

MACEDONIA

KARPOSH : LOAN GUARANTEE FROM USAID DEVELOPMENT CREDIT AUTHORITY (2005)

LONG TERM
EXTERNAL
RESOURCES

Communes

- The municipality of Karposh is a compound part of the City of Skopje, one of the ten municipalities of Skopje. The municipality of Karposh consists of 14 unites called local communities, out of which 12 are urban and just two (Bardovci and Gorno Nerezi) are rural.

USAID Development Credit Authority (DCA)

- USAID is the lead U.S. Government agency that works to end extreme global poverty and enable resilient, democratic societies to realize their potential.

DESCRIPTION & STAKEHOLDERS

- The municipality of Karposh has applied to access the USAID development Credit Authority (DCA) loan guaranty facility through the USAID/Macedonia Local Government activity (MLGA) and its municipal investment Program. The USAID MLGA has provided technical assistance to the municipality to assess its credit-worthiness and its current financial health, the credit conditions and future projections.
- Investment project: Kaposh Energy Efficiency
- Period of the project: July – October 2008
- Purpose of the project: the project aims at completing the construction of the primary school focusing on the energy efficiency and especially installing an efficient energy heating system, electricity and lighting as well as roof construction.
- Prior to the borrowing procedure, the USAID MLGA has provide a technical assistance to the municipality of Karposh (installation of a creditworthiness self-assessment tool to assess the current municipal financial health, the credit condition and future projections based on historical budget trend and future revenue and expenditure scenarios).
- Borrowing procedure:
 - ⇒ As required by the Law, the municipality should contact several financial institutions to obtain draft terms and conditions for borrowing.
 - ⇒ The obtained draft terms and conditions should be submitted to the Ministry of Finance to obtain an opinion for borrowing.
 - ⇒ Next, the government issue a consent for borrowing on the basis of the positive opinion from the Ministry of Finance.
 - ⇒ The municipality publishes a tender (UNI Bank , a DCA partner is the winner).

SPECIFICITIES OF LOANS

- Loan: 635,000\$ corresponding to the total proposed municipal investment project
- Borrowing bank: UNI bank, a DCA partner
- Guarantee: 50% of the loan is guaranteed by the USAID Development Credit Authority (DCA)
- Loan term: 5 years
- Interest rate: 7.5%

INSTITUTIONAL AND REGULATORY FRAMEWORK / PRUDENTIAL MEASURES

- Macedonia's 1991 Constitution changed the status of municipalities, guaranteeing the right to organize local self-government as one of the foundations of the country. However, the model of local self-government from 1991 to 1998 was inadequate and restrictive in terms of local initiatives. Only about 1% of public expenditure was spent at the local level.
- The passage of the amended Law on Local Self-Government in January 2002 set the general framework for the decentralization process. About 80 additional laws were identified as needing to be amended or drafted in order to fully implement the Law on Local Self-Government; one was the Law on Local Government Finance (LLGF) that was passed in 2004. The LLGF not only defines the fiscal relationship between central government and municipalities, including monetary transfers, it also defines the procedures and criteria by which municipalities are measured to determine whether they are eligible to progress to Phase II of the decentralization process.
- The Macedonia Local Government Activity (MLGA), awarded to ARD under the Decentralization and Democratic Local Governance IQC, is aimed at assisting Macedonian municipalities through supporting the development of the intergovernmental finance system; improving municipal financial management capacities; strengthening the creditworthiness of municipalities; improving tax and fees collection at the local level; helping municipalities stimulate local economic development; and increasing local government transparency and accountability.

USES

- Exclusive to local government:
 - The management of the local road infrastructure
 - Water supply
 - Sewage, waste and pluvial water treatment
 - Public lighting
 - Sanitation/waste collection
 - Local public transportation
- Shared local with central government: Social housing as well as houses for youth

RESOURCES

- Most important local taxes/fees and average share in the annual budget
 - Property tax: 6%
 - Real estate transfer tax: 17%
 - Communal fee: 29%
- Shared taxes: Local governments receive 3% of personal income tax
- Central government transfers:
 - General purpose transfer from VAT
 - Earmarked/block grants for the areas of education, culture, social policy and child protection
 - Capital grants
- Funds received for delegated competencies

ADVANTAGES

- New way of municipal financing with significant influence for the local community and for the municipalities considering whether to apply to the DCA for their projects
- A successful cooperation involving diverse participants: USAID, ZELS (Association of municipalities), the DCA participating bank, the municipality, energy service companies and the Ministry of Finance

CREDITWORTHINESS / CREDIT ANALYSIS / RISK

- Strong municipal financial standing and net operating result substantially higher than the debt service capacity

DISADVANTAGES / ISSUES RAISED

- Access to capital is a major issue for local governments in Macedonia, especially now once they are allowed to borrow from the private credit market to stimulate growth. However, many have not the opportunity to develop a credit history or to be recognized by banks as creditworthy.