THEMED PAPER

Financing Municipal Utility Activities and Local Public Enterprises by Way of Illustrating the Situation in the Republic of Macedonia

VESNA PENDOVSKA & ALEKSANDRA MAKSIMOVSKA VELJANOVSKI

ABSTRACT This paper is about the local utility services in the decentralization process in the Republic of Macedonia. Particular emphasis is placed on the legal framework for financing municipal utility services through the decentralization process. Since the utility service tariffs are relatively low, the Macedonian utility companies want to increase their tariffs up to cost recovery levels to achieve higher standards required by the EU Directives. The paper also deals with financial relations between the central and local authorities versus the utility company management and the current state of providing utility services in light of financial issues. It has been found out that there is a huge potential to improve user charges. However, due to the current economic situation and the unwillingness of customers to pay higher fees, this solution cannot be applied for the time being.

KEY WORDS: • public service delivery • financing municipal activities • public enterprise • Macedonia

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1 Introduction

Providing municipal utility services at local level has a long tradition in the Republic of Macedonia. Different issues concerning municipal services come up nowadays. They refer to establishment, management and ownership transformation; municipal utility pricing and collecting bills; subsidies for various municipal services, financial control of assets and audit of local municipal companies; Action plan and National Strategy for the Municipal Utility Area; fulfilling the EU pre-conditions guided by implementing the EU Directives, etc.

Since municipal utility companies are more or less exclusively owned by the municipalities organized in a one-tier system of governance, there is a shorter way to arrive at the heart of the problems. Still, the ongoing fiscal decentralization process is an important prerequisite for any future reform of the municipal utility sector. New mechanisms of intergovernmental fiscal relations have been introduced since 2004. They have moved decentralization to a noticeably higher level and had a correlative impact on the municipal utility services in Macedonia.

This year the Government of Macedonia has launched the Public Investment Programme which is planning to invest approx. 90 million euros in water, waste water and solid waste management services during the next three years (2008-2011). Having in mind the fact that environmental services, including municipal utility services, are critical elements of the European Union accession programmes, these public sector investment programmes are mostly based on external funding in the form of EU grants, other development assistance programmes and loans.

This paper is about the local utility services in the decentralization process, focusing attention to the following questions: What is the content of the legal framework for financing municipal utility services through and into the process of decentralization? How does the system of financial relations work between the central and local authorities versus the municipal utility company management?

Since municipal utility services are regarded as purely local functions and are supposed to be financed by the local government revenues and other enterprise revenues, this paper commences by examining the legal framework and financial matters of the public municipal companies as service providers in the prism of decentralization in Macedonia. In addition, the paper describes the current state of providing municipal utility services due to financial issues. The conclusion gives a general picture and offers proposals for improvements.
2 Municipal Utility Services through the Prism of the Fiscal Decentralization Process and Implementation Progress

2.1 The Impact of Fiscal Decentralization

In 1999, the Republic of Macedonia started an ambitious decentralization reform programme which was seen as an important starting point for furthering the democratic transition in the country. The progress was slow until 2005 when the process picked up the stream because of (i) the pressure of the Ohrid Framework Agreement; (ii) Macedonia’s ratification of the European Charter of Local Self-Government; and (iii) the EU membership process. Although decentralization of competences to the municipalities was not in itself a condition for membership in the EU, it was part of Macedonia’s commitments made in the Stabilization and Association Agreement (2001) and in the European Partnership (2004).

The latest administrative and territorial reform of local governments (2004) created larger municipalities by merging smaller ones. The former (1996-2004) 123 local governments were consolidated into 84 units organized in the one-tier system (including 10 sub-municipalities in the City of Skopje, exclusively sorted by the two-tier system of local self-government). This administrative change had an impact on ownership and financing of local utility companies, causing various relations among municipalities that had been jointly using municipal services in the previous territorial organization.

Considering the property division and ownership rights to municipal utility companies, nothing was done overnight. The decentralization implementation process, divided into two stages, resulted in a step-by-step progression in all the local services, including in the municipal ones. Namely, the whole fiscal decentralization process is based on local own resources, revenues and asymmetric transfers of fiscal resources set up upon specific formulas for financing different local activities and responsibilities. In accordance with law, their own fiscal resources were allocated to them, e.g., property taxes, fees, compensations and user charges to support financial stability and to strengthen local budget autonomy.

During stage 1 (2005-2007), key responsibilities were transferred to municipalities in areas including: municipal utility services, education, culture and sports, environment, social services, civil defence, fire fighting and local economic development.

Stage 2 officially commenced in September 2007 when 42 municipalities were allowed to enter Stage 2 because they met the criteria defined by law, e.g., "no arrears to suppliers and creditors" (this is in close relation to the debts of the local utility companies). Stage 2 includes further decentralization of education and
health care, other fiscal responsibilities and thereby giving opportunities for borrowing. Borrowing could be easily detected as an opportunity for capital investment in municipal utility services because assets of many municipal utility companies are in bad shape. However, since September 2007, 24 further municipalities were admitted, bringing the total number of municipalities to 66 in the second stage today, which could use the benefits of the new local fiscal system such as borrowing.

By and large, fiscal decentralization has been progressing well. A recent OSCE study\(^1\) and a study funded by the European Agency for Reconstruction\(^2\) show that the 11 competences assigned to municipalities by the 2002 law are at various stages of being fulfilled. However, none has been completely fulfilled by all municipalities. Urban development, utility services and education are among the most advanced; civil protection and environment, including utilities, are among the least advanced.

### 2.2 Central and Local Government Responsibilities for Providing Municipal Utility Services: Who is in Charge?

The Local Self-Government Act (2001) and the City of Skopje Act (2004) enable municipalities to provide municipal utility services\(^3\). Those services are usually provided by local utility companies founded by municipalities, or in the territory of two or more municipalities, a local joint utility company can be established. Being owners, municipalities appoint the members of their management boards, adopt finance programmes for their work and appoint the general manager of the utility company. Yet, the Municipal Utility Activities Act stipulates performance of municipal services by natural or legal entities through a concession or permission granted by municipalities or, through their involvement as subcontractors. This widens the opportunities at local level.

The Central Government has unlimited rights and opportunities to establish public enterprises (at the central and local levels) providing all kinds of services. This means that, in addition to enterprises that are within the scope of the central competences such as energy provision, railroad traffic, air traffic, telecommunications and posts, the Government can establish the same type of enterprises as the municipalities can do, e.g., those dealing with water supply, sewerage, etc.

Historically speaking, most of Macedonia's utility companies were established between 1996 and 2007, probably as a result of the previous Local Self-Government Act of 1996, a benchmark in the decentralization process and local self-government development. According to today's studies, there are many practices in the area of municipal utility services, but there is little profit-based practice in managing those utility companies.
By law, local utility companies today are legal entities and have some professional autonomy that can be seen in the fact that their leaders propose work programmes, decide about hiring staff and introduction and application of technologies and machinery within the limits of the revenues at their disposal. It could be said that the relationship between municipal bodies and the management of local utility companies is good. Municipal authorities usually avoid interference in the work of these companies because they understand them and sympathize with their problems and difficulties.

On the other hand, appropriate utility company management, set up by municipalities, generates a number of benefits for local governments. Comparative experiences confirm this fact. For example, German municipalities have experience in establishing profit-making public enterprises such as: wellness and spa centres, public transport companies, management of tourist attractions. In many cases, these companies are a generator of local economic development.

2.3 Financial Situation of Municipalities. Facts Related to Municipal Utility Services

Municipal fiscal incentives do reflect upon local utility companies. According to the Financing of Local Self-Government Act, user charges and compensations are considered as own fiscal resources that could be attached to financial resources of the utility companies exclusively owned by municipalities.

Generally speaking, the financial state of the Macedonian municipalities correlates with the quality and quantity of local service performance. Overall, compared to the previous period (1995-2004), municipalities have improved their financial situation, but much remains to be done. Municipal own revenues (property taxes, fees, user charges, compensations) have kept up with GDP growth (i.e., growing by 20% from 2003 to 2008), but in property tax collection there are about ten times fewer taxes collected than what is being collected in developing and transitional economies. There is room for growth. Although many municipalities complain about a lack of funds to fulfil the competences assigned to them, no municipality has raised its property tax rate that is very low by international standards.

Budget preparation and execution have also improved and the municipalities appear to have better control of their expenditures.

Other parallel studies of decentralization show that, while good progress has been made, no competence assigned to municipalities has been fully accomplished as yet. Many municipalities also need strengthening in the areas of budgeting, financial analysis and accounting.
Finally, municipalities are very diverse in terms of fiscal resources (potential and realized) and technical capability. Therefore, the quality and quantity of providing municipal services through own local utility companies differ from municipality to municipality. The inherited debt from the previous system of governance seems to occur as a common problem for many of them. This debt occurred 20 years ago and affected financial stability of many municipalities with an impact on today's financial management, but most of them managed to survive the crisis and to pay off the debt. The debts consisted of arrears towards suppliers in the construction area (roads and other infrastructure capital projects that had been built in the 1980's), but debts and interest payments were supposed to be paid by newly organized municipalities in 2004, and by the utility companies that had been involved in those types of investments. Arrears towards suppliers of local utility companies are guaranteed by municipalities, and therefore, the municipality is accountable for any past or newly created debt of the local utility company. It is good to notice that during the last three years of fiscal decentralization, the debt has decreased by 30%, and it is approximately 634 million denars. Today 14 municipalities have accounts that are still blocked, which hinders the process of local daily activities. Debt management currently stands as a serious threat to municipal utility companies, mostly as a risk of leaving large sectors of the population destitute of the basic supplies such as water. As some international experts suggest, the central authorities can play an intermediary role in order to enable the municipal authorities to borrow on capital markets under privileged conditions (for example, with state assistance of the Macedonian Bank for the Development and Support of Small and Medium-Sized Companies). This is necessary because the old utility company debts block the company accounts. And this blocks the company’s work because it prevents regular payments. Additionally, the company debts are increasing because the compound interest rate is much higher than the bank loan interest rates. Enabling borrowing from banks for the purpose of reprogramming existing debts would provide several benefits. Firstly, municipalities will be able to reschedule their debts and to plan their repayment by instalments. And secondly, payment of instalments will be planned in the budget so that there will be no blocked accounts. This will ensure continuous utility service performance, provision of services, and the lower company and municipal expenses as well.

3 Legal Framework for Local Utility Services / Companies

The regulatory umbrella for municipal utility activities and local utility companies covers a number of laws, sub-laws and regulations. The principal juridical acts directly related to the provision of municipal utility services are given in Table 1.
Table 1: Regulatory Framework

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<td>Concession and Other Forms of Public-Private Partnerships Act</td>
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The Local Self-Government Act, the Balanced Regional Development Act, the City of Skopje Act and the Financing of Local Self-Government Units Act provide the basic legal framework for decentralization. These Acts empower municipalities to provide municipal utility services (referring to water supply, wastewater treatment, sewerage and solid waste management). Municipal utility services are regulated by the Municipal Utility Activities Act. This Act is a crucial regulation basis of the essential conditions for performing municipal utility activities and for doing their financing. The Property and Other Material Rights Act allows municipalities and public enterprises to be bearers of property rights to the utility service infrastructure.

Municipalities are empowered to establish utility companies in accordance with the Public Enterprises Act. It contains provisions for the local authorities to appoint the General Manager and the Supervisory and Management Boards, and to adopt company budgets. This Act allows the founder (i.e., the Municipal Council) of the utility company to transform it into a limited liability company or a joint-stock company. The Water Act and the Environment Act, inter alia, cover water supply, sewerage and solid waste treatment and disposal. Due to performing municipal utility activities, other particular conditions are also regulated by different sector-specific laws. Both central and local authorities are in charge of the implementation of these laws. The Concession and Other Forms of Public-Private Partnerships Act (adopted in January 2008) establishes a variety of contract forms, including but not limited to concessions which must conform to the EU Directive principles.
This leads to the conclusion that the legal framework is a plethora of laws that apply to the provision of utility services. Laws are frequently changed, and further changes can be expected because the Republic of Macedonia endeavours to harmonize its legal framework with many EU Directives that relate to utility services. For that purpose, the Ministry of Local Self-Government established a special Inspectorate in order to ensure consistency between municipal decisions and regulations and national laws.

4 Institutional Relations between Central and Local Authorities, inter alia, local utility companies: ownership, appointments, tariff regulation, financial relations, financing capital investments, subsidies

The most crucial relationship lies between the utility company and the municipality as its owner. Additionally, five more ministries are involved in the institutional framework: Ministry of Local Self-Government, Ministry of Finance, Ministry of Labour and Social Policy, Ministry of Environment and Social Planning, and Ministry of Transport and Communications. The State Audit Act stipulates that central and local authorities, including public enterprises, are subject to state audit, but annual audits are the exception rather than the rule. The reports are often not publicly available. The relations between utility companies, municipalities and other sectoral ministries could be clearly understood by the following figure.

The areas where municipal influences are most visible to the public are appointments (the Supervisory and Managerial Boards and the General Manager) and tariff setting. The Municipal Council also approves utility company annual reports, guarantees any long-term loans (thereby charging its own debt service limit and legal sources of payment as mentioned above) and monitors and enforces technical standards (subject to national monitoring by the inspectorate of the Ministry of Transport and Communications).
4.1 Ownership and Appointments-Financial Relations

There is municipal asset ownership organized as a network of assets if they are not owned by the state. The utility company owns minor assets (vehicles, office equipment, etc).

Licensing of municipal utility activities is regulated separately by sectoral laws. For instance, municipalities have responsibilities in water supply, transport and in wastewater treatment. They are empowered to establish water utility companies for this purpose, but there is an absence of formal licensing. By contrast, licensing is required for solid waste management, and this is the responsibility of the Ministry of the Environment and Physical Planning, not of the municipalities.

The managers appointed by municipalities indicate that municipal authorities (the Mayor and Council) are involved in the financial management of the utility company on their territory. The Council approves the Supervisory Board and Managerial Board, and the Mayor appoints the General Manager. As reported in some field research, anecdotes suggest that in practice, the utility company is frequently dominated by the municipality with questionable practices (such as overmanning and hiring well-connected rather than well-qualified senior staff) leading to various forms of inefficiency that customers end up paying. In the majority of the focus groups and interviews, respondents saw political influence as positive on the ground that the municipality establishes a control mechanism over the utility company operations. However, the profit-based management of any company, also of utility companies, suggests that politically-based appointments should be avoided.
4.2 Local Utility Service Financing: User Charges, Tariff Regulations (Pricing)

User charges are basically the most common fiscal instruments to cover expenditures for utility services. Each utility company has its own tariffs for the supply subject (water supply, solid waste management, parks, etc).

The legal provisions\(^\text{12}\) prescribe that utility companies shall propose the tariffs, and Municipal Council shall give approval.

However, correct pricing is one of the most important requirements for sustainable and efficient service delivery. According to the recent field study\(^\text{13}\), less than 50 % of the municipalities consider the fees charged to be in line with the real cost of services, which means that the prices are lower than the real costs in many cases. When charges do not cover expenditures, there are two options: either prices must be increased or expenses must be reduced. The third option is subsidizing the utility company operation from the municipal budget. For example, the recently revised Skopje budget aimed at giving a subsidy to the Skopje public transport utility in the amount of 50 million denars, which brings a total of 140 million denars transferred to this sector as a subsidy from the Skopje budget in this fiscal year\(^\text{14}\).

Another important concern is the financial relation based on the tariff regulation between the Central Government and the local government's responsibility for providing municipal utility services. Namely, under law, the Ministry of Transport and Communications regulates the pricing methods in the water management sector\(^\text{15}\). The methodology allows differentiation of water charges according to the level of consumption (block tariffs for the average consumption and for the quantity above it) and by types of customers (households and legal entities)\(^\text{16}\). We consider that if this was done in order to harmonize the tariff regulation, it is opposite to the cost/quality/performance criteria that should be built into the separate costs of utility services in each municipality. Citizens might be satisfied with the quality or with the price, or not, but it does not depend only on municipal efforts. On the other hand, some social and political arguments could put a different light on this issue.

Additionally, in practice, local governments are faced with other issues that are not covered by government regulation. For example, the methodology does not make any reference to the cost adjustment rate and to the way of how it should be related to inflation. Also, it neglects the fact that the public utility companies have to make a profit for financing future investments. It has to be built into the user charges. The regulation does not emphasize that the prices are preferably based on the volume of consumption and how proxies of service usage could be introduced\(^\text{17}\).
As a result, the local utility companies largely implement differentiated user charges for water, sewage and solid waste services. According to a survey of 25 municipalities, water and wastewater prices are 1.5-1.7 times higher for businesses than for households. In the case of municipal solid waste, the ratio is even higher. Municipal solid waste management services are typically not charged per volume of waste collected. The user charges are usually calculated and levied per area of property (both for households and businesses).

Utility companies also often manage municipal landfills. So there is no separate charge for depositing the waste at these dumpsites. The municipal solid waste collection charges are supposed to cover the costs of landfill operations and investment costs. However, the ownership of landfills is not clear, and there are no major investments in these sub-standard landfills so that no direct, specific costs are raised at the deposition stage of municipal solid waste management. This issue could bring some negative points according to the EU standards if landfills and waste management were evaluated.

In the end, tariffs are generally too low, with the result that there are insufficient resources for capital investments. This situation leads to weakening the service levels and to investment gaps.

In other words, experience shows that better results are possible at the cost of reviewing the prices. This does not seem to be a practicable solution when considering the current economic constraints and the general population's unwillingness to pay higher fees. As international experts suggest, several strategies can be pursued for increasing the efficiency of utility companies, for instance, assessing municipal capacities in terms of the territory covered and/or consumers served. This will help in choosing the best and cheapest way to provide services either through joint utility companies or through private utility companies, or through utility companies from another municipality. Organizing a Joint Regulatory Body on user charges is also viewed as a good solution. Therefore, there is a universal request on the part of the municipal company management, ministry officials and other experts that despite the existence of a set of pricing regulations, the national water (and other) pricing board would be needed in Macedonia.

Municipalities do not collect a high level of revenue. Therefore, the most discouraging issue is that the level of the revenue collected for performing utility services is relatively low. Municipal utility companies are responsible for billing and collecting the user charges. The invoices issued by the companies often include several different local revenues, not only the charges for the services performed by a municipal utility company. For example, in practice, local property taxes, fee for public lighting are also on the same bill received by the
users of water services and solid waste collection. This technique of joint bills does not help the citizens or companies as customers to understand which services were received for the price indicated on the invoice. Also, the utility companies as contractors might be easily confused with the local government as a client and local tax authority. However, the pricing methodology has quickly turned out to be an obstacle to the process for improving the level of the municipal revenue collected.

4.3 Other Financial Relations (Accounts, Capital Investment, Borrowing)

Besides tariff regulation and setting out user charges, there are other financial relationships between local authorities and utility companies. Firstly, the Council approves annual reports of utility companies, and utility companies send out invoices to the municipality for the services provided (e.g., water for municipal use). Also, utility companies may receive subsidies for public goods (e.g., parks). The conclusion is that the municipality’s obligation to be accountable for the financial balance of the utility company at the end of the fiscal year, i.e., to cover utility deficits through municipal budget subsidies, leads to weak and unaccountable financial management of utility companies in many cases. If so, the question arises whether the citizens are aware of the fact that they pay for bad management of utility companies, (a) by paying local taxes (which are the main resources of local budgets for covering different expenditures, such as subsidies to utility companies during the year), and (b) by paying utility bills.

Secondly, the municipality has a municipal inspector who examines the quality of the services provided by utility companies.

The third issue is financing capital investments. Capital investments could be made through fiscal grants (directly from the state budget to municipalities)\(^2\), or by borrowing (long-term contracts with commercial banks). The Financing of Local Self-Government Units Act sets the rules and procedures for local government borrowing. Municipalities are allowed to acquire long-term borrowing for capital investment purposes, and short-term borrowing for cash flow purposes. The Act allows local governments to incur short term debt (within the fiscal year) up to 20 percent of their revenues. Long-term borrowing and guarantees issued by the local governments are also limited by law. Since borrowing is the opportunity for municipalities, provided that they enter the second decentralization stage, this directly correlates with the capital investments in the municipal utility service area. If the utility company decides to take a loan, the Municipal Council must approve that and the municipality guarantees all borrowing. The Ministry of Finance shall be asked to give permission for borrowing, i.e., it has to approve the guarantee. It is important that only municipal revenues are counted in the debt service limit at commercial banks (not the utility
company revenues). These are rather restrictive provisions which, if rigorously implemented, could constrain the availability of debt finance for utility capital investment projects. The role of the Macedonian Bank for Support of Borrowing is important because this is a state-owned bank that, if necessary, should be engaged in the local borrowing process to facilitate it. Being a recommendation, this solution should be accepted by the Government, and empowered by virtue of a statutory provision. However, with regard to the borrowing terms, it must be recognized that many municipalities can never be creditworthy borrowers. Therefore, they would need the Central Government assistance if they ever were to borrow from private banks. We have also found a very strong economic justification for the Central Government involvement if the municipal projects have important externalities and a strong impact on public health, such as sewerage or solid waste management projects.

We have to emphasize that most foreign experts, invited to propose measures for utility service improvements, were not aware of the possibilities and benefits of the self-imposed contributions. Therefore, we consider the self-imposed contributions as the fourth source of financing utility services at local level. The process is called self-financing. Municipalities are allowed to introduce self-imposed contributions for different capital investment projects, mainly in the municipal utility service area. The local self-imposed contributions are fiscal instruments that were traditionally used for capital investments in ex-Yugoslavia. Today the Municipal Council may introduce the self-imposed contributions under the criteria set out in law after the citizens have approved them by different forms of agreement (for example, at referendum)\(^{22}\).

4.4 The Central Government’s Role: Who is in Charge at the End of the Day?

Having in mind tariff regulation (pricing methodology) in water supply, the Central Government’s role in monitoring (state audit) as well as in the field of borrowing when giving final approval, there is a question raised at the bottom of this paper: What is the exact role of the Central Government in the municipal utility service area? Is actually the state in charge at the end of the day?

As to borrowing, the conclusion is clear. The Macedonian utility companies may conclude long-term borrowing contracts only with approval from the Municipal Council and the Ministry of Finance.

There is another attention-grabbing point that might explain the absence of knowledge among citizens regarding the role of the Central Government in performing utility services after four years of decentralization. Namely, the role of the Central Government as to the price versus quality of utility services is minor, but traditionally, the lack of assistance by the state was mentioned by 54% of
citizens\textsuperscript{23} (field research findings) which is a significant number. In this survey, we did not explore the reasons and what kind of state assistance was requested by the citizens. The conclusion is clear: citizens still do expect the Central Government to assist delivery of high-quality utility services in addition to the fact that utility services have been assigned to the local level since 1996 and in accordance with the new regulation of 2001.

Another point of importance of the central government in supporting local utility companies is the VAT rate. This year, ADKOM (the Macedonian Association of Utility Companies) has made pressure. After some years of lobbying, the state had a positive response to the request to lower the VAT rate for utility services to 5\%, which was one of the major problems for the utility companies during the first years of decentralized performance of utility services.

In the end, according to the most recent Public Investment Programme (PIP) of the Government during the years 2008-2010, 17\% of all the public investments will be spent in the water, utility and environmental sectors. Most of these sectoral expenditures are targeted towards the local utilities and utility services. The ambitious investment targets of the PIP are to be financed from a variety of sources, predominantly from external loans and grants. In the water sector, only 25\% of the total costs are going to be financed by public funds, and in the case of regional landfills, this proportion is even lower (17\%). From today's point of view, we consider this a big challenge of absorbing external funds on the scale that is envisaged in national and local governments.

4 Conclusions and Recommendations

The Republic of Macedonia, like most transition countries in South-Eastern Europe, inherited a weak utility service system due to unrealistic prices, inefficient utility companies, lack of equipment and obsolete infrastructures (i.e., water and sewage networks). Additionally, within this system there are significant variations in the level of service performance in Macedonia. The two main dimensions of the existing differences are regional diversity and urban-rural discrepancies.

Since 1996, many programmes have been implemented to improve service provision, and nearly all the implied additional investments have been made, and the consequent charged fee matching the cost of services has been realized. In other words, experience shows that better results are possible at the cost of reviewing prices. The current local economic situation and the unwillingness of consumers to pay higher utility fees make this solution impossible to be implemented nowadays.

At present, customers are broadly satisfied with tariffs, and the predominant mood is that the prices should be maintained at the current levels. This is not surprising
because the tariffs are very low in many municipalities. The challenge is to raise revenues which will in part require an increase in tariffs up to cost recovery levels while, at the same time, attaining higher standards required by the EU Directives.

International as well as domestic experts suggest several strategies that can be pursued to increase efficiency of utility companies, for instance, assessing municipal capacities in terms of territory covered and/or consumers served. This will help in choosing the best and cheapest way of service provision (Inter-Municipal Co-operation by Establishing a Joint Enterprise, Public-Private Partnership or Outsourcing by Buying Services from a Private Company or a Neighbouring Utility).

The establishment of the Municipal Consumer Council\(^{24}\) would help municipalities to improve communication with citizens. The Council would serve as a forum for discussing fee collection and for negotiating appropriate prices with regard to the desired quality of services.

Also, having in mind the future investment package and adoption of the National Strategy and Action Plan for Improvement of Utility Services, and Public Investment Programme which is planning to invest approx. 90 million euros in water, waste water and solid waste management services during the next three years, we consider that the Macedonian Government has recognized the importance of infrastructure services in economic development and in basic public amenities. Anyway, local utility services are critical elements of the government’s economic and environmental strategies.

Regarding the decentralization process as an important prerequisite for the utility sector reform, it has to be underlined that the adoption of new mechanisms of intergovernmental fiscal relations, which have moved forward the decentralization in Macedonia, made progress to a noticeably higher level. Fiscal decentralization is mostly based on the inherited concept of rigid separation of central and local functions where specific types of revenues are assigned to national and municipal competences. Since utility services are regarded as purely local functions, they are supposed to be financed by their own local government and company revenues. The only general transfers allocated to municipalities are the equalization grants that are currently very weak and need reform. The capital investment needed to establish or upgrade water supply, wastewater and solid waste treatment, of course, will have to rely on the National Government, EU and inter-municipal cost sharing funds.

Within this overall finance examination, several specific components of the future strategy for municipal utility activities are identified, and perhaps the most important one is the municipal property transfer completion. Local government ownership is still limited and it is frequently interpreted as the right to use the land
and infrastructure. Technical problems of property transfer, such as identification and registration of assets, have to be resolved as well.

Appointment and remuneration of utility services managers should not be based on a local political influence. In other words, customers pay twice for bad financial management of utility companies: firstly, by paying local taxes (which are the main resources of local budgets for covering different expenditures, such as subsidies to utility companies during the year), and secondly, by paying utility bills.

There is a huge reform potential for improving user charges. The pricing methods still support the national control over the locally defined tariffs.

As the situation stands now, customers see no connection between the relatively low prices and the utility service performance. Therefore, the revenue administration efficiency should be enhanced because the collection rate should be higher.

Notes

3 Assigned responsibilities for providing municipal utility services are: construction, usage, protection and maintenance of the arterial and collective streets and other infrastructural facilities; categorization and naming of city neighbourhoods, streets, squares, bridges and other infrastructural facilities; supplying the drinking water from the unique water supply system; channelling and treatment of waste waters; channelling and discharge of atmospheric waters; treatment and delivery of technological water; construction and maintenance of the public lighting along arterial and collective streets; collecting and transporting municipal waste and other types of non-hazardous waste; maintaining the dump sites for municipal waste and other types of non-hazardous waste; regulating and organizing the public city and suburban transportation of passengers; maintaining the public hygiene of the public traffic areas; maintaining and using the city parks, forest parks; water, sports and recreation zones determined by the master urban plan and other protected areas in accordance with law; maintaining the greenery along the arterial and collective streets; construction, maintaining and using the public parking lots; placement, protection, removal and maintenance of the traffic signs and protection equipment along the local streets and roads; determining conditions and regime of the traffic; maintaining the graves, cemeteries, cremation facilities and providing burial services at the city cemetery, determined by the urban plan; supply of natural gas and heating; building, organizing, maintaining and using the only geographic information system; regulation, maintenance and using the river beds in the urban parts; disinfection; building, using and maintaining wholesale markets and markets for sale of motor vehicles; eradication of the stray animals; determining spots for burial of dead animals and their maintenance; decoration.
5 OSCE (2008) Utility Companies and Services, research study.
Companies whose bank accounts are blocked cannot pay any other duties until the debt is settled. It means that the utility company will not be able to pay salaries, to order supplies, electricity, petrol, etc. which jeopardize the regular provision of services.

In practice, although this provision has existed in the statute books since 2002, no municipal utility company has been transformed into a limited liability company or joint stock company. Were such a transformation to take place, the Act on Transformation of Companies with Socially-Owned Capital and the Trading Company Act would provide the legal framework.

These include the Drinking Water Supply and Urban Wastewater Discharge Act and the Waste Management Act.


Ibid, pg. 7.


Ibid pg. 27.

Ibid pg. 27.

Ibid, pg. 31.

According to the Financing of Local Self-Government Act, at the second decentralization stage being a higher stage of fiscal autonomy for municipalities, they receive various grants from the central budget: blocked grants (for education, culture and social care), grants earmarked for fire fighting, VAT and capital grants for capital investment projects.

In 2006, one of the Skopje sub-municipalities introduced a self-imposed contribution for capital investment project (supported also from state funds and international donor), for the water supply system improvement.


The Local Self-Government Act, Article 56.
References


Todorovski, I. (2004) The scope of public services and legislation on local public services, a chapter in Public Services at the Local Level in the Republic of Macedonia (Skopje: Institute for Sociological, Political and Juridical Research)


