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STATE AUDIT OFFICE

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Is good management of irrigation systems ensured?

Adopted policies and measures and activities undertaken by competent authorities and holders of water management activities do not ensure rational and efficient use of irrigation water and good management of irrigation systems.

The State Audit Office conducted performance audit on the topic "**Irrigation water use**" in line with SAO Annual Work Program for 2022 to answer the question whether irrigation systems are well managed.

It was ascertained that adopted policies and measures and activities taken by the competent authorities and holders of water management activities **do not ensure** rational and efficient use of irrigation water and good management of irrigation systems.

The largest part of available funds - **92.2 million euros** from the State Budget and **193 million euros** from loans - is intended for construction of multi-purpose hydro systems and reconstruction of irrigation systems, while maintenance of existing outdated and non-functional systems is largely neglected. Consequently, **2/3 of agricultural areas are irrigated outside the system or are not invoiced**, which results in **less revenue** for the holders of water management activities and for the State Budget, because for such irrigation no water fee is charged and there is no fee for irrigation water use. On the other hand, due to untimely start of activities and slow dynamics, a **commitment fee of 272.000 euros** was paid for unused credit lines.

In addition, the **prices** at which irrigation service is invoiced **do not ensure sustainability**, i.e. covering costs of ongoing system maintenance and proportional tax for users, and the established method of invoicing does not ensure full control and collection of fees.

In 2019 and 2021, JSC Vodostopanstvo has planned **disproportionately high amounts of water** and presented even larger amounts consumed, significantly higher than the actual needed amounts **for irrigation** of planned areas, which has caused water loss, i.e. **lost revenue of at least 3.6 million euros**, as well as excessive **depletion of water resources**, considering that irrigation is the largest consumer of water in the country.

With the performed audit, it was ascertained that the legal regulation is undefined and incompletely implemented. Competences have been defined for several institutions for various aspects of water management without orderly way of mutual communication. The current centralized management model has not provided the expected results, and economical management, use, operation and maintenance of the irrigation systems have not been ensured.

Uneven distribution of funds and low degree of realization of projects from the **Plan for investment in water infrastructure 2015-2025**, which foresees investments in water management amounting to 19.88 billion denars or **over 323 million euros**. Of the total **agreed investments** of 5.7 billion denars, 3.3 billion denars have been paid by June 2022, which is **16%** of the planned amount.

It was also ascertained that in **absence of objective criteria for selection of projects** to be financed with Budget funds, priority was given to implementation of construction projects from three regions, and no funds were provided for the other regions. Only **1%** of provided funds were allocated for rehabilitation of dams and irrigation systems.

The audit team also ascertained **slow realization and incomplete fulfillment of objectives** for construction and reconstruction of water infrastructure in the country with loans from foreign banks or international financial institutions amounting to **11.8 billion denars or approximately 193 million euros**.

The **irrigation systems** are outdated and due to irregular maintenance they collapse and generate large losses of water. Despite the extraordinary efforts of employees in the subsidiaries, due to lack of financial resources, personnel, machinery, equipment and spare parts, they have not been able to carry out planned maintenance activities and ensure full functionality of the systems.

According to the **Commission on Dams**, there is an urgent need for rehabilitation of several dams managed by JSC Vodostopanstvo, which have not been maintained and repaired for a long time and their stability and reliability are not monitored. Some of these dams have been neglected to a level that makes them **vulnerable with unacceptable risk to the environment**.

Funds are allocated for other investments in water management infrastructure within the Budget programs. However, the degree of realization of planned activities is low, due to the **inefficiency of implementation of public procurement** procedures by JSC Vodostopanstvo.

The audit team determined that there is **no synchronized information** on the degree of utilization and on the actual needs of irrigation systems. On the other hand, the poor condition of irrigation systems led to their underutilization, and thus **2/3** of the agricultural areas are irrigated outside the systems and are not invoiced by the holders of water management activities, which makes it impossible to collect irrigation and water right fees.

There is **no complete and up-to-date records** of issued water right permits, large part of irrigation water is used without secured permits, and there is **no monitoring system** for water consumption and water balance in the country, which is particularly evident with underground water reserves. JSC Vodostopanstvo has secured **13 water right permits** only for part of the larger reservoirs and irrigation systems, and **64 permits** for extracting sand, gravel and stone from rivers, which points to **inappropriately defined priorities**.

As of 2021, JSC Vodostopanstvo has **not paid 30.15 million denars** to the Budget of the Republic of North Macedonia based on compensation for water use on several grounds. Therefore, agreement for conditional payment of fine was signed with MoEPP for part of these obligations and **2.17 million denars** were paid. However, current obligations for compensation are not being paid again.

JSC Vodostopanstvo continuously **plans over 7000 m3 of water per hectare**, although the norm for irrigation of crops that require most intensive irrigation is **4788 m3 of water per hectare**, and most crops require much less water. On the other hand, about **20% less areas** than the planned ones are continuously irrigated, while several times larger amounts of water consumed are presented for the same areas. This, for the most part, is due to **not established controls** on water consumption, poor conditions of the systems and inadequate planning.

The **irrigation fee is charged in a fixed amount** according to the reported area and crops, i.e. the actual amount of water consumed is not taken into account. This means that the water consumed over the fixed amount is lost and no revenue is collected for the same. The situation was **alarming in 2019 and 2021**, when more than **451 million m3 of water was consumed, i.e. 92 million m3 more than planned**.

If we calculate that amount of water with the above norm, intensive irrigation of additional 113.000 **hectares** could have been ensured in those two years, and according to the lowest price of 2000 denars per hectare, it amounts to at least **226 million denars or about 3.6 million euros of lost revenue**.

JSC Vodostopanstvo has **unpaid claims** from users of their services and **unpaid obligations** to the state in the amount of 56.6 million denars, as well as to suppliers and employees. Some of the public water companies, whose **hydro systems are incomplete and do not function at full capacity**, face continuous lack of financial resources for regular operations and servicing of credit obligations, and therefore they **use State Budget funds**. At the same time, the holders of water management activities have continuous **losses in their operation, which amount to over 1.3 billion denars or over 20 million euros** in the last three years.

The **poor condition and poor management of the systems** results in additional financial burden on the providers of irrigation services due to payment for damages and lawsuits from users based on drying or flooding of plantations and crops.

In 2022, PE Strezhevo has paid about 61 million denars or almost 1 million euros based on damages, and JSC Vodostopanstvo has court proceedings based on damages in the amount of 142 million denars or approximately 2.3 million euros.

Due to **insufficient capacities** of the institutions responsible for professional and inspection supervision, it is not possible to determine violations of legal regulations for using irrigation water promptly and to take measures for overcoming the same.

The audit covered the period 2019-2021, while certain previous and subsequent issues and events were covered until the date of reporting on the audit.

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