

STRUCTURE OF FOREIGN INVESTMENTS AND THEIR IMPACT ON AGRIBUSINESS IN REPUBLIC OF MACEDONIA

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Abstract

Investment policy as an intermediate element of global economic policy monitors factors that are directly related to the process of the economic development, imperatively including the agribusiness. As part of macroeconomic policy, the investment policy plays an extremely important role to improve the economic growth that tends towards higher economic development of the national economy. The established goals of the economic development as fundamental prerogatives determine ways to achieve the goals that are directly facing the economic development of the national economy include agribusiness.

Foreign investment in agribusiness have the capacity of one of the most important instruments used in the process of economic reforms, market economy, the restructuring process, and before achieving macroeconomic stability and positive growth rate. But the structure of foreign investment acts differently towards the economic development and all the positivism that touches convergent the issues of economic policy.

The proper structuring and structural streamlining of foreign investment in agribusiness depends on the full utilization of the positivism of this kind of investment and the elimination of all formal and informal factors that may occur directly in the investment process. The structure of foreign investment in programs the future economic growth of the national economy specifically in agribusiness.

Key words: *Foreign investments, Agribusiness, Structure, Economic development, Growth, Macroeconomic policy.*

1. Introduction

In every economy investments are the main imperative for the economic development. In order to achieve satisfactory level of development and economic stability they should be directed in the right direction. The importance of investment in the development of agribusiness is particularly expressed.

Foreign investment are capital from private financial facilities and companies, international institutions and organizations, or briefly any investment that takes over the private companies, institutions and organizations in the host country, states or individuals.

According to terminology, foreign investment is a category of international investment in which the subject that has the role of investor aims at achieving permanent economic interest in the national economy in which they invest.

Foreign investors have the treatment of direct investor. A company that has been directly invested by a foreign investor is called a directly invested company.

Foreign investments are presented in form of international capital movement which reflects the aim of achieving permanent interest between the direct investor (resident of one of the economies) and directly invested company (resident of the other economy). It is thought that there is a permanent share if the investor takes over at least 10% of the capital.

Foreign investments cannot be observed as financial transactions since they also exercise various affiliated interests which are transmitted significantly by means of permanent interest that are expressed in the managerial functions of the companies.

The movement of foreign investments and their financial quantum, in particular, depends on:

- Companies' policy
- The impact of the communities and repercussions they cause
- Transfer of technology
- Transfer of knowledge
- Regional development
- Improving the competitiveness and the like.

Main premise that occurs in foreign investments is their impact on economy. Of course, we start with their positive impact but the thorough analyses reveal the true meaning they have in term of economic system, especially in the agriculture.

2. Types of foreign investment

There are many types of foreign investment. These divisions are characterized by the criteria and aspect of observation.

According to legal office of the investor they are differentiated as: inward FI or outward FI. According to their purpose of use, the differentiation can be: horizontal or market seeking FI, vertical or resource-seeking FI and export-platform.

Although there are many, yet most predictable and used forms of foreign investment division are the following:

1. *Founding new company (green field)*
2. *Taking over already existing companies in the country (cross border acquisition)*
3. *Merging companies (international mergers)*
4. *Combination between founding new company and acquisition (brown field)*
5. *Joint venture*
6. *Portfolio investments*
7. *IPARD funds*

1. Green field investment is incorporated through creating new company. This type of investment is characterized by foreign direct investment which influences gross domestic product. Due to their flexible importance every country incorporates them into their investment policy.

2. Taking over existing companies or international acquisition is kind of a form where a domestic company is completely sold to a foreign company which acquires majority of shares or a simplified purchase process is made. Ownership transfer can cause the company, which is being sold, to stop its existence. The buyer continues its work independently and autonomously.

3. International merger (fusion, integration) is a form of agreement merging of two or more companies retaining equal status in the new company. In practice, the equal status is rare because usually one company predominate the other and takes over the assets and liabilities of the merging company completely. There are many types of mergers, such as:

- Statutory merger - acquisition company assumes the assets and liabilities of the target company in accordance with legal provision of the country where it is to be incorporated,
- Subsidiary merger - the target company becomes a subsidiary of the parent company,
- Short form merger - the parent company is a primary shareholder of the subsidiary and acquires approval from the shareholders of the parent company.

4. Brown field investment is a sublimated form of direct investment, acquisition and green field investments. With this type of investment, a process of complete take-over of the companies occurs and along with it the control system is approximately included.

5. Joint venture is a merging agreement of international and domestic investor in order to form a joint venture. This kind of joint venture causes joint in order to achieve the objectives of the company.

6. Portfolio investments are indirect form of international investment within which transfer of domestic capital is made, the assertion is achieved but not ownership. Profit is the main driver of investment without any claims against management.

7. The instrument for pre-accession assistance for rural development - IPARD (2007–2013) for the Republic of Macedonia is an access to the EU funds for financial aid of sustainable agriculture and rural development with the focus on implementation of European Community legislation regarding the common agriculture policy and policies for competitive sustainable agriculture, strong and sustainable rural communities and diverse and sustainable rural environment [1].

2.1 Effects from foreign investment

Imperatively we ask about the influence of investments on economic and commercial activity in the country and as well as on domestic investment portfolio. Perhaps the most suiting response is given by the empirical research which states: "New evidences from the analysis ran by American multinational companies refer to a process in which domestic investments are increased with the increasing of foreign ones. This evaluation of complementation means combining domestic and foreign production in order to generate final products with low expenses, which would be impossible with a production in one country only, so that each phase of the process of production becomes profitable and abundant" [2].

The effects from foreign investments are different with different acting in the economies they invest in. undeveloped countries accept them because it enables them rapid economic development whereas developed countries accept them in order to increase the economic activity, development of poorly developed areas, development of particular industrial activity, learning and adopting technology, increasing the productivity, including domestic companies in foreign flows and international technology, production and distribution processes.

2.2 Investment portfolio in Republic of Macedonia in terms of foreign investments

Investment portfolio in Republic of Macedonia has drastically changed since 2006. In 2005 foreign direct investments amounted to 77 million Euros whereas in 2006 they increased about 4, 5 times amounting to 345 million Euros. The reason for such enormous increase is due to measures undertaken by the government in terms of stimulation of investment, and the following can be listed: tax policy, elimination and reduction of fiscal barriers, simplifying the process of administrative function, exemption from income tax in the first ten years, twice lower personal income tax in first 5 years, tax exemption from reinvested profit, exemption from VAT and customs, free zone infrastructure, financing part of the costs in accordance with legal regulations and the like.

In order to realize these benefits it is necessary to improve the business climate. In Republic of Macedonia, measures are being undertaken for improving conditions for development of investments and enhancing economic rise.

All of that is produced through:

- Improving business climate in order to create conditions for increasing investment's quantum.
- Setting up an institutional framework to attract foreign investment with financial and personnel staffing of the Agency for Foreign Investments and the appointment of two ministers to attract foreign investment.
- Promotional global media campaign and road show presentation.
- Appointment of economic promoters in several countries in order to give primacy Republic of Macedonia as a country which has great advantages in investment.
- Education of the diplomacy and diplomatic-consulate offices, in charge of economic activities.
- Preparation of a strategy to attract foreign investment by highlighting the comparative advantages down the targeted sectors and the development of marketing plans.
- Preparation and drafting sector studies with indicated advantages in financing car industry, agribusiness, tourism, information technology and pharmaceuticals and agriculture.
- Highlighting the benefits of investing in one of the four free economic zones: Skopje, Skopje2, Tetovo and Shtip.
- Signing of agreements to eliminate double taxation and investment protection and the like.
- Incentives and direct investments that are made in agriculture and which will be discussed in further labor content.

According to the World Bank report, Doing Business, in 2007, 2008 and 2009 Republic of Macedonia was one among the biggest reformers in the world.

According to the latest report from the World Bank, in terms of business climate in 2012, Skopje, Bitola and Tetovo are amongst the best business destinations in Southeast Europe.

A tabular display of foreign investments in Macedonia expressed in millions Euros, is presented in Table 1 [3].

Table 1. Foreign direct investments (FDI) in Republic of Macedonia expressed in million Euros

Year	FDI in million euro	% in terms of total investment
2003	100.4	4.37
2004	260.7	11.35
2005	77.2	3.36
2006	344.8	15.01
2007	506,0	22,04
2008	399.9	17.42
2009	145.0	6.31
2010	159.1	6.92
2011	303.5	13.22
Total	2296.6	100

In the analyzed period, from 2003 - 2011, the foreign investment in the country totaled 2296.6 million. Most foreign direct investments in 2007 amounted in 506 million Euros or 22.03%, and the least investment was in 2005, 77.2 million Euros or 3.36%.

The biggest investor in the period between 2003-2011 is the group of developed countries of which approximately 735 million Euros belong to the countries of EU.

Analyzed by year and country: in 2003 the biggest investments were from Lichtenstein, in 2004 the Netherlands had the primacy, in 2005 Saint Vincent and Grenadines and in 2006 and 2007 Austria, 2008 Greece, 2009 the Netherlands, 2010 again the Netherlands. The Netherlands' most valuable investment was in 2009 and 2010 amounting 523, 56 million Euros in 2009 and 554, 43 million Euros in 2010.

In Figure 1 we provide a graphic display of significant foreign investment from 2003 to 2011 in Republic of Macedonia.

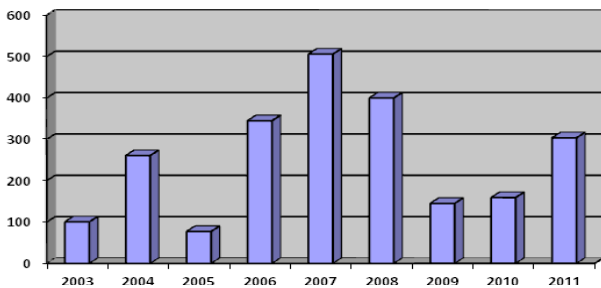


Figure 1. Foreign investments between the period from 2003-2011.

As we can see from the tabular and the graphic display we have the biggest inflow of foreign investments in 2006, 2007 and 2008. The trend of investing undergoes certain changes leading towards declining in 2009 and 2010 in order to increase in 2011 which will also continue in the first half of 2012.

According to the available data, foreign investments are displayed in Figure 2 for the period from 2003 - 2011 in Republic of Macedonia [4].

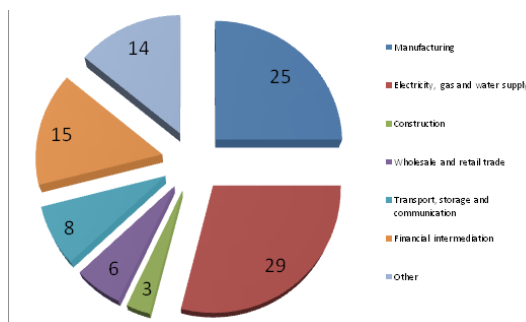


Figure 2. Foreign direct investments by the activity of investing, 2003-2011

According to activity if investing, foreign investments took great part in power supply for the period from 2003-2011 with around 29% of total investment. Then follow: manufacturing 25%, financial intermediation 15%, transport, storage and communication 8%, wholesale and retail 6%, construction 3% and the rest includes the investment in agriculture with 14%.

2.3 IPARD program - European opportunities for agricultural production in Republic of Macedonia

IPARD program as an instrument for pre-accession assistance for rural development is to access EU funds for financial assistance of sustainable agriculture and rural development with a focus on the implementation of the legislation in terms of EU in relation to common agricultural policy and policy for competitive sustainable agriculture.

The goals of IPARD program [1] are define as:

- Improving market efficiency and implementation of EU standards by means of restricting and upgrading agro-food sector lose to EU standards as well as by means of increasing the competitiveness of agricultural and agro-food products in order to prepare the agricultural sector for EU accession.
- The development of rural economy my means of diversification of economic activities in rural areas in order to help rural population with additional sources of income and opening new working places in the rural areas.

2.4 IPARD Financial assets

The financial framework for the implementation of IPARD program consists of 75% of the assets financed by the EU budget allocated for pre-accession assistance for rural development and 25% of the budget of Republic of Macedonia for development programs.

What is typical for IPARD program is that the total amount of available funds especially according to their specific functional funding are coming together from the EU and the Government of Republic of Macedonia (Table 2).

Table 2. Total amount of available funds for IPARD program in Republic of Macedonia

Source	Available funds (in million euros)
EU budget	45.5
Budget of Republic of Macedonia	15.2
Total	60.7

Note: The time frame for accumulation and spending is 3 years from the year of their allocation.

IPARD funds must be spent in accordance to specified measures in IPARD program [1] for Measure 101: Investments in agricultural holdings to restructure and upgrade to EU standards.

The total investment is 9.677.337 Euros out of which 4.981.386 Euros are funded by IPARD program.

Table 3. Submitted and approved requests by the IPARD Agency requirements concerning measure 101

Public call (by date)	Number of submitted applications	Number of approved requests	Rate of approvals (%)
01/2009	58	13	22.4
01/2010	67	25	37.3
01/2011	39	24	61.5
02/2011	30	0	0
Total	194	62	37,8

Total approved amount of investment is 3.695.812 Euros of which 1.984.255 Euros are the total public investment and 1.488.191Euros are from EU funds.

The status of request M101 is shown in Figure 3.

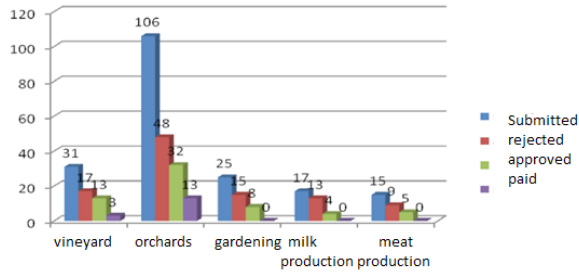


Figure 3. The status of request in M101 in order of priority sector

From the analysis we can conclude that the interest in fruit, vineyards and vegetable prevails. Factor of interest is a lower financial value of investment projects, rapid implementation and paucity of documentation which is necessary for submission for this measure.

The majority of the amount approved relates to investment in the reconstruction of existing facilities for breeding animals, equipment and machinery for vegetation periods, systems and equipment for irrigation in viticulture and fruit growing, which is shown in Figure 4, below.

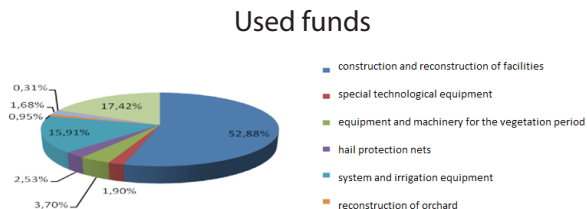


Figure 4. Investments in processing and marketing of agricultural and agro food products for restructuring and upgrading to EU standards

The total value of measure 103 is 22.924.808 Euros of which 11.262.148 are from IPARD funds.

In the Table 4, is shown the rate of approval:

Table 4. Submitted requests and rate of approvals for measure 103

Submitted requests (by date)	Number of requests	Number of approved requests	Rate of approvals (%)
01/2009	41	10	24.39
01/2010	25	11	44
01/2011	13	9	69.23
02/2011	11	-	-
Total	90	30	38

Total amount of investment for approved requests is 7.599.189 Euros, total amount of co-investment for approved investment is 3.799.595 Euros of which 2.849.696 are from the EU funds.

In the Figure 5 below is presented the status of requests in terms of priority sectors for M103.

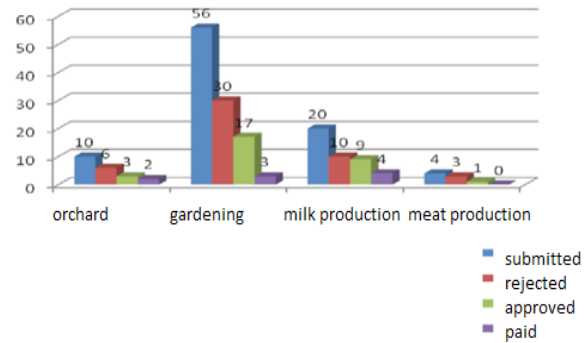


Figure 5. Status of requests in the priority sector for M103

From the collected and distributed funds, the majority is used for modernization of processing capacities and collection centers for fruit and vegetables as well as modernization of dairy farms (Figure 6).

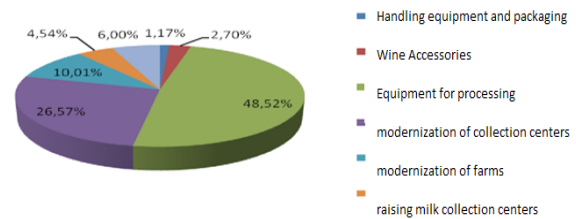


Figure 6. Percentage of used funds for M103

Measure 302 investment for diversification and development of rural economic activities

Total funds for eligible investment is 12.639.360 Euros of which 6.026.779 Euros are funds from IPARD program, the Table 5, below.

Table 5. Submitted, approved and rate of approving

Submitted requests (by date)	Number of requests	Number of approved requests	Rate of approvals (%)
01/2009	34	1	2.9
01/2010	20	-	0
01/2011	22	7	31.8
02/2011	18	-	-
Total	94	8	10.5

The total of approved investment in this measure is 734.129 Euros of which 367.064 Euros are public investment (IPARD) and 275.298 Euros are from the EU funds. The type of investment is shown in Figure 7 below.

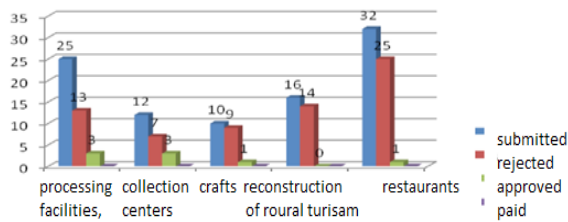


Figure 7. Status of requests in M302 according to the type of investment

The utilization of funds at this stage is low. It is due to completing the application package and low quality of the projects submitted.

Geographic analysis and indicators show that the majority of requests submitted and approved are from Pelagonia, East, Southeast and Vardar.

Submitted, approved and paid claims are shown in the Figure 8, below.

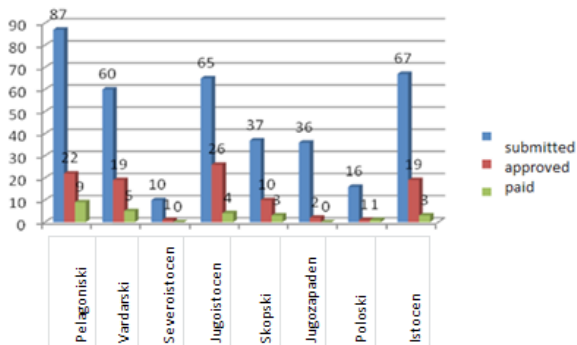


Figure 8. Submitted, approved and paid claims in terms of region

According to funds distribution and the interest for applying, the majority of applicants are from the municipalities in which orchards, vineyards and gardening dominate (Table 6).

The program for financial support in agriculture for 2013 should for not be disregarded, which is funded from the budget of Republic of Macedonia in total about of 111.057.000 Euros.

The allocation of these funds is done in accordance to the following items, which is shown in Table 7 [5]:

3. Conclusions

- Investment policy as a generated element of the global policy observes the factors which are directly connected to the process of economic development, imperatively including the investment activities.
- Foreign investment have the capacity of one of the most important instruments used in the process of economic reforms, market economy, the process of restructuring, and most of all achieving macroeconomic stability and positive growth rate. The structure of foreign investment is one of the most important influential factors.
- Investments in the agriculture lead to unidentified growth. The created positive climate for attracting foreign investment has a positive effect on the process of funding approximately determining the activity and form of funding. If this trend goes on in future, a deeper improvement is expected to take place in all consequent elements in the development of the agriculture.

Table 6. Interest of applicant in terms of municipalities

Municipality	Submitted	Rejected	Approved	Paid
Resen	44	16	15	6
Bitola	26	17	3	0
Valandovo	18	11	5	0
Kavadarci	14	9	7	1
Karbinci	13	5	6	2
Veles	12	8	3	2
Strumica	11	9	6	0
Sveti Nikole	11	7	4	0
Centar	9	6	3	3
Radovis	9	7	3	0
Vinica	9	7	1	0
Gevgelija	9	7	4	2
Prilep	9	5	2	0
Gradsko	8	2	5	1
Bogdanci	7	4	3	2
Probistip	7	3	1	0

Table 7. Allocation of resources in terms of direct payments

Number of measure	Measures for supporting outflow of agricultural economy	Total amount of measure in Euros
1	Direct payments for crop production	57.965.854
2	Direct payments for livestock production	35.863.414
State aid in agriculture		
3	Help for insurance premiums	569.106
4	Help to protect agricultural land	113.821
5	Help for certain categories of farm holders	2.439.025
6	Help in the livestock sector	162.602
7	Material costs for implementing the program	211.382
8	Transferred obligations of financial support programs in agriculture from previous years	14.634.146
Total		111.959.350

4. References

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