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PROJECT TITLE: Strengthening the role of the civil society sector in decision-making through advocacy for establishing an Environment Fund

Dr. SILVANA MOJSOVSKA

**THE CASE FOR THE ESTABLISHING OF THE ENVIRONMENT FUND
IN THE REPUBLIC OF NORTH MACEDONIA**

(short version)

April, 2022

SUMMARY

Public finance management in the field of environmental protection aims towards finding out the optimal ratio of public money spent on the environmental protection and the results acquired. This analysis deals with the Environment Fund as a frequently used tool for public finance management in this field.

The state of affairs in the public finance management for environmental protection in the Republic of North Macedonia shows that there is a mechanism for collection of the stipulated levies, which mainly flow into the national budget. Nevertheless, they are not yet subject of planned and organized management. The adverse experiences with the Environment Fund and the Water Fund that ceased to work in 2005 and 2010, due to unlawful activities, implied the country to be left for over a decade without a system for managing public finances for environmental protection. This must change as soon as possible. The experience from both Funds should be used as a lesson learnt for setting a new public finance management system for environmental protection.

The recommendation of this analysis is that an Environment Fund should be established in the Republic of North Macedonia. It should be set as a separate legal entity, founded with the capital of the Government that would have control over its operations. The proposal entails a Fund with a broad mandate encompassing various issues in the field of environmental protection. The Fund is envisaged to operate as a revolving fund in which different fees would pour in, such as fees for the use of the nature on various grounds, fees for environmental protection related to the registration of motor vehicles and vessels, waste management fees, as well as fees for plastic products and plastic packaging. Also, an interest from soft loans should be generated. On the other hand, the environmental levies paid to assigned state bodies on the basis of performed services should not be included in the Fund, but used for their (institutions) functioning. The specific list of fees that would pour into the Fund should be decided when setting the Fund, based on additional analyses and consultations, and in accordance to the valid list of fees at the time-being. The Fund should work primarily with soft loans and grants, while its beneficiaries should include legal entities and natural persons, universities and civil society organizations.

Although the political will represents the ultimate prerequisite for establishing of the Environment Fund, the major challenge for its successful operation would be appropriate professional staffing. The Fund should be perceived solely as a professional body and set up on a professional basis. Any other setting carries a high risk in terms of the results of the Fund.

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INTRODUCTION

The creation of sustainable system for environmental protection fundamentally depends on the availability of stable financial mechanisms and regular sources of incomes. In this context, setting of a fund for environmental protection is a frequently used mechanism, with role to channel financial means from various available sources to environmental projects.

This analysis outlines the basic postulates of the public finance management for environmental protection, focusing on the theoretical framework and practical experiences. Special attention is paid to the environment fund, which, from an initial financial instrument has evolved into a complex mechanism for public finance management that could have positive impact on the environment in the country where it operates.

1. Public Finance Management for Environmental Protection in the Republic of North Macedonia – State of Affairs and Problems

The Law on Environment of the Republic of North Macedonia, Art. 3 stipulates: “Measures and activities for environmental protection and advancement are of public interest. The Government of the Republic of Macedonia is obliged to provide, from the Budget of the Republic of Macedonia, financial means for protection and advancement of the environment. The municipality, the city of Skopje, and the municipalities in the city of Skopje are obliged, from the municipality budget, the budget of the city of Skopje, and the budgets of the municipalities in the city of Skopje, to provide financial means for protection and advancement of the environment.”. Furthermore, the basic principles of environmental protection incorporate “polluter pays” and “user pays” rules. The Law on Environment stipulates numerous fines related to the named principles, as well as fines if the polluter and user do not make stipulated payments. Apart from the levies set in this Law, other levies are stipulated in other laws that regulate environmental issues.

Table 1 presents the fees that are paid to the Budget of the Republic of North Macedonia in accordance with the mentioned laws. The environmental protection fee for the registration of motor vehicles and vessels has been paid directly to the Ministry of Environment. Fossil fuel fees are the revenue of the municipalities where facilities that burn fossil fuels for energy production are located, while nature protection fees for entering and visiting a protected area are revenues of the public institutions that manage the National Parks. The other fees are revenues of the Budget of the Republic of North Macedonia and they are used for execution of the expenditure side of the budget. Some of them, such the revenues from the water concession fee are divided (50:50) between the state and the municipalities.

Table 1. Revenues in the budget of the Republic of North Macedonia on the basis of fees for environmental protection in 2012, 2018 and 2020 (in Macedonian denars)

Payment account	Types of fees	Inflow 2012	Inflow 2018	Inflow 2020
840-06595	Environmental fee for obtaining an import permit for used products, goods, waste, waste lead, ashes, and residues containing mainly lead, waste and residues of used primary cells, used primary batteries and used electric accumulators, and waste and residues containing lead (Law on Environment, art.179)	161.327.695	65.950.911	119.862.987
840-06602	Environmental fee for obtaining an export permit for endangered or strictly protected plants and plant parts, branches, and other parts of plants collected in nature	307.204	0	207.702
840-06618	Environmental protection fee for obtaining a permit for import of ozone-depleting substances (Law on Environment, Art. 179)	745.395	985.513	0
840-06623	Environmental protection fee for registering motor vehicles and vessels	73.544.881	0	130
840-06639	Environmental protection fee for wood cutting	606.295	0	0
840-06644	Environmental protection fee industrial non-hazardous waste	0	0	0
840-06665	Environmental protection fee for production and import of tobacco products	203.633.785	0	0
840-06670	Environmental protection fee for oil derivatives import or oil derivatives production	7.210.361	6.037	8.956
840-06686	Environmental protection fee for plastic products and plastic mass packaging	4.526.508	266.468	2.303.496
840-06714	Nature protection fee for entering and visiting protected areas	0	0	0

840-06735	Nature protection fee for parking in the protected areas	0	0	0
840-06740	Nature protection fee for visiting special facilities in the protected areas	0	0	0
840-06756	Nature protection fee for hunting wildlife, collecting forest plants, fungi and other forest fruits	0	0	0
840-06761	Nature protection fee to reside in the protected areas	0	0	0
840-06777	Obtained funds for nature protection by conducting activities in the area of active management	0	0	0
840-07197	Water-use fees	69.184.199	48.514.653	113.871.856
840-07204	Wastewater discharge fees	1.198.986	1.277.225	3.180.566
840-07225	Fee for extraction of sand, gravel and stone	2.476.689	1.007.347	2.686.592
840-07384	Waste batteries and accumulators management fee	480.265	2.100	1.250
840-07379	Fees for managing packaging waste and bags for transport of goods	2.055.589	324.053	655.213
840-05402	Noise pollution fines	0	0	650
840-05262	Fines for violations committed in areas under the competence of environmental and spatial planning body in accordance to the relevant Laws	/	523.402	8.412.636
840-05220	Fines for committed violations that stem from the Law on waste management (utility violations)	/	2.247.406	6.028.017
840-07519	Waste management equipment fees	/	37.350	3.400
840-07480	Fees for hydroelectricity concessions	/	1.262.804	11.551.161
840-07496	Fees for concessions for the use of water for the production of hydroelectricity that is the revenue of the local self-government unit	/	/	/

840-06873	Fossil fuel fees	37.000.000	48.539.775	20.865.817
	TOTAL	564.297.852	170.945.044	289.640.429

Source: Ministry of Environment and Physical Planning of the Republic of North Macedonia

Table 1 shows the collected revenues from environmental protection fees in the budget of the Republic of North Macedonia in 2012, 2018 and 2020. Even though the data on fines in 2012 were not presented as relevant institutions did not submit it, it is evident that revenues in 2018 decreased threefold (9.2 million euros in 2012 against 2.8 million euros in 2018). Revenues in 2020 amounted to 4.7 million euros which is a significant increase compared to 2018, and still, it is about half of the revenues in 2012.

Over the analyzed period, the largest decrease was noted in the environmental protection fee for the production or import of tobacco products, which in 2013 was voided as an environmental type of levy and stipulated in the Law on Excise Duties (since 2013 it is an excise duty). There is decline in other categories, too, due to changes in legislation (e.g. environmental protection fees in the import of production of petroleum products), and it is indicative that there is a high oscillation in revenues on certain grounds (e.g. use and discharge of water, water-use concessions for hydroelectricity, compensation for, etc.).

Furthermore, part of the fees collected in 2012 as revenues in the national budget is currently paid to other accounts (e.g. environmental protection fee for the registration of motor vehicles and vessels is currently a revenue of the Ministry of Environment and Physical Planning). That is to say, some of the levies that have not provided any revenues to the budget in 2018 and 2020 are not necessarily cancelled, as they might be paid to another instances, if the regulation was amended. As mentioned above, there is no single and complete list of environmental fees that is publicly available, which would provide an insight into the fees paid to the budget of the Republic of North Macedonia (Table 1), as well fees paid to other institutions (Ministry of Environment and Physical Planning and the institutions in charge of certain services in the area of environmental protection), including collected revenues at the municipal level. It indicates that the trends in public revenues for environmental protection are not tracked, while the lack of publicly available data, discussed above in the text, hinder serious and continuous research in this field.

The state of affairs indicates that public finance management for environmental protection in the Republic of North Macedonia has not been specifically outlined, and, therefore, conclusions about it can be drawn based on the analysis of the system setup discussed below.

The legislation does not impose an obligation of earmarking environmental revenues to environmental expenditures. An exception is the Law on Management of Packaging and Packaging Waste adopted in 2021 that stipulates a fee for packaging waste (Article 35) which will be paid to a special account in the Ministry of Environment and Physical Planning, while Art. 38 of the Law states that “the funds collected from the fee referred to in Article 35 paragraph (2) of this Law shall be used for financing and implementation of measures and activities for waste management determined by the planning and strategic documents, which are aimed

at achieving the objectives of this Law in a manner and procedure stipulated in accordance with the regulations for extended liability of the producer for management of special waste streams". The Law also introduces a fee for biodegradable grocery bags that will be paid by the consumers and collected by traders who have an obligation to make a payment to the account of the Ministry of Environment and Physical Planning.

On the environmental revenue side, as shown above (Table 1), most of the levies and fines in this area are paid to the budget of the Republic of North Macedonia.

The transfers made by the Ministry of Finance to the budget users (ministries, agencies, funds and other state bodies) are mainly to finance their operational work. In this context, transfers are made toward institutions that are in charge of the area of environment, such as the Ministry of Environment, Ministry of Agriculture, Forestry and Water Economy, Ministry of Economy, but mainly for their operational work. Transfers of additional funds from which environmental projects can be financed are limited. Regular or specific programs for financing environmental protection projects in these institutions are rarely established as a common practice. There are ad-hoc calls to subsidize some of the households' costs for air conditioners, car gas installations, etc. However, these are mainly random activities of the ministries and are generally of a small-scale.

The analysis of the budget of the Republic of North Macedonia showed that along with the transfers for the operational work of the users (ministries), there is also the so-called development part of the budget consisting of earmarked sub-programs. In the budget of 2020, sub-programs that integrate activities in the area of environment are:

- Gasification sub-program (Ministry of Economy), which aims at building a national gas pipeline system in the Republic of North Macedonia that would reduce the emission of harmful gases into the atmosphere. The Ministry of Economy budget for this sub-program provided 1.9 million euros for 2020.
- Sub-program for Dojran Lake (Ministry of Environment and Physical Planning), which foresees installation of water pumps in exploitation wells and construction of a pressure pipeline to increase the capacity of the lake's hydro system. The total amount of funds from the budget for this sub-program for 2020 was 0.8 million euros.
- Ohrid and Struga collection system sub-program (Ministry of Environment and Physical Planning), which encompasses the investment activities of the newly established public enterprise for collection systems, which will take care of the reparation of the critical parts of the collection system of Lake Ohrid. The total amount of funds from the budget for this sub-program for 2020 was 2.4 million euros.
- Subprogram for arranging a torrent on the riverbed of the river Pena- Shipkovitza, Tetovo (Ministry of Environment and Physical Planning), which foresees activities for constructing a retaining wall on the river Pena. The total amount of funds from the budget for this sub-program for 2020 was 81,000 euros.

- Municipal Water Supply and Sewerage Sub-Program (Ministry of Transport and Communications) aims at providing sustainable drinking water supply to the population by improving water supply systems. The part foresaw by the budget is for co-financing of projects that are approved by foreign creditors/donors. The total amount of funds for this sub-program for 2020 was 4 million euros, out of which 0.6 million euros were from the budget, 2 million from loans, and the rest from donations.
- Subprogram - project for water supply and wastewater disposal (Ministry of Transport and Communications) aims at ensuring qualitative and efficient response to the needs for water, especially in the rural areas. The total amount of funds for this sub-program in 2020 was 7.3 million euros, out of which 1.2 million euros were from the budget, and the rest from loans.
- Gasification sub-program (Ministry of Transport and Communications) aims at building a national gas pipeline system in the Republic of North Macedonia that would have its own contribution to the reduction of the emission of harmful gases into the atmosphere. The total amount of funds for this sub-program for 2020 was 1.6 million euros, out of which 30,000 euros were ensured through the budget of the Ministry of Transport and Communications, and the rest from loans.
- The sub-program Water Supply and Sewerage - Vizbegovo (Ministry of Transport and Communications) aims at improving the living standards of the population, preserving the environment, improving public utility structure and developing industry and economy. The total amount of funds for this sub-program in 2020 was 1.6 million euros ensured from the budget.
- The sub-program Hydro system Zletovica (Ministry of Agriculture, Forestry and Water Economy) aims at finding a long-term solution to the water supply problem of 100,000 inhabitants in the northeastern part of the country (first phase), as well to solve the irrigation problem (second phase) and electricity generation (third phase). The total amount of funds for this sub-program in 2020 was 3.75 million euros, out of which 2.75 million euros were provided from the budget, and the rest from loans.
- The sub-program Hydro system Lisiche (Ministry of Agriculture, Forestry and Water Economy) is a multi-purpose facility for water supply of the population of the city of Veles and the surrounding area, as well as providing other benefits regarding water management. The total amount of funds for this sub-program in 2020 was 416,000 euros provided from the budget.
- The sub-program for irrigation of the southern valley of Vardar (Ministry of Agriculture, Forestry and Water Economy) pursues rehabilitation and modernization of irrigation systems. The total amount of funds for this sub-program in 2020 was 6.6 million euros, out of which 2.8 million euros were provided from the budget, and the rest from loans.

The mentioned sub-programs that were an integral part of the budget show that there was some spending of public finances from the budget of the Republic of North Macedonia for the realization of accustomed goals in the area of environment. The total value of funds provided from the budget for all sub-programs was 14.6 million euros in 2020. However, these sub-programs have not solely comprised activities linked to environmental protection, as they were much more complex. Therefore, it cannot be considered that the planned budget expenditures under these programs were fully spent for environmental protection. More specifically, these expenditures cannot be perceived as planned expenditures in the area of environment or as a part of a coherent approach to public finance management in this sphere. Opposite to that, most of the programs are project-based and financed through loans, and the part that is secured through the budget is usually linked to loans. Although these sub-programs are part of the operational programs of the ministries, there is no cross-cutting among them, nor analysis and costs' planning is done in accordance with the environmental objectives that should be achieved. Additionally, loan repayment is an element that needs to be planned in public finance management.

At the first glance, the state of affairs with regards to environmental revenues and expenditures implies that less revenues are collected in the budget of the Republic of North Macedonia on the basis of various environmental fees compared to budget expenditures that are somewhat related to environmental goals. However, such initial perception should be expanded with the fact that the expenditures made within the scope of the mentioned sub-programs mainly refer to (larger) infrastructural projects that are sole responsibility of the state (or local government) and cannot be realized otherwise. In contrast, the need for smaller projects for environmental protection is extremely high, and it is not met in this way.

As mentioned above, the milestone of the public finance management policy is to get greater value for the money spent, while the environmental policy aims to achieve as many results (goals) as possible. In the case of the Republic of North Macedonia, the agent of the environmental policy is the Ministry of Environment and Physical Planning, and, therefore, the priorities for the projects that will be financed by the state with public finances should be determined in accordance with the strategic and program documents of the Ministry. Such adjustment in practice requires great coordination, and, more importantly, must be based on sound management of available finances.

Regrettably, the current state of the affairs indicates ***there is no public finance management system for environmental protection in the Republic of North Macedonia***. There is certain evidence (statistics) of the environmental revenues, but, there is lack of updated and publicly available data. Furthermore, the data should be analyzed in purpose of identifying the trends, causes for the changes (if any), and most importantly, the effects of the levies. This implies the necessity of effect/impact quantification of a particular activity for which a fee is paid and whether adequate measures (through projects) are taken to alleviate negative impact. Specifically, the idea of using the funds from the levies should be to return the environment to its original state prior to the activity, to the possible extent.

In the current institutional set-up, the Ministry of Finance holds the main authority to allocate funds collected through the environmental levies. Thereby, it is primarily a technical responsibility, i.e. once the funds are collected, they are disbursed in accordance with the dynamics of the budget execution. There is no obligation for earmarking, i.e., linking the revenues with certain objectives (in this case environmental protection). Hence, the Ministry of Finance has no obligation to keep records where the revenues from environmental fees are allocated, i.e., which are the (sub) programs these funds are spent for.

The current state of affairs implies that it is necessary to establish public finance management for environmental protection based on the principles of good governance by elaborating all stages of the process and taking into consideration the findings discussed above.

2. Environment fund concept - models and experiences

2.1 What is the environment fund?

There is no single or typical model of an environmental fund. The structure, the scope of activities and procedures vary upon the objective the fund was created for, as well as upon the conditions in the country where it operates. However, a classification of funds on their basic characteristics can be done. Depending on the mandate, funds can be divided in two types:

- A national environment fund with a mandate to support a broader scope of activities that are incorporated in the national environmental plans or strategies. This implies that the fund has activities in the area of water, air and soil protection and other areas that are in the domain of environment.
- A fund with a mandate to support a specific objective, such as the conservation of areas protected by law; advancement of the state of affairs in water, waste and other fields, etc.

Furthermore, the funds differ on the legal structure and could be foundations, trusts, independent public institutions, nonprofit organizations, etc. How the fund would be established depends on the legal system of the country where it is established, the goals to be achieved, the sources of funding and the public finance management policy. In terms of the legal dimension, public funds can be created as independent bodies or as bodies within the public administration.

With regards to the financial structure, the funds could be structured in three ways:

- Endowment funds that are capitalized through donations that are invested in purpose of securing proceeds (incomes), which are further used to finance environmental projects. The equity capital is used exclusively for investments, while available funds for environmental protection projects are coming from the revenues (enrichment) of the capital. Such funds are mainly private and their function is to ensure long-term action in a certain field (e.g. biodiversity protection). It is specific for these funds that it takes longer to start financing more significant projects, given that their capitalization through donations requires time. Furthermore, even longer period is needed for the capital to be significantly enriched in purpose to enable funding of the projects from the proceeds.

- Sinking funds that are established for a specific purpose and with a specific duration. These funds are established with equity capital, which could be derived from private or public sources. The mechanism “debt-for-nature swap” has been frequently used for establishment of such funds, i.e. the developing countries invest in the fund the amount of the debt that they should have been repaying to the creditors on annual basis. During the period of their existence, these funds invest part of the capital aiming to get some interest, while environmental projects are financed from the part of the equity that is not invested and from the proceeds (interest) from the invested capital. These funds make a planned allocation of funding for environmental projects in order for the fund to sink in the period anticipated for that. The idea of these funds is to achieve a certain goal for a given period through full commitment of the stakeholders and purposeful allocation of funds (equity capital with the proceeds from accumulation should be spent for a given time) for the implementation of projects that would contribute to the set goal.
- Revolving funds which operation is financed by regular revenues from different fees (e.g. environmental taxes and fees, budget finances and various programs, donations, etc.) that are used to finance environmental projects. Revolving funds could also have equity capital which can be invested in purpose of making profit or could be spent on project financing. The most important feature of these funds is the constant inflow of financial assets that ensures financial stability for project financing.

These three basic modalities of financing of the environmental funds can also be combined. For example, if the revolving fund receives assets to finance a specific objective that needs to be fulfilled in a certain period, it can open a sinking fund line. However, when establishing a fund, a basic modus of financial structuring and operation is chosen as the financial operation for each modality is quite complex and the combined models require much greater financial management skills.

In terms of financial sources, the environment funds can be funded from public and private sources. Public sources include budget transfers and revenues from environmental taxes and other fees that the state stipulates to be paid on different grounds. Apart from the above-mentioned sources, they can use various assistance programs from international organizations, along with loans from bilateral/multilateral creditors. As of private sources of finances, funds can receive donations from the corporate world as well as from individuals.

Funds use instruments such as project grants based on full financing or co-financing, and loans on preferential terms. Apart from these instruments, there are many other financial instruments that are used by advanced funds, such as credit-granting through banking systems; equity investments; bond interest rate subsidies, etc. The funds can provide grants and loans to other organizations (NGOs, universities, civic associations, companies, etc.) to implement projects in the area of environmental protection and sustainable development. In that manner, the funds could have an educational role and contribute to enhancing the civil society sector and raise environmental awareness at a broader level.

3. Environment Fund of the Republic of North Macedonia - opportunities, mechanisms and perspectives

3.1. Previous experiences

The Environment Fund is not a new concept in the Republic of North Macedonia. It was established in 1998 as a body in the Ministry of Environment, and, as of August 2000, it was to function as an independent fund with a special budget. USAID has provided financial and technical support to the development of the Fund. The Fund was envisaged to be financed by two fees charged when insuring motor vehicles and vessels. The Fund's mandate was to award grants for the implementation of projects in the area of water, air, soil, and biodiversity protection. Further goal was to establish EcoBank, i.e. to expand the instruments with which the Fund would work. Although it was decided that the Fund would receive the status of an independent body, there was a standstill in the legal regulation of the status and the transfer of accounts. According to the 2004 Report of the State Audit Office, the status of the Fund was not regulated and there was no separate account of the Fund in the general ledger of the treasury, i.e. the Fund still collected and spent revenues through its account in a commercial bank. The problem with the account was resolved in January 2005, but the main remark in the audit report was that the Fund had not adopted an internal act regulating the manner, procedures and criteria for spending the funds, even though State Audit Office highlighted the issue previously, three years in a row. The report also identified non earmarked and illegal use of finances. In 2005, the Fund ceased to operate.

Another fund that operated in an area relevant for the environment is the Water Fund, which functioned from 1998 to 2010. The Fund was established for water protection, and apart from its own operational activities, it had a mandate for allocation of finances for projects that contribute to water protection. Fund's finance resources were derived from water charge, water pollution fee, mineral (sand, gravel and stone) extraction site fees, state land lease, which in the real estate cadaster is registered under "waters," budget funds, loans and other revenues. This Fund ceased to exist on January 1, 2010. The decision to close was made in July 2008, and it is worth mentioning that the State Audit Office in November 2007 in the final audit report of the Water Fund identified numerous irregularities in its work.

Unfortunately, the practice with these two funds that had their activities in the field of environment and water are particularly negative as instead of being upgraded, they were closed due to misuse of finances. If properly managed, they could have been the backbone of the environmental protection in the country at present times. The damage from their closure is not only that these instruments with high potential for environmental protection were ruined due to unprofessional and unreliable operation, but, after their termination the state was left without a system for managing public finances in the field of environment. The current state of affairs of collection of revenues on the basis of environmental fees into the national budget and their merging with other budget revenues results in unleashed potential for measuring the effects of environmental fees through their return into the cycle of financing the environmental protection. The state does invest in projects relevant for environmental protection, however,

these are mainly infrastructure investments that are under its competency, while projects that should be implemented by households, companies, civil society organizations, universities and public institutions with the assistance from the state, through some financial instrument or mechanism, remain very rare.

From today's perspective, these negative experiences with both Macedonian funds should serve as a lesson to which special attention should be paid when choosing the instruments that would be used in establishing a public finance management system.

The current approach towards collecting environmental fees in the Republic of North Macedonia is passive as the available finances are not put effectively into the process, i.e. the assets are not enriched to create new value. It is unfavorable from the perspective of both policies- the public finance management policy does not get the highest value for its investments (expenditures), while the environmental protection policy does not get even slightest results and effects as it could get with good management of the finances.

Furthermore, it is evident from the Montenegro's case that advancement of the negotiation process with the Union poses requirements for public finance management system for environmental protection, given that after accession, the EU funds and operational programs will be fully available to the country. Every member state must be ready to use them, and the greater its capacity, the more resources it could use.

Both countries cases- Poland and Slovenia, confirm that the Environment Fund could be a very successful story, despite differences in the design and scope. The Polish Fund has a very wide range of activities, many employees and very advanced financial instruments that it uses. Poland is a country with over 40 million inhabitants, so this scope and diameter of operations are appropriate, especially since the Fund also functions as a body for the implementation of the EU Environmental Operational Program. The SWOT analysis of the Polish Fund indicates the elements that need to be addressed even when it comes to an advanced fund, and would certainly be useful when setting up a new fund.

Slovenia's case is crucial for the Republic of North Macedonia, bearing in mind that it is a country of similar size and population. By comparison, the Fund in Slovenia annually invests around 40 million euros in soft loans and grants (out of the total budget of 57 million euros), while the Macedonian annual revenues from environmental fees in 2020 were about 4.7 million euros which are not enriched at all. The core of Slovenian success lays in the enrichment of capital, as well the correct assessment of how the Fund can develop in the best way. The Slovenian authorities have decided that the Fund should not expand its operations by using other sources of revenues, but to improve its current operations. Practically, the success of any environment fund lays in the enrichment of capital, either by using loans as major instruments for operation or investing part of the capital in the investment funds, equity investments and other instruments.

3.2. Proposal for establishing an Environment Fund

Taking into consideration the absence of a coherent public finance management system for environmental protection in the Republic of North Macedonia, its establishment or upgrade is more than necessary. Namely, it can be argued that one side of this system has been set, i.e., many environmental fees are stipulated and revenues from most of them are collected into the Budget of the Republic of North Macedonia. Some revenues are paid to a special account of the Ministry of Environment and Physical Planning, as well as to the accounts of specialized institutions that provide services in the field of environmental protection, and some of them pour into the municipal budgets. Budget revenues at the national level are of interest for this analysis. In this context, it is important to analyze revenue data and to determine their trends and causes, aiming to ensure financial stability of the revenue side. In purpose to manage the revenues successfully i.e. to spend them properly, as well to enrich them, it would be expedient to establish Environment Fund. By its nature, the Environment Fund should be an expert body with capacity to conduct activities for financing environment protection projects. Therefore, if properly equipped and if appropriate instruments are chosen, the Fund would be the right choice to ensure progress in terms of environmental protection.

Considering the challenges in the context of establishing an Environment Fund, it is of outmost importance to secure political will in the country. The green agenda has been mentioned in the political platforms of some Macedonian parties, however, specific activities and efforts are needed instead of declarative statements. In this context, raising public awareness of environmental protection's instruments (especially the environment fund) and holding politicians accountable for the effects of spending public finances in this area should be a continuous activity of all stakeholders, in particular of the civil society sector.

Following the specifics of the Macedonian system of public finance management, it would be most convenient for the Environment Fund to have the following characteristics:

- To be established as Fund with a mandate for wide-range of issues in the area of environmental protection, and to annually determine priorities where the finances would be placed.
- The Fund's priorities would be defined in line with the strategic/programmes' views of the policy-makers and implementing agents of the environmental policy in the country, the current capacity of the Fund to operate in a certain area and knowledge of the financial instruments, as well as other relevant terms.
- The Fund should be established with the state capital (e.g. equity capital of 50,000 euros), which would provide a free start of operations and state control over the work of the Fund.
- Regarding the legal structure and scope of activities, the Fund should be an independent legal entity with a separate account, accountable to the Government of the Republic of North Macedonia (Supervisory Board to be appointed by the Government) and would work closely with the Ministry of Environment and Physical Planning and other relevant ministries.

- The Fund would use basic instruments such as soft loans and grants. In these circumstances, the Fund can generate income from interest on loans. Expanding the work with other financial instruments should go hand in hand with capacity building within the Fund.

- To be a revolving fund where the finances from the environmental fees that are currently paid in the national budget would pour in. It is proposed for the Fund to incorporate:
 - Fees for using nature on different grounds (water concession, extraction of sand, gravel, and stone, collection of forest fruits, etc.);
 - Waste management fees (industrial, non-industrial);
 - Environmental protection fees stipulated for plastic products and plastic packaging;
 - Environmental protection fee applicable on registration of motor vehicles and vessels;
 - Soft loans interest revenues;
 - State subsidies and transfers;
 - Donations.

The above proposal of fees is based on the type of levy, i.e. fees that refer to environmental protection and are not subject to permits from a certain body (ministry, agency, etc.) are incorporated on the list, along with the fees that are not municipal revenues (e.g. fees for the use of fossil fuels, etc.) and are not related to residence, parking and visiting a protected area. On the other hand, the fees referring to payment for a certain service (e.g. license for production and import of oil derivatives, license for import of ozone-depleting substances, license for import of various products and substances such as batteries, etc.) are not incorporated as revenues of the Fund. Clearly, the exact fees that would be paid to the Fund will depend on the valid levies in the period of its establishment and should be a subject of additional analysis and consultations.

Furthermore, according to the legislation in the Republic of North Macedonia, fines are revenue of the budget, i.e. the Fund would not have revenues based on fines as it would not have the competence to impose them.

The most important part of the Fund's establishment is its staffing, which must be done in a transparent selection procedure upon qualifications, knowledge and merits. When conducting the procedure, it would be good if independent professionals do the evaluation of candidates. The establishment of the Fund could be carried out via project that would include the transfer of knowledge from experts to employees (upon selection), especially for the financial instruments that would be part of the Fund's offer.

Concerning the Fund's instruments, grants and soft loans are the basic instruments for which it is necessary to fully train the employees, and even after a certain period, new instruments can be considered. In the context of the scope of the Fund, it would be expedient to cover all issues related to environmental protection. This solution would enable better control of the Fund by the founder. In addition, a single entity responsible for environmental protection could be more efficient in coordination of the instruments and respond better to the requirements for the

implementation of environmental policy. Apart from that, probably the strongest argument for establishing a Fund with a broad mandate is that the revenues from environmental levies will be collected in one place resulting in raising of more capital that can be enriched and enable the Fund to grow. It should be noted that within the Environment Fund's mandate, energy efficiency issues should not be incorporated as separate revolving fund for energy efficiency is planned to be set through a project that is currently being implemented with the support of the World Bank.

Beneficiaries of the Fund would be legal entities and private persons, universities and civil society organizations. The procedure in terms of project support would consist of several steps: application, evaluation of the application upon given criteria (technical, ecological and financial), decision-making by managing or supervisory board, concluding a contract, implementation of activities and completion of the project.

The Fund should be set up as an open platform for cooperation with other foundations and projects, and above all, with the non-governmental sector, which is quite active in the area of environment in the Republic of North Macedonia, although, in segmented fields. The Fund should include educational activities, too, while the link with the civil sector should be reciprocal, i.e. to promote the process of mutual learning. It must be taken into consideration that the expertise in the field of environment and financial instruments alone, and particularly as a combination, is not vast in the country, implying that the biggest challenge would be to locate and mobilize existing expertise and create a new one.

Bearing in mind the processes of "greening", envisaged to take place in the near future, it would be beneficial to have one place (Fund) where existing resources would be utilized (both financial and human) and new ones will be created. That would be the biggest advantage of the Fund over the so-called "fragmented" management of public finance in the area of environmental protection.

4. CONCLUDING REMARKS AND RECOMMENDATIONS

Public finance management for environmental protection is a complex task that implies following the principles of fiscal integrity, securing revenue stability (predictability), selection of appropriate spending instruments, as well as preparedness for a change to achieve sustainable results and high effects of investments (expenditures). The environment funds come in different forms, modalities, legal status, size, scope, operating instruments, etc. . The key to the fund's success and growth is the enrichment of assets, which gives meaning to the existence of the fund by striving for its sustainability.

The experiences of the Republic of North Macedonia with the Environment Fund and the Water Fund, which ceased to operate in 2005 and 2010, give a clear message that the human factor and mismanagement can do enormous damage. After the closure of the Funds, the country was left without a system for managing public finances in this field, i.e., environmental levies continued to be collected into the national budget, but were not subject to planned and

organized management. Hence, for more than a decade, the country has not had a system to improve the environment through increasing the effects of the available resources. This resulted into unleashed potential both in terms of project benefits and environmental protection's awareness that can be raised only through organized and continuous activities of organizations/institutions that are active actors in the process of environmental protection.

In accordance with the current state of affairs in the Republic of North Macedonia regarding the public finance management for environmental protection, as well the detected risks, in purpose to overcome the problems, it is recommended to establish an Environment Fund with the following characteristics:

- Broad scope of work operations that would encompass various issues in the area of environmental protection;
- Status of a separate legal entity with its own account, the founder of which will be the Government of the Republic of North Macedonia;
- Revolving fund that will be financed from particular (selected) fees paid on the basis of environmental protection;
- Operating instruments that, apart from the grants, will necessarily include soft loans;
- Selection of the managerial and professional staff of the Fund in a transparent procedure in which the qualifications, knowledge and experience will be valued;
- Specialization of the staff for the use of the instruments for capital enrichment;
- Development of educational activities to raise awareness for environmental protection;
- Cooperation with the NGO sector and other stakeholders in the process of creating and implementing environmental policy.

Having in mind that the success of the Environment Fund is conditioned by the proper dimensioning of its activities and appropriate staffing, it would be good to use technical assistance from an appropriate institution when establishing the Fund. No insisting should be made to integrate the use of EU programs in the Fund's operations from the start of its work as the gradual approach is extremely important. It provides easier control of the Fund's operations and creates expertise and quality essential for the Fund to grow.

