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# Survival and Sustainability.

## Local Finance Concerns in Prishtina, the new capital of Europe

keywords / Local finance, Development, Efficient, Financial performance, innovative instruments

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### Abstract

*Uncontrolled urban expansion, or as academically known as sprawling, isn't just bad for the environment, human health, and quality of life; it's also bad for budgeting. Municipalities all over the world are struggling with the fiscal burden of expenditures for infrastructure and services, which tend to be much higher than necessary in cases of inefficient planning. Imagine this challenge in developing countries, where even the necessities<sup>1</sup> are higher.*

*While reading 'The Guardian'<sup>2</sup> article by Claudia Megele, written in 2012:*

*'There are a host of challenges that face local governments in the 21st century; delivering services; lack of finance; managing staff; engaging citizens; forming new partnerships; and rapidly evolving technologies and socio-economic demographics'; a really big issue arises.*

*Mostly today, we see the relevance of the above mentioned issue, and yet have the urge to answer to those issues, while trying to give a new image and a set of new approaches to the youngest developing city in the EU (Prishtina, the capital of Kosova).*

### Introduction

Kosova is Europe's youngest country, both in terms of history and demographics. Being recognized by 106 UN member states including 23 out of 28 EU members, Kosova is the new potential candidate for European Union membership<sup>3</sup>. With an average population of 1.8 million inhabitants and an enormous number of diaspora, Kosova has taken great strides to rebuild an economy destroyed during the 1998-99 war and public and private investments have made large contributions toward economic growth over the last five years.

But the challenges to build a new European capital of Prishtina, while the normal process of development

is taking place, and the private market is playing by its own rules, are faced everyday by the governments of Kosova and Prishtina itself. With a construction sector in Kosova currently in transition, shifting from the supply-driven and poorly regulated market to a more demand-driven market in which clients are increasingly looking for quality and better services, new tools on how to make new approaches to better service deliveries and satisfied local governments should be introduced.

In this specter, this article, tries to explore, and to propose some of the main tools with which local governments in Kosova and especially in Prishtina can adopt to better

<sup>1</sup> / Be here need for schools, hospitals, sewage and clean water etc.

<sup>2</sup> / The Guardian is a British daily newspaper, dating since 1821.

<sup>3</sup> / Kosova is currently negotiating a Stabilization and Association Agreement (SAA) with the European Commission

increase their revenues for service financing, enhance social economy and invite private providers to contribute to a sustainable economic future and increase citizenship and participative governance by the 2020.

These trends challenge local government to review its current planning codes and experiment with new ideas that will allow mixed and flexible use of its assets and structures, respond quickly to changing needs, and try out new approaches to energy production, transportation and service delivery.

### **Theoretical framework / State of the Art**

How to better finance / co-finance?

State and local governments usually provide a range of public services that contribute substantially to raising living standards and growth. These include basic health and education; street lighting and cleaning; water, sewerage, and power; public markets and refuse collection; major transport networks; and land development for business and residential purposes. Subnational government must decide how much to spend for these public services and how to finance them. Ideally each subnational government provides both the level and mix of public services, and the means of financing these services that most closely meet the preferences of individuals in its jurisdiction. In this way decentralization promotes efficiency by allowing a close match between public services and the multiplicity of individual preferences, and it promotes accountability and equity by clearly linking the benefits of services with their costs. Strengthening local government finance can improve the efficiency of the public sector and reduce the need for transfers from central to local government, particularly in urban areas.

But before stating the above hypothesis as the ultimate truths, below are listed some of the criteria for efficiency in raising local revenues

1. The cost of providing local services should be recovered, to the extent possible, from charges on the beneficiaries. Such charges should be related to individual consumption or, where this is not possible, to a measure of individual benefit received.

2. Services whose costs cannot be recovered from charges can be financed from general taxes, property taxes, business taxes, and sales taxes levied within the relevant jurisdictions.

3. If the benefits of local services spill over into other jurisdictions or produce nationwide benefits, then grants from higher level governments should finance such services in proportion to their outside benefits.

4. Borrowing is an appropriate way to finance at least some local capital investment, provided macroeconomic fiscal balance is maintained.

In the mindset, it seems that, generally speaking, all local governments in developing countries support most of their income from the central government. Borrowing, though, one of the ways to increase revenue locally, is still seen with skepticism. This is also due to the fact that newly created municipalities fail to provide the necessary credibility in central or bank institutions.

However, the local level may explore a number of alternative ways to increase their income. Even in some cases, the local level should simply be a good process manager and make the citizens pay for additional benefits from local government 'spending'.

### **Analysis – Where it is and where it will be in 2020?**

Space plays a crucial role in the development of a society and influences the definition of investment priorities, which cannot be imposed overnight, so we consider it is the time to start such a planning process in Kosova ....

The above statement, swapped by the Spatial Plan of Prishtina, is in fact the most inappropriate word for speech

not only in this article, but for all the efforts that Kosova has been doing in recent years towards a better planning and territorial development, and the improvement of the quality of its citizens.

Without the war in 1999, which had a huge mass of wreckage of infrastructure-demolished cities, many illegal constructions were in Kosova, especially in Prishtina, to be recovered in the wake of the war. This problem, which is most evident in the Kosova capital, with a population of

two compared to pre-war, is multi-directional and linked not only with governance, but it is also the technical, property and infrastructure problem which can be listed as follows:

Kosova's surface is 10,907 km<sup>2</sup>, in which 2.4 million people live (according to OSCE in 2000), represents a large population density (220 inhabitants per km<sup>2</sup>).

With this political situation and the difficult social and economic difficulties of post-conflict and the lack of policies for sustainable development

Institutional / Legal aspects	Financial Aspect	Spatial Aspects
Lack of policies, laws and regulations in the area of residence (not their approval);	Lack of funds for housing development;	Informal settlements, in urban and outside areas
Lack of harmonization of housing needs in relation to requirements;	Lack of funds and fiscal policies for service providing	Expansion of settlements along the main roads
		Irrational use of space, individual and collective housing ratio in urban areas;

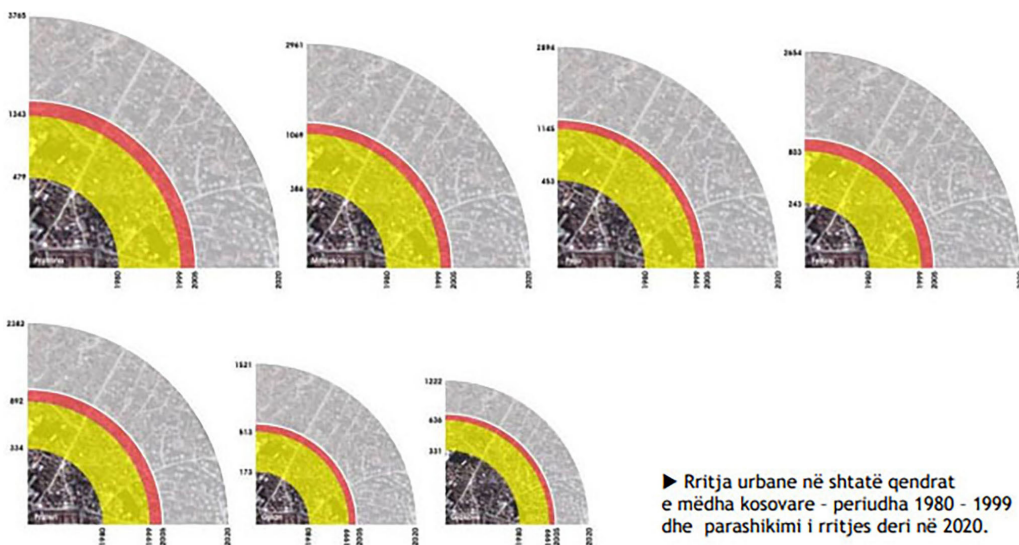


Fig1 / Urban expansion in 7 main centers in Kosova (1980-90 and growth predictions till 2020)  
Source / Kosova's Spatial Plan 2010 -2020

in all aspects, Kosova and especially Prishtina as the country's capital faced a number of difficulties and above all an immediate increase and uncontrolled urbanization (as can be read in the graph above, the first left).

And just because of the urbanization, as one of the key causes, there is a variety of local and civic needs and interests that challenge planning by showing interest on shifting from a particular function in the multiple use



of land. In this framework, not just the pressure on agricultural resources, but also the change of character and quality of the neighborhoods, is one of the key challenges to be faced by both the planning and the financial burden of covering the costs.

In response to these challenges, Kosovo broke down one step ahead to set up the right legal framework to tackle the latter. The Law on Spatial Planning, adopted by the Assembly of Kosovo on 10 September 2003, defines the Ministry of Environment

and Spatial Planning as the entity responsible for drafting the Spatial Plan of Kosovo, which will set the main directions of development throughout the country.

Following this plan, urban plans are currently being updated in order to provide spatial responses to current social and demographic developments in Kosovo in order to be able to cope with the phenomenon on a real and more effective basis.

Similar to other developments in Europe, but with a more intense form

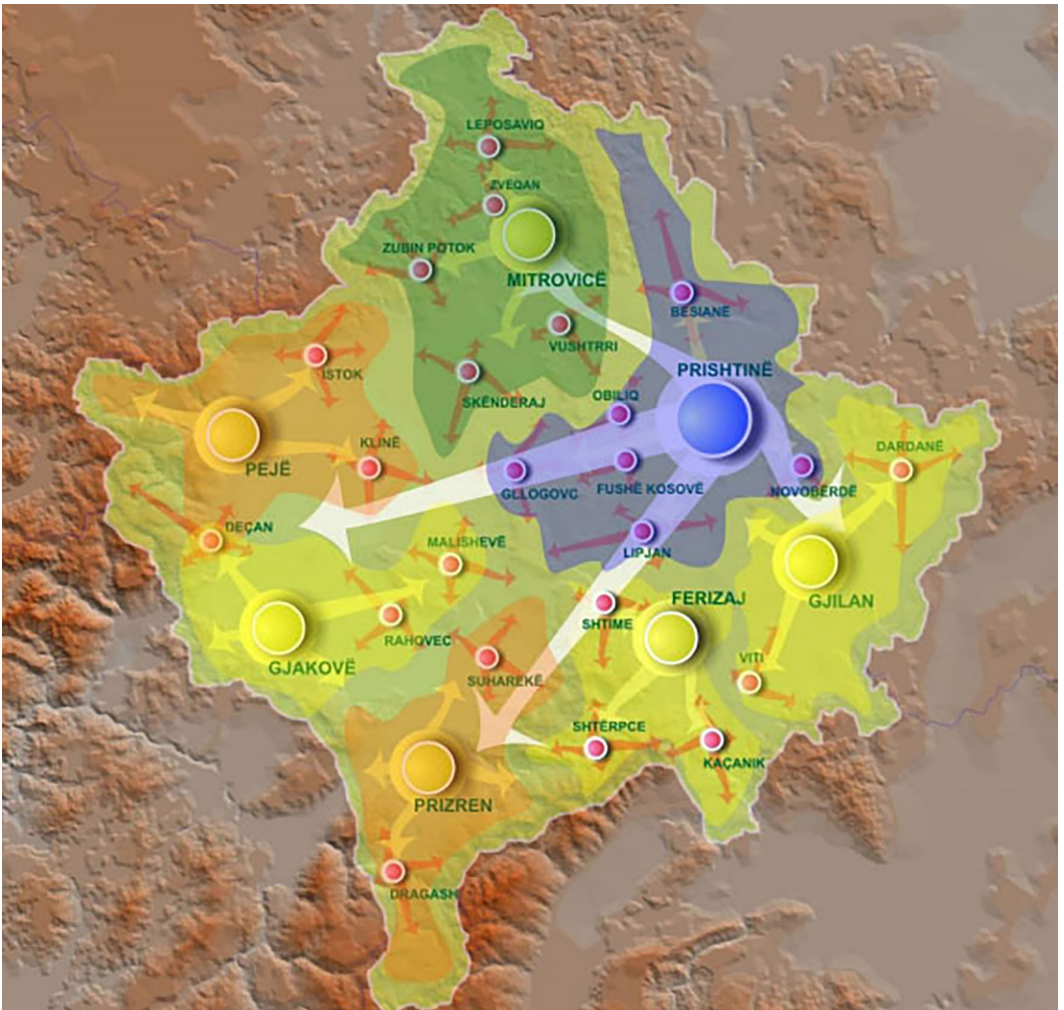


Fig2 / Kosovo's development strategy, 2010 – 2020 (Emphasis on Prishtina as the Capital)  
Source / Kosovo's Spatial Plan 2010 -2020

here, plans are slowly beginning to take off.

From the concept of spatial planning for the future, Kosovo Spatial Plan divides the state into four areas, which are planned based on their characteristics. These features represent diversity and at the same time are unique.

Prishtina, the capital, is involved in the blue zone, and its vision is structured

as follows:

“A vibrant and prosperous area, where cities are aiming for continuous modern and planned development, with a high quality of life and a desire to live and work in this city, an increase in income, services and economy of Kosovo. Prishtina is the administrative, political, economic, health, educational, cultural center

foreseen by the laws of Kosova with a metropolitan role, distinguished for economic development, contemporary urbanism and efficient and quality services”.

But what was the financial performance of Prishtina in achieving its vision?

In the period 2008 - 2012, Prishtina Municipality budget revenues have shown a tendency of continued growth to 61.7% as a result of increased government contribution and its own revenues. About one third of budget revenues are supported by its own resources, while  $\frac{3}{4}$  have support from government grants. This increase in participation reflects the business, investment and consumer power of the Municipality of Prishtina in relation to the country. Under the pressure of population growth and migration from other parts of Kosova, the Municipality of Prishtina since 2008 started implementing important projects of basic infrastructure, education, health and social services. This is supported by the breakdowns considered by budget revenues for financing public projects. Thus, the share of capital expenditure has moved from 44.4% (2008) to 54.3% (2012 estimate).

The participation of Prishtina's capital investments in those of the country is disproportionate in comparison to participation in demographic indicators. No major changes to the financing structure should be expected in the coming period. We estimate that a greater increase will mark the means from external donations and the approval of the Law on Prishtina can increase investment capacities. From this we can conclude that in the next period we will have a more diversified structure of financing the development priorities of the Municipality of Prishtina. It is to be expected that the role of public-private partnership in the realization of some capital projects will be enhanced, as well as the more

pronounced involvement of private sector investments in education, health, hotel and sport projects funded by its own sources of income from municipality of Prishtina.

Enhancing social economy – towards better planning and living

From the 1980s onwards, the idea that local communities can serve their own needs through social economy organizations has gained momentum globally, as it has become clear that economic and social development cannot arise solely from the growth of investor-owned enterprises. In many countries, organizations of citizens have emerged as an important player in addressing the needs of local communities. In Europe, they have mainly developed to produce welfare services; in developing countries they have emerged in various fields such as the construction of infrastructure, and the supply of community services thanks to the mobilization of local communities or the support of external actors.

Different conceptual approaches have been adopted to describe this type of citizens' mobilization. In Europe, there has been a revival of the “social economy” concept, which stresses the implementation of democratic management models. In the search for innovative paths of economic development that can support social inclusion, better living costs and balanced economic growth, the social economy is an extremely compelling development paradigm.

The government of Kosova has adopted the Government Programme 2015 -2018 in which the policy priorities for the future years have been laid out.

The programme has five pillars:

1. Sustainable economic development, employment and welfare;
2. Rule of law;
3. European Agenda and foreign policy;
4. Education, science, culture, sports

and youth developments;

5. Modern healthcare;

Kosova has been one of the very few countries in Europe and the region of the South Eastern Europe that had positive growth rates in every single year in the period since 2008 global financial crisis. This strong resilience to the external shock was a consequence of limited trade and financial linkages Kosova had with countries in crisis, and of the country's rather specific development model.

## Conclusion

Toward a more efficient local government ...

The structure of government in many developing countries is still inefficient. Often fiscal relations are opaque because of political expediency, rather than lack of knowledge or skills. This makes reforms much more difficult. Nonetheless, more open and transparent systems are urgently needed. Responsibility for many services can be devolved to local government. Local government should rely on the revenue sources that they are best equipped to use, such as property taxes and user charges.

Local governments must be held responsible for their use of public resources to those who provide them: for user charges, the beneficiaries; for locally raised revenue, the general public.

World Bank Group, 2014

The Republic of Kosova, and especially the Prishtina municipality, as the youngest capital in Europe and with the vision of being a part of the European Union, will need to properly develop and develop its financial resources into its local resources. In addition to this, they will be able to capture the challenges of the present and address the potential risks in the future ...

Western experience lists a number of innovative instruments for better land management, more prudent financial planning, and what is more important is the increase in local revenues,

in order to stimulate spending and provide better quality services in the future.

Referring to the Kosova context, and simultaneously to Albanian experiences as Kosova's sister in similar territorial and financial processes (to some extent), below are listed a series of instruments that would help local units offer better services in the future without being constrained by financial situations in them.

## Property Tax

The property tax has several advantages as a local revenue source. First, all municipalities have some taxable real estate within their boundaries. Unlike taxes on business and trade, whose bases are concentrated in major cities, the property tax can produce revenue in small outlying local governments as well as in large cities. Second, within small towns (as Prishtina or even Tirana) the property tax base is broad; thus the burden of such a tax can be distributed across a large segment of the population, and significant revenue can be raised at low tax rates.

Third, because property values are enhanced by the provision of local government services, property taxation based on accurate property valuation can recover the cost of services directly from the beneficiaries. The last point, however, is one of the most important issues to be discussed in the context of the property tax in Kosova. Unlike Albania, which until 2017 calculated the real estate value based on the square footprint of the building, Kosova is on a European model, by comparing the value of the property through the calculation as follows:

Taken from the Official Website of the Property Tax Department:

The value used each year when the tax is calculated is the value of the property that is calculated on 31 December of the previous year. Property valuation is done every three to five years.





Fig3 / Investments from the property tax in 2017  
Source / Department of taxation in the Ministry of Finance – Kosova , 2017



Fig4 / Investments from the property tax in 2017  
Source / Department of taxation in the Ministry of Finance – Kosova , 2017



Fig5 / Investments from the property tax in 2017  
Source / Department of taxation in the Ministry of Finance – Kosova , 2017

## **The calculated value for property tax is influenced by these factors:**

- The square meters of the object
- Category of facility
- Evaluation area
- Quality (after completing the survey)

So it seems that the real estate tax is one of those innovative ideas that has worked best in Kosova by making possible a lot of spending or improvements in local services. For illustration below, a revenue table for 2017 is presented on the property tax, and a list of expenditure incurred by the collection of this take.

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