

Financial, Public and Regional Economics

Strategic Management of Transport Infrastructure Development in Albania

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Abstract: In recent years Albania is facing a lot of challenges in developing infrastructure. In this paper the author tend to give some important recommendations for strategy design and implementation according to the need of respecting European standards and integration in developing transport infrastructure in Albania. In reality, the government has to consider many factors when making fiscal policy decisions, especially those related to public infrastructure investment. First, with a limited budget, it should use the money efficiently, keeping in mind the macroeconomic objectives of economic growth. Secondly, budget allocation, is jointly determined with the Parliament during budget formulation. This paper therefore provides a brief description of the current condition of transport infrastructure development in Albania followed by a definition of the problem and a description of the policies that the government has adopted. It concludes with identifying the major remaining issues and problems in infrastructure development in Albania and some valuable recommendations.

Key words: transportation; strategic management; Albania

JEL Classification: R42

1. Introduction

1.1. Transport Infrastructure as Public Goods

One reason why infrastructure is not properly provided by private economic activities is that it has characteristics of public goods in the sense used in economics. Ordinary goods are usually consumed by one consumer, and not simultaneously consumed by many consumers. The consumption of such goods can also be prohibited to those who do not pay (exclusion principle). Public goods are defined in economics as goods that do not fulfill these two conditions.

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The optimum allocation of economic resources such as labor and capital is not achieved if public goods exist. Goods provided to one person can also be consumed by others and consequently each individual does not reveal his or her own demand. Furthermore, since consumers that do not pay the price cannot be excluded, there is a problem. In other words, since the amount needed by the society as a whole cannot be clearly defined and it is not possible to charge prices, private enterprises have no incentives to provide public goods.

Another case where infrastructure cannot be adequately provided by private economic activities is that externality effect is so large that the project is not viable unless careful consideration is given to this externality effect. It is well known that there are two kinds of externality: negative externality and positive externality.

Problems of environmental degradation such as air pollution and noise are typical examples of negative externalities. On the other hand, positive external effects include developmental benefits arising from the improved transport infrastructure. In both cases, an appropriate amount of supply cannot be obtained if we rely solely upon the market. Such shortfalls in supply occur particularly in transport infrastructure (there is an over-supply of goods causing pollution in the case of environmental pollution). This is because a firm cannot make profit, in principle, unless the benefits provided to parties other than the firm can be reclaimed.

Shortfalls in the supply of transport infrastructure are also caused by uncertainties and incomplete information. For example, in the case of large-scale projects in which huge capital investments are needed, private businesses are unable to make investment decisions, even if the investment could be repaid over 30 to 40 years. The uncertainty is so large during such period, that is, the risks firms assume are too large. In such case, there would be no shortage in financing if information about the future were complete and perfect. However, long-term financial markets cannot be perfect. For this reason public intervention to reduce risk, or a supply by the public sector is called for.

2. Transport Development in Albania

2.1. Analyzing Transport Development in Albania and the Region

Table.1 and Figure.1 shows that road network in Albania with all the types of roads, where the vehicles can move, is about 18.000 km long where 3136 km are national roads. Although its density is comparable with that of other neighboring countries in the region (0.62 km/km^2), the actual situation of road network is still not in good condition, with only 32% of national roads in accessible conditions. the situation get worst because of insufficient maintenance.

Table 1. Road infrastructure (National road network)

Country	Total roads per 1000km	National roads per 1000km	% of paved roads	Density in km/km ²
Albania	18	3.136	12.4	0.62
Macedonia	8.634	-	63.8	0.34
Serbia/Montenegro	48.603	18.99	62.3	0.49
Greece	117	40.4	91.8	0.89

Source: MPPTT, 2011

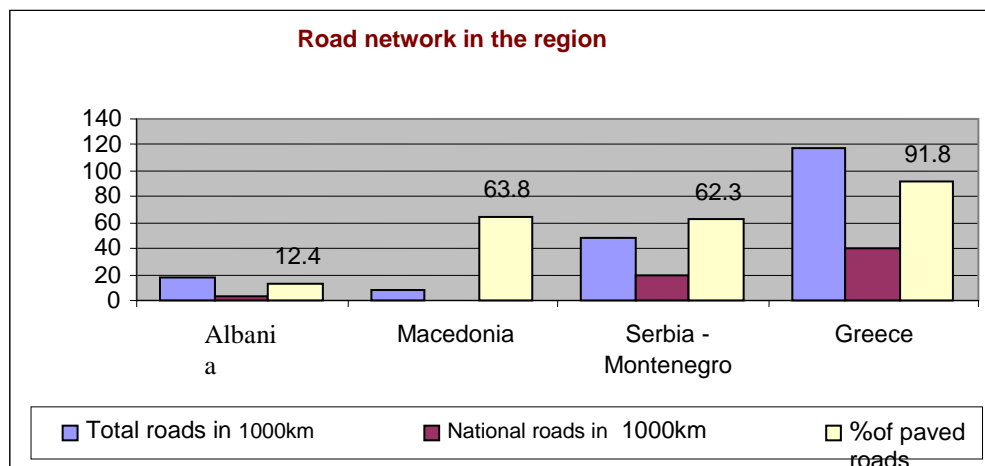


Figure 1. National road network to the region

Source: MPPTT, 2011

Another land transportation mode that is also important for movement of people and goods is rail transport, which in Albania has not gained the necessary attention by policy makers and actually is in very bad conditions. This can be noticed by the comparative analysis made with other countries of the region (Figure 2), according to the total length of rail lines, and also by making an analysis of investments realized in Albania related to rail transport over last 10 years. Only in case of rail transport is noticed a total missing of foreign financial resources in increasing and improving of rail transport network. The main reason for this is that this network is almost damaged and in fact is not of considerable importance for movement of people and goods in Albanian territory.

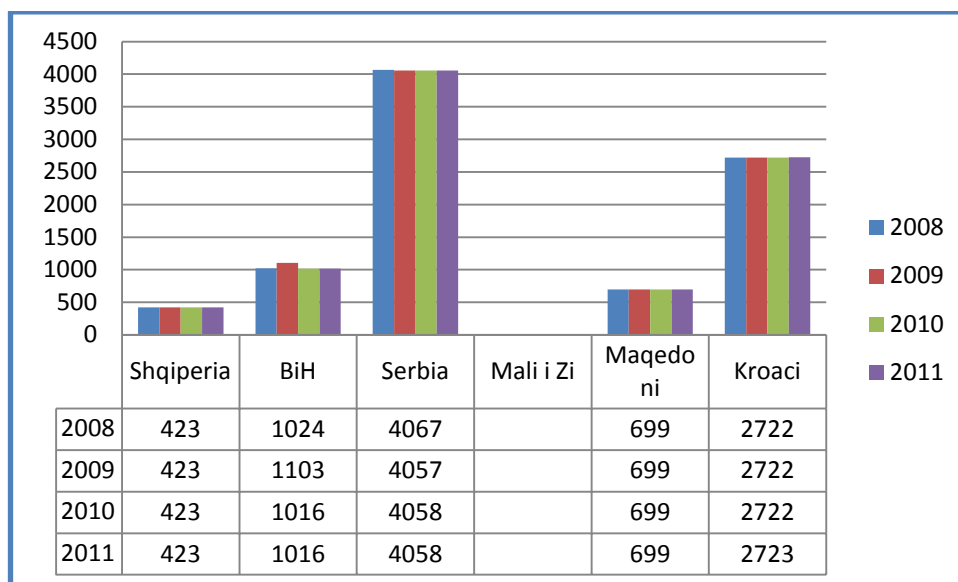


Figure .2 Rail transport infrastructure in Western Balkans

Source: <http://data.worldbank.org/indicator/IS.RRS.TOTL.KM/countries> (2011)

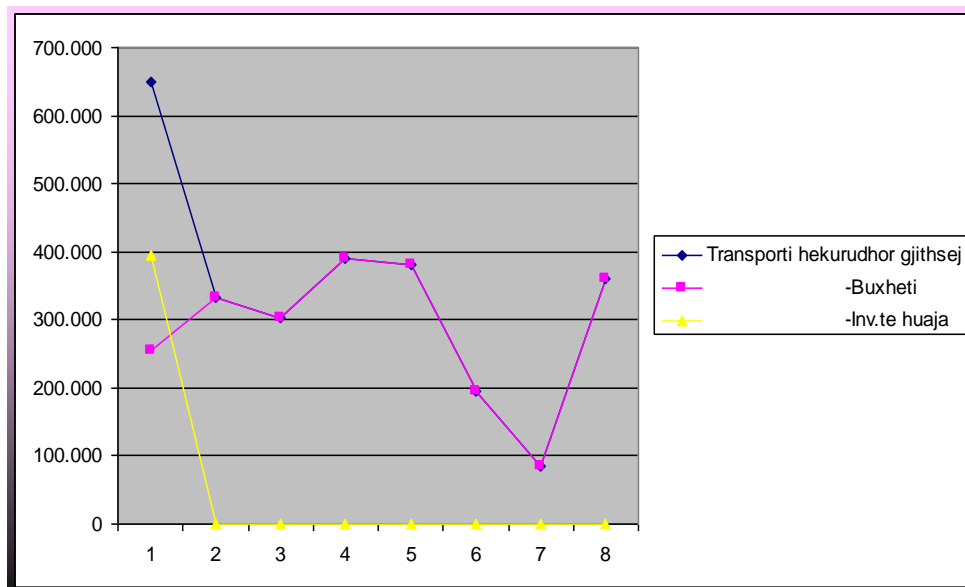


Figure 3. Investments realized in rail transport infrastructure

Source: MPPTT, 2011

A completely different situation is noticed in the case of road transportation infrastructure, where the level of investments is in increasing trend, especially from 2005 and so on. Also, looking at the figure below it is evident that a very high level of foreign investments is focused on road transportation infrastructure during last years in comparison to the level of investments in this kind of infrastructure financed by state budget.

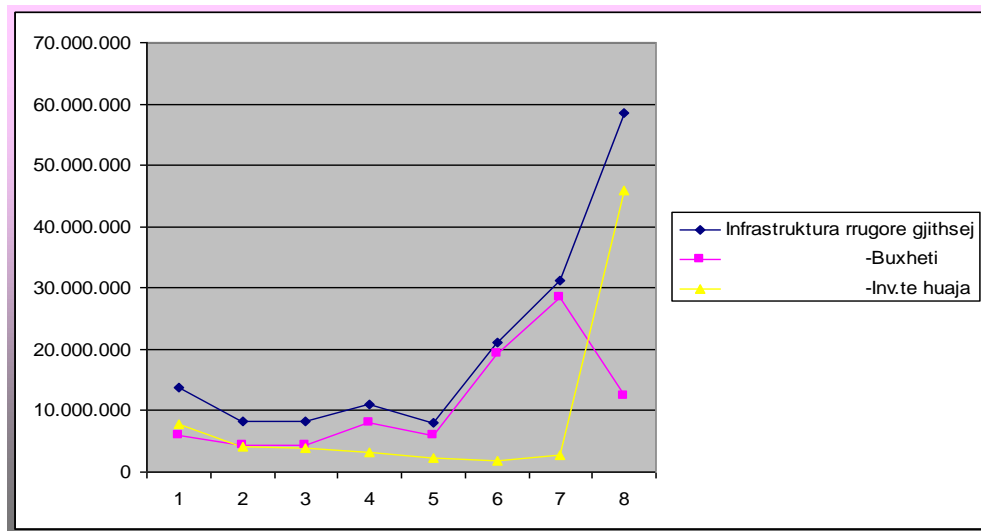


Figure 4. Investments realized in road transport infrastructure

Source: MPPTT, 2011

2.2. Transportation Planning Problems in Albania

The previous section shows that Albania faces infrastructure deficiencies. This paper identifies the problem of infrastructure development from three perspectives:

- Financial resources in regard to investment in infrastructure
- Regulations and institutional framework in regards to policy making
- Rules of investment and the decentralization issue in regard to changing responsibility of infrastructure development.

The importance of planning in transportation is obvious. Ineffective planning, with regard to its concepts and instruments does not reduce the problems at all.

The most striking fact of the last 10 years of the transportation field is that the majority of highways built in recent years were built by spending more than being planned. On the other hand, at the stage where decisions were being made for these motorways, “National Transportation Plan” was in operation and it was paid a lot

of attention in building secondary roads, despite the fact that in Albania primary roads are not yet in good conditions, as seen in the section above. So, the sustainable development in the transportation sector in Albania has faced problems related to the planning process. Some of the examples are unplanned developments resulting from the lack of or a misunderstanding of the planning concept. The others are developments against plans under operation. The lack of a planning tradition causes diffidence against the planning concept and reduces the effects of the efforts made in favor of planned development.

Policy Objectives

The challenge of developing transport policies for sustainable development is to orient the sector towards a compromise that maximizes the economic and social benefits of transport and minimizes associated environmental, social and economic costs. Many of the measures required to achieve this balance are not new, the main difficulty is effective implementation.

Efficiency

The most efficient approach to achieving sustainable development of the transport sector requires a combination of regulatory instruments (particularly for vehicle emissions) and restructuring of charges and taxes on the basis of marginal costs to provide incentives to reduce external costs to optimal levels. It often also requires improvement of the quality of transport, especially rail services (ensuring reliability and complete logistic services) and promotion of inter – modal services. Failure to structure charges efficiently will make the use of other tools much less cost effective.

Initially the structure of charges is more important than the precise level. It should be noted that efficient prices do not generally coincide with coverage of total infrastructure costs. In this context it has to be acknowledged that efficiency is not the only political consideration in setting the level of charges, and budgetary pressures at times result in increasing charges above marginal social cost levels.

Decision Making

Despite the major environmental costs of transport, the benefits are large and the real issue is in making decisions that achieve the greatest benefits while minimizing the costs. How this balance is reached in making decisions on transport projects, and also policies, is critical to making the transport system sustainable in practice.

Evaluating Transport Policies and Projects

Recent work underlines the importance of good cost benefit analysis (CBA) to making sustainable investment and policy decisions. It also provides a framework for arriving at reliable results in the face of market failures that are widespread in transport, overcoming weaknesses in traditional CBA that has undermined its use in many countries in which additional analysis is appropriate according to the degree to which there is a distortion in a) transport prices and b) the prices of products on the market:

- Where distortion is minor, good traditional CBA is adequate to capture all economic benefits flowing from the decision to invest. There are no significant additional economic benefits (e.g. from regional development) beyond those captured by the analysis.
- Where prices are distorted there will be additional benefits and costs to consider.
- But where transport prices are distorted, it will be appropriate to correct transport prices rather than shape investment decisions on the basis of inefficient pricing.

3. Problems of Transport Development in Albania

The previous section shows that Albania faces infrastructure deficiencies. This paper identifies the problem of infrastructure development from three perspectives:

- Financial resources in regard to investment in infrastructure

The level of infrastructure is influenced by how much the government invests in infrastructure. The deficiencies in Albanian infrastructure can be partly traced to the lack of financial resources, and partly to the problems of planning process.

- Regulations and institutional framework in regards to policy making

Despite the problem of the budget being negatively affected by the economic crisis, this paper argues that the problem does not arise merely from inadequate financial resources. While the government has recognized the need for infrastructure investment, at the same time it has fiscal constraints; therefore, one choice might be to seek private participation in infrastructure.

To attract private participation in investment in infrastructure, certain conditions have to be met, for which reforms are needed – reforms that would make infrastructure services more competitive and provide strong and independent economic regulation of natural monopolies.

It is believed that bringing more private sector participation into the economy could improve the situation by creating competition. However, in the case of infrastructure industries, simply moving a monopoly from the public to the private sphere will not result in competitive behavior. A key requirement for the success of privatization then becomes the effectiveness of the regulatory regime in promoting competition or in controlling the anti – competitive behavior of dominant firms (Kirkpatrick, 2009).

- Rules of investment and the decentralization issue in regard to changing responsibility of infrastructure development.

Following the decentralization policy, there has also been a decentralization of responsibilities in infrastructure development. The central government has to share its authority and responsibilities for infrastructure development with local governments. This has become a new challenge that the government faces in infrastructure policy making. In a new era of decentralization, local governments play a greater role than before in regional infrastructure development and policy. However, the new system also creates new problems.

In land transport infrastructure, for example, problems associated with decentralization are related to investment, rehabilitation and assets maintenance of the infrastructure. There has been a trend for regional governments not to provide enough budget for infrastructure maintenance and rehabilitation.

4. Conclusions and Recommendations

Sustainable development in the transportation sector in Albania has faced problems related to the planning process. Some of the examples are unplanned developments resulting from the lack of or a misunderstanding of the planning concept. The others are developments against plans under operation. The lack of a planning tradition causes diffidence against the planning concept and reduces the effects of the efforts made in favor of planned development.

The policies and efforts have been made by the government to tackle the problems in transport infrastructure development. Despite some achievements, there are a few lacunae. Even though the need of building more transport infrastructure has been realized, the decision and finally construction of transport infrastructure growth is not balanced among different regions in Albania. To this extent, the government has to pay more attention to developing transport infrastructure from the view of regional basis and also paying more attention to the building of secondary roads, promoting tourism and agricultural development.

There is an important issue in relation to regional development policy and infrastructure policy. Special attention should be directed towards an interplay of spatial and infrastructure development policy.

The challenge of developing transport policies for sustainable development is to orient the sector towards a compromise that maximizes the economic and social benefits of transport and minimizes associated environmental, social and economic costs. Many of the measures required to achieve this balance are not new, the main difficulty is effective implementation.

Despite the major environmental costs of transport, the benefits are large and the real issue is in making decisions that achieve the greatest benefits while minimizing the costs. How this balance is reached in making decisions on transport projects, and also policies, is critical to making the transport system sustainable in practice.

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