

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR
THE FORMER YUGOSLAV REPUBLIC OF
MACEDONIA**

**REPORT ON THE INVITATION TO THE PUBLIC
TO COMMENT**

Strategy for FYR Macedonia: Report on the invitation to the public to comment

1. Introduction

In accordance with the EBRD Public Information Policy (PIP), an invitation to comment on the Country Strategy for FYR Macedonia 2010 – 2013 was posted on the Bank's website on 2 December 2009. The public was invited to submit comments on the draft Strategy by no later than 15 January 2010 so that they could be taken into account in the final strategy.

2. Comments Received

Comments were received during the public consultation period from two NGOs active in FYR Macedonia: (i) the Centre for Economic Analysis (CEA) and (ii) Eco-sense.

Attachment I provides the comments received from CEA. Some of these comments have been reflected in the document. Responses to comments that have not been reflected are provided below each comment in Attachment I.

Attachment II provides the comments from Eco-sense. These comments relate to power sector and transport sector projects.

The NGO comments that the Banks should also support renewable energy and energy efficiency projects in FYR Macedonia. This comment is supportive of the Strategy which refers in several places to the importance that the Bank places on such projects. The establishment of the Western Balkans Sustainable Energy Direct Lending Facility, which directly targets energy efficiency and renewable energy projects, is an evidence of the Bank's support to these projects in FYR Macedonia.

The NGO also comments that in the transport sector the Bank should shift from investments in new constructions towards sustainable models of transport, such as urban transport. The Bank's willingness to finance public transport is already set as one of the strategic priorities of the Municipal and Environmental Sector. Comments related to the road and railway infrastructure are largely supportive of the strategy as they reflect the Bank's priorities and ongoing projects in the country.

Attachment I: CEA comments on the EBRD's draft Strategy for FYR Macedonia for the period 2010 - 2013

1. Page 6 3rd row from bottom. Not only distribution but retail of electricity was also bought by EVN i.e. privatized to this company. The implication is that we have vertically integrated distribution and retail with captured consumers

Staff Response: It is true that supply was also privatized to EVN. In the long term however supply, which is not a natural monopoly, will be open to competition, so consumers will not be captive. In the meantime, supply is fully regulated to prevent EVN exploit its monopoly position.

2. Page 15. the reasons for female inactivity is the culture of the Albanian woman as well.

This comment was reflected in the Strategy.

3. Page 20 about the modernization of the infrastructure it is said: "*Introduction of another significant generator or the privatisation of generation assets would introduce competitive pressure for greater supply-side efficiency*". This is very strong of a statement and not supported with evidence. Efficient electricity market has nothing to do with ownership but with transparent rules and regulation and credible institutions. Thus, EBRD should be very careful of jumping into conclusions and should also explain what - "*Introduction of another significant generator ...*" means.

Staff Response: The Bank takes the view that the best driver of efficiency and innovation in the economy is the competition rather than regulation. Also significant is the difference in productivity and efficiency between command and market economies. We believe that it would benefit FYR Macedonia if there was competition in generation for ELEM, which would stimulate EMEM and its competitor(s) to achieve higher levels of efficiency. This could be achieved through sale of one of the existing generation assets or by facilitating an IPP.

4. Page 21. It is not clear how the increased number of foreign bank investment resulted in growing competition in the Macedonian banking sector? What is the source of this evidence? Instead, it is our anecdotic believe that actually there is oligopoly in Macedonian banking sector. Indication was the difficulty of GoM to negotiate the conditions of how to channel the EIB 100 mln loan for example. Too strong of a statement without any strong evidence.

This comment was reflected in the Strategy.

5. Page 24. Macedonia has potential to wind power as well (confirmed with the ED's regional IPF as well and other wind measuring projects). The "*possible*" word gives different meaning to the sentence.

Staff Response: The Bank has not seen any detailed studies of the country's wind potential, so we can not confirm whether or not there is good potential.

6. Page 24. It should be stated clearly that EBRD will help in the CDM utilization from Macedonia as well.

Staff Response: The Bank will definitely support projects that rely on CDM credits wherever possible. However, it must be recognized that in the absence of clear replacement for the Kyoto mechanisms, there is limited value to CDM credits after 2012, which unfortunately means there is limited scope to do so.

7. Page 25. Consider the new development with the Cargo Stip Airport.

This comment was reflected in the Strategy.

8. Page 25. EBRD should be careful when talking about PPP not only here but all over the Strategy. PPP experience in Macedonia is nil. Informed people in Macedonia are waiting for new legislation on PPP, administrative capacity strengthening, possible PPP project's registration and off budget issues handling, central and local government issues related to PPP etc. Distinction should be made between concessions and PFI from PPP, capacity of government to demand, conduct, implement, register and monitor PPP/PFI/ concessions, PSC and VfM categories calculation enhancement. It can easily happen for the GoM and/or LSGs to enter contracts and later not being able to monitor them and/or to dispute them. Are the GoM and/or LSGs ready to assign project officers, do they know what that exactly is? Are they ready to handle communication PPP strategies? EBRD is a serious institution and informed reader reading this strategy can see that PPP is just mentioned loosely and out of fashion as a latest tool in the region without serious analysis of what it means. EBRD can help for example in designing a PPP system in Macedonia, and/or PPP project development facilities, and/or designing Private infrastructure equity funds etc. CEA is ready to talk further with EBRD on these PPP issues. Check also: www.cea.org.mk. On PPP report in Macedonia.

Staff Response: The Bank has a consistent approach towards PPPs, as also reflected in its policy document “EBRD Financing of Private Parties to Concessions”. This document elaborates on the issues involved when the Bank considers financing transactions involving concession or similar contracts awarded to private parties. These issues concern the process by which the concession has been awarded, as well as the fairness and reasonableness of the contract terms and conditions. Based on the standards set in this document, the Bank defines its due diligence requirements on a project by project basis.

The Bank is following prospective PPP projects in FYR Macedonia, but to date it has not been directly involved. EBRD would be happy to work with the relevant authorities to devise appropriate PPP projects in the country.

9. We at CEA believe that OFA is already implemented and we are now at the post OFA period thus, no need in page 28 to discuss OFA. The 2001 clashes happened 9 years ago and we should not burden the strategy with history.

Staff Response: The need for continuing implementation of the Ohrid Framework Agreement (OFA) is prominently present in all relevant international documents pertaining to FYR Macedonia, particularly in all EU documents. The latest Progress Report on FYR Macedonia by the European Commission, released in October 2009, states that “the implementation of the Ohrid Framework Agreement remains an essential element of democracy and the rule of law in the country” and that “further efforts in a constructive spirit are needed to fulfill the objectives of the Agreement”. The Conclusions of the Council of EU on the Enlargement,

adopted on 8 December 2009, have at the very opening of the section on FYR Macedonia an assertion that “The implementation of the Ohrid Framework Agreement remains an essential element of democracy and the rule of law in the country.”

10. Page 29. Visa liberalization is done.

This comment was reflected in the Strategy.

11. Page 39 requires a more balanced description of the status in the electricity market. If the Strategy describes what the South Eastern Europe Energy Community Secretariat is criticizing then it is correct to quote the GoM's and AD ELEM's arguments as well. This is more important since the situation is very sensitive and there are court decisions as well. EBRD must be very careful and balanced in its wording and not to advocate the SEECS's positions.

This comment was reflected in the Strategy.

12. Page 41. On the pension. The mandatory second pillar is old news. The third pillar is also introduced. EBRD can address the shortcomings of the third pillar in its strategy.

This comment was reflected in the Strategy.

13. Page 54 needs update on the education. For example the new University in Stip.

This comment was reflected in the Strategy.

14. The strategy lacks important section about the civil sector/think tank sector. For example this is third time since CEA is giving its comments to EBRD's strategies. CEA member visited in 2006 the governors' meeting in Kazan and have shared its report with EBRD officials. CEA regularly has meeting with EBRD officials. We at CEA believe that our contribution and effort deserves credits.

Staff Response: The EBRD's mission to foster market economies in a democratic context is strengthened by the active participation of local interest groups including NGOs and other civil society organizations (CSOs). CSOs play an important role in promoting public dialogue about decisions that affect the lives of local people, as well as holding governments and policymakers publicly accountable. For these reasons, the Bank engages in an ongoing open communication with CSOs and communities in all of its countries of operations, including in FYR Macedonia.

While the EBRD does not finance CSO projects or provide them with any other type of financial support, the Bank engages in an ongoing dialogue with CSOs whose experience and expertise provide a valuable contribution to the effective development of the Bank's operations, policies and implementation of its projects.

Sections on the Bank's engagement with CSOs in the annual Public Information Policy Implementation Report and Sustainability Report contain detailed information about the Bank's activities in the field of CSO relations for the past year, including activities at a country level.

15. The strategy should have a list of literature and references at the end and more within the text.

Staff Response: Noted for future documents.

16. The constitutional name of the country is Republic of Macedonia

Staff Response: Being an International Financial Institution, EBRD uses the UN-sanctioned provisional name of the country, “Former Yugoslav Republic of Macedonia”.

Attachment II: Eco-sense comments on the EBRD's draft Strategy for FYR Macedonia for the period 2010 - 2013

Eco-Sense welcomes this opportunity to comment on the EBRD's draft Country Strategy for Macedonia. Our organisation has been active in following the Bank's activities in Macedonia, especially its infrastructure projects, for several years and we hope that the EBRD will give our comments due consideration.

In Macedonia the Bank is mostly focusing on transport projects, as the current portfolio also shows. We would like to stress that there should be a shift from investment in new construction towards sustainable modes of transport, such as urban transport, and that the Bank should also support renewable and energy efficiency projects in Macedonia. We believe that the EBRD can play a valuable role in promoting such types of projects in the country and attract other donors in that respect.

We would like to draw attention to the following specific issues in the draft Strategy:

Transport

p.7 "The Bank's strategic priorities in the Transport sector will focus on (i) promoting road and railway transport networks in the country and their regional interconnection; (ii) the support to Macedonian Airports concession; and (iii) restructuring of the road maintenance sector. The Bank will promote introduction of private investors in the infrastructure including through PPPs. "

p.20 "In transport, the main challenges are (i) further upgrade of the regional and local road networks, including the development of motorway concessions; (ii) sound implementation of the airport concession system; and (iii) addressing railway border-crossing bottlenecks and increasing the competitiveness of the railway operations."

p.24 Transition goals: "In transport, develop further the involvement of the private sector in road management issues and support the government in developing motorway concessions and the sound implementation of the airport concession."

p.25 "The Bank will continue to provide support for the development of the road network, with the emphasis on the key regional links (Corridors VIII and X).

[...] The Bank will continue to support the commercialisation of the road sector, with the main focus on ensuring a predictable and stable flow of funds and further improvement of road maintenance.

FYR Macedonia has active program for the development of transport infrastructure through the PPP model. [...] The Bank remains ready to provide financing to preferred bidders, providing that projects are bankable and the concession award process is consistent with the Bank's guidelines.

[...] The Bank will seek to provide financing for further development of the Macedonian railways with investments focusing on the key corridors and rolling stock. The Bank will also support further restructuring with the focus on establishing adequate legal framework that would facilitate third party operators to use the Macedonian railway network.

The Bank's strategic priorities in the Transport sector will focus on (i) promoting transport networks in the country and their regional interconnection; (ii) the support to Macedonian Airports concession; (iii) restructuring of the road maintenance sector; and (iv) support to the regional railway's links. The Bank will continue to promote introduction of private investors in the transport infrastructure including through public-private-partnerships.

We agree that transport should be a focus of the EBRD's activities in Macedonia, and propose the following priorities:

- support to railways - we agree with the emphasis on Corridor VIII but also see a need to concentrate on local rail services. This latter aspect does not seem to be present at the moment and we would ask why this is so.
- improving road maintenance - we would prioritise this above the development of new or upgraded roads at present.
- urban transport – we believe that the Bank should consider investment in urban transport in Macedonian cities, since finances have been very difficult to obtain and the Bank can have a strong demonstration effect.

We are concerned that the emphasis is currently on regional links, which have fewer benefits for local people than internal transport links and branches from the Corridors. **We ask the EBRD to increase its focus on local transport links.**

In railway investments we would also **emphasise the need for affordability for users.** We are aware that the EBRD promotes a reduction in subsidies for rail transport, however this must not result in fare increases to such an extent that passengers reduce their use of rail as a mode of transport.

We are also concerned to hear about the planned EBRD support for PPP motorway concessions, and remain unconvinced of their value for money. The use of PPPs in Macedonia appears to have more to do with following a trend than being the result of any careful analysis showing that this would be the best solution. Such complex arrangements need competent and experienced public authorities if value for money is to be achieved, however we find this very unlikely in Macedonia as the public authorities have little experience in managing even traditional projects to a satisfactory degree. We believe that issues which plague publicly procured projects, such as poor needs assessments, corruption, lack of competition, rising costs and delays in implementation will most likely simply be transferred to PPP concessions, as the complexity of the projects is a fertile environment for such problems. Both Croatia and Serbia have had negative experiences with motorway PPPs and we would like to avoid such expensive mistakes here. **We therefore ask the EBRD to remove the promotion of motorway PPPs from its strategy.**