sub commission for Sustainable Development (part of the Commission for Economy and Budget) because environment is an important part of the SDGs. It should also be an integral part of each law that will be discussed, showing which SDG tries to fulfil.
- Awareness accompanied with concrete activities, added attention and support to the green group recently established in the Albanian Assembly.
- Organisation of the decision maker's hearings with main stakeholders before drafting the budget, aiming to include it in the green budget.
- Obligation that in every explanatory document accompanying draft laws to be included a paragraph, defining the impact into environment and climate change, problems, or its cost (green determined budget).
- Realisation of the environmental impact assessment and undertaking legal measures for the protection of environment and climate change.
- Extra information and awareness of the public on green budgeting, and transparency on the decisions linked with it.

Findings and recommendations

Acknowledging that green budgeting is a new concept not only for Albania but also for other developed countries, actual practices are heterogenic. So far, in Albania the legal framework and respective classification for green budgeting is missing. Nevertheless, it can be said that the actual legal practice of the MTBP enables the start of the green budget tagging in national and local level.

The MTBP should provide an environmentally and fiscally sustainable pathway to achieving long-term targets. GHG emissions are one example of a green target that could be integrated in this process, because they are closely linked to both economic activity and fiscal policy. Fiscal forecasting and modelling at macro level that incorporate climate and environmental impacts can inform the preparation of the fiscal strategy and the budget. The fiscal trajectory specified in a MTBP should be consistent with the findings of budget sustainability analysis, and cover the effects and risks related to climate, including through scenario analysis. This would inform policymakers in the implementation of risk mitigation measures.

Based on the study of the legal documents, interviews and data analysed and processed for the realization and financial support of the environmental and climate change objectives, we can say that there is:

- Lack of legal and institutional or administrative capacity to plan, budget, implement, enforce or monitor climate change and environment protection efforts.
- Fragmentation and duplication of authority or governance for legislation and administration among content directories in the MoTE, implementation agencies (NEA) and other interested stakeholders (specifically local government).
- Lack of supportive regulatory frameworks (issuing all sublegal acts, DCM, minister order and regulation for the implementation of the law) to describe and enable implementation on a detailed level or to provide guidance for the specific and localized application of legislative purposes.
- Lack of enforceability in the implementation of the strategies, laws and regulations linked to environment and climate change.
- In the organic law of the state budget as well as in the annual budget laws, it has not been introduced so far, any budget program/product/economic code, with the title "Green Budgeting".
- Budget of the MoTE, as the responsible entity for environment and climate in Albania, in the last four years (2019-2022) for the Program 'Environment Protection' it is increased, while the 'Forest Administration' Program budget is decreased.
- The budget of the 'Environmental Protection' Program in 4-years shows an increase in capital expenditures compared to current expenditures, while for the 'Forest Administration' Program capital expenditures are decreasing.
- The 'Environmental Protection' Program in 4 years, each year has been financed more with foreign funding sources than domestic, while for the 'Forest Administration' Program, funding has fluctuated funding sources. The increase in foreign funding is a positive indicator that foreign donors/agencies lead projects for the improvement, the growth and the development of plans, capacities, infrastructure, advocacy, etc., aiming integration of the climate change in all aspects of public finances and green budgeting.
- Environment protection is one of 127 programs funded by the state budget and budget allocated for it is very low. In the last 4 years, the budget has been 0.23-0.18% of the total budget of the government, much lower value than other countries of the Balkan.
- The budget of this function, although low in relation to the total budget, over 50% of it goes to investments, while 36% is used for salaries and social insurance for the administration.

Recommendations

- The National Strategy for Development and Integration (that is under revision) should include objectives and targets related to environment and climate change of the country, national determined contribution and sustainable development goals.
- A clear and enabling legal framework should support green practices at each entry point of the budget process and provide flexible mechanisms when contingency spending and other types of government support are needed for those adversely affected by climate and environmental events. In other words, every initiative must be supported or reflected by changes in the regulatory framework (starting from laws to ordinances and regulations for their implementation).
- The integration of green budgeting elements into the economic policy should start with the necessary legal changes/bylaws of the budget-MTBP. The definition of the economic-fiscal elements according to the economic classification and of the

respective fund, is the only method of its implementation. Such models are already applicable in Albania, such as gender budgeting, the allocation of the Reserve or the Emergency Fund.

- Relevant institutions in the central level should assess their existing legal framework and adapt it in accordance with circumstances to enable that criteria's, definitions, procedural regulation and measures to be clear for drafting and implementing green budgeting practices.
- As climate change and environment protection is a long-term issue, each ministry should:
 - Include in its sectorial policy the influencing elements of its function in climate change';
 - Reflect in its budgetary programs elements of the green budget according to a codification in the national budget and a better cooperation within sectors to integrate it as product too.
- The assessment of the possibility of using direct environmental taxes, based on the amount of pollution emissions, should be the objective of a detailed analysis by environmental experts.
- Assessment of changes in the amount of existing taxes, duties and fees, based on a genuine study of the willingness of individuals and businesses to pay. Any proposal on changing tax levels should be accompanied by a detailed legal analysis.
- Assessment of opportunities for contributions to the protection of the ecosystem by businesses that use natural resources or that develop activity in protected areas and national parks, according to the payment model for the ecosystem.
- Evaluation of the possibility of establishing, according to the experiences and practices of other countries, the Fund for the Environment, whose task would be the management and distribution of environmental funds among sectors, according to the needs assessed by experts
- Assessing the possibility of using other innovative instruments for environmental protection, such as conditional contracts for financing and development. The evaluation of these contracts should be carried out through a wide consultation process with local and foreign actors.
- For the function of Environmental Protection, until the legal integration of green budgeting at the national level, the State Budget must increase the amount of allocated funds, with the aim quick implementation of this very important reform for the future of generations.

Annex

Questionnaire for the members of the Albanian Parliament on Green Budgeting

21.06.2022

Dear Sir/Madam,

Milieukontakt Organization and Studio D - Development & Dialogue, with the support of the Westminster Foundation for Democracy, have undertaken a study on Green Budgeting in Albania. In this framework, we would greatly appreciate your opinion on the application of this practice in Albania. To facilitate the communication and analysis of the required information, we have created a list of questions, which will be able to guide you in formulating the answers.

Thank you in advance for your time and answers.

1. You are a member of the Albanian Parliament since the year _ _ _ _
 - a. Gender F M
2. To your knowledge, have legal initiatives related to climate change, protection of natural resources and pollution reduction been discussed during the parliamentary activity in the last 3 years?
 Yes No
3. During the discussion of the legal initiatives in the parliament, are the environmental implication of the proposed / under review legislation addressed in the accompanying report analyse?
 Yes No
4. During the discussion of the legal initiatives in the parliament, is there any supportive instrument [guideline, criteria list, indicators] for verifying environmental implications [impact] of the proposed / under review legislation?
 Yes No
5. Is analyse of the impact of the implementation of the approved laws carried out in the Albanian Parliament?
 Yes No
 - a. If yes, does such an analyse break down implication or environmental impact that the law under review has given during its implementation?
 Yes No
6. Do you think that the accompanying analyse report of each legal initiative in the Albanian Parliament should include clear indications of the expected environmental impact of the proposed/under revision legislation?
 Yes No

7. During the reporting of the independent institutions in the Albanian Parliament, does the respective reports include analyse, findings and recommendations related to environmental implications throughout implementation of the legal framework?

Yes No

8. To your knowledge, in the commission for Economy and Finance, the commission for Production Activity, Trade and Environment, have hearing session for green budgeting been organised by MoTE or other civil society actors?

Yes No

a. If yes, what did they aim for:

(i) Presenting environmental problems in order to integrate them in the green budget;

(ii) Presenting in the national level budgetary measurable indicators and challenges of the sector for achieving standards set in the NSED/or sub-sectorial strategy;

(iii) Transparency and increasing public information on initiatives, parliamentary activities as well as draft laws that directly/indirectly affect the inclusion, tagging and growth of the green budget.

9. From your experience and assessment of the importance that green budgeting should have, what is your opinion on addressing the issue for providing solutions in the near future:

(i) _____

(ii) _____

(iii) _____

Thank you!

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