

USAID/DAI LOCAL GOVERNMENT REFORM PROJECT: MAKKOM STUDY

A report prepared for the

USAID Local Government Reform Project

Development Alternatives, Inc.

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Methodology Used in the Assessment

The assessment was carried out by Richard Kobayashi working as a short term consultant to DAI. Significant assistance was provided throughout the assignment by Nada Vuchinch-Gavrilovska, Bekim Ymeri, Bardhyl Marku and Kristina Hadzi-Vasileva, all of whom are knowledgeable and seasoned members of the LGRP staff. Nada has extensive experience with LGRP's association building efforts and Bekim and Bardhyl have significant insight into the operations of Public Service Enterprises based on their previous municipal management development work for LGRP and in Bardhyl's prior experience working in the Public Service Enterprise arena. Kristina has served as Project Manager for the Citizens Advisory Board program which provided citizen input to Public Service Enterprises in five Cities: Debar, Kocani, Kavadarci, Negotino and Veles.

Richard Kobayashi arrived in Macedonia on November 14th and returned to the US on November 25th, during the intervening period he conducted this assessment. On site data collection and analysis occurred principally during the calendar work week of November 18th

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to 22nd. A review of both the assessment and its implications with LGRP staff occurred on November 25th.

The basic assessment approach taken was to interview selected Public Service Enterprise managers, the executive director of MAKKOM and other knowledgeable people, including members of LGRP staff. A list of people interviewed is in Appendix E. MAKKOM is the acronym for The Association of Communal Services Enterprises of the Republic of Macedonia.

Concurrent with interviews of key players in the MAKKOM arena, daily consultations to verify, test alternative approaches and fine tune information gathering occurred with LGRP staff. In addition to the persons named above these included Alan Beals, SITA for association development and Bill Althaus, COP. Throughout, very high quality interpretation and translation assistance was provided by LGRP staff, particularly Suzana Fidanova as well as by Filip Markovic, a freelancer hired for certain aspects of the project.

The Public Services Enterprises System of Service Delivery

Typically each municipality has one or more Public Service Enterprises (PSE). This term is generic and there are wide variations in official names for these organizations. Small to medium size communities tend to have a single enterprise that provides a standard array of public works services including water. Larger communities tend to have separate enterprises for water. As described during the interviews, PSEs are distinct from City Governments but all interviewees were consistent in their view that Mayors appoint PSE Directors and set key priorities for PSEs. These organizations generate their own revenue streams by charging for services on a fee for service basis. They also receive varying degrees of support from City

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governments. The nature of the budgetary linkages among PSEs, City Governments and the National Government are beyond the scope of this assessment. However, firmer knowledge of how these systems work and are linked is likely to be important to devising strategies to enhance PSE effectiveness in service delivery.

MAKKOM Background

MAKKOM was formed in the early 1990s. However the current legal structure was adopted in February 1999. According to the President of the Managing Board it was formed as a successor to a similar organization which existed in the former Yugoslavia. The balance of this section provides key facts concerning MAKKOM.

MAKKOM is organized as a Macedonian Limited Liability Company. Its charter is in Appendix A. It appears that while described in its formal name as a limited liability company, MAKKOM is registered under a provision of law that provides for establishment of trade associations. It characterizes itself as a non-governmental and non-profit organization. Our limited review of financial information did not provide evidence that it is a profit making entity. The organization is governed by a Managing Board of 15 members elected by the Assembly, which is composed of one representative from each member organization. The Director, who has day to day responsibility for the operation of the organization, is appointed by the Managing Board for a period of four years. The Director is required to have a university degree and knowledge of the communal services sphere. The Director may be reappointed. The current Director, Mr. Boris Mimov was previously the Director of the Public Service Enterprise in Veles. According to Mr. Mimov he is the third Executive Director since the

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creation of MAKKOM. The current President of the managing Board is Alekasadar Ivanovic, Technical Director of Skopje Vodovod.

The office of MAKKOM is located in very modest quarters in a building shared by other firms at Zeleznicka 37 in Skopje. The staff consists of the Director, a Secretary and a Driver.

MAKKOM has adopted a dues formula of 40 Denars for each employee of a Public Service Enterprise. However, dues payments are currently running at about 60% of the budgeted level. The Director attributes this to the poor financial condition of the member organizations. The dues collection rate is roughly consistent with the revenue collection rate of PSE revenues from the enterprises from which we have anecdotal data.

MAKKOM organizes its work through a series of committees. These include committees on

- Water Supply and Control
- Legal and Normative Matters
- Mechanization
- Water Treatment and Control
- Environment preservation and Improvement
- Finance and Economy
- Buying Services
- Public Relations

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These committees are not staffed. A complete list of Committee members, including Chairs is included in Appendix B1 (Decision on Appointing Members of the Working Bodies of the Managing Board of MAKKOM LTD.)

MAKKOM has an annual approved budget of 2.2 million Denars for 2002. Hard data on how close MAKKOM is to meeting that revenue target was not available during the period of the assessment.

MAKKOM publishes a quarterly magazine (Communal Economy) for its members and sells a significant amount of advertising in the publication. The magazine is not slick, but has a clear and easy to read format. LGRP staff found it superior to current publications by ZELS. In Appendix C we have included a translation of the Table of Contents for the March 2002 issue. The topics mainly focus on technical practice and on organizational matters, including changes in law or policy affecting PSE operations. In discussions with the Executive Director he lamented the fact that regular publication had slowed due to the revenue shortfalls and expressed concern that members were not getting important information on a timely basis.

MAKKOM does have an annual work plan. We have reviewed this and it appears to be a list which combines past or traditional activities with desires. A copy is included as Appendix F. The organization has not conducted a formal comprehensive needs assessment and relies on its committees to identify and articulate needs. Similarly the organization has not developed a Strategic Plan.

MAKKOM has 38 members. This represents most of the PSEs in municipalities, which existed prior to the revision to the Law on Territorial Division. Where new municipalities have been formed PSEs tend to be quite small and membership is spotty. It should be noted that some

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PSEs continue to serve populations of “new” municipalities, populations they served before the expansion of the number of municipalities.

An outside accounting firm provides accounting services to MAKKOM. There is no outside audit procedure. According to the Charter, the three members of the Supervisory Board serve as an Audit Committee. This was not verified directly during this assessment.

Overall Impressions of MAKKOM

MAKKOM appears to serve its members in two principal roles:

First, it provides vehicles for information sharing among members of the Public Enterprise community. This occurs through meetings, conferences, collaboration/communication with peers from other countries as well as through the organizations publication “Communal Economy”

Secondly, it provides a vehicle for the membership to perform technical analysis of changes in legislation that will affect the way members provide services. During interviews the role of the committee on legal and normative matters was routinely mentioned.

While MAKKOM is affected by severe revenue constraints, like its members, it appears to be a stable going concern which provides a modest, but steady source of programmatic support to its members as well as a forum for information exchange

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*MAKKOM appears to have the **potential** to serve as a vehicle to provide technical assistance, training and institutional strengthening services to its members.*

Action Steps Taken During the Assessment

Based on this tentative conclusion we decided to take advantage of an invitation to meet with MAKKOM at a regular meeting of its Managing Board in M. Brod on Friday November 22nd. At this meeting we described LGRP's strategy of working with associations of local officials, explained that a typical LGRP approach was to assist with a comprehensive needs assessment and subsequently assist with the development of a Strategic Plan. We also stated that it has been LGRP practice to then support implementation of selected high priority components of the Strategic Plan. (The text of Richard Kobayashi's remarks to the members is included as Appendix D). Bardhyl Marku of the LGRP staff also participated in this meeting.

Given the tight timetable for LGRP resource allocation decisions for Program Year 4, we requested that MAKKOM officials indicate their interest by simply calling LGRP to begin a dialog before December 22nd, that is, within 30 days of the meeting. In making this request we explained the time constraints on LGRP making resource allocations for the balance of Year 4.

Before the Managing Board meeting local LGRP staff, the COP and STTA advisor Alan Beals all concurred that the strategy described above was the most appropriate strategy given the constrained LGRP timetable. Similarly there was agreement that the quality, and timeliness of the response would serve as a useful indicator of the likely return on any LGRP investment in MAKKOM.

Other Observations

One issue is the potential relationship between MAKKOM and ZELS. Several of the PSE Directors interviewed stated that they envisioned no conflict as they are Mayor's appointees;

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others noted that while MAKKOM does have a technical committee to work on legislation affecting public services, its capacity to influence enactment is limited. These Directors had a clear and intuitive sense of how the expertise of MAKKOM members and ZELS advocacy capacity could evolve in a productive way.

Similarly, Goran Angelov, President of ZELS state that he envisioned a productive working relationship with MAKKOM, both on policy advocacy and local training and development activities that might be generated by an LGRP supported MAKKOM.

In presenting the opportunity to collaborate with LGRP to the MAKKOM meeting in M. Brod, we did not emphasize developing a working collaboration with ZELS. In discussions with LGRP staff the consensus was that raising this issue in any dialog with MAKKOM would be more appropriate than presenting it as a major issue to an unprepared Managing Board. Similarly examination of this issue would be included in any needs assessment. All involved from the LGRP felt that a ZELS-MAKKOM linkage would evolve naturally, much as it has with AFO. Individuals in leadership positions in MAKKOM, specifically the President and the Executive Director expressed the same opinion during interviews. Absolutely no obstacles to this type of collaboration were identified during the assessment.

MAKKOM has the potential to develop into an organization that plays a significant role in developing and sustaining improvement in the quality of public services. However, to become a major player in fostering service improvement it requires institutional strengthening. Any USAID/LGRP development assistance should be based on a partnership approach in which the activities undertaken have the genuine support of the organization and are consistent with MAKKOM's overall strategy. Based on conversations conducted as a part of this assessment it

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is apparent that leadership of public service organizations in Macedonian cities is uneven. Some Directors and key technical staff have professional training in engineering, others have extensive practical experience, and some are patronage appointments. A key strategy to improve public services will be education.

One caution is in order. One of the Directors interviewed during the assessment and several others known to IGRP staff do not have favorable opinions about MAKKOM. They find it of limited utility. To address this issue and gain a better understanding of the breadth and depth of this attitude the needs assessment recommended should be designed to elicit the concerns of managers with this view. According to LGRP staff, managers in this category tend to be effective PSE leaders in their cities. The general impression is that this group finds MAKKOM an organization that is too traditional and limited in scope to meet their needs.

Recommended Approach

Assuming MAKKOM steps forward in the next 30 days and seeks a partnership the following approach is recommended:

1. Comprehensive Needs Assessment. This assessment would focus on three main areas:

- Training and Development Needs of Directors and the staff of Local PSEs

This would include the skill building requirements of PSEs which are foundation blocks for enhanced service delivery. Technical as well as leadership and organizational management skills are envisioned.

- Institutional Development Needs of MAKKOM's Board, staff and systems

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This would include a review of the effectiveness of MAKKOM's policy making structures and membership communication, as well as the financial and legal basis of the organization.

- Policy, regulatory and legislative changes that are required to enable and support effective and sustainable public services.

This would include a review of how recent, pending and proposed legislation may affect PSEs, as well as identification of key constraints in current law and financial structures, which limit improvement in public services by the PSEs. The outcome of this review will identify significant opportunities for collaboration in policy advocacy with ZELS.

The Needs Assessment should be well designed and include structured interviews and focus groups as well as survey documents. *It will be important to ensure that the views of effective PSE managers who are not active participants are included.* In addition, the needs assessment should be designed to determine if there are significant differences in perceived needs between PSEs serving Albanian majority cities and those serving Macedonian majority cities. The needs assessment should include a comprehensive review of MAKKOM's finances to confirm its non profit status and gain sufficient knowledge of its financial systems so substantive and effective technical assistance can be provided in an area, critical to institutional strengthening and sustainability.

2. Strategic Plan. Based on the Needs Assessment a highly structured Strategic Planning process should be carried out. The recommended time horizon for the Strategic Plan is five years.

3. LGRP should position itself to support implementation of the Strategic Plan.

Supporting high priority elements of the Strategic Plan through technical assistance, training, direct financial support, and brokering support from other donors can have a rapid impact on MAKKOM'S capabilities. This will be particularly valuable if MAKKOM's Strategic Plan is closely aligned with USAID/LGRP goals.

In considering this strategy, LGRP must recognize that the development of the Needs Assessment and subsequent Strategic Plan will be *self-revealing* processes and the actual timing of support requests from MAKKOM as well as their scale cannot be predicted at this time. LGRP should assume that in developing a relationship with MAKKOM, the international experience of LGRP/USAID will need to be shared with MAKKOM in a manner that induces MAKKOM to pursue a path which will result in timely, effective and sustainable results.

Conclusion

MAKKOM is an organization, which has sustained itself for almost a decade. An excellent possibility, but not a certainty, exists for the development of working partnership. *MAKKOM's response to the invitation to engage in a dialog will provide an early signal on how heavily to invest in MAKKOM during the balance of Program Year 4.*

In an optimum scenario the needs assessment would occur and be completed in Quarter 2 and the Strategic Plan would be completed in Quarter 3 of the Year 4 Program. While major investments in MAKKOM should wait until Strategic Plan completion, LGRP should be open to considering some "fast track" projects, which might become evident during the needs assessment. Illustrations of fast track projects include:

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- Technical analysis of key legislation affecting PSE functions. This could then serve as the basis for a joint policy approach by MAKKOM and ZELS.
- Modest institutional support in the form of support for on going activities that are part of MAKKOMS regular program and have high value, but have been curtailed due to revenue shortfalls. The magazine might be an example.

Timing Issues

One of the hallmarks of LGRP success over the last three years has been it's willingness to be flexible and respond to opportunities as they present themselves. MAKKOM may present one of those opportunities. While this report recommends considering assistance for high priority "fast track" projects in the near term, the main thrust of the report is based on two elements:

- Gauging MAKKOM'S interest and
- Guiding MAKKOM through a comprehensive needs assessment and development of a Strategic Plan.

The argument for a *comprehensive* needs assessment is that it will provide a strong basis for the development of a MAKKOM which is *effective and sustainable*. It will also provide LGRP with a real sense of where it will be most productive to invest USAID program resources.

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Assuming MAKKOM demonstrates interest in partnering with LGRP, the following is a hypothetical scenario for LGRP support of MAKKOM.

Year 4

Quarter 1 – Feasibility Study Complete

Quarter 2 – Needs Assessment Complete

Quarter 3 – Strategic Plan Complete

Quarter 4 – Initial SP Implementation Support

Quarters 2-4 Fast Track Support (if appropriate)

Year 5

LGRP support for implementation of Strategic Plan

This schedule clarifies the potential effects of delay on LGRP's ability to partner with MAKKOM. The hypothetical scenario enables LGRP to invest in MAKKOM *for five full program quarters after completion of the Strategic Plan*. If the Strategic Plan completion slips to the end of Quarter 4, then LGRP is compromised in making program allocation decisions based on the Strategic Plan until Quarter 1 of Year 5. This would sharply reduce the potential for LGRP to assist MAKKOM.