

Abstract

The beginning of the decentralization process has allowed governments to be more influential on business climate by approaching the business interests to the municipality's governmental policies. This economic transformation made the municipalities focus on a new role: Leading and stimulating the regeneration and the economic growth by reassuring the continuity and improvement of life quality through the local business environment improvement, from the economic and competitive point of view. In this thesis we want to show the Infrastructure Strategic Investment Plan role, which tends to analyse the municipal financial capacity and suggest ways of addressing the financial liabilities. For this reason we will analyse the economic and financial indicators of the last four years to determine the Strategy and the Vision of the new Master Plan of Shkodra and the possibility of the Municipality financial support for the needed changes in the infrastructure. The SWOT Analysis of the city of Shkodra will be helpful to identify the economic growth potentials.

This study could be a good example for the Municipality of Peja and other Municipalities in Kosovo.

Key words: Decentralization, SWOT Analysis, Investment Strategic Plan, Urban Planning.

1. INTRODUCTION

The City Development Strategy serves to build a secure and sustainable economical environment, developing cities which manage effectively their limited financial and human resources to reach their goals. An effective CDS can attract capital and its disciplined use.

According to the Law " On the organization and functioning of Local Governments" , No 8652, date 31.07.2000, Article 10/ III , municipalities will take responsibility for the below mentioned exclusive functions of Local Economical Development...that of preparation of economic and local development programs.

Local governments cannot change the city on their own. They control a small portion of the available capital for city construction and generally have an even smaller portion of the required talent for urban innovation. Although important in their role as catalysts and representatives of public interest, local governments have to work in cooperation with private interest and civil society to change the direction of city development. So CDS are based in private, public and civil society partnerships. Suggestions to assist the design process of a CDS are grouped in 5 main topics, as mentioned below:

- Livelihood, such as creation of work places, business development, family income resources.
- Environmental sustainability, city energy efficiency and quality of service distribution.
- The shape of space and its infrastructure
- Financial resources
- Governance

2. METHODOLOGY

For the accomplishment of this thesis we relied mainly on the primary sources provided through a 4 month research period for the project LAMP, financed by the World Bank during 2009-2010; research based on the assessment and analyses of the materials offered by Shkodra Municipality, former urban studies performed by the World Bank, HYDEA company in Firenze and historical data from the Archive of the Historical Museum, Shkoder.

3. WHY SHOULD THE STRATEGIC DEVELOPMENT OF THE CITY BE UNDERTAKEN?

Why should a city undertake a CDS? Why not leave its fate up to everyday market and bureaucratic forces? A strategy has several advantages:

- Encourages interest groups to invest and behave according to a certain vision.
 - Allocates resources in some key strategic zones in a cost-effective way
 - Helps the city confront future shocks and rapid changes (environment risk) and increases its meaning through the way in which interest groups would respond to different scenarios.
 - Enables a city predict the type and direction of physical growth and develop infrastructure accordingly.
- Even the poorest cities can use different capital resources to improve performance and living standards for their residents. After the CDS has indicated the financial situation of the city, analysts should predict its future financial status based on expected incomes and expenditures. An effective CDS provides financial reports with simplified facts so that interest groups can better understand the financial position of their city.

3.1. GENERAL SWOT ANALYSIS OF SHKODRA CITY

Before taking any decision or formulation of any strategy , any company, be it big or small, even more cities should compile a SWOT analyses , thus their strengths and weaknesses , opportunities and threats, in order to formulate the most adequate strategy in favor of their interests and goals.

In Shkodra case we have:

Strengths:

- 1- Geographical position of Shkodra (the sea, lake, mountains, railway and connective roads to Montenegro)
- 2- The existence of abundant water resources.
- 3- The existence of touristic potential and hospitality.
- 4- Favoring resources for the development of agro business and tourism.
- 5- Artisanal traditional work and commerce.
- 6- Qualified human resources with low working cost.
- 7- Population with young average age.
- 8- Presence of Luigj Gurakuqi University.

- 9- Tradition of development of education, sport and culture.
- 10- Presence of professional training centers.
- 11- Presence of Institutions of Social and Health Care.
- 12- Presence of a strong social and domestic density.
- 13- Presence of an adaptable and flexible community.
- 14- Construction industry has had a great development these last 3 years and is represented by 123 subjects, from which 15 small businesses.

Weaknesses:

- 1- Absence of a proper climate for businesses .
- 2- Low employment possibilities
- 3- Low enforcement of urban planning legislation and of bylaws of the Territory Regulation Council.
- 4- Illegal interventions in the water supply and sanitation network and in electrical energy network.
- 5- Low level of implementation and control of projects.
- 6- Unsatisfactory level of local incomes.
- 7- Lack of transparency.
- 8- Lack of civil registration and computerized statistical data.
- 9- Weak infrastructure and low support in culture, education, professional training and sport institutions.

Opportunities:

- 1- Government decentralization process.
- 2- National strategies which support SME-s.
- 3- Presence of local bank branches.
- 4- Presence of projects with foreign organizations and foundations such as WB, GTZ, SOROS, USAID, PNUD, REC, UNOPS, etc.
- 5- Presence of the project for North-South construction along the coastline of Adriatic and Ion seas.
- 6- Presence of foreign investments for the improvement of potable water and waste water network system and also the perspective for their enlargement.
- 7- Approval of the legislation for social services.

Threats:

- 1- Presence of informal commerce and tax evasion
- 2- Lack in stimulation for local production
- 3- Presence of corruption
- 4- Migration from rural areas and brain-drain as a result of emigration
- 5- Influence of unsustainable economic factors (inflation, high interests of loans, administrative obstacles, weak system of property rights)
- 6- Disfavoring national strategies for housing.
- 7- Changes in water regime of the lake and Buna, Kir and Drin rivers,
- 8- Lack in social assistance for all target groups in need.
- 9- According to the authorities, there is a high level of unemployment reaching an alarming amount of 43.6% for the last year.
- 10- Remittance level has fallen considerably as a result of Global Financial Crisis. By the end of 2008 remittances reached the amount of 623 million euro, meaning 13% less than in 2007.

3.2 VISION AND STRATEGY FOR SHKODRA CITY

Based on the former mentioned results of the SWOT analyses, experts of HYDEA, for LAMP project, have derived 4 main Visions up to 2020 as follows:

1. EUROPEAN CITY: Shkodra will be main economic and urban developing center for all northern area , with a life quality of European standards. The city commands the development of the major part of the northern area as it has within its urban space a concentration of almost all employing activities. The New Masterplan of Shkodra will propose the strengthening of all its developmental projects. Proximity to Montenegro and Kosovo and with an inter-zonal number of streets will make it part of the European street network. This will be reached by:

- Improvement of water supply network
- 24 hour supply of electrical energy
- Creation of a communication system based on European standards
- Secure treatment of solid waste material
- Providing mobility for all the citizens
- Support and sustain of cultural heritage
- Promotion and sustaining of the city dynamics in all sectors of cultural and social life
- Environmental protection and maintenance

2. DYNAMIC CITY: a better job in an emotional and smart city. Together with opportunities derived from knowledge economy represented by the system of the University and Tourism Sector, local economy, such as agriculture sector and food and textile industry, can profit from the rehabilitation of existing industrial sites and specialized working force. Shkodra would also be an important center for the promotion of handcraft and artistic products as a result of the concentration of craftsmanship and activities related to it in the city. For this it is required:

- Increasing of employment possibilities and income as a result of rehabilitation of existing abandoned and old industries
- Increasing of employment possibilities by sustaining NVM in the fields such as fashion, food and leather-shoes industry.
- Implementation of sustainable policies for art, music, folclor, exhibitions and gastronomy.

3. CITY OF KNOWLEDGE: University, Research, Environment. Shkodra would be an important knowledge center regarding modern education services, an entrance gateway in contemporary education and antique culture, history and heritage, a universal scientific research center regarding Euro- African migrating birds, European fish species in Shkodra Lake and their protection. This can be reached by:

- Sustenance and improvement of university system and easiness related to cultural and scientific institutions regarding hospitality of foreign students especially from the Balkans.
- Promoting and enhancing of international relations regarding research on the lake, rivers and wetlands, also promotion for the settling of the International Research Center and other similar activities.

4. GREEN GATEWAY OF THE BALKANS: Mountain tourism, Lake, Rivers. Improvement in urban planning

and construction is the way to improve life quality and tourism. This can be obtained by:

- Assessment of existing hotels for tourism
- Development of Spa-s, health and beauty centers related to the national health care system (Thethi and Razma)
- Intervention through special norms of construction in rural areas and also strict protection of embankment.
- Promotion of bio-architecture

Financial analyses of city governance will set the scale through which necessary infrastructure, public amenities and such will be financed. Clear financial statements including forecasts are requirements for achieving funds from the private sector, bonds emission or the pursuit of innovative finance including the private partnerships.

4. LOCAL GOVERNMENT FINANCIAL RESOURCES AND INSTITUTIONAL STRUCTURES.

The composition of a City Development Strategy and more over the composition of a Regulatory Plan, except the urbanistic elements, type of territory, geomorphologic elements, environment quality, migrations etc, takes into consideration its financial resources. We are going to analyse some of these important elements, such as:

4.1 Municipal Revenues.

Local municipal governments have two primary sources of revenue. The first are revenues that they collect themselves including local taxes, service charges, fees and licenses, rental income from building and facilities, interest income on municipal investments as well as income from sales of municipal assets. The other major source of revenues include central government transfers and grants. As a result, it is essential for local municipal governments to review their level of financial self-sufficiency and to accelerate the growth of their own-source revenues.

4.1.1. User Charges

For efficiency reasons, charges should be levied on the direct recipients of public service benefits. The appropriate policy is to charge the correct price (marginal costs). The common rationale when imposing service charges include:

- To recover costs so as to minimize the burdens to be placed on taxation (cost recovery);
- To maximize revenues hoping to realize profits;
- To control user demand.

4.1.2 Local (Own Source) Taxes

Local municipal governments utilize three basic forms of local taxation:

1. Property Tax – Taxes on land and buildings are the most common form of direct revenue for local municipal governments. This tax is usually local government's largest single revenue source. Property tax revenues are

normally general purpose revenues contributing to a broad range of municipal services, particularly physical infrastructure such as roads and drainage.

2. Income Tax- The principal alternative to property taxes found in many countries is some form of the income tax. The income tax is levied as a supplement to national income taxes. They are generated by a local jurisdiction against the income or wealth of a person or corporation.

3. Other Local Own-Source Revenues- This category of local government revenues comprises a broad list of local sales taxes like: Licenses and permits, charges for services, fines and forfeitures, non revenues.

5. MUNICIPAL FINANCIAL INDICATORS

The indicators used in municipal financial analysis methodology are grouped into several categories that look revenues, expenditures, net operating results, actual to budget results, relative growth, etc.

The Table Nr. 1 below, provides a list of financial indicators and how they can be used in municipal financial analysis. The indicators are compared against benchmarks.

1

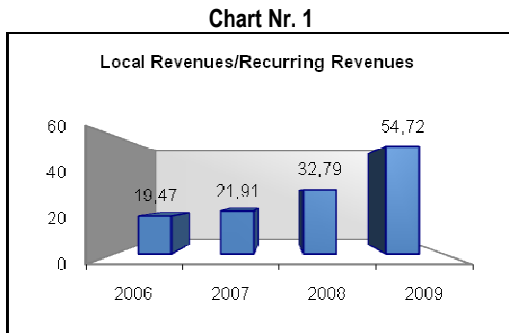
¹¹ Source: Abrahams, Marc, and Francis Conway, *Credit Finance Analysis, Handbook for Municipalities in the Czech Republic*. 1996. Washington D.C, The Urban Institute, *Evaluating Financial Conditions-A Handbook for Local Governments*. Washington D.C

Table Nr. 1
Municipal Financial Characteristics

INDICATORS	Benchmark Strong	Benchmark Weak
Recurring revenue/Total Revenue	>65%	<50%
Local Revenues/recurring revenues	>33%	<25%
State Operating subsidies/recurring revenues	<33%	>50%
Proceeds from Asset Sales/Total Revenues	<29%	>5%
TOTAL EXPENDITURES		
Total expenditures per capita (ALL)	N/a	N/a
Operating Expenditures per capita (ALL)	N/a	N/a
Operating expenditures/Total expenditures	N/a	N/a
Capital Investment/Total Expenditures	N/a	N/a
NET RESULTS		
Total Expenditures/Total Revenues	<95%	>100%
Operating expenditures/recurring expenditures	<95%	>100%
ACTUAL TO BUDGET PERFORMANCE		
Actual recurring revenues/budgeted recurring revenues (%)	<110%	>125%
Actual operating expenditure/budget expenditures (%)	<110%	>125%
Actual capital Investment/Budget capital Investment (%)	<110%	>125%
RELATIVE GROWTH		
Change in recurring revenues/Change in Total Revenues	>100%	<100%
Change in operating Expenditures/Change in recurring Revenues	<100%	>100%
LIQUIDITY		
Notes and account payable/recurring revenues	N/a	N/a
Short term assets/Short term Liabilities	>100%	<100%
Overall surplus/recurring revenues	>5%	<0%
OUTSTANDING DEBTS		
Long Term debts/Total Assets	N/a	N/a
Long Term debts/population	N/a	N/a
ANNUAL DEBT SERVICES		
Total Annual debt Services/Recurring Revenues	<5%	>15%
Interest Payments/Recurring Revenues	<5%	>10%
Total Annual debt Services/Short Terms Financials Assets	<50%	>75%

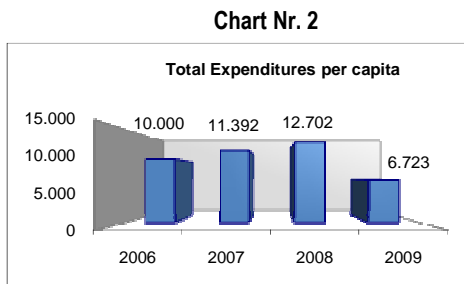
6. FINANCIAL CHARACTERISTICS IN THE MUNICIPALITY OF SHKODRA

According to the calculations of the above indicators for the city of Shkodra we are going to analyze the ratio of the first group: Local Revenues / Recurring Revenues based on the following graph shows that the ratio in the first two years 2006 and 2007 was low and only in 2008 has reached the standard benchmark rate regulation. This increase is a result of decentralization of local government because local revenues are increasing from year to year.



Source: Municipality of Shkodra

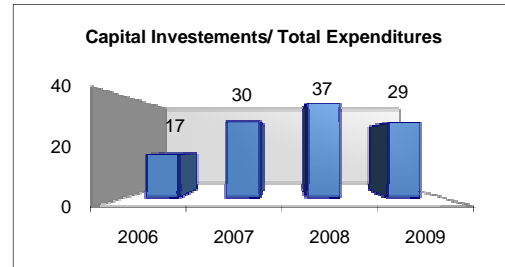
If we analyse two other important variables of the second group, like the Total Expenses of the municipality per capita, like we may notice in the Chart Nr. 2, we have a growth of this ratio for three years and this is a good indicator, but the municipality plans for the 2009 are to cut off these expenses per capita, from 12.701 lek/capita a year to 6723 lek/capita a year.



Source: Municipality of Shkodra

Anyway, from the Chart Nr. 3, we may see that the Capital Investments comparing to the Total Expenses are growing. This is obvious when you see the changes in the infrastructure of the city. But in the 2009 the Municipality plans to decrease these investments.

Chart Nr. 3



Source: Municipality of Shkodra

7. CONCLUSIONS

From the Municipal Financial Characteristics and from the comparison with their benchmark we can realize that 33% of the Recurrent Revenues of Shkodra Municipality are made from the Local Revenues. This is a low percentage because 67% is made from the State Subsidies and this doesn't show a good level of decentralization.

This phenomenon is due to the low level of the local tax collection and as a result of the lack of a Tax Information System. In this case it is difficult to have a control in its revenues. The Municipality of Shkodra has a strong benchmark in spending its financial resources but with a 79% ratio of the Total Expenditures/Total Revenues, comparing to a benchmark of 95 %, leads you think that the Municipality could use the 16% left in Public Investemets. Since the 2008, the Municipality can be credited from the banks or sell municipal bonds in order to increase its investment activity. According to the financial situation described before, the Municipality of Shkodra is not in a good position to support by its own a new infrastructure strategic plan. The actual revenue level its too low to support any new infrastructure. The financial resources are not enough even for the road maintenance, urban services like water supply , dreinage, and the garbage management which can not reach the standard.

8. RECCOMENDATIONS

This infrastructure investemets plan tended to provide the necessary tools for the development of the future resources and their riallocation. The main requirement for budgeting and executing the investemets plan is the disposal of stable and predictable financial resources. That is why financial autonomy should be raised , first by giving the municipalities responsible resources for themselves, second, by providing stable tranfers from the government and third, the enhancement of the local creditation. The successful implementation of the Strategic Infrastructure Investemets Plan depends on the conditions below:

- The increasing involvement of the private sector in the public infrastructure financing and services throught public and private partnerships or financial projects schemes involving a capacity growth to attract FDI-s.
- An improvement of the cooperation with the central government.
- An enlargement of the local taxes and the growth of some of them.
- Easier access in institutional and commercial credit .

As a conclusion, municipalities should improve the design of the projects that are financed based in the public consensus. Promoting the citizens involvement and building a strong engagement toward effective

management high standards and transparency will help to increase the interest and a better understanding between target groups.

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