





Public expenditures

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The importance of public spending management

- The expenses that the state carries out for the fulfillment of its objectives and functions are known as public expenses or as public expenditures.
- Some of the expenditure items are stable (not necessarily the same in value), and are found in every annual budget, while some others vary in value, and on the strategy followed by the government.

• For example, in the case where agriculture is a priority of a government, it is understood that towards this sector there will be greater expenses, such as subsidies, construction of rural roads, support for advertising of agricultural products, etc.

Public spending has a direct effect on community well-being.

- Public spending can also indirectly affect the economic position of individuals. For example, spending on public education is done to increase the human capital of children and beyond.
- Human capital will affect the economic growth of the country by influencing the economic positions of all individuals in an economy.

Objectives of public expenditure administration

Maintain fiscal discipline.

Fiscal discipline is the setting of ceiling amounts for expenditures both at the general level for sectors and agencies as well as on specific elements of expenditures.

To achieve compliance with government priorities and interest groups.

The needs of the community or interest groups are prioritized during budgeting and for their realization efficiency and effectiveness in distribution is necessary.

Transparency and flexibility

Flexibility is related to postponing decision-making until all relevant information is available.

Transparency requires that decision makers have full information of all future necessary expenditures.

For EU countries, public spending constitutes a very high component of GDP and domestic demand.

Main classifications of government expenditure

- Classifications of expenses with organizational structures of expenses facilitate the distribution of public resources.
- Expenditure classifications facilitate the formulation of policies and the allocation of resources between sectors, between projects, and break down policies into expenditure items, making a specific policy tangible.
- Through the classification of expenses, information is obtained for the daily administration of the budget and to analyze the performance.

Economic classification

> According to this classification, expenses are divided into:

- Current expenses
- Capital expenditures
- Reserve fund

Current expenditures include expenditures for goods and services that are necessary to carry out government operations for a period shorter than one year.

This category includes:

- ✓ expenses for public administration personnel,
- ✓ social and health insurance contributions,
- √ maintenance operating expenses,
- ✓ subsidies,
- ✓ interest expenses and
- ✓ different transfers

Capital expenditure

- Capital expenditures include only expenditures for goods and services with a useful life of more than one year.
- This includes expenses for investments in infrastructure, construction of new public buildings, reconstruction of existing ones, investments for long-term projects, etc.
- These capital expenditures can be tangible and intangible.
- The construction of public investments require high costs and last for several years, so the implications that they will cause in government expenditures must be clearly understood.

• The reserve fund is used only for cases of financing expenses, which are unknown and impossible to predict during the budget preparation process. Approval of its use is made by decision of the Council of Ministers.

• The contingency fund is used according to the definition in the annual budget law, to cope with the effects of the non-realization of income, the need to carry out new financing and the addition of financing to the approved funds of existing programs.

Classification of expenses according to beneficiaries or direction

• The first division of the classification of expenses towards beneficiaries is the division of expenses into dedicated (specific) expenses and general expenses.

- The distinction between dedicated and general expenditures is based on whether or not the beneficiary of government expenditures is identified and on the relationship between government allocations and benefits to individuals.
- The second division according to beneficiary categories is the division into three groups of expenses: transfers, general expenses and interest on the public debt.

Classification by program

All governments work with programs.

Each policy has in itself the programs by which it is envisaged to be achieved.
Further, the programs are broken down into detailed activities for the effect of good management and accountability.

• A classification by program takes into account government policy objectives such as changing the way public services are delivered from physical delivery of services to online services and builds the programs that will deliver the policy.

Functional classification

• Functional classification represents a classification of expenditures into categories that represent economic and/or social objectives that are intended to be achieved through expenditures.

- This type of classification was built by the United Nations in 1993, as an international comparison standard.
- The functional classification of public expenditures aims to show the direction in which public funds have been spent.

• A functional classification organizes government activities according to their goals (eg, education, social security, housing, etc.) and is independent of organizational structures or government institutions.

- A functional classification is important to analyze the allocation of resources between sectors.
- A consistent functional classification is necessary to produce historical surveys and analyzes of government expenditures and to compare data between different fiscal years.

Administrative (institutional) classification

- Administrative classification represents the classification of general government units down to the spending unit level.
- The administrative classification of public expenditures groups expenditures according to the institutional destination. For each public institution, the budget plan defines the operating expenses and investment expenses that will be used for the realization of the activities of the respective institutions.

• The grouping of expenses according to the institutional destination identifies the responsibilities for the management of public expenditure funds and also determines the responsibilities for the daily administration of the budget.

• Expenditures in this classification are broken down by line ministries, departments that are part of ministries and component agencies.

• The administrative classification should be organized according to different levels of responsibility and accountability in budget management, adapting to the organization of the agency, respecting the hierarchical levels within a line ministry.