

EBRD strategy for FYR Macedonia 1997-98: a summary

Operational objectives

The European Bank for Reconstruction and Development (EBRD) has been an active participant in the transition of the Former Yugoslav Republic (FYR) of Macedonia and is the leading international financial institution (IFI) in the country in terms of commitments to projects, principally through infrastructure projects and financing of projects in the financial sector.

Strategic objectives

The EBRD's strategic objectives in the course of 1997-98 will be to gradually increase its involvement in private sector projects through the support of selected investments in the industrial and financial institutions sectors:

- **Private sector development:** The normalisation of the economic and political situation should create opportunities for the EBRD to participate in selected transactions with potential foreign strategic investors or with strong local companies, although much will depend on the extent to which privatisation will be followed by restructuring. The Bank has identified several projects with local businesses and will assist the management teams in their business development process, through intensive use of technical assistance.
- **Financial institutions:** Due to the small size of the majority of the country's businesses, the EBRD will develop its operations in reaching small and medium-sized enterprises (SMEs) via local financial intermediaries, through credit lines and equity investments, while carefully monitoring the overall exposure of the Bank in the sector.
- **Critical infrastructure:** Further investment opportunities in the infrastructure sector will be considered only if they have a direct impact on the facilitation of private sector development and on the regional integration of the country. The Bank will also look into the possibility of financing infrastructure projects through limited-recourse financing in selected sectors.

Other areas of activity will include:

- **Transfer of know-how:** The EBRD will seek to involve the TurnAround Management Programme at an early stage of the development of projects in the private sector. This directly supports potential clients in their initial business strategy analysis and market assessments in order to facilitate a potential investment by the Bank.
- **Advancing transition and integration in the international economy:** The EBRD will look into projects promoting regional integration in the transport and energy sectors through selected infrastructure projects (oil and gas pipelines, and railways). In addition, one of the features of the SME credit line structure is that a component of the commercial spread charged to the participating banks accumulates in a Technical Assistance Fund, to be used by the Bank for selected projects to benefit the financial system in general. Among the expected uses of such funds are: (i) the implementation of a security registration system; and (ii) the development of collateral collection procedures.

Corporate sector

The EBRD will focus on the development and completion of at least two projects in the industrial private sector. Among the projects in the pipeline, the Bank will particularly target investments with a high transition impact in the country's leading companies. As equity financing is important to assist local businesses in restructuring their balance sheets or preparing them for long-term expansion, the Bank will specifically seek to include early equity components in its transactions.

There are also a limited number of transactions that are of a smaller size in which direct Bank financing could be justified on a case-by-case basis by their strong transition impact.

In addition, the EBRD has been following the growing interest by foreign strategic investors in greenfield operations. The Bank will investigate investment opportunities in these transactions.

Financial sector

The EBRD's strategy will focus on the following projects:

- **Rehabilitating and privatising Stopanska Banka:** The bank is in need of strengthening its corporate governance, and the Government has been actively seeking the participation of strategic foreign investors alongside a foreign commercial bank. The total EBRD investment is likely to include an equity participation and a form of debt financing.
- **Increasing the existing SME credit line:** The EBRD will investigate the potential for increasing the amounts of its credit lines in order to reach more SMEs.
- **Setting up an equity fund:** The availability of equity sources has been identified as a priority for the development of the private sector, especially for start-ups in agribusiness, light industry and for post-privatisation restructuring. The EBRD will look into the establishment of an equity fund with foreign management.
- **Consolidating small banks:** The EBRD will consider proposals for the consolidation of small local banks, preferably with the presence of a strategic foreign investor.

Infrastructure

Transport

The EBRD will continue to focus on the successful implementation of its existing projects.

In addition, new opportunities will be investigated in the following sectors:

- **Upgrading of the Skopje Airport air-cargo terminal:** This could be the first opportunity to structure a private sector project in the transport sector, in light of the expected increase in cargo traffic at the airport.
- **Upgrading to a motorway of the road from Tetovo to Skopje:** The EBRD will look into the possibility of structuring this investment on a concession basis.
- **General upgrading of the national railway system:** This project is highly dependent on the political and economic situation following the lifting of economic blockades. In addition, the possibility of financing the upgrading of the rail link to the Former Republic of Yugoslavia will be investigated, as it will enable the restoration of normal transport routes to and through FR Yugoslavia to the West.

Energy sector

The EBRD's strategy will continue to focus on the rationalisation of energy use and on the security of supply, essentially through the finalisation of the Skopje gas distribution project. The Bank will implement the approved investment, which consists of: (i) an equity stake; and (ii) a loan to a joint-venture between the Macedonian Government, Makpetrol and Gasprom. The project costs cover the construction of the network and the conversion costs of end-users to the network.

Expansion of the gas distribution network might also require future Bank financing, which will be conditional upon the successful completion of the Skopje project. In parallel, the Bank will investigate opportunities to privatise the operating company in the medium term.

In addition, the new law related to Independent Power Plants (IPPs) is expected to be operational in 1997. The EBRD may consider financing private consortia willing to build and operate (own or transfer) facilities under IPP schemes.

Other potential projects in the hydropower sector include the following:

- the rehabilitation of an existing hydropower station; and
- the development of the hydro potential along the Vardar river.

The EBRD may consider co-financing in this sector on a selective basis.

Telecommunications sector

In 1997 the EBRD will direct its efforts towards the signing with the European Broadcasting Union of the Eurovision project. Through the monitoring of the existing loan to the Macedonian PTT, the Bank will be in a position to assess any future government plans related to the potential privatisation of this institution.

Tourism and property sector

To improve existing hotel accommodation, the EBRD will consider supporting the development of a single Western-managed hotel of three/four star standard in Skopje, either newly built or through the refurbishment of an existing hotel. The Bank will continue to monitor the demand for international office and retail accommodation in the region.

Environment

Institutional and policy frameworks for environmental management in the country are at a relatively early stage of development. The EBRD attaches considerable importance to the

restructuring of the financial sector, and has conducted environmental due diligence training for staff in the financial sector. The Bank will continue to provide environmental due diligence training to its financial intermediaries.

All EBRD operations in FYR Macedonia are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans into the legal documentation in order to address issues raised during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects.

The current and the proposed operational activities, such as the gas distribution network, the rehabilitation of Skopje's Airport, upgrading the road from Tetovo to Skopje, and upgrading the general railway system also have environmental

implications. Among the proposed projects, the development of the hydro potential along the Vardar River would have significant environmental implications. Environmental assessments, appraisals and audits have been and will be conducted for these, as appropriate, to ensure the implementation of mitigation measures and to maximise environmental benefits.

Cooperation with other international financial institutions and donors

The EBRD cooperates closely with the European Investment Bank, the International Finance Corporation, the International Monetary Fund, the World Bank, the European Union and other EU-related organisations to further support the country's transition process.

This document is based on the Strategy for FYR Macedonia, as approved by the Board of Directors at its meeting on 14/15 January 1997.