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# LAND PLANNING & CONSTRUCTION PERMITTING ASSESSMENT REPORT: A MODEL FOR SUSTAINABLE & EFFICIENT CONSTRUCTION PERMITTING

**FINAL REPORT**  
**January 2010**

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# List of Acronyms

AREC	Agency for Real Estate Cadastre
ASPRM	Agency for Spatial Planning of the Republic of Macedonia
DLC	Decision for Location Conditions
DUP	Detailed Urban Plan
EAR	European Agency for Reconstruction
FDI	Foreign Direct Investment
GIS	Geographic Information System
GUP	General Urban Plan
IT	Information Technology
JICA	Japan International Cooperation Agency
LED	Local Economic Development
LGRP	Local Government Reform Project
LOC	Law on Construction
LOCL	Law on Construction Land
LOGAP	Law on General Administrative Procedure
LOSUP	Law on Spatial and Urban Planning
MANU	Macedonian Academy of Sciences and Arts
MDW	Make Decentralization Work Project
MESP	Ministry of Environment and Spatial Planning
MLSG	Ministry of Local Self-Government
MOIT	Ministry of Information Technology
MOTC	Ministry of Transport and Communications
SCI	State Construction Inspectorate
SIDA	Swedish International Development Agency
SUDEP	Support to the Decentralization Process Project
T/A	Technical assistance
UA	Utilization Approval
UNDP	United Nations Development Programme
UP	Urban Planning
UPE	Urban Plan Excerpt
UPOPA	Urban Plan for outside of populated area
UPOV	Urban Plan of Village
USAID	United States Agency for International Development
WB	World Bank
ZELS	Association of Local Self-Governments in Macedonia

## Executive Summary

A recently produced USAID Business Environment Assessment Report for Macedonia indicated that land management and construction permitting are among the key issues that determine the investment climate and influence the country's economic growth. Due to the complexity and importance of these issues, a need exists to examine them in greater detail to determine their root causes. Therefore, a local team was formed to assess current obstacles and opportunities in these areas; and as importantly, to provide options for possible USAID intervention in these areas. The team consisted of two independent local consultants. They have combined their individual expertise and experience in projects and assignments related to urban planning/construction permitting and business environment to produce this report. The team was consisted of:

- Igor Kostovski – local consultant, who used to work at the former USAID decentralization projects (LGRP and MDW), where he was responsible for the urban planning and construction permitting components.
- Darko Janevski – local consultant, who is a staff member at the USAID funded eGov Project and member of the USAID business environment assessment and project design team. One of the areas where his assessment was focused on was the land management and construction issues.

Unlike the Business Environment Assessment Report, which focused on state land ownership, management and construction permitting procedures, this Construction Permitting Assessment Report has a much broader scope that includes local economic development, and spatial and urban planning. The processes of urban planning and construction permitting are closely related since construction permitting – by definition – is a tool for the implementation of urban plans. Thus, any paper that attempts to provide a thorough analysis of the current situation of construction permitting in Macedonia, must also examine the current state of the country's urban planning system.

Urban planning and construction permitting were not among the areas strongly supported by international aid and development organizations in Macedonia – especially after the decentralization process took place over the past several years. The main argument for such an approach was that fiscal decentralization was crucial and of primary importance to the decentralization process; urban planning and construction permitting were issues considered to be of secondary importance. As financial decentralization started to show results, development focus moved towards economic growth both at the national and local community levels. Thus the importance and need for timely construction permitting and sound urban planning took on even greater visibility and urgency given their influence on foreign direct investments (FDIs) and direct (local) investments (DIs), as well as to their contributions to local self-government revenues.

Consequently, the goal of this paper is to examine the major issues in construction permitting and urban planning in the country by closely inspecting the processes, bottlenecks and constraints involved. It also presents the current legislation dealing with these components, and proposes a set of activities aimed at improving and reforming these processes to promote much needed FDI and DI in the country. This report also evaluates the extent and impact of technical assistance provided in construction permitting and urban planning by donors, such as USAID, the World Bank, and the European Agency for Reconstruction (EAR); it presents their experiences, achievements and gaps, and develops a set of interventions and lists their importance for possible future assistance.

The major problems that the assignment team identified in the area of construction permitting and its related areas are the following:

- The current spatial and urban planning hierarchy is inadequate, costly and non-functional. It presents a direct obstacle to the integration of the local economic development strategies into area plans, preventing their full implementation. More than 70% of the state's territory is not covered with regional urban plans; and necessary municipal spatial plans are severely lacking. The urban planning system in the country is monopolized, time-consuming, unsustainable, expensive and of low quality. Unfortunately, it can easily be driven by political or financial motives.
- Municipal authorities are not legally entitled to develop urban plans. They do not possess human nor financial resources to develop adequate updated urban plans. Therefore the vast majority of existing urban plans are outdated; hundreds have not even been developed, leaving a significant portion of the country's urban area without adequate urban plans. The poor state of urban planning is a primary reason for the growing number of illegal constructions nationwide.
- There is a lack of educational programs (bachelors or masters) offered in any of the Macedonian universities that train urban or city planners; this deficiency seriously jeopardizes the quality of overall urban planning in the country. Moreover, urban planning in Macedonia is still a paper-based process, neglecting the advantages of GIS technology.
- The construction permitting process practiced today represents a serious obstacle to Macedonia's economic development. The main reasons are: inappropriate legislation, sluggishness of the administration at both state and local levels, the ambiguous criteria for the approval of permits, as well as system opportunity for arbitrary decision making. This too often fosters situations ripe for corruption. The overall time-consuming process produces unnecessary delays in the construction process, which increase construction costs by at least 10 percent over initial projected costs.
- The significant efforts made in the past few years by the international agencies – especially USAID and EAR – have improved the overall situation and have set a good starting point for conducting actual reform in the planning and permitting processes. In addition, the efforts made by the World Bank in modernizing and reforming the Agency for Real Estate Cadastre (AREC) – another key institution in the process – has also significantly contributed to needed reforms.
- The centerpiece of this Report is contained in sections *III Objectives and Areas of Intervention*, and *IV Implementation Strategy*; here problems are identified and recommendations are made for possible actions and mechanisms necessary to improve construction permitting and urban planning in the country. This part of the report provides a set of mutually supported activities that would ensure further improvements towards establishing an efficient, sustainable and transparent construction permitting and urban planning system. The text below is a summary of the proposed project methodology and intervention options:
  - Since the spatial and especially the urban planning process, along with the permitting procedure are the main sources of deficiencies occurring in

construction permitting in Macedonia, the authors strongly argue in favor of a joint and integrated approach to these areas; instead each issue to be approached individually. The authors argue that improving construction permitting alone will only result in a small, short-lasting, and unsustainable effect.

- The project intervention in construction permitting should aim at achieving the following objectives:
  - 1) Improved construction permitting legislation
  - 2) Integrated local development and economic growth planning
  - 3) Eased investors' access to construction land
  - 4) Increased revenues from construction permitting.
- These project objectives can be accomplished by carrying out two thematic groups of activities: assistance in the legislation reform (amendments in three key laws and possible small modifications in a few others), and technical assistance (integrated local development and economic growth planning, urban land use planning and zoning supporting improved permitting, and establishing modern construction permitting). The legislation process should ideally precede the technical assistance, since a large portion of the T/A's effectiveness will be directly related to the quality and level of adjustments made to relevant laws.
- All future interventions should be built on the achievements of USAID's LGRP and MDW projects and other past donor assistance in relevant assistance areas. The cost-efficiency of the project can be achieved by a predominant use of domestic experts and specialists, taking a regional approach in implementation – especially in training delivery – and establishing cost sharing by project beneficiaries. Good cooperation and support from MOTC, as a key partner, is of utmost importance.
- The estimated costs for delivering the legislative reform ranges between \$100,000 and \$200,000, while for the T/A intervention is between \$ 3.0 and \$ 4.3 million. The entire intervention effort should be completed within a 5-year period.
- The estimated cost for launching and implementing a separate project in this area ranges from \$ 3.0 million to \$ 4.3 million depending on the scenario to be selected.

All analysis, comments and suggestions presented in this paper are solely the views of its authors and do necessarily reflect the views of the United States Agency for International Development or the United States Government.

# I. Problem Identification

## Background

Under the auspices of the USAID Mission in Macedonia a team of ex-pats and local experts was formed and worked, during September-December 2009, on the assessment of the Macedonian business environment and on a design for a new 5-year USAID intervention. One of the issues closely examined in the course of the assessment was the management of state land and construction permits. During the design phase the possibility that the management of state land and construction permits may be a project on its own merits was raised; a new local team was consequently formed to work on what such an effort might consist of, and its feasibility, constraints and opportunities.

During the current assessment effort, the team broadened its analysis beyond land management and construction permitting – the only two aspects covered by the previous assessment – to include an assessment on spatial and urban planning and local economic development; areas that determine and strongly influence land management and construction permitting. In the following section, the authors provide a brief background and present a rationale as to how and why these issues are interrelated.

Historically, the urban planning and permitting system practiced today date back to the sixties and are based on concepts that are considerably influenced by an abandoned economic system. Throughout the past several decades, the system proved itself as an investment barrier, community and citizen unfriendly, as well as a closed system that encourages and supports strong and deep-rooted interests (both, political and economic), minimizing the input of local communities and of potential developers. As a result Macedonia today faces thousands of illegal constructions (by some sources up to 300.000), hundreds of outdated urban plans (most of them more than 15 years old) and vast areas of the country that are still uncovered by urban plans. The WB's *Doing Business Report 2010* ranks Macedonia 137<sup>th</sup> (out of 183 countries) in the efficiency of its permitting system.

## Legal framework

The construction permitting in Macedonia presents a complex procedure that is heavily influenced by several other processes, such as spatial planning, urban planning and details of land ownership and tenure presented in a cadastre. From a legal perspective, construction permitting is performed according to the provisions of the general administrative procedure (Law on General Administrative Procedure, Official Gazette No. 28/05 from 26.05.2005, amended in 2008), similar to the majority of administrative procedures performed in the country. Technical requirements, as well as the construction permitting procedures, are prescribed by the Law on Spatial and Urban Planning (Official Gazette 51/05 from 30.06.2005, amended in 2007 and 2009) and the Law on Construction (Official Gazette 130/09 from 28.10.2009<sup>1</sup>). In addition, the Law on Construction Land also heavily influences the overall process of construction permitting.

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<sup>1</sup> The previous Law on Construction was adopted along with the Law on Spatial and Urban planning (in June 2005), but after several amendments MOTC decided that it is better to prepare and submit to Parliament a completely new Law.

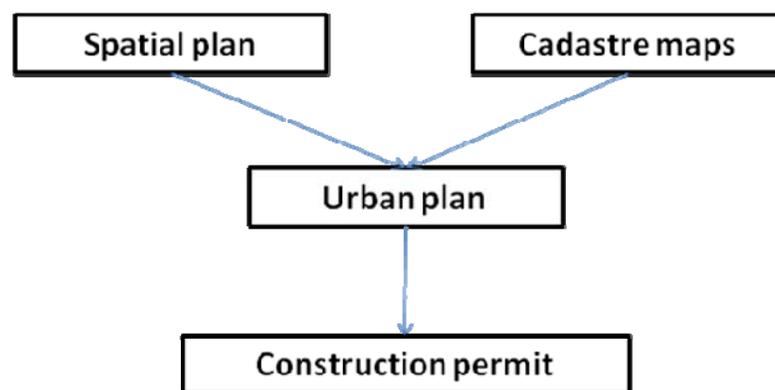
The frequent amendments to the Laws, as well as the adoption of a completely new Law on Construction in the summer of 2009, show that the central government still struggles to find and establish a model of construction permitting that will be fast, functional, sustainable and corruption-free. Unfortunately, even the latest improvements of the construction permitting related laws do not guarantee that these objectives will be met.

The national legislation involves a number of players in the construction permitting and its related processes. According to the current legislative model, jurisdiction over spatial planning is exclusively a central government function; the Ministry of Environment and Spatial Planning (MESP) is the responsible institution, while the process is managed by the Agency for Spatial Planning of the Republic of Macedonia (ASPRM). Although competencies over the urban planning process predominately rest with local governments, they are also heavily dependent upon the Ministry of Transport and Communications (MOTC) and with several private companies that are certified for developing urban plans. Related to construction permitting, the Law on Construction defines five categories of construction facilities. The permitting competency over the construction facilities of categories 1 and 2 is with MOTC, while the construction permits for construction facilities of categories 3, 4 and 5 are issued by local authorities. The fourth key player in the overall process in the Agency for Real Estate Cadastre (AREC) – responsible for updating the cadastre maps that serve as the basis for developing spatial and urban plans.

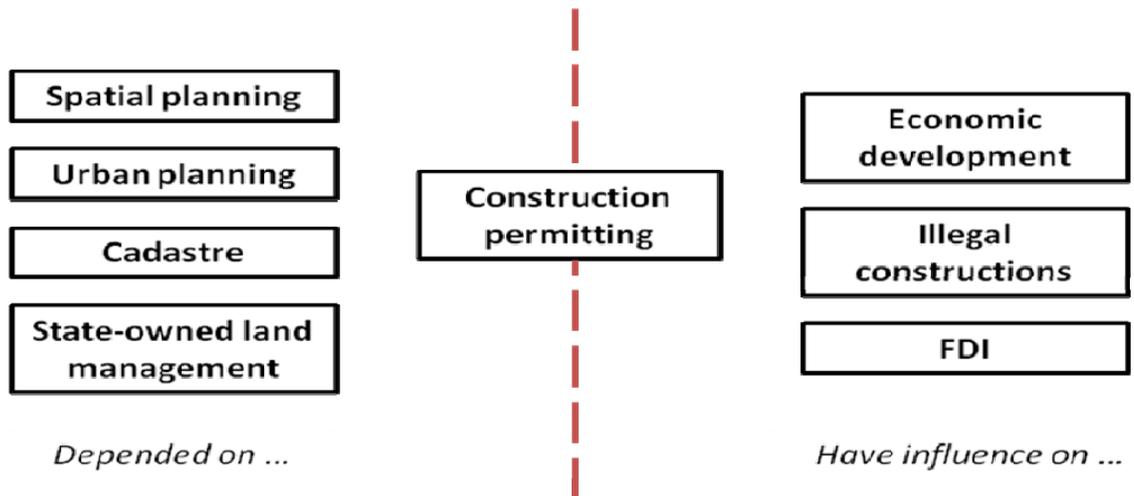
### **The link between construction permitting and spatial/urban planning**

Within the competencies, or lack thereof, of local governments, ministries and state agencies, the process of spatial planning, urban planning, construction permitting and land development cannot be considered as independent processes but rather as a single process that consists of several sub-processes. This strong interdependence of the sub-processes means that a deficiency that may occur in one will certainly have a negative impact on one or more of the others.

The overall planning and permitting process is presented in the graphic below.



As the diagrams illustrate, construction permitting is both dependent upon several factors and has a major influence on others as well.



In order to accurately elaborate and present the overall construction permitting process, this paper provides a short introduction on the processes that construction permitting is influenced by and dependent upon within the hierarchy of the spatial and urban planning process and cadastre system.

## II. Problem Analysis

### **The hierarchy of planning / Spatial and urban planning**

The process of planning starts with the Spatial Plan of the Republic of Macedonia, as the highest national planning document. The Spatial Plan of Macedonia is based on the National Economic Development Strategy (developed by MANU in 1999) as adopted in 2002. The document has a 20-years nationwide development-planning horizon to the year 2020.

The Spatial Plan serves as a starting point for development of the Regional Spatial Plans (one region incorporates the area of several municipalities). According to the provisions of the Law on Spatial and Urban Planning from 2005, the spatial planning process suddenly ended at this point without being further developed at the local municipal level. This caused severe damage to the planning process since the hierarchy of planning was broken and national planning goals could not be transferred to the local level. Acknowledging this fact, the latest amendments on the Law on Spatial and Urban Planning have filled this gap by including the Municipal Spatial Plans in the planning process hierarchy.

Unfortunately, even the amended Law does not eliminate all the problems in spatial planning; it does not take into consideration the municipal (local) economic development strategies adopted by the majority of municipalities in the last five to ten years. Moreover, the Law envisions that municipal spatial plans are to be developed not at the local level but at the central level.

If the National Economic Development Strategy serves as the basis for developing the Spatial Plan of the Republic of Macedonia, than the local economic development strategies must serve as the basis for developing municipal spatial plans. Unfortunately, this is not the case and the question of the purpose of such strategies and how an integrated and objective-based planning process can be assured at local levels is in question.

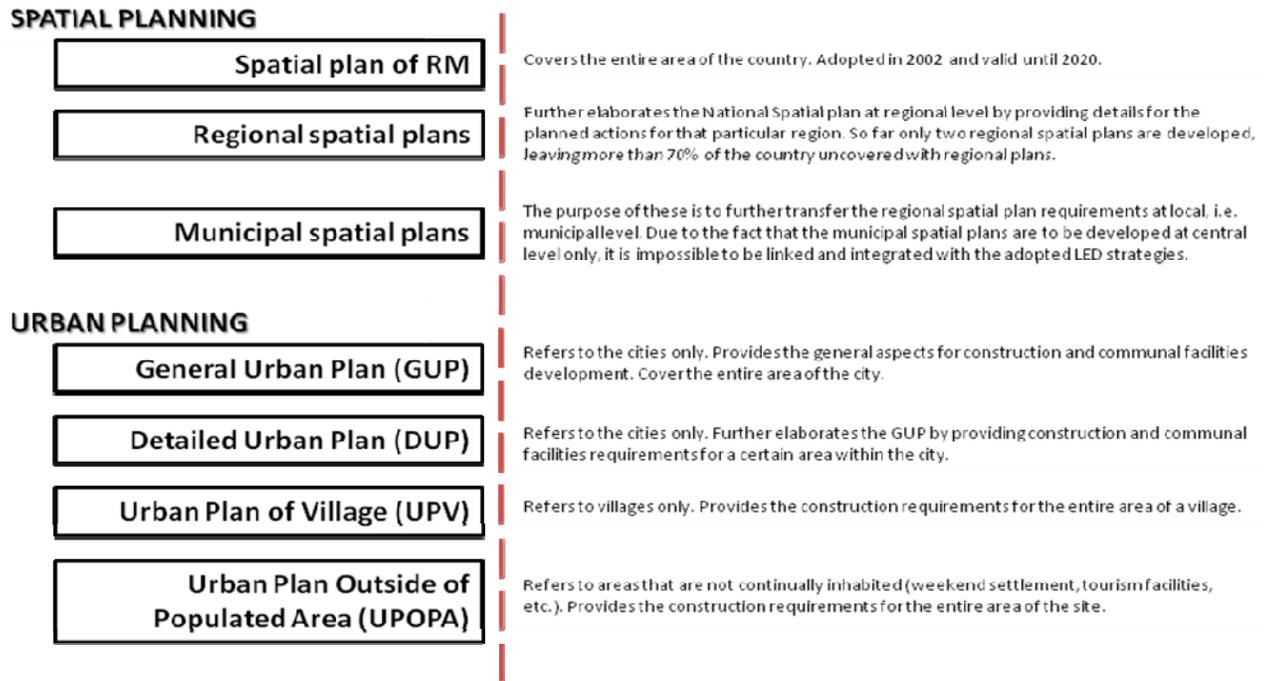
The development of all spatial plans (national, regional and municipal) is solely under jurisdiction of a singly body – the Agency for Spatial Development of the Republic of Macedonia (ASPRM). Besides the National Spatial Plan, ASPRM has developed only two regional spatial plans, leaving more than 70% of country's territory without planning guidelines to serve as a basis for developing municipal spatial and urban plans.

All the above-mentioned issues are not the only deficiencies negatively influencing the construction permitting system. The lack of spatial plans provides few if any developmental guidelines at the local level thus hindering an integrated approach to local development and growth.

The three spatial planning documents (national, regional and municipal spatial plans) complete the spatial (territorial) planning concept, which is further integrated into an urban, i.e. settlement-based one. There are four different types of urban plans:

- General urban plan (GUP)
- Detailed urban plan (DUP)
- Urban plan of village (UPV), and
- Urban plan outside of populated area (UPOPA).

A complete hierarchy of the planning process (both, spatial and urban) is graphically presented below.



The process of developing urban plans includes several players. Local authorities announcing a public call for developing an urban plan initiate the process. Only UP certified companies are eligible to compete in the process. At the moment there are 38 certified companies in the country, while three of them possess more than 70% of the market share, making it a pure case of oligopoly.

The process of developing of urban plans is divided into two parts—development of draft plans and development of proposals for an urban plan. The process of drafting the plan starts with purchase of the updated cadastre maps for the area concerned (AREC charges about \$150 per single cadastre map; usually several cadastre maps are needed for developing a single urban plan). Due to the lack of regional spatial plans and municipal spatial plans, there are no adequate spatial planning guidelines but rather very broad ones taken directly from the Spatial Plan of the Republic of Macedonia.

The process proceeds to field research in which the urban plan developer, i.e. the certified company, usually attempts to reduce costs by doing a minimum amount of research and analysis often with no, or very limited information, on citizen needs. Generally, since the certified company is often located outside of the municipality's under plan, only 2 or 3 brief visits are conducted in the municipality in question. As a result insufficient information is collected, and land use/zoning is poorly addressed as are other important aspects of the urban planning process such as environment, housing, architectural design, and transportation.

Based upon such an inadequate information base and analysis, the certified company develops the draft plan to be presented to the local authorities. The local authorities are legally obligated to present their draft plan to the public for a period of 15 days. Very often, this task is completed without any real citizen inclusion by simply placing the draft plan on

the information board within the local administration's offices. This highly non-transparent process makes it difficult, if not impossible, for concerned citizens to comment on the draft plan. In most cases none, or only few comments, on the draft urban plan are submitted to the municipal authorities.

Based on the comments to the draft given by the local authorities and citizens (if any), the certified company develops the urban plan proposal, which is then presented to MOTC for comments/approval. Pending MOTC approval, the urban plan proposal is then subject to vote by the Municipal Council members.

On average the whole process of drafting, developing, approving and adopting an urban plan lasts about 9 to 12 months.

The urban planning process as practiced today completely transfers the role of city planning to a number of architects employed by the certified companies, who as mentioned, do not live in the cities they shape. Since the design process is completely outsourced, without any real public hearing actions and with no real responsibility of the municipal authorities, there are many opportunities for political and economic interests of individuals to influence the process and the final product – the urban plan. As a result – the urban plan is too often of very low quality – and through the eventual building permitting process the city and neighborhood becomes unattractive, poorly and uneconomically laid out, and often losing any of its historical identity and attractiveness.

This expensive and time-consuming process presents a significant barrier for the FDIs, as well as for the LED process in general. The average cost for developing a detailed urban plan is, at this writing, approximately \$1,500 per hectare. Thus, a mid-size municipality such as Veles, for example, that covers an area of approximately 1,200 hectares would cost about \$1.8 million for developing detailed urban plans for the city alone. Additional funds would be required for developing the urban plans of the remaining settlements (villages) in the municipality. Thus, the total amount for developing all urban plans in a mid-size municipality in the country can be estimated at more than \$ 3 million. If this amount is figured based upon the time validity of the plans (GUP's validity is 10 years, while DUP's is 5 years), than the local authorities in a mid-size municipality should allocate no less than \$600,000 (or about 18% of their unrestricted annual budget) each year for the purpose of developing urban plans.

Another constrain of the current legislation is the requirement for keeping hard-copies of the adopted urban plans on *hamer* or *astralon* paper; this is an antiquated approach used over 20 years ago lacking the up to date GIS technology currently in vogue in modern urban planning record keeping. This legal requirement is incomprehensible since the current process of developing urban plans (by the certified companies) is performed electronically by applying the GIS technology.

### **The cadastre system**

A few years ago the need for contemporary cadastre maps was high on Macedonia's agenda since most of cadastre maps were outdated and in hard copies only. And as a result of the WB's Cadastre Project and the efforts of SIDA and JICA, the cadastre system since the summer 2005 has undergone considerable reform.

The activities sponsored by the international agencies, SIDA and JICA, are compatible and coordinated with the WB's Cadastre Project activities; by the end of 2012 they should ensure a completely reformed and modern cadastre. The total budget of these projects is more than \$20 million and their key activities are the following: real estate registration, digitization of all cadastre plans, web services development, digital map production, business and service development, institutional capacity building, and transformation of the national coordinate system into the Global Reference System.

At the moment it is estimated that about 92% of the cadastre is completed and all cadastre plans are now available in digital format. In the next 2 years all cadastre operations will be e-based and fully compatible with the EU cadastre system. Surely, this will have a significantly positive impact on construction permitting as well, due to the strong interrelation between the two processes. One of the greatest obstacles in urban planning and construction permitting has been the outdated and paper-based cadastre maps. Fortunately, this problem is now history. Nevertheless, developing strong and sustainable cooperation between the local permitting administration and AREC continues to be a highly regarded objective that needs to be urgently accomplished.

### **The construction permitting process**

Macedonia's construction permitting process is an awkward and unreasonably complex procedure – it consists of six sub-procedures:

- Urban Plan Excerpt,
- Title Deed / Ownership List (local AREC office),
- Decision for Location Conditions,
- Construction Permit,
- Utilization Approval, and
- Property Registration (local AREC office).

The procedure begins by requesting and issuing an Urban Plan Excerpt (UPE). The document is usually issued within a period of 3 to 4 days. The UPE provides the basic construction requirements given by the urban plan (DUP, UPV or UPOPA) and serves as the basis for an architect to develop the conceptual design. After the conceptual design is developed, an investor needs to obtain a Title Deed or Ownership List from the local AREC office. Both documents (the Conceptual Design and the Title Deed) are mandatory for issuing a Decision for Location Conditions (DLC); this process executed by the local administration usually takes 5-7 days.

The provided DLC is then returned to the architect to develop the construction blueprints (an improved and more detailed version of the conceptual design), which serves as the basis for applying for a Construction Permit. In this phase the investor is expected to: obtain a study for seismic protection and a study on environmental impact of the project, to pay the charge for development of construction land, the charge for financing the spatial plan of RM and urban plans and charge for preparation of the Protocol. During this period the local authorities are obligated to contact and obtain approvals from the utility companies (electricity, water-supply and sewage). This is the most time-consuming of all six sub-procedures. After the construction permit has been issued, the investor is permitted to begin field construction activities after which the developer must obtain the final document—Utilization Approval (UA). The UA is necessary for the local authorities to assure that the facility is constructed precisely to the provisions of the Construction permit.

However, UA is also needed by the investor for a purpose of property registration with the local AREC office.

The above-presented procedure is related to the facilities that are to be constructed within the urban area (cities, villages and other settlement-types), while the procedure for construction on locations that are not covered with urban plans (construction gray zones<sup>2</sup>) is even more difficult and time consuming. The construction gray zones are areas covered by spatial but not by urban plans; due to the fact that the national spatial plan covers the entire territory of the country, while the urban plans are developed only for the settlements (cities, villages and other types of settlements). Therefore, whatever is not included in the settlement plans are in the construction gray zones. Such locations are usually very attractive for land and business developers (gas stations, industrial facilities, motels, restaurants, etc.). Due to the lack of urban plans for such areas, the only valid document that can provide construction requirements is the spatial plan (national or regional). In such cases the urban design of the facility is replaced by so-called urban project or urban documentation, while the procedure is very time-consuming and sometimes never ending (an investor may well give-up on the investment idea). The whole procedure is explained in the permitting related legislation and it follows the same procedures as for constructions within the urban zones. However, field experience in such cases presents a number of different obstacles in the process, depending on the project type and its location.

### **UP/Permitting related projects implemented in the country**

The UP/Permitting projects implemented in Macedonia in the past years aimed to support local self-governments' goal – to open the door to sustainable development in an open market economy. Several agencies, USAID, EAR and UNDP, have provided technical assistance in these areas. However, based on the scope and size, the following four projects have had the greatest impact:

- *Train Project*, funded by EAR (2004-2005),
- *Local Government Reform Project*, funded by USAID (2002-2004)
- *Make Decentralization Work*, funded by USAID (2004-2007)
- *Support to the Decentralization Process*, funded by EAR (2007-2009).

A table presenting the partner municipalities for each of these projects is presented in Appendix I.

The *Train Project* was implemented in all 84 municipalities and in the City of Skopje; it consisted of two components – equipment and software provisions to the local self-government, and training of the local urban planning and permitting authorities. The project delivered useful training related to urban planning tools, IT, GIS, land development, community planning, and human resources management. However, the idea of introducing several aspects of the UP process, presented in random order by different trainers and without integrating them into a single process, did not measurably improve the process, nor introduce modern aspects of the planning process. As part of the Train project, EAR provided excellent equipment and GIS software estimated at more than \$150,000 to the Ministry of Local Self-Government with the purpose of establishing a single electronic

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<sup>2</sup> The term is used by the authors, as well as by some of the construction permitting practitioners, but it is not part of the official UP/construction permitting terminology.

database for urban plans. Unfortunately, the database was not established since MLSG is not permitted to operate within urban plans.

USAID's *Local Government Reform Project (LGRP)* and *Make Decentralization Work (MDW)* have supported the construction permitting process by introducing the front-office/back-office concept. Introduction of real one-stop shop was not feasible at that time due to the number of parties involved in the permitting process (both, central and local government authorities). The key tool was a customized e-solution (permitting software) for speeding-up the process of issuing construction permits. Besides the permitting software, the other important accomplishments were the standardized permitting procedures developed and approved by MOTC and an e-tool for tracking permitting applications on-line. As result of these improvements, the Municipality of Bitola has managed to reduce the construction permitting time to only 94 days<sup>3</sup>. According to the same source, the average permitting time in Macedonia was approximately 222 days. However, due the lack of financial resources and limited project time, further improvements have ended.

Besides construction permitting, the *LGRP* and *MDW* projects also focused on capacity building of local administration in the areas of UP, GIS and LED. Due to the very low capacity in UP, the project delivered basic training in urban planning to a limited number of municipalities and could only introduce the concept of GIS. The focus of the LED activity was set on delivering strategic planning trainings that have resulted in development of about 20 local economic development strategies. Unfortunately, both projects have missed the opportunity to integrate the overall local development process and link the LED strategies with the local urban plans.

The latest EAR's project – *Support to the Decentralization Process (SUDEP)* was implemented in 36 municipalities and was mainly focused on reconstructing/establishing Municipal Service Centers, i.e. front-offices of the local administration, having a minor impact in the areas of LED and UP (mainly related to GIS).

The estimated value of the equipment and software delivered to the local self-governments by these four projects is about \$2.7 million<sup>4</sup>. The equipment consists of 370 computes (Graphic stations, Work stations and PCs), 200 A4-format printers, 85 ink-jet printers, 150 scanners and 4 A0-format plotters, while the software included 90 ArcView licenses, 30 AutoCAD LTs and 4 Raster Designs. Due to the agreement made between representatives of *Train* and *LGRP/MDW's* projects, the delivered software and equipment followed the same technical specification – avoiding any possibility for technical inconsistency. The aforementioned equipment was delivered in between 2004-2007, but the largest quantities were delivered in 2005 and 2006. Thus, the average age of the equipment is estimated to be 4 years old and is expected to become obsolete in the following three to four years. Regardless of the age of the equipment, the authors believe that it is adequate to the needs and current skills of the local construction permitting and UP authorities. And the GIS software (ArcView and AutoCAD Map) can well be exploited in the upcoming years without the need to be updated or replaced; this equipment is very expensive (ranging from

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<sup>3</sup> WB's Doing Business in South-East Europe 2008.

<sup>4</sup> The estimation is based on the information available to the authors, mostly provided by the projects' employees.

\$2,700 to \$4,000 per unit). Clearly, purchasing any large quantity of hardware or software at this point of time is not necessary.

## **Conclusions**

The construction permitting process practiced today in Macedonia is outdated and presents a serious obstacle to the economic development and growth of the country. Construction permitting is strongly tied to the quality of the planning process. At its core, the construction permitting process is simply a tool for implementing area plans.

The current planning hierarchy is assessed as inadequate, costly and non-functional. It presents a direct obstacle to the integration of local economic development strategies into area plans, thus preventing their full implementation and reducing their impact. As a result, more than 70% of the state's territory is not covered with regional urban plans, and due to the newly adopted improvements of the Law on Spatial and Urban Planning the envisioned municipal spatial plans are far from being developed in the foreseeable future.

According to the current legislation, municipal authorities are neither legally entitled to develop urban plans, nor do they possess the resources for developing them; this leaves municipalities without an adequate community and city planning base. Another major issue is the lack of any credible educational program – bachelors or masters – at any Macedonian university to train and produce urban planners so urgently needed. As such, the quality of urban and regional planning at all levels of government suffers. Moreover, according to current legislation, urban planning in Macedonia remains paper-based, neglecting the advantages of the GIS technology.

In addition, the Macedonian urban planning system is a inflexible, time-consuming, unsustainable, expensive and of very low quality – often driven by political and financial motives. This current poor state of planning often forces local self-governments into unattainable positions requiring enormous financial resources to develop new urban plans (a mid-size municipality on average needs about \$ 600,000 per annum for developing new urban up-to-date plans). The vast majority of urban plans are outdated and barely usable, while hundreds are not even developed, leaving a significant portion of the urban area uncovered with urban plans. The current state of the urban plans is primary the reason for the growing number of the illegal constructions nationwide.

The sluggishness of the administration on both the state and local levels, the ambiguous criteria for the approval of permits, the broad area for arbitrary deciding, as well as the non-transparency of the system is the reality of the current urban planning and permitting system in Macedonia – a system that too easily fosters corruption. Citizens unaware of the many procedures involved in the permitting process are often tempted to initiate, or show a readiness, to pay civil servants (who know the procedures) in order to 'speed up the process.' In addition, significant time-time delays in the construction process are often also incurred increasing construction costs at least 10 percent over initial cost projections making the entire process unnecessarily expensive.

Since the spatial and urban planning process, and the permitting procedures are the major sources of bottlenecks in construction permitting in Macedonia, this paper argues in favor of a joint and integrated approach. Improving the construction permitting alone will cause a small, short-lasting and unsustainable effect.

The efforts made in the past few years by the international agencies (especially USAID and EAR) have improved the overall situation and have set a good starting point for conducting real reform in the planning and permitting processes. In addition, the efforts made by the World Bank in modernizing and reforming AREC (another key institution to the process) significantly contribute to the reform effort.

In light of the many challenges and opportunities in the planning and permitting system, this paper argues in favor of immediate action towards redesigning and reforming the system (both, legislatively and operationally) that will ensure the achievement of the following objectives:

- Introducing a coherent and a sustainable spatial planning system
- Introducing integrated local development strategies
- Linking the LED strategies with spatial and urban plans
- Simplifying and modernizing the urban planning process (replacing the paper-based concept with GIS technology, increasing the quality of the urban planning while decreasing the costs of preparing urban plans)
- Increasing the capacities of local self-governments for practicing a participatory and locally-based urban planning system
- Reforming and simplifying the construction permitting procedures, and
- Initiating a statewide electronic permitting system that will allow customers to apply for construction permits, to request inspections, submit plans, and track the licensing process on-line.

The decentralization process and the cadastre reform currently underway is opening a window of opportunity for adjusting urban planning and construction permitting in Macedonia which according to many, together with the state-land management system, is one of the main obstacles to national development. Slovenia's latest ranking in WB's Doing Business Report (59<sup>th</sup>) related to construction permitting is the best example that within a few years construction permitting can be significantly improved. The fact that both countries (Slovenia and Macedonia) have inherited the same urban planning and construction permitting system from the former Yugoslavia is significant and useful for comparison. The great progress that Slovenia has made is a result of legislative reform of spatial planning, urban planning and construction permitting, undertaken in the first years of this century. Slovenia's example upgraded with certain positive but applicable aspects of other success-story countries in Europe (UK, Germany, France and Estonia), North America (US and Canada), Asia (Hong Kong and Singapore) and New Zealand, could help place Macedonia within the 50 countries with the best permitting system worldwide within a few years only.

The authors of this paper strongly believe that reforms to the decentralization process and the cadastre would be a triple-win scenario, for central and local governments, for citizens and investors alike. A flexible, efficient and transparent urban planning process, along with permitting software that would allow applications and payments online (through credit-card payment) and the ability to follow the permitting process – short of having to physically to go to administrative offices involved – would significantly cut down the costs, both for contractors and for central and local governments.

### III. Objectives & Areas of Intervention

The introductory section and the *Conclusions* sections of this paper have pointed out the deficiencies in the construction permitting practiced today. With this in mind, the authors conclude that several objectives are needed to be achieved in order to reform and improve the construction permitting in the country as follows:

- Objective 1:** Improve construction permitting legislation
- Objective 2:** Integrate local development & economic growth planning
- Objective 3:** Ease investors' access to construction land
- Objective 4:** Increase revenues from construction permitting

The four key objectives can be accomplished by carrying out two thematic groups of activities:

- Assistance in legislation reform, and
- Technical assistance.

The legislation process should ideally precede the technical assistance, since a large portion of the T/A's details will be in direct correlations to the quality and the level of adjustments that will be made by legislation reform.

Four laws that directly influence construction permitting are: the Law on Construction, Law on Spatial and Urban Planning, Law on Construction Land and Law on Illegal Constructions (not yet adopted). However, not all of these laws are of equal importance in the process. Since the amendments to the first two laws will most directly influence the permitting procedures, amending these two laws should be considered a priority, while amending the third one and adopting the fourth one can benefit the process, but they are not crucial to the project results. Based on the aforementioned, the legislative reform should include the following adjustments:

- Obligating the urban plan developers to submit an electronic copy of their developed spatial and urban plan
- Reforming the urban documentation approach
- Ensuring that the construction blueprints are submitted in electronic form
- Rethinking the need of the Urban Plan excerpt to be performed as a separate procedure
- Ensuring regular SCI's visits and control of the local construction inspectorates
- Ensuring participatory approach in the process of developing urban and spatial plans
- Simplifying and reducing the number of steps of the permitting procedure
- Amending the secondary legislation related to permitting fees
- Revising the UP standards and making them inter-operational with the AREC's GIS standards and spatial planning standards
- Ensuring the technical documentation for the urban plans are developed within the local administrations
- Ensuring the local LED and other strategies are considered when developing a new plan
- Allowing municipal spatial plans to be developed at the local level
- Allowing the municipal spatial plans to be developed even if a regional plan has not been developed
- Drafting a Law on Illegal Constructions

On the other hand, the T/A areas of intervention are larger, but also more complex and long-lasting. All areas of intervention can be grouped into three thematic areas:

- Integrating local development & economic growth planning
- Assuring that urban land use planning and zoning supports an improved permitting process
- Establishing modern construction permitting.

### **Integrated local development & economic growth planning**

The first set of T/A areas of intervention aims to contribute to the achievement of objectives two, three and four. The result, after the implementation of these activities, should result in a new organizational structure of local administration integrating the operations of the following local jurisdictions: LED, UP, construction permitting, and environment and communal services. These departments shall be capable of integrating vertically and horizontally all of the above strategies into a single consistent and integrated development strategy that will be focused on future municipal growth and development.

#### **1.1 Map local economic development strategies on the local spatial plans**

Provide T/A towards establishing and ensuring vertical hierarchy and horizontal communication between the LED strategies, municipal spatial plans and the local urban plans. The process should result in promoting a single municipal development strategy that will provide the guidelines for all local sector strategies.

**Importance:** Mandatory

#### **1.2 Establish a model for municipal development & economic growth units**

Develop a functional model for the local administration's organizational structure for community development related competencies: LED, UP, construction permitting, communal services and environment.

**Importance:** High

#### **1.3 Support the process of municipal spatial development**

Support the partner municipalities and the ASPRM in the process of development of municipal spatial plans: based on the provisions and guidelines given by the municipal integrated development strategies, the regional spatial plans, and the national spatial plan.

**Importance:** High

#### **1.4 Support the process of regional spatial development**

Support the ASPRM in the process of development of regional spatial plans, based on the provisions and guidelines given in the national spatial plan.

**Importance:** High

## Urban land use planning and zoning supporting improved permitting

The second set of T/A consists of six areas of interventions that aim to shape local urban planning to support local development and the permitting processes. The implementation of this set of activities is intended to bring the GIS technology to the Macedonian municipalities; it should make the paper-based planning and permitting history. Furthermore, support for GIS technology will: considerably increase local administration capacity in the area of land management and development; simplify the procedures for adjusting the urban plans according to investors' requirements; and will bring the urban planning processes to its beneficiaries—namely, investors and the local citizens. Finally, sustainability activities envision the creation of national networks of local urban planners and GIS specialists to further stimulate their cooperation and professional development.

### 2.1 Ensure the interoperability of the GIS and UP systems at local and central level

Support the cross-institutional cooperation between municipalities and number of central government institutions including AREC. Foster a process of utilization of identical GIS standards at the national and central levels in order to ensure the interoperability of the systems at all levels.

**Importance:** Mandatory

### 2.2 Introduce an e-based urban planning and permitting

Establish a national database of digital urban plans.

**Importance:** Mandatory

### 2.3 Land use, UP & GIS – ToT Program

Promote a training of trainers (ToT) program to establish land development tools and techniques for municipal permitting and urban planning departments, and promote GIS technology as a flexible, effective and sustainable urban planning and construction-permitting instrument.

**Importance:** High

### 2.4 Land use, UP & GIS – Training delivery

Increase municipal administrations' capacities in the areas of land use, land development, UP and GIS tools and techniques.

**Importance:** High

### 2.5 Support the establishment of a UP masters program

Ensure a sustainable and quality urban planning process by establishing a Masters Program in Urban Planning at one of Macedonia's universities.

**Importance:** High

### 2.6 Association development

Support the cooperation, knowledge exchange and professional development of the local urban/city planners and GIS specialists.

**Importance:** Low

## **Establish modern construction permitting**

The modern construction permitting system builds upon the fundamentals set by the previous two groups. In essence, these areas of intervention can complete the reform of the construction permitting system by clearly defining and standardizing permitting nationwide – at local and central levels – and simplifying and accelerating the process by transforming from the current paper-based system towards one completely electronically-based.

### **3.1 Institutional assessment**

Assess the current capacities of all institutions – at local and central levels – that need to be included in the process of establishing e-construction permitting. Identify the capacities of the institutions eligible for installing construction-permitting software.

**Importance:** Mandatory

### **3.2 Map the construction permitting process**

Map the process of issuing construction permits at the national level.

**Importance:** Mandatory

### **3.3 (Re)Develop construction permitting software**

Develop technical specifications for adjusting the current construction permitting software or for developing new ones. Adjust/Develop the software.

**Importance:** Mandatory

### **3.4 Developing a construction permit application internet tracking tool**

Develop and launch an on-line application equipped with tracking tools for construction permit applications.

**Importance:** Mandatory

### **3.5 Install construction permitting software in MOTC**

Develop training curriculum, toolkits and manuals. Install construction-permitting software in MOTC. Deliver training for all software users in MOTC.

**Importance:** Mandatory

### **3.6 Install construction permitting software for local self-governments**

Develop training curriculum, toolkits and manuals. Install construction-permitting software in partner municipalities. Deliver training for all software users in all municipalities.

**Importance:** Mandatory

### **3.7 Establish a national construction permitting database**

Develop a national construction permit e-archive in a relevant institution at the central level and provide training for database users.

**Importance:** Mandatory

## IV. Implementation Strategy

Understandably, based upon historical precedents (many of which were discussed under the Problem Identification section of this paper), construction permitting and its related processes cannot be improved overnight; they require a well-thought and consistent effort over an extended period of time. However, as result of such successful efforts, construction permitting will be irreversibly influenced and reformed into an effective, transparent, sustainable, cost-efficient, participatory and corruption-free process that will eliminate many of today's investment barriers faced by individuals, companies and institutions trying to do business in Macedonia.

### Implementation strategy

The proposed project's rollout is envisioned as nationwide, to be implemented simultaneously at local and central levels. The proposed implementation strategy is based upon developing and implementing appropriate answers to the following questions:

Upon what basis should the project be built on? What needs to be followed-up?

- Investor's point-of-view
- Project design complementary to the results and achievements of the UP/permitting activity implemented during USAID's LGRP and MDW projects, and
- Using the past permitting related projects deliveries and resources (especially the hardware and software).

How can the project be made more efficient?

- Develop high cost-efficiency
- Maintain effective and efficient implementation of project activities
- Outsource oriented project implementation, and
- Predominant use of domestic experts and specialists (expats needed for UP training program only).

How can the main project beneficiaries be best included?

- Provide one-at-a-time provision of T/A to the project beneficiaries
- Develop an Agreement/Contract based provision of T/A to each beneficiary (including MOTC)
- Provide a regional approach to implementation and especially under its training provision
- Minimize logistics costs (accommodation, transport, food, drinks, training facility), and
- Consider cost-sharing by project beneficiaries.

How to achieve sustainability?

- Project results need to be provided in a manner to ensure their out-living election results, i.e. the change of local authorities, and
- Results-oriented implementation.

Having in mind the areas of intervention proposed by this paper, a good cooperation and support from several partners will be essential to their successful implementation. The key partner is MOTC, but other institutions such as AREC and MESP can also significantly contribute. Beside these, institutions, good cooperation is needed with SCI, ZELS, MLSG and MOIT who can be beneficial to project implementation as well.

A successful methodology that actively includes key partners – practiced by EAR – is in establishing a project steering committee, whose role is to monitor and support the implementation of project activities. In the case of construction permitting, a possible steering committee should include senior representatives from the following institutions: USAID, The Project, MOTC, AREC, and preferably MESP, MOIT, SCI and ZELS.

Another action that may be considered is locating the project office within the premises of MOTC. This could ensure an open-door policy of the Ministry towards the project, and would have the potential of adding to the quality to project results. This concept is widely used by EAR and by projects sponsored by some embassies located in Skopje (i.e. the British Embassy).

### Areas of intervention

A complete list of all T/A areas of intervention is presented in the following table.

<b>INTEGRATED LOCAL DEVELOPMENT &amp; ECONOMIC GROWTH PLANNING</b>	<b>URBAN LAND USE PLANNING &amp; ZONING SUPPORTING IMPROVED PERMITTING</b>	<b>ESTABLISHING MODERN CONSTRUCTION PERMITTING</b>
1.1 Mapping the local economic development strategies on the local spatial plans <b>Importance:</b> Mandatory	2.1 Ensuring the interoperability of the GIS and UP systems at local and central level <b>Importance:</b> Mandatory	3.1 Institutionalizing the assessment process <b>Importance:</b> Mandatory
1.2 Establishing a model for municipal development & economic growth units <b>Importance:</b> High	2.2 Introducing e-based urban planning and permitting <b>Importance:</b> Mandatory	3.2 Mapping the construction permitting process <b>Importance:</b> Mandatory
1.3 Supporting the process of municipal spatial development <b>Importance:</b> High	2.3 Establishing Land use, UP & GIS – ToT Programs <b>Importance:</b> High	3.3 (Re)Developing a construction permitting software <b>Importance:</b> Mandatory
1.4 Supporting the process of regional spatial development <b>Importance:</b> High	2.4 Developing and delivering Land use, UP & GIS – Training <b>Importance:</b> High	3.4 Developing construction permit applications as an internet tracking tool <b>Importance:</b> Mandatory
	2.5 Establishing a local UP masters program <b>Importance:</b> High	3.5 Installing construction permitting software in MOTC <b>Importance:</b> Mandatory
	2.6 Developing an appropriate Association <b>Importance:</b> Low	3.6 Installing construction permitting software in partner municipalities <b>Importance:</b> Mandatory
		3.7 Establishing a national construction permitting database <b>Importance:</b> Mandatory

## Implementation approaches

Three implementation approaches are envisioned for the identified intervention areas:

- Legislation reform
- T/A's Basic scenario, and
- T/A's Full scenario.

A) The **legislative reform** costs are estimated between \$100,000 and \$200,000 and should be completed over a period of 18 to 24 months. The reform will demand inclusion of several specialists: faculty professors; local permitting and UP practitioners; developers of urban and spatial plans; lawyers and; experts from MOTC, MESP, AREC, and SCI. It is crucial that legislative reform is initiated before the T/A intervention starts. Another critical issue is the T/A specialists that need to be included in the legislation reform process. The legislation reform process will substantially contribute to the process of new permitting and UP model development as follows:

- legislation reform should support the envisioned model of construction permitting and UP, and
- T/A will be strongly directed by the size and quality of the laws' amendments and thus, the project results and as importantly their sustainability will considerably depend on the provisions of the improved legislation.

B) T/A's **Basic scenario** consists of the 10 mandatory activities. The estimated time of intervention is between 4 and 5 years, while the required funds are estimated at \$ 3.0 million. It will require the services of the following specialists:

- Permitting/UP specialist
- Cadastre/GIS specialist
- Urban plans digitization specialists
- Permitting software (re)developer
- Permitting training deliverers
- Land use, UP and GIS ToT program deliverers
- Land use, UP and GIS training deliverers, and
- Spatial plans developers.

C) T/A's **Full scenario** consists of 17 areas of intervention. The estimated time of intervention is also between 4 and 5 years, while the required funds are estimated at \$ 4.3 million. Its implementation will require the services of the above-mentioned specialists, as well as services of an LED specialist.

The quality, knowledge, skills and experience of the specialists and others involved remains crucial to the implementation quality and achievement of the stated objectives. Moreover, good cooperation with MOTC would add quality to implementation. Due to the areas of intervention that are part of the T/A's Full scenario, establishing good cooperation with MESP is also essential.

## Appendix I

Table of the partner municipalities for each of the three UP/permitting projects

Municipality	EAR's Train Project 2003-2006	USAID's LGRP & MDW Projects 2003-2007	EAR's SUDEP Project 2007-2009
Aerodrom	Yes		
Aracinovo	Yes		
Berovo	Yes	Yes	Yes
Bitola	Yes	Yes	Yes
Bogdanci	Yes		Yes
Bogovinje	Yes		
Bosilovo	Yes	Yes	
Brvenica	Yes		
Butel	Yes		
Cair	Yes		Yes
Caska	Yes		
Centar	Yes		
Centar Zupa	Yes		
Cesinovo-Oblesevo	Yes		
Cucer Sandevo	Yes		
Debar	Yes	Yes	Yes
Debarca	Yes		
Delcevo	Yes		Yes
Demir Hisar	Yes	Yes	Yes
Demir Kapija	Yes	Yes	Yes
Dojran	Yes		
Dolneni	Yes		
Drugovo	Yes		
Gazi Baba	Yes		
Gevgelija	Yes	Yes	Yes
Gjorce Petrov	Yes		
Gostivar	Yes	Yes	Yes
Gradsko	Yes		
Ilinden	Yes	Yes	
Jegunovce	Yes		
Karbinci	Yes		
Karpos	Yes		
Kavadarci	Yes	Yes	Yes
Kicevo	Yes	Yes	Yes
Kisela Voda	Yes		

Kocani	Yes	Yes	Yes
Konce	Yes		
Kratovo	Yes		Yes
Kriva Palanka	Yes		Yes
Krivogastani	Yes		
Krusevo	Yes	Yes	Yes
Kumanovo	Yes		Yes
Lipkovo	Yes		Yes
Lozovo	Yes		
Makedonska Kamenica	Yes		Yes
Makedonski Brod	Yes	Yes	Yes
Mavrovo I Rostuse	Yes		
Mogila	Yes		
Negotino	Yes	Yes	Yes
Novaci	Yes		
Novo Selo	Yes	Yes	
Ohrid	Yes		Yes
Oslomej	Yes		
Pehcevo	Yes		Yes
Petrovec	Yes		
Plasnica	Yes		
Prilep	Yes	Yes	Yes
Probistip	Yes	Yes	Yes
Radovis	Yes	Yes	Yes
Rankovce	Yes		
Resen	Yes	Yes	Yes
Rosoman	Yes		
Saraj	Yes		Yes
Sopiste	Yes		
Staro Nagoricane	Yes		
Stip	Yes	Yes	Yes
Struga	Yes	Yes	Yes
Strumica	Yes	Yes	Yes
Studenicani	Yes		
Suto Orizari	Yes		
Sveti Nikole	Yes		Yes
Tearce	Yes		
Tetovo	Yes	Yes	Yes
Valandovo	Yes		Yes
Vasilevo	Yes	Yes	

Veles	Yes	Yes	Yes
Vevcani	Yes		
Vinica	Yes	Yes	Yes
Vranestica	Yes		
Vrapciste	Yes		
Zajas	Yes		
Zelenikovo	Yes		
Zelino	Yes		
Zrnovci	Yes		
City of Skopje	Yes		

## Appendix II

### List of interviews completed and reports reviewed

#### *Laws*

1. Law on Spatial and Urban Planning (2005)
2. Amendments on the Law on Spatial and Urban Planning (2007)
3. Amendments on the Law on Spatial and Urban Planning (2009)
4. Law on Construction (2005)
5. Law on Construction (2009)
6. Law on Construction Land (2001)
7. Law on Construction Land (2008)
8. Law on General Administrative Procedure (2005)
9. Amendments to the Law on General Administrative Procedure (2008)

#### *Reports and publications*

10. MDW Project Report
11. World Bank “Doing Business: South-East Europe 2008”
12. World Bank “Doing Business 2010” Report
13. USAID Macedonia Business Environment: Assessment Report, November 2009
14. Spatial Planning System in Slovenia, Bostajn Cotic – Urban Planning Institute of the Republic of Slovenia
15. List of companies that are licensed for developing urban plans

#### *Interviews*

16. EAR funded TRAIN project, Dragan Jovanovski
17. EAR funded SUDEP project, Natasa Acevska
18. USAID funded Local Government Activity project, Rozalija Vasilevska
19. Municipality of Ilinden, Julijana Dimitrievska
20. Municipality of Sveti Nikole, Tode Petrovski
21. Municipality of Stip, Dusko Stojanov
22. Municipality of Berovo, Miso Dogazanski, Permitting Department
23. Municipality of Bitola, Vesna Jurak, Permitting Department
24. Municipality of Prilep, Katica Dimovska Taleska, Permitting Department
25. ZELS, Dushica Perishic, Executive Director
26. Naumce Lazarevski, Permitting software developer

#### *Web-sites*

27. SUDEP project, official web site
28. Municipality of Veles, official web site
29. Municipality of Prilep, official web site
30. Municipality of Bitola, official web site
31. Ministry of Transport and Communications, official web site