

I. The Macedonian Equity Investment Fund

Background

Immediately after establishing ties with the Republic of Macedonia on 27 January 1999, the ROC sent personnel to Macedonia to assess assistance requirements and to perform comprehensive planning of aid projects that would provide the new partner with tangible and effective assistance in harmony with its national policies. After thoroughly investigating the country's overall economic health, trade conditions, investment environment, industrial activities and agricultural technology, the ICDF assessment team drafted a series of plans designed to help Macedonia develop its economy.

Foreign investment in Macedonia, equivalent to only 0.5% of the country's GDP in 1997, is much lower than the average for Eastern and Southern Europe. Consequently, the Macedonian government is eager to attract foreign direct investment as a means of acquiring economic development technology and accelerating industrial upgrading.

To help it to do so and to nurture the development of the private sector, the ICDF established the Macedonian Equity Investment Fund, with US\$2 million in resources. By making equity investments in promising Macedonian enterprises and Taiwanese ventures in that country, the fund is helping to resolve the problem of insufficient funds faced by private enterprises during their start-up or expansion stages. The ICDF technical mission in Macedonia is also providing appropriate consulting services to the businesses that receive investment, thereby assisting their management to implement investment plans.

Purpose:

Direct investment in private enterprises.

Targets of investment:

Promising SMEs in Macedonia, for both Macedonian and ROC investors, with no restriction on the type of industry.

Time limit:

While the operating period is planned for 12 years, an effort will be made to dispose of assets after 10 years. If desired goals cannot be achieved, a project may be terminated ahead of time.

Investment limits:

In principle, investment in a single company shall not exceed seven years, 49 percent of the total capital, or a total of US\$500,000. Once the company is operating soundly or the investment period is over, equity shall be sold to an existing stockholder or a third investor. Recovered investment funds will be reinvested in new projects.

Projected Benefits

It is anticipated that the investment plan will bring the following benefits:

- Help Macedonia develop its small and medium industries and increase employment opportunities.
- Spread the risk of ROC firms investing and operating businesses in Macedonia, ease the problem of insufficient capital, and increase the willingness of ROC firms to invest in Macedonia.
- Transfer the ROC's management experience and industrial technology to Macedonia through the vehicle of direct investment by ROC firms, improving Macedonian industrial standards.
- In conjunction with the ROC's various economic development aid projects in Macedonia, ensure that the aid being rendered will deliver maximum benefits.

Management of the Fund

Investment Promotion Strategies and Methods

- Private projects, especially production and manufacturing investments, will have first priority.
- The ICDF mission will seek "green field" or newly initiated private undertakings that satisfy the autonomy needs of ROC firms.
- To increase the number of feasible projects, investment projects will be connected with the technical mission's export promotion and SME projects.
- Information and professional services will be provided to ROC firms assessing investments in Macedonia, in order to shorten their investment assessment decision making process.

Development of Investment Opportunities

- The technical mission's SME assistance and export promotion personnel will do their best to uncover feasible investment opportunities during the course of their own projects.
- Sources of investment projects or joint venture partners will include the Macedonian Chamber of Commerce, the government Department of Trade, banks, academic organizations, and Macedonian SME assistance organizations.
- The ICDF technical mission will take the initiative in planning projects based on the results of an industry survey which it is conducting.

Preparation of Investment Proposals

When a joint venture opportunity is determined to be feasible by the mission's investment project personnel, they will write up a preliminary investment proposal (taking into consideration technical, management, financial, market, legal and environmental aspects) for submission to the ICDF.

The ICDF Investment Office will review the proposal before submitting it to the Investment Review Conference. Once the project is approved, the ICDF will delegate legal or other specialists to draw up a cooperation contract, negotiate terms and sign contracts.

Once a company receiving ICDF investment is operating, technical mission personnel in Macedonia will supervise the company's operations and oversee major business decisions. At appropriate times they will assess readjustment of fund equity, reinvestment of funds and the sale of equity to others.

Macedonia SME Equity Investment Projects

Since the establishment of the Equity Investment Fund, the ICDF technical mission in Macedonia has identified more than 20 relatively promising investment projects. The assessment of three investment projects had been completed as of the end of 2000. Four joint venture projects have been identified and approved by the ICDF Investment Committee.

Investment in a Mushroom Compost Plant with the Macedonian Firm Bonum

Total investment will be DM2,150,000 (US\$1,075,000). Bonum will own 65 percent and invest DM975,000 (machinery valued at DM217,000 and cash investment of DM758,000). The ICDF will own 35 percent and invest DM520,000 (approximately US\$260,000) and will also provide loans worth DM475,000 (US\$237,500) for a period of three years at an interest rate of 11 percent. This has been approved by the Investment Review Conference and a contract has been signed.

The Bonum Mushroom Company was founded in 1992 as a solely owned company to cultivate and can mushrooms. However, the lack of mushrooms has made it impossible for the canning plant to operate more than 10 days a month. When operating fully, the company expects to employ 34 full-time and 100 part-time workers.

To increase its scale of operations, Bonum will sign contracts with 50 small mushroom growers, which will then be eligible to receive bank loans in Bonum's name in order to build Hungarian-style year-round temperature-controlled mushroom growing sheds. They will receive compost from Bonum and use the revenues from the fresh mushrooms produced to cover the cost of compost and pay off their loans. The increased quantity of canned mushrooms produced by Bonum will be sold to domestic supermarkets and restaurants, or exported to neighboring countries.

After assessing Bonum's compost production plan as having considerable potential, the ICDF made arrangements for mushroom specialist Yu Ye-hsuan of the technical mission in Indonesia to visit Macedonia and perform an on-site investigation of technology and costs. His investigations confirmed that, in view of the large amount of downstream demand and the fact that there are currently no producers in Macedonia capable of supplying large quantities of high-quality compost, Bonum should have an assured market for its compost output and processed product.

Investment in a Chicken Farm with the Taiwanese Firm A-Win

Total investment in the project will be US\$591,000. A-Win, which will invest US\$329,000, will own 70 percent of the stock; the ICDF will invest US\$141,000 and own 30 percent. The ICDF will provide loans worth US\$121,000 for a period of one year at an interest rate of 11 percent. The investment was approved by the Investment Review Conference, but by the end of 2000 the contract had yet to be signed.

Macedonia must import roughly 20,000 tons of frozen chicken every year, and fresh chicken accounts for only a tiny part of the market. Because Macedonia produces no meat chickens, only a small amount of fresh chicken is obtained from surplus layer chickens or is imported from Greece and Slovenia, and some frozen chicken is sold after defrosting.

This project to raise chickens and sell fresh meat in Macedonia is being conducted in cooperation with an experienced ROC chicken raising firm. The project's marketing strategy will be to carve out a market niche for high quality fresh meat, and attract customers with relatively high incomes. It is estimated that such high-income consumers account for roughly 20 percent of total chicken sales in Macedonia, or approximately 4,000 tons of meat per year.

Since Taiwanese businesses are not familiar with the Macedonian market, the project ideally calls for sales of fresh chicken meat to be made through local sales agents. A-Win has signed a letter of intent to sell its chickens to the newly established Macedonian slaughterhouse Pilko.

The chicken raising operation will be managed by an experienced chicken farm manager from Taiwan, who will be in charge of raising, disease prevention and sales promotion. Plans have also been made to send one English-speaking administrator from Taiwan to assist in the handling of sales and financial and personnel matters. Of the eight employees to be hired locally, five will be responsible for care of the chickens and the remaining three will be responsible for accounting, sales and veterinary duties.

Investment in a JV Wooden Frame Window Manufacturing Plant with the Macedonian Firm Lesnina

This project, calling for investment in a JV wooden frame window manufacturing plant with the Macedonian firm Lesnina, based in Skopje, is still in negotiation. The total investment will be DM1,600,000 (US\$800,000). Lesnina will invest US\$440,000 and own 55 percent of the stock. The ICDF will invest US\$360,000 and own 45 percent of the stock.

Investment in a PP Bag Weaving Project with the Romanian Firm LPI

The total investment for this project (still under negotiation) will be US\$838,000, with LPI investing US\$357,760 and owning 52 percent of the stock. The ICDF will invest US\$330,240 and own 48 percent of the stock. The ICDF will provide loans worth US\$150,000 for a two-year period at an interest rate of 11 percent.

Conclusions

Factors to be Considered

Experience has shown that the following factors affect a project's likelihood of success in the Equity Investment Fund's operations.

Balance between incentives to cooperate and conflicts of interest for the JV partner and project

Taking the mushroom compost investment project as an example, the ICDF is offering the local partner excellent terms and low-interest revolving loans, while the local partner is offering its technology and market. The fact that the local partner will also be the joint venture's largest customer implies a potential conflict of interest.

In the proposed wooden frame window investment project, there is some concern about the possibility that the local partner may have overestimated the economic benefits of investment. For this reason, negotiations have not yet been finalized.

Information

There is a tremendous lack of information on local markets and the state of the Macedonian economy. This raises investment risk considerably.

Ability to find and maintain a market

New market development risk is an important factor considered by the ICDF. Taking the chicken meat project as an example, since no fresh chicken market has existed in Macedonia, the project will have to create a new consumer market—a highly risky undertaking except for the fact that the investors are also the consumers of the product. Before committing to the venture, the Taiwanese partner performed market surveys and analyzed the competitiveness of local egg producers during several trips to Macedonia.

Political risk

Ethnic violence and military conflict in the Balkans are great—and unavoidable—sources of investment risk, and they impede foreign direct investment.

Attention to regional development and economic synergy

The search for investment projects should stress regional development and economic synergy. In Macedonia, it is necessary to understand and gain access to marketing channels and find future business partners in neighboring markets, which include the countries of Bulgaria in the east, Albania in the west, the Yugoslav Federation in the north, and Greece in the south, as well as Romania, Slovakia, and other southern and eastern European countries. Unless neighboring markets are part of the equation, it would be hard to make an investment pay off solely in the Macedonian market of 2.1 million persons.

ICDF involvement

Because the ICDF is a minority stockholder, the stockholder agreement threshold ought to be raised to 75 percent in the case of major company decisions. The ICDF should also retain the right to veto major management decisions, and its consent should be required for any change in the company's business items.

Technical mission personnel must participate in the company's board of directors, and the ICDF must have the right to protect its interests by specifying the company's financial managers.