



NORTH MACEDONIA

KEY PERFORMANCE INDICATORS OF PUBLIC-OWNED ENTERPRISES IN NORTH MACEDONIA

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Part of *Accountability, anti-corruption, and transparency policies in Public-Owned Enterprises*
by Andrea ZATTI (ed.), 2020-2021

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CIRIEC activities, publications and researches are realized with the support of the University of Liège, the Walloon-Brussels Federation, the Walloon Region and Belgian National Lottery.



This publication has been peer-reviewed.

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ZULFIU ALILI, Merita. **“Key Performance Indicators of Public-Owned Enterprises (POEs) in North Macedonia”**. In: ZATTI, Andrea (ed.). *Accountability, anti-corruption, and transparency policies in Public-Owned Enterprises (POEs) – Part I*, Liège: CIRIEC, 2020-2021. (CIRIEC Studies Series; 2), pp. 113-124.
<https://doi.org/10.25518/ciriec.css2northmacedonia>

This publication is indexed and available in [RePEc](#)

Key Performance Indicators of Public-Owned Enterprises (POEs) in North Macedonia

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Abstract

Private sector leads the production and distribution process in many countries. However, Public Owned Enterprises (POEs) are also an important element of many developing and developed economies in this context. This analysis examines the main legal organisation forms of public owned enterprises and their financial performance. It also briefly analyses the national legislation and regulation on corruption prevention mechanisms and policy measures and anticorruption practices in public owned enterprises. Almost half of public owned enterprises in North Macedonia are working with losses and have the highest maturity and unpaid liabilities in the last five years. Public owned enterprises can either contribute or obstruct the competitiveness of the economy depending on their efficiency and productivity. This sector needs to be transparent to provide competing enterprises with a fair overview of the fundamental market conditions.

Keywords: public owned enterprises, efficiency, corruption, North Macedonia

JEL-Codes: H00, L32, D73

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1. Introduction

In many countries, the primary support for production and distribution lies in the private sector rather than the public sector. One of the main reasons is that this form of economic organisation leads to the efficiency of resource allocation. However, Public Owned Enterprises (POEs) are also an important element of many developing and developed economies. POEs are special forms of legal entities that perform activities of public interest. Most of the literature comparing different models of ownership (i.e. public, private or mixed) finds no conclusive evidence that the private model is more efficient than the others, however it suggests that efficiency depends on factors such as country context, the characteristics of the sector they operate in, firm's organisation, rather than ownership (GCPSE, 2015).

According to OECD (2018) state owned enterprises in South East Europe are the main providers of key public goods and services, such as water, electricity, transport, telecommunications and postal services. This sector should be transparent and provide competing enterprises with a non-discriminatory overview of the fundamental market conditions.

Public owned enterprises often operate in sectors with large potential environment impacts and can be at risk of corruption. In order to ensure high level of competitiveness POEs need to respect their legal obligations, apply good standards of responsible business conduct, and take into account the environmental and social objectives of development (OECD, 2018). "Anti-corruption policy is directly relevant to SOE governance because poorly governed SOEs are particularly vulnerable to corrupt practices. OECD experience shows that a disproportionate share of bribes paid to public officials tend to pass via the procurement processes of large SOEs" (OECD, 2018, p. 233).

This analysis addresses the following questions:

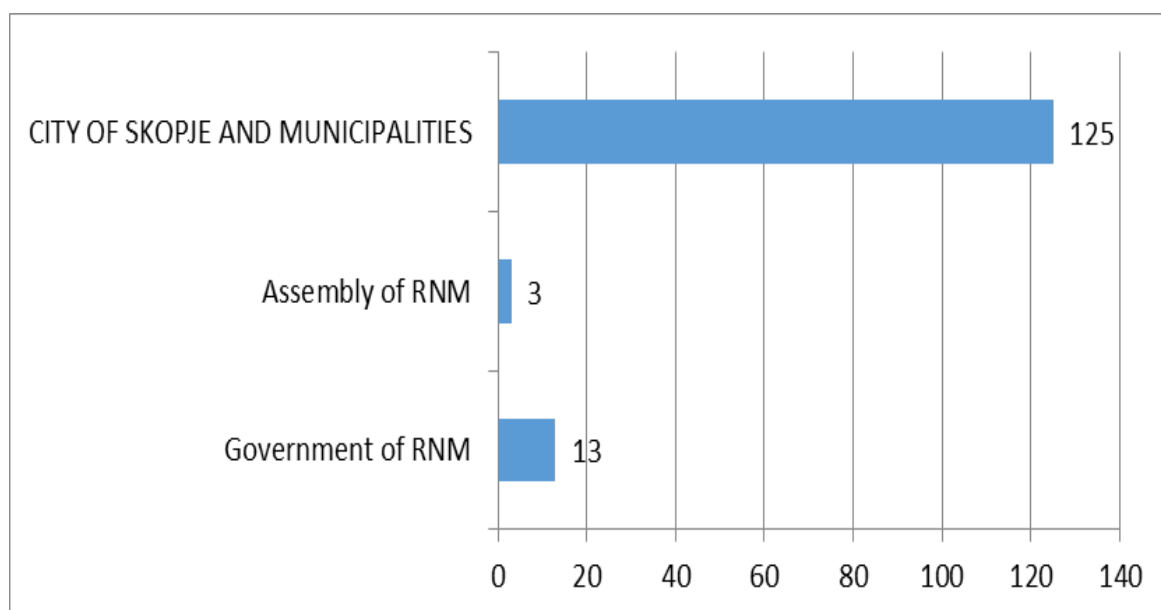
1. What is the relevance of public enterprises in North Macedonia (number of POEs, sectors, people employed, management of POEs, financial indicators)?
2. Which are the main legal and organizational forms adopted for POEs (PE, LLC, JSC)?
3. Which is the current situation/approach on accountability and anti-corruption in North Macedonia (importance of the theme, main legislative acts, etc.)?
4. Which have been the main anti-corruption and compliance measures (legal acts, guidelines, etc.) adopted for POEs in North Macedonia?
5. Which are the main effects, risks, flaws emerging from the previous points?

2. The relevance of public owned enterprises in North Macedonia

The process of privatisation of the public owned enterprises in North Macedonia began in 1989 (with the Law on Social Capital of the former Yugoslav Federation). The model of privatisation has a commercial, case-by-case approach. This approach was selected, instead of the mass privatisation approach, in order to improve the efficiency of the economy through increase of the enterprise management efficiency as well as to attract foreign capital, develop a capital market and provide new possibilities in servicing the internal and external debt of the country (Belogaska & Sajnoski, 2001).

In 2019, there were 75914 active business entities and 141 public owned enterprises in North Macedonia. The privatisation process in North Macedonia is almost complete and private capital is dominant in the market. The majority of POEs are public utilities in which the central government is the majority shareholder. The 81 local governments also own local public utility enterprises. From the total of 141 public enterprises, 13 are founded by the Government of RNM, 3 are founded by the Assembly of RNM, and most of them, i.e. 125 are founded by the City of Skopje and municipalities (Figure 1).

Figure 1. Number of public enterprises by founder, 2019



Source: MISA, 2020.

POEs operate in several strategic sectors including energy, transportation, and media. In 2019, most of public enterprises are in the area of utility services, agriculture and forestry, other area of public interest, followed by public transport enterprises, public enterprises in the area of information and information society (Table 1).

In 2019, public enterprises are numbering a total of 18,026 employees, divided into three groups, administrative (state) officials, public service providers and auxiliary-technical staff. Most employees are in public enterprises in the field of utility services, followed by transport, agriculture and forestry, information, information society and other area of public interest (Table 1).

Table 1. Number of public enterprises by area and number of employees in public enterprises by area, 2019

	Number of public enterprises by area	Number of employees in public enterprises by area
Utility Services	118	10710
Agriculture, Forestry	8	2699
Transport	4	3507
Information	2	849
Information Society	1	140
Other area of public interest	8	121
Total	141	18026

Source: MISA, 2020.

The number of employees in 50 state owned enterprises has increased for 8% in the period 2010-2016 in North Macedonia. A 2016 report by Transparency International-Macedonia commented that “policy decisions related to SOEs often comply with the political needs of the ruling political establishment, such as needs for employment...rather than with the actual needs of the SOEs.” (U.S. Department of State Report, 2018).

Analysing the gender structure of POEs employees the 2019 data show that men dominate in public enterprises (83.36%), which affects the balance of gender representation at the level of the entire public sector. The average age of employees in public enterprises was 48.75 years in 2019, whereas the age group 26-35 years was represented with 10.50% (MISA, 2020).

In order to provide a mechanism for achieving the basic principle of equitable representation of community members, in 2015 was adopted the Law of Public Sector Employees for the recruitment procedure where ethnicity is one of the parameters taken into account during the recruitment after the candidates demonstrate they are fully qualified for the job in the selection procedure. However, from 2017 each institution has to elaborate an annual employment plan and implement requirement procedure according to it. The data show that 74.75% of employees in public enterprises in 2019 were ethnic Macedonians, 16.90% were ethnic Albanians, 3.64% were ethnic Roma, whereas other communities were represented with 4.71% (MISA, 2020).

The educational structure of POEs employees is one of the important parameters affecting the quality of services offered by public enterprises. Data on educational profile of public enterprise employees in 2019 show that most of employees were with secondary education (Table 2).

Table 2. Educational profile in public enterprises, 2019

Type of institution	NQ	SQ	Q	PE	SVE	HQ	HE	UE	MA	Ph.D
Public Enterprise	0.27%	0.16%	0.07%	24.84%	51.04%	8.99%	0.40%	13.43%	0.79%	0.02%

NQ=non-qualified; SQ=semi qualified; Q=qualified; PE=primary education; SVE=secondary education; HQ=highly qualified; HE=higher education; UE=university education; MA=Master's degree; Ph.D=doctoral degrees

Source: MISA, 2020.

2.1. Effective management of POEs

“Effective management of public bodies is a key pre-condition for good governance and building citizens’ trust in the public administration... Good governance means effective, co-ordinated and transparent state institutions – with structures, processes that are fit for purpose. When there is good governance, corruption does not have a home and public funds are managed effectively. As citizens, we invest in our institutions through the taxes we pay and in return, we expect transparency from institutions on how they spend the money” (British Embassy Skopje, 2019).

Management of POEs and independent state bodies are closely related to the general condition of good governance in the country. Their number and availability with public resources imposes questions such as who manages these entities, how they are assigned in those positions and how it can be assured that these enterprises will be managed by qualified people and in accordance with the needs of POEs (Popović and Pankovski, 2019). In theory, one public enterprise should be governed by a managing board comprised of fields’ experts, a CEO who shall execute their decisions and a supervisory board comprised of legal experts and economists which shall ensure that the decisions are lawful and to the best interest of the enterprise and the public. In practice, they are most often governed by CEOs as political officials, whereas managing and supervisory boards are filled-in by lower political party-affiliated or other non-expert staff who are there because of the fees in the amount of several thousands MKD they are entitled to monthly. The research of IDSCS shows that 43% of managing board members have had no experience in the field covered by the enterprise-water supply, roads, forests, public hygiene, etc. There are also members of supervisory boards who have no legal or economic educational background, which is a legal pre-condition so that they could be a member of such a body. This explains why some enterprises are flying in the wrong or undefined direction (IDSCS, 2019). Analysing internal procedures for monitoring the performance of

management in the field of public procurement the IDSCS (2019) results suggest that when conducting public procurement, public enterprises must respect the basic principles and the economy because they represent an important segment of the capital and operating expenses of any public enterprise. Legal obligations for public procurement should result in reduced space for subjective behaviour of the contracting authorities and abuses in spending public funds, on the one hand, but also with an easier and more efficient process of public procurement, on the other hand (Smilevska et al., 2019).

POEs in North Macedonia are governed by board of directors consisting of members appointed by the government. They are subject to the same tax policies as private sector companies and are allowed to purchase or supply goods and services from the private sector without material advantages such as preferential access to land and raw materials (U.S. Department of State, 2018). According to the amendments of the Law of Public Enterprises as of April 2018, public enterprises are obliged to submit annual and quarterly reports on their websites in order to ensure transparency by providing timely and transparent monitoring of the financial operations of these entities (Government of the Republic of North Macedonia, 2019).

2.2. Financial indicators of POEs

The analysis of the financial results of POEs according to the data for 2017 taken from the Central Registry show that 86 state-owned enterprises performed with positive financial balance, while 36 state-owned companies reported financial losses. All POEs earned revenues in the amount of 141 million euros, whereas losses were reported in the amount of 30 million euros. The net effect is positive and amount to 111 million euros (Center for Civil Communications, 2018).

Analysing five state enterprises with highest revenue in 2017 the data in Table 3 indicate that JSC ELEM is at the top of the rank list of state enterprises according to their revenue, with total annual revenue of 219 million euros, which is by 3.4% lower compared to 2016. Second rank according to the revenue is PE State Roads and compared to 2016 is increased by 41.6%. However, this increase in revenue of this company by 41.2 million euros in one year is due to the positive exchange rate differences of the loan taken in dollars from Chinese Exim Bank for the construction of two highways in the country. Third ranked is JSC MEPSO with an increase by 7.1% compared to previous year. Next on the list is PE Macedonian Forests which increased by 4.86% from 2016. The fifth position is held by the Public Transport Enterprise Skopje (JSP) and compared with previous year it recorded an increase of 9% (Center for Civil Communications, 2018).

The rank list of five state enterprises according to financial losses (Table 3) features the public enterprise for railway transport Macedonian Railways which for the previous three years also showed negative financial results. Compared to 2016, however, the loss has decreased by 27%. The loss of the public enterprise railway infrastructure within Macedonian Railways-Skopje, amounted to 7.2 million euros

in 2017 and decreased by 10.3% annually. Next on the list is PE “Strezevo”-Bitola, which has been at a loss for more than four years. In 2017, the company reported a loss of 3.7 million euros. After several years of modest profits, in 2017 Macedonian Post also reported a loss of 3 million euros, followed by the joint stock company for airport services “Airports of Macedonia-Skopje” with reported financial losses in the amount of 1.9 million euros (Center for Civil Communications, 2018).

Table 3. Financial indicators of POEs, 2017

5 POEs with highest revenue in 2017	JSC ELEM	PE State Roads	JSC MEPSO	PE Macedonian Forests	Public Transport Enterprise Skopje (JSP)
million euro	219	146.3	89.9	27.9	27.4
5 POEs with highest financial losses in 2017	Macedonian Railways transport	Macedonian Railways-Skopje infrastructure	PE “Strezevo”-Bitola	Macedonian Post	Airports of Macedonia-Skopje
million euro	8.2	7.2	3.7	3.0	1.9

Source: Center for Civil Communications, 2018.

Financial indicators from the financial operations of public enterprises and state-owned companies, shown on accrual basis, indicate positive performance in the overall operations of public enterprises and state-owned companies in 2018 with efficient improvement of public services they provided to the citizens and business sector (Government of the Republic of North Macedonia, 2019).

Total revenues of public enterprises and state-owned companies in 2018, according to the data from the annual reports, amount to Denar 39.2 billion, total expenditures were executed in the amount of Denar 35.1 billion, whereby as a final result in 2018, gross profit in the amount of Denar 4.1 billion was realized (Government of the Republic of North Macedonia, 2019). However, the data indicate that almost half of them are working with losses and have the highest maturity and unpaid liabilities in the last five years. Many of the POEs that reported profits did not actually pay taxes to the state and can be found on the Public Revenue Office blacklist.

3. The main legal and organizational forms of public owned enterprises in North Macedonia

Operations of public enterprises and state-owned companies are regulated in the Law on Public Enterprises, the Company Law, as well as sub-sector laws defining the operations in specific areas (Law on Energy, Law on Railway System, Law on Public Roads, etc.) (Government of the Republic of North Macedonia, 2019).

A public enterprise, in the name of the Republic of North Macedonia, can be established by the Government of the Republic of North Macedonia. For carrying out certain economic activities of public interest, public enterprises can also be established by municipalities and by the city of Skopje, within their competences, under conditions and in a manner prescribed by Law (Article 3). The legal forms of POEs are described in Table 4.

Table 4. Legal forms of POEs

Legal form	Description
Public Enterprise (PE)	<p>In the Law of Public Enterprises the term "public enterprises" is used as a generic term covering not only PEs but also other management models (LLC, JSC) which are authorized with performing public interest activities.</p> <p>Regarding public enterprises and limited liability companies, there is a dualism in the regulation, although both of them carry out business activity, they have different legal regime for election and dismissal of members of the management bodies and different legal treatment in relation of staff recruitment.</p> <p>Pursuant to the Law on Trade Companies they are private companies where the government is the owner.</p> <p>Public enterprises do not perform their business activity only for the profit, but they work on the principle of self-financing by achieving a financial balance i.e. balancing income and expenditure. Excess income, and not profits, benefits the public enterprise.</p>
Limited Liability Company (LLC)	<p>Pursuant to the Law on Trade Companies they are private companies where the government is the owner.</p> <p>In the limited liability companies in state ownership, the role of the shareholders meeting is performed by the Government of the Republic of Macedonia, directly or through the Government bodies authorized to do so.</p>
Joint Stock Company (JSC)	<p>A distinction should be made between a state-owned joint stock company when the state is the sole shareholder (State-owned Single-Member Limited Liability Companies) and a joint-stock company where the state appears as one of the shareholders (State-owned Joint Stock Companies).</p> <p>State-owned joint-stock companies and limited liability companies in which the state appoints managers and elects members of the supervisory board are companies that operate and are organized in accordance with the Law on Trade Companies, hence the employees have the status of employees in accordance with the Law for Labor Relations.</p> <p>Joint stock companies in state ownership are joint stock companies in which the sole shareholder on is the Government of the Republic of Macedonia and provide public services activity for which they have a public authorization obtained from the founder itself or from the competent ministry. They work for profit, but profits are issued as a dividend to the founder i.e. the Government.</p>

Legal form	Description
	<p>Public enterprises are organized in JSC if private individuals or legal entities invest in them.</p> <p>Government of the Republic of North Macedonia is founder of 14 public enterprises and single shareholder/shareholder in 15 companies, 13 out of which are state-owned joint stock companies, and 2 are state-owned Single-Member Limited Liability Companies.</p>

Source: Gocevski & Velkovska (2019); Ministry of Finance (2020).

4. Efforts against corruption in North Macedonia

The State Program for Prevention and Repression of Corruption and Prevention and Reduction of Conflict of Interest is issued by the specialized anticorruption body in North Macedonia, the State Commission for the Prevention of Corruption (SCPC). SCPC was established by the Parliament of the Republic of Macedonia in 2002 with the Law on Prevention of Corruption. “At the central governmental level, the SCPC functions as a specialized anti-corruption institution responsible for prevention of corruption and conflict of interests in the public administration. Although the Commission does not have traditional investigative or prosecutorial powers, it has the power to request public officials or responsible persons in public enterprises suspected of corruption crimes to submit to the Commission information about his/her assets or other data relevant for the provisions of the Law on Prevention of Corruption. Also, the Commission is the competent authority for the implementation of the relevant legislation on conflict of interest” (RAI, 2020).

Despite the efforts of the State to enforce laws, there are numerous reports that some officials are engaged in corrupt activities (U.S. Department of State, 2020). North Macedonia with a score 35 was ranked in 106th out of 180 countries on the Corruption Perception Index in 2019, down 13 spots from the prior year (Transparency International, 2020).

Managing with the system of preventing corruption aims to help public owned enterprises to fight corruption of their employees and to assess the risk from corruption practices in their operations (Smilevska et al., 2019). Results of IDSCS (2019) research indicate that basic elements and requirements of the system for preventing corruption in POEs are not established. This condition, according to IDSCS (2019) analysis is as a result of lack of information and non-recognition of the benefit of the system for preventing corruption which should set the basic mechanisms and focus of activities in public enterprises, which will prevent the occurrence of corruption, i.e. will discourage employees from undertaking activities related to corruption (Smilevska et al., 2019).

5. Conclusion

North Macedonia has laws intended to counter corruption, abuse of official position, and conflicts-of-interest, and government officials and their close relatives are legally required to disclose their income and assets, however, enforcement of anti-corruption laws has been weak (U.S. Department of State, 2020).

Public owned companies today face a number of problems and demands from the city and the surrounding area. All these demands, justified or unjustified, derive from the needs of the urban living of the population. All users of public services, especially public utilities, have the right to seek to improve their living and working conditions in their environment. However, public enterprises, with their existing facilities, cannot meet most of the requirements if they do not take actions to expand their facilities. All this imposes the need for more fundamental changes in the organization, management and behaviour, i.e. there is a need for long-term investment planning of the company. The company must be prepared for the rapid changes imposed by the environment. All public owned companies need to plan their long-term investment policy to respond to changes. The basis of investment policy is in defining and collecting information from all relevant sources to determine the priority needs of citizens and the economy, and based on them deciding to plan a possible feasible capital investment, positive for the development of the enterprise itself (Trumpeska, 2016).

Public owned enterprises can either contribute or obstruct the competitiveness of the economy depending on their efficiency and productivity. These factors determine the quality of the goods and services they deliver to the economy and the degree to which they unfairly compete with the private sector (OECD, 2018). The POE sector needs to be transparent to provide competing enterprises with a fair overview of the fundamental market conditions. Poorly governed POEs are particularly vulnerable to corrupt practices and hence anti-corruption policy is relevant to public owned enterprises governance (OECD, 2018).

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