

*The Center for Economic Analyses (CEA) is a think tank of economists who share a common vision for the Republic of Macedonia as an emerging new European economy integrated in the regional and worldwide market.*

*The Mission of CEA is to continuously research economic development and economic policy in the Republic of Macedonia and to offer recommendations, suggestions and measures where it is deemed appropriate.*

## PRESS RELEASE

The Center for Economic Analysis – CEA expressed interest for Public Private Partnership – PPP training to USAID. USAID sponsored the training about PPP to one participant from CEA. The training provider was the Institute for Public-Private Partnership, Inc - IP3 and the CEA trainee was its President Marjan Nikolov.

### **About the training**

The training period was for 6 weeks starting beginning of November and ending mid December and consisting of 6 modules: PPP concepts, rationale and contractual options, project appraisal and feasibility studies, project finance and investment analyses, procurement process, communications and stakeholder relations and contract management, monitoring and evaluation.

The course was organized in a way for participants to prepare weekly submission on content and case study requirements and to prepare an action plan on a specific project.

This document is the final report of the 6 weeks training program. It gives a brief overview on the background of the Macedonian economy and its readiness for the PPP, and then it presents the answers given to the questions from the six modules by Marjan Nikolov. Final thoughts are given at the end. Where it is possible focus was given more on local governments.

### **PPP – an instrument for the future: Is Macedonia ready?**

Almost two years ago a Macedonian private company wanted to invest in the Capital of Macedonia – Skopje in the public bus transportation. The “negotiations” between the private company and the Mayor of Skopje was more of an exchange of public announcements in the media and at the end the initiated PPP was never realized.

Around a year ago the Mayor of Skopje wanted to go for borrowing within the EBRD to solve the acute problem of public bus transportation but he was not allowed by the Ministry of finance of Macedonia to proceed with the initiative.

The problem with the bus transportation in the city of Skopje is identified but no solution so far was implemented. Recently the GoM announced that will buy buses for the JSP (Public Bus Enterprises of the City of Skopje) while the JSP is asking for subsidies.

The story of JSP is classic example of an attempt to provide the “social peace”, to postpone the inevitable reforms as much as possible, to keep the existing employment level at JSP and all that at the cost of low quality of services, quasi fiscal costs and potential political disputes. Without an ambition to be studious (the intention of this report is not to be that) one can conclude that problems on the path to exercise PPP in Macedonia might be of a technical and social character at least. At technical level neither proper institutions are developed nor does proper level of legislation, knowledge and experience exist. The social problems could be that PPP requires strong regulatory bodies to take care of environmental and labor market issues as well as the need for efficient management of the transitional welfare costs. On the other end the private partners should be aware of their social responsibility.

## **Background**

Macedonia as transitional country face situation where the main consumer groups should pay the full economic costs of production and supply and investment of so-called public goods so that whatever the enterprise (private or public or PPP) it should be commercially viable company that can finance its investment requirements without subsidies from the government at the one end. This will concern the relative prices between main groups of consumers and the cost pricing of goods and services provided. The viability is connected to the revenue requirements and the revenue collection.

In relation to increasing tariffs, in the communism the consumers were achieving a sizeable welfare gains from the reduction of prices in the so-called necessities. The contra weight was from the relatively high turnover taxation. This situation has caused today’s problem of rebalancing the prices.

It was clear that within market economy environment, the prices of public goods/services would increase significantly to the household’s consumers. But the living standard in Macedonia is not in contra balance with the relative price adjustment requirement. The result is usually a highly sensitive government to the pressure to keep down the price, revenue collection problems, not quit defined role of the public sector and status quo for the prices of some goods (recently, electricity could be good example in Macedonia where irrelevant from the independent regulatory commission, the ELEM state owned generation enterprise is not asking for higher prices even

though the prices are not reflecting the long run costs. On top on that there are disputes on the institutional set up of the electricity sector which is vertically disbundled and on track of liberalization not to mention the need to discuss the energy deprivation and protection of the poor).

### **Is PPP a solution?**

The needs for capital projects, infrastructure development, satisfying EU standards and demand for quality services, cannot be met by the local/central governments. The potential financial resources needs are high and above the consolidated Macedonian budgets. Thus, the needs for the financial resources, improving efficiency, better management skills requires development of instruments at which the best from the private sector will meet the best from the public sector and jointly to achieve the objective of better provision of services. PPP aims at that objective. But to exercise this instrument might be costly if proper legislation and institutions are not in place.

### **The ACTION PLAN “ACCESS TO ALL”: Investigating the possibility for a PPP in the public bus transportation in the City of Skopje**

Marjan Nikolov prepared an Action Plan to investigate the possibility for a PPP in the public bus transportation in the City of Skopje.

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This Action Plan will try to find out what could be the best solution for the city of Skopje to solve the problem of public bus transportation.

The institutional limits at the moments are of limited nature as the new Law on concessions and other types of PPP will be adopted soon, the LSG in Macedonia as of July this year are allowed to borrow and there are interested parties to invest in this service.

Other problems might be of a technical and social character. The transportations means – the busses are obsolete, the management lacks skills and knowledge, and there is little political will to deal with the over-employment and the hidden over-employment.

### **The action plan title, mission statement and goals**

**Action plan title:** “Access to all”

In a dynamic world and urban centers as Skopje is, people need to have access to alternatives in commuting. PPP in urban transportation is with clear and definable revenues streams. Risks are of institutional, technical and social character but positive is that there are indications of a political will. What needs to be achieved is modern way of public bus transportation in Skopje with accessible tariffs to the citizens’ purchasing power even for routes with fewer passengers.

The city of Skopje is ethnically fragmented but citizens are different in many conditions as: physical (disabilities), social, economic, gender and age. They all need improvements in the public transportation and that is why the access should be allowed to all of them of this proposed instrument for a newly better services.

#### **Mission statement:**

Improving living conditions in the City of Skopje

Goals from a policy perspective:

- Increase the number of people using public transportation
- Faster and more frequent transportation
- Create a system that will be priority one compared to the individual private car transportation
- Less air pollution

Objectives:

- To build a bus network with separate lanes based on principles and routes planned through consultation with Skopje administration and the population
- To keep fares low while improving the commercial speed
- To be financially sustainable alternative to relatively expensive underground system in Skopje

Goals from a perspective of CEA

Objectives:

- Gain a better understanding of P3
- Gain a greater understanding of the current situation and future challenges facing the public bus transportation company
- Increase awareness among stakeholders of the P3

Actions:

- To find the financial statements of the JSP (the City of Skopje's public transportation enterprise)
- Justification: in order to know better the situation apart from anecdotic one CEA need official financial data
- To talk with the private investor interested for the P3
- Justification: the interested investor had some incentive for his expression of interest. CEA would like to learn more on his incentives and experience, obstacles etc
- To find information and data on the frequencies, lanes etc in the City of Skopje
- Justification: apart from financial data a data on technical production process is essential input for future calculation of the project viability and risks
- To talk with the central authorities that prepared the draft law on concessions and other types of PPP
- Justification: it is of importance to see where the regulator is aiming at with the future PPP potential in Macedonia, are they serious, what is their knowledge, agenda etc
- To find at least two case studies in Europe on P3 in capital cities
- Justification: case studies are always cheapest way to learn lessons
- To analyze these case studies
- Justification: this is the real type of work and when one learn at most
- To analyze proper form of P3 for Skopje public transportation
- Justification: this has to be done so that CEA will be out of the "void" and actually implementing what have learned
- To identify the risks for that form
- Justification: this is to implement what CEA have learned during the course and add a value to it and use to it
- To present the results/preliminary study to the City of Skopje officials
- Justification: the effort and the results will be of interest to the decision makers

For more information please contact Marjan Nikolov the President of CEA at: [makmar2000@yahoo.com](mailto:makmar2000@yahoo.com) and check [www.cea.org.mk](http://www.cea.org.mk) for the Action plan and the final report on PPP.