

Use of financial analysis in comparing projects and policies for investments in local governance

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Abstract

The use of financial analysis to assess the inputs and outputs of government projects, makes it possible to take better decisions regarding efficient allocation of limited resources, in front of which is faced the local governance. The choice of investments that will be selected, must be carried out in such a way as to ensure the most efficient use of economic resources and a higher extent of benefits for citizens. It is important that the investor, Municipality, achieve a surplus as high as possible, because it would lead to the fact that can be offered more investment for the community with a higher performance. The main role of local government consist in the efficient management of this budget, management which would guarantee maximum utilization of taxpayer money and spending of budget funds only for projects that improve the quality of life of citizens and contribute to rasing the level of income. The main aim of the government remains minimizing risk and maximizing investment income.

The methodology used in the paper is first related to: the study of foreign literature on theoretical and practical treatment related to the use of financial analysis comparing the projects and policies to be invested in local governance, secondly, will describe the steps through which passes the selection of investments to be carried out by the municipality, and if this is a way to ensure efficiency and effectiveness in the use of funds?

Results of the study can help central and local government to focus more attention on using the most efficient methods related to selection and better management of funds for public investment.

This paper aims to conclude that performing a detailed analysis of the projects and policies to solve them, which provide a more efficient allocation of resources, thereby bringing benefit to the entire community.

Keywords: Public investment, local governance, economic development, projects, financial analysis.

Introduction

This work includes issues of relations between central and local government regarding the financing of investment projects, distribution of public resources process according to investment needs to compete each other, and improve service quality and local activities. In conditions of limited resources and the needs of the most diverse municipality is required to choose between them according to importance. For a better use of funds from municipalities, project requirements for carrying out the investment should be based on measurable and viable criteria which establish priority among needs.

Central government has an indispensable role in the primary economic activity, but its fundamental task is the creation and maintenance of functioning of the legal and

institutional platform on which economic activity takes place. When we start to discuss the investment, a very vulnerable point is public investment. Although occupy approximately 30-40% of the budget for the city according to their classification, they have a significant impact on the quality of life of citizens. The choice of investments will be realized, it must be carried out in such a way as to ensure a more efficient use of economic resources and a higher extent of benefits for citizens. It is important that the investor, together, achieve a surplus as high, because this would lead to the fact that they can be offered more investment to the community and a higher performance. For a better use of its funds, in this paper will describe several methods and opinions regarding analysis, mainly financial that it can be used in the evaluation of policies and investment projects by local governments. Is this a way that ensures efficiency and effective use of funds? One of them is the cost-benefit analysis, since it could have taken a very good decision regarding the efficient allocation of scarce resources, in front of which the local authority found.

Restrictions on public investment

A number of countries have established investment centers to facilitate mixing of government funds to reach a wider market for short-term investments and higher yields on larger investment funds. These centers should be attractive to smaller local governments that seek greater return on their investment through professional management that can reach. The success of these centers depends on investment and fiscal skills.

Combining investment manager must adapt to current fiscal conditions of local governance and economic development conditions.

For better management of the investment portfolio must necessarily draft estimates to reflect the impact of different economic conditions on funds available for investment. Another important point is the formulation of a political investment, and control of available investment instruments and implementation of an appropriate investment policy.

The scarcity of resources is a major constraint on maximizing investment. The municipality can not invest unless it uses such policies to increase revenues sufficiently to meet obligations. The key problem for optimal return on investment is the problem of resources: the availability of funds for investment and expertise needed to manage an investment portfolio. The local unit activity (municipalities) for the implementation of investments regulated by laws enacted by the central government, reflecting public policy for them. The central government can make decisions that lead to limiting investment opportunities for local government, depriving the public of the benefits of efficient public investment funds. Whatever financial goals of a local unit are, there is a wide range of strategies suitable for investment. The last decade has increased the professionalism of local government employees about the financial management of funds for investment. But even more important this becomes a problem in terms of the performance of the new administrative and territorial growth and expansion of powers to the new economic reform activities under their jurisdiction, to increase the professionalism of staff for new functions to be charged in local units.

The process of distributing limited resources according to investment needs to compete each other, include the following key elements: - assessment of the real situation of local infrastructure, - analysis of maintenance options, regulation and degeneration of the proposed investment, - analysis of risks and uncertainties for each investment project, - evaluation of forms of financing, - selection, etc. The total cost of the proposed capital projects will exceed the financial resources that these units have available. This makes it imperative that decisions on applications for projects should be based on measurable criteria and approachable which establish priority among needs.

Increasing local autonomy

Investment planning requires and dictates coordination between different government departments and agencies that are thought to arise with changes made in the direction of expanding competencies in local government programs and to avoid overlapping functions. Investment planning based on the assessment of community priorities, setting goals and objectives, economic projections and predictions about future expectations of regional development. In these predictions should include the following elements: - external factors such as demographic shifts, economic development, social trends etc., - assessments of the needs for investment and public services, - the responsibilities of service delivery, - citizen participation in the investment planning process to reach consensus on priorities in schools, community centers, parks, the treatment of wastewater, waste, etc. territory adjustment. - intergovernmental cooperation etc. Economic projections and forecasts should include their domestic public investment needs.

The guarantee of local autonomy through the creation of selected groups is the necessary basis for an efficient allocation of powers based on the transfer of specific functions and services at the local level. Rapid decentralization has resulted in a vertical transfer of functions and services administrative units which have previously been closed to the public. The local government levels are independent of each other, in the first level local government has the authority to perform services that benefit residents under their jurisdiction, on the second level local government coordinates with wider interest activities of a circle assigned. These decisions involve software development, urban planning, budgeting, taxes and other financial obligations, public services, transport etc.

Risk management

Starting study on decision-making in local institutions should be given the legislative side that regulates relations with the central government and local levels. Our country emerged from totalitarian system without having the necessary knowledge of the market economy, supply, demand. It is organized territorially with the new administrative reform, the municipalities and counties. Each municipality tries to perform the best investments to the public. But how are decisions taken on these investments? The question is if it is appropriate to calculate public investments in the

same way as private investment. On this issue there are different opinions: first, can appreciate public investments in the same way as private investment. This is justified by the fact that otherwise handled investments in the public sector, it will result in higher benefits these investments at the expense of private investment. In a perfect capital market, the same time investment and the same risk would be discounted by a coefficient same whether public or private investments, secondly, governments better withstand unexpected than privates, so as a result of public investments do not they can be assessed in the same way as private investment, meaning that governments will ignore the uncertainties and behave as indifferent to risk. Governments will assess investment opportunities in line with their present value calculated by discounting the expected net present value with a discount rate equal to private investment with a fixed return. In support of this view argue that governments invest in many areas and thus diversify the portfolio by reducing more risk than private investment (Xhafa. H, 2010). Many similar risks are not present in the case of public investments and therefore they can not be included in the coefficient of risk when selecting among investment options, and the time and risk preferences designated as important issues in development policies. Such a procedure would establish national objectives in terms of desired growth rate and determine from it the appropriate discount rate. If this rate will be applied on the expected returns of alternative investments then the government will act in the same way as to be indifferent to risk. Local units aim to reduce investment risk by establishing criteria to diversify investments potofolin and avoid investments in financial institutions. The main objective remains to minimize risk and maximize the investment income.

Project economic analysis

The economic analysis of a project includes the following elements: - Financial analysis - Economic analysis - analysis of the fiscal impact, - analysis of social efficiency. Economic analysis can be used to assess the effects of policies and programs to local government investment. cost-benefit analysis include three steps (Ward, 1994): the definition of project objectives, the marginal impact analysis (upward), comparison of these costs and increased benefits. For a better use of funds from municipalities, according to foreign literature known several methods, one of which is the cost-benefit analysis which can be used in the evaluation of policies and local projects. Net social benefits measure the value of a project according to the formula:

$$NSB = B - C$$

NSB - net social benefits, B - benefits, C – cost

This analysis is intended to assist in making social decisions, specifically to help an allocation of social resources more efficiently. It helps in the efficient allocation of government resources, so its contribution to public decision-making is direct. The examiner must determine what could be the benefits or the potential costs and benefits, which are determined at the national level or simply zoning. Global Perspective includes benefits not just for the people of this country but also to

others no matter where they are resident. Analyst determine the physical impacts of alternatives in terms of benefits and costs, impact as inputs, outputs and required resources. For a project that has costs and benefits extended in time, we need to estimate the current value. These costs and benefits are discounted to public discount rate. It is important to note that should perform NPV and it sensitive analysis before recommending the winning project.

The main purpose of evaluating investment alternatives is the measurement of inputs (costs) that spends and benefits (income) that produces an investment and construction of a logical system to connect them to each other. To realize this serves a widely used approach to investment analysis is the method of cost-benefit analysis mentioned above and. The most important concept in the preparation, analysis and evaluation of investment is that there is always a number of different options for solving a problem. Rarely a problem to have a single solution. Normally, a solution may be the best among a number of possible alternatives. It is therefore important to identify the different alternatives (options) for the realization of an investment and carefully performed their analysis before becoming the choice of the preferred alternative. The analysis of alternatives is a very important part of the investment analysis. The purpose of alternative development options is to assist in finding an effective solution and economic use of funds to meet the desired results and objectives of intervention with investments.

It is important calculation and accurate assessment of the costs and benefits (income) that any investment brings to government and society. On the basis of these calculations, decision-makers can compare indicators to select the best possible alternative for investment. Relevant costs and benefits are those costs or benefits that are affected by the performance of the investment. The purpose of the assessment of benefits is made to see if the benefits and gains from realization of investment justify its costs and to enable investment alternatives can be compared in a systematic way in terms of costs and benefits that bring.

For a significant portion of investment in the public sector it is difficult to assess the benefits, particularly in the health sector, education, environment and generally different investments that promote social welfare.

The participation of citizens in decision-making and transparency of local government

The participation of citizens and civil society in local governance, more specifically in the process of drafting the budget for investment is an important element for the transparency of public funds. The desired impact of this process is to provide citizens the opportunity to participate in decision-making processes that relate to the financing of investments. Cooperation between citizens, non-governmental organizations, representatives of the business sector and local government results in financial policy more transparent, fair and effective. Through this process achieve a higher efficiency in allocating the limited resources that the local government has at its disposal to have a higher performance in connection with services provided to the civic community. This cooperation is also important because it enables the active participation of the

community and strengthens democracy. Local government can provide citizens a concrete measure of benefits, policy or project costs. Another requirement of this process is the measurement of the direct beneficiaries of the investment made which means that we can express the extent the value of benefits for direct beneficiaries. The combination of the two indicators will enable investments in those projects or policies that value with great investment benefits and benefits for the consumer. Through his need to establish priorities for investment for the year, in order to ensure a better assessment of the needs of citizens and requests for public investment.

On improving the management of resources for investment in local governance

The structural change of local budgets has brought significant increase in the investment share that local governments perform, if we go back to the weight that the local self government occupies in the total state budget and GDP, is too small from the smallest to the Europe and the region, in terms of local government revenue by 2.2% of GDP and per capita income of 670 euros with local units, and local government investment to 2% of GDP.

The nature of the investment of local government units is such that it meets community needs emergency -Mainly construction of internal streets in the neighborhood; reconstruction of green spaces and recreational them; reconstruction of kindergartens and nurseries etc. While the "major projects" remain in the shadows as the annual budget of the local government can not deal with their implementation. Necessarily already by the Ministry of Finance's draft medium-term budgetary programs has provided a space for local managers who dare to implement larger projects that anticipate the implementation of budget funds more than an annual budget. Demand for investment, better public services and grow and change in order to increase the community, its social and economic requirements.

We give below a brief overview of taking investment decisions in Albania. Major investments are proposed in the municipal council, in accordance with the city's development policies, which, after study and design, approved in the municipal council. To achieve a balance between the central government and local government, it is necessary that municipalities expand their independence through two routes: to use the power that the legislation has given you and create a coherent structure to counterbalance the power of the central government. The local government aims to build itself a more flexible policy in the field of finance, to know better financial resources and opportunities and to realize with the central government, a fair distribution of financial resources.

Local government law stipulates broad responsibility in a manner different levels of government, related responsibilities in the area of benefit that means local governments will provide services that go to benefit the local jurisdiction, while the central government will provide services to include a wider area, the national benefit. We are all aware that Albania lacks public management, which explains the low rate and low quality of public investment, infrastructure, water, energy etc.

Local Decentralization and especially the financial and fiscal performance brought in local governance reflected in the improvement of service delivery to the community.

The first decade of the local decentralization to 2000 is characterized by a local government to provide services to a minimum and to the community budget goes to salaries and almost maintenance of roads and local public institutions. So if investments in 2000 accounted for over 20% of the PV budget at the end of the decade amounts to about 40%; while the current expenditure structure has reduced weight and increased salary expenditures for maintenance (where 24% goes to salaries and insurance and 38% for maintenance).

From these figures understand the overall picture of PV in the country, while the situation is very different from one local entity to another, so mainly in small municipalities weights investment is less than about 30% of their total unconditional budget in the medium category municipalities they go to 40% and in large local units that are slim, portfolio investment goes up to 55% of their total budget.

However, although structural change of local budgets has brought significant increase in the investment share that local governments perform, being of local infrastructure projects, although large in these cases can be implemented in less than a year, local representatives are use the mechanism of medium-term budget program starting work for the implementation of these projects in the second half of the year and their completion in the first half of the next fiscal year, so using investment funds to two annual budgets. However, although this formula has made it possible to implement larger projects, it has caused problems in relations between local governments; investors etc.

Capital expenditures they constitute an essential element for ensuring economic growth and ensuring social and economic development of the country. Priority is being given to continuing investment and financing of major projects as well as investments that are considered strategic for the country's economic and social development. Regardless of the method of financing capital expenditures will be carried out in priority sectors such as infrastructure, education, health, defense, agriculture and rural development. From the data of the 2013 budget, internal resources investments accounted for about 1.97% of GDP, while investment by foreign sources at the level of 3% of GDP, from 2.5% of GDP, which was the revised budget in 2012. The decentralization reform has led to increasing the role of local government and financial autonomy,

The important thing is efficiency in service delivery, ie as local governments use public funds for the provision of services. According to Ministrisë source of finance in 2013 it shows that 70% of local government units (19% of total) have not committed any investment. Local units spend 27% for capital investments and 37% for employee salaries, the economic analysis showed that 230 local government units (before carrying out administrative reform) spend over 60% of the budget for salaries, and 40 spend so units over 80% of income on wages. Reorganization of local government units creates the opportunity to deliver an investment distribution more efficient way, mainly investments in education, infrastructure, service and disposal of urban waste, water and sanitation etc.

Local units play an important role in economic development, they are jointly responsible for encouraging and maintaining investments in the respective territory by favoring the business. Local units with greater potential are likely to generate

more income (generally the highest population density and the high number of economic activities), and therefore have more funds available for public investment. With the creation of larger units of local government created the necessary conditions for socio-economic development and absorption of large investments from public institutions, the European Union, international donors and the private sector.

According to this new territorial division in these 61 municipalities as a result of their union with municipalities has increased the number of population, territorial space they will menxhojnë doing so operational costs incurred for residents will be lowered. This makes it possible to cut administrative costs by 80%, leading to reduced costs for salaries, operating, and growing investment fund for residents. Investments in these areas will increase as a result of better management of financial resources, growthinvestment capacity and union th his in a single budget increases the chance of territories with small populations to have greater access to investment and to become part of the harmonious development of the area.

Conclusions and recommendations

- Local government is aiming to build a more flexible policy in the field of finance, to know better financial resources and opportunities and to realize with right central government allocation of financial resources.
- The scarcity of resources is a major constraint on maximizing investment. The municipality can not invest unless it uses such policies to increase revenues sufficiently to meet obligations.
- The key problem for optimal return on investment is the problem of resources: the availability of funds for investment, and expertise nevoshme to manage an investment portfolio.
- Local Decentralization and especially the financial and fiscal performance brought in local governance reflected in increased funding for public investment and improving service delivery to the community.
- Self organization of local government at several levels and unit aims to provide governance to the nearest level and closer to the citizens and the community. For this the local government act and perform the functions, exercise authority to provide direct public services to citizens.
- An important conclusion in the paper is the importance of using cost-benefit analysis and other financial analyzes to ensure maximum transparency in the process of decision-making at the local government level.
- Local units aim to reduce investment risk by establishing criteria to diversify investments potofolin, and to avoid investments in financial institutions. The main objective remains to minimize risk and maximize the investment income.
- Using financial analysis should not be limited to the level of statistical results, as well as operating element that helps in effectively and efficiently redistribute resources.
- Economic analysis can be used to assess the effects of policies and programs to local government investment.
- Local units play an important role in the economic development they are being

jointly to promote and held in investmentsh Perk territoryhs favor and business.

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