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**THE
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PROJECT**

USAID'S COMPETITIVENESS PROJECT

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Abbreviations and Acronyms

ACM	Automotive Cluster of Macedonia
B2B	Business to business
C&O	Communications and Outreach
CBI	Centre for the Promotion of Imports from developing countries (Dutch Donor)
CEFE	Competency based Economies through Formation of Enterprise
CIRKO	Center for Advanced Engineering Technologies
CMC	Certified Management Consultant
CMT	Cut make trim
CPD	International Trade Fair for Womenswear & Accessories
EAC	European Automotive Components
EDA	Economic Development Agent
FDI	Foreign Direct Investment
GCDF	Global Career Development Facilitators
GTZ	German Technical Cooperation
ICT	Information Communication Technology
KIMES	Kosovo Integrated Market Entry System
M&A	Merger and Acquisition
MCP	Macedonian Competitiveness Project
MGI	Macedonian Garment Industry
MOU	Memorandum of Understanding
NIJP	National Internship and Job Placement Program
OEM	Original Equipment Manufacturer
P&L	Profit and Loss
PMP	Performance Monitoring Plan
RFQ	Request for Quotes
SIPPO	Swiss Import Promotion Programme
SMEs	Small and Medium-Sized Enterprises
TTA	Textile Trade Association

EXECUTIVE SUMMARY

FY 2009 Context and Focus

Activities carried out by the Macedonian Competitiveness Project (MCP) this year took place in the context of a deepening global economic downturn and continued market uncertainty. Nevertheless, the Project Team took a long-term perspective. While this particular crisis is unusually severe and has had a significant impact on transactional results, the MCP Team believed much could be gained by focusing on activities likely to have *transformational, or systemic, impacts that will outlast the recession*, if not help Macedonia and its companies surge as the economy recovers.

Within this context, many activities focused on the *development, roll-out or expanded use of platforms or services packages* in the areas of finance, foreign investment, workforce development and market linkages to support Macedonian companies and supply chains as they respond to opportunities and challenges in global markets and meet project objectives in future months and years. MCP also placed an emphasis on *building partnerships* with local and international counterparts. These include government agencies, donor organizations, educational and training organizations, domestic and international financial institutions, local experts and consulting companies, business associations, foreign investors and, of course, individual companies. These partnerships will help MCP produce results in the near future and in the long term, while leaving a sustainable legacy of capable institutions, service providers and companies able to advance the MCP's objectives for years to come.

FY 2009 Results

Despite a challenging environment, the Project saw progress in many areas. The roll-out of the Financial Platform produced rapid results, facilitating \$10.2 million of new investment in Macedonian companies, creating exports and jobs. The MyCareer online matchmaking site facilitated a growing number of intern placements. While MCP implemented a small number of export-oriented activities—as difficult market conditions limited return on investment—these also generated positive outcomes. Participation in the European Automotive Component Expo in Germany sparked several promising leads and at least two RFQs (request for quotes) that could easily exceed \$1.5 million in potential value. The CIRKO (Center for Advanced Engineering Technologies) e-library facilitated over \$250,000 in tool and die exports. A new apparel investment broke ground, employing 80 and exporting a growing number of garments as it approaches full capacity. A digital media company expanded its export pipeline, produced its own feature-length animated film and made strides toward linking up with a major Hollywood special effects studio. An international real estate company is in negotiation to acquire land for a \$10 million investment in a logistics park that could transform Macedonia's competitiveness. These successes and other MCP activities have returned favorable results within the Project's most important performance indicators:

- \$16.2 million in new investment (total domestic plus foreign)
- \$5.8 million in new foreign investment
- \$8.38 million in new exports
- New job capacity of 1860 employees (new recruits, interns and trained individuals).

This annual report presents an overview of MCP activities over the last year. The document is organized as follows:

1. Introduction—MCP's integrated approach, strategic results framework, project structure and strategic themes for FY 2009.
2. Market Linkage and Capacity Building to Support Target Sectors—Vertical component objectives and activities in light manufacturing, apparel and ICT.
3. Cross-cutting Activities—Horizontal component objectives and activities in access to finance, workforce development and foreign investment.
4. Knowledge Management—MCP communication and outreach activities, monitoring and evaluation, and the PMP.

MCP HIGHLIGHTS BY COMPONENT

Component	Key Activities	Outcomes
Overall	<ul style="list-style-type: none"> • Development and roll-out of scalable, sustainable platforms to support companies, facilitate finance, foreign investment, market linkages and workforce development. • Expand implementation of Financial Platform, within significant results • Launch of MyCareer online internship and job placement portal 	<ul style="list-style-type: none"> • \$16.24 million in new investment (including \$5.8 million from foreign sources) • \$8.38 million in new exports • 693 direct jobs created and capacity for further 1167 positions developed • Live investment leads with potential value of nearly \$40 million • Export leads in light manufacturing and ICT with multi-million dollar potential
Light Manufacturing	<ul style="list-style-type: none"> • Marketing support for Automotive and Furniture Clusters • Eight companies attending Automotive Components Show in Germany • Launch of the marketing services platform • Joint marketing services for the furniture cluster 	<ul style="list-style-type: none"> • Over \$980,000 in new investment • Over \$1.4 million in new exports and automotive deals with potential of \$1.5 million in exports under negotiation • \$250,000+ in business facilitated by CIRKO e-library • Creation of 59 jobs
Apparel	<ul style="list-style-type: none"> • Mobilization of “Own Design” initiative • Support for MGI, new apparel investment • Financing assistance • Engaging UK apparel retailers 	<ul style="list-style-type: none"> • Over \$1.1 million in new exports • 109 new jobs created • \$116,000 in new investment via financial platform
ICT	<ul style="list-style-type: none"> • Supported negotiations between FX3X and Hollywood visual effects studio • Completion of ICT Workforce Survey • Support for software company at Automotive Show 	<ul style="list-style-type: none"> • \$1.5 million in new exports • \$212,000 in new investment • FX3X partnership in advanced stages of negotiation, resulting in invaluable technology transfer and multi-million dollar pipeline
Access to Finance	<ul style="list-style-type: none"> • Assisting 46 companies through process of packaging and submitting investment proposals • New partnerships with equity and venture capital partners 	<ul style="list-style-type: none"> • 22 companies receiving \$6.2 million in new financing, resulting in \$10.2 million in total investment, 336 jobs, \$5.7 million in exports • 24 companies in the pipeline, with potential for additional \$14 million in investment
Workforce Development	<ul style="list-style-type: none"> • Roll out of NIJP and MyCareer online internship and job placement portal • Introduction of certified career development facilitator • Certified Management Consulting Training 	<ul style="list-style-type: none"> • 2224 students, 145 companies registered on MyCareer.com.mk • 318 internship placements and 40 permanent jobs facilitated through MyCareer • GCDF Master Trainers • Pool of CMC consultants expanded
Foreign Investment Support	<ul style="list-style-type: none"> • Mobilization of EDA network developing FDI leads • MOU with Invest Macedonia • Facilitation of potential logistics park investment 	<ul style="list-style-type: none"> • 27 FDI leads from EDA network. Three are in later stages with potential investment of \$37 million • Logistics Park in advanced stages (negotiating with government)

I. OBJECTIVES AND APPROACH

The USAID-funded Macedonia Competitiveness Project (MCP) is a five-year project, implemented by CARANA Corporation, designed to support USAID/Macedonia’s *Strategic Objective 1.3 Accelerated Development and Growth of the Private Sector*. USAID’s efforts are directed towards improving the business environment, making private firms more competitive, and addressing unemployment and underemployment. Specifically, MCP activities fall under *Intermediate Result 1.3.2 Private Sector Firms More Competitive* with key outcomes including:

- **Market linkages** with international companies resulting in new export deals and strategic partnerships involving joint business ventures, investment and knowledge/technology transfer.
- **New foreign investment**—green field, brown field or joint venture—resulting in export-oriented job creation and the strengthening of Macedonian supply chains and industries.
- **Financing**—debt or equity—for Macedonian companies aiming to improve profitability, competitiveness and market positioning through investments in capacity expansion, productivity upgrades and product development.
- **Adoption of modern technologies and practices** and compliance with standards required to perform and be seen as credible partners.
- **Investments in students and employees**, resulting in a workforce with upgraded skills and flexibility.

Ultimately, these outcomes help lead to new or enhanced employment and Macedonian companies and sectors better able to respond to the ever-changing demands of the global economy. See “Figure 1: Results Framework” for more information on how project activities and components contribute to SO 1.3 and IR 1.3.2.

MCP’s Integrated Approach

The Competitiveness Project implements cost-effective, high-impact and market-oriented activities within an integrated approach that considers issues related to specific sectors as well as factors that affect Macedonia’s ability to achieve export-driven growth across sectors. These activities generally take one of two forms:

1. **Vertical** activities focusing on target sectors—fashion and design, light manufacturing and ICT—that build on market linkages, creating new business and investment and enabling Macedonian companies and supply chains to better compete within a given industry or market.
2. **Horizontal** or cross-cutting component activities benefitting multiple sectors and making Macedonia a more competitive place to do business. Horizontal components include access to finance, workforce development and facilitation of foreign investment.

Figure 1: MCP’s Integrated Market-led Framework

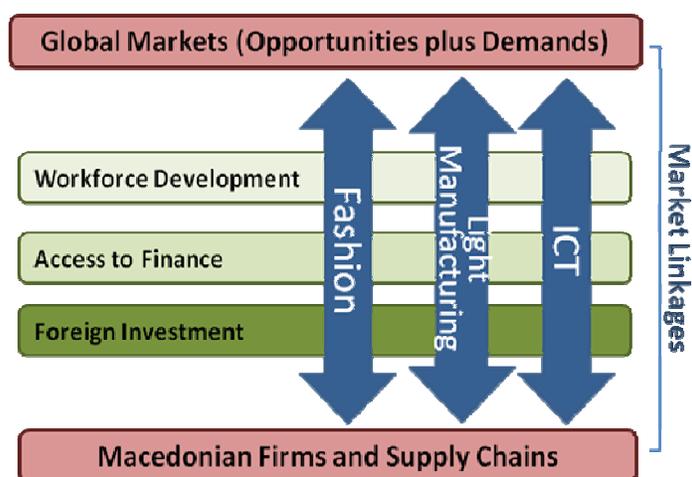
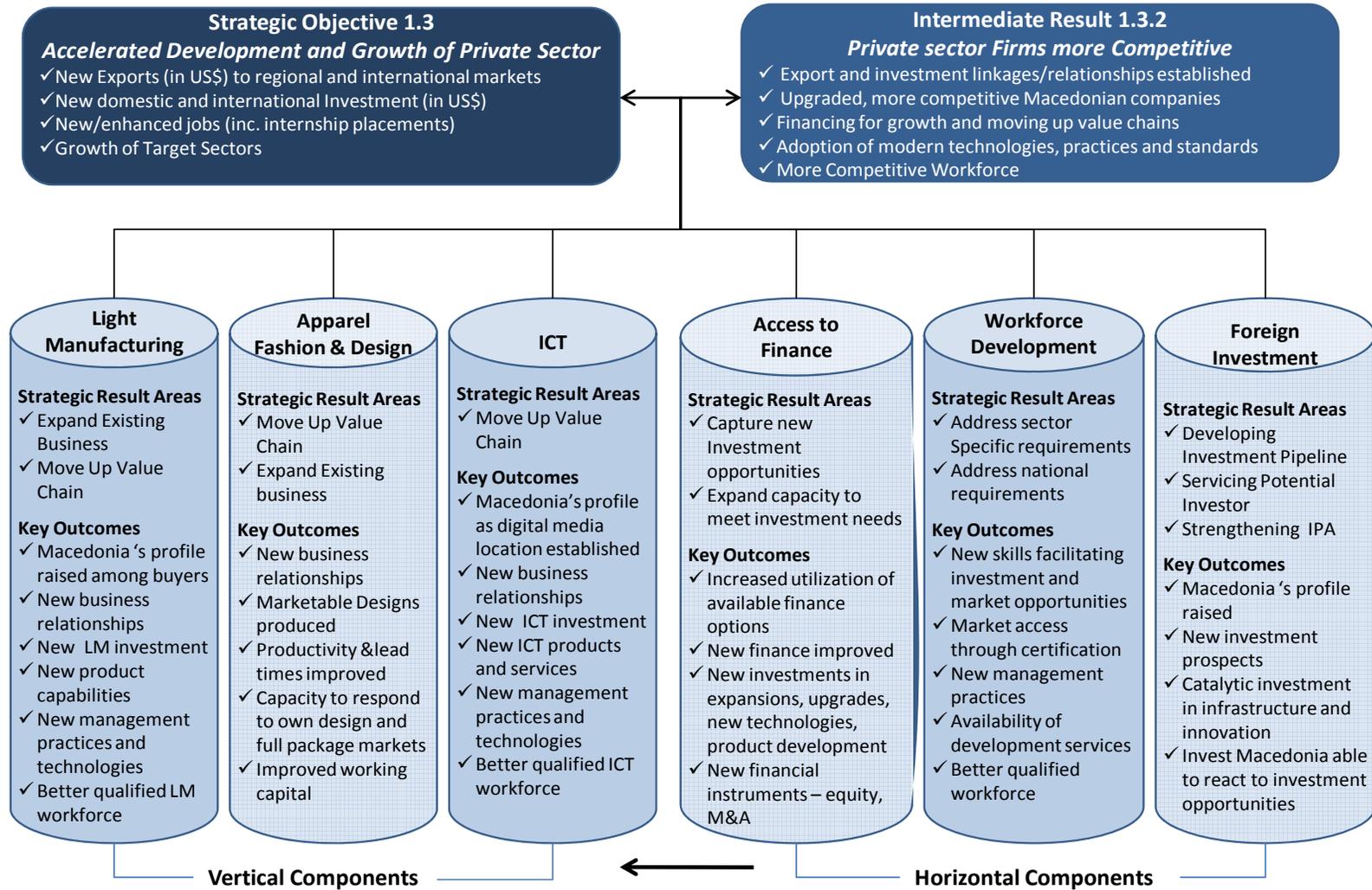


Figure 2: MCP Strategic Results Framework



These vertical and horizontal components are often intertwined. In many cases, growth in the target sectors depends on companies' ability to access:

- potential customers and partners;
- a flexible and skilled workforce;
- financing for upgrades, expansion or product development;
- certification services; and
- fundamental infrastructure.

MCP activities can be *transactional* and/or *transformational* in nature and impact. Transactional activities often focus on helping a company or supply chain realize a short- to medium-term objective, most often related to pursuing a specific market opportunity, whereas transformational activities have a longer-term impact horizon. Transformational activities can take many forms, including:

- using a market opportunity to drive change and upgrades within a company or sector;
- providing sustainable solutions to a critical market failure; or
- supporting investments and strategic partnerships that raise companies and supply chains to a new level of market engagement.

While transformational activities often require longer implementation, they have significant impact on future export growth and competitiveness. In some cases, an outcome can be both transaction and transformational. For example, a joint venture deal may be considered an investment transaction, although the impact on the company could be long lasting.

Whenever possible, MCP strives to improve coordination with donors operating within similar mandates. Without this collaboration, limited donor resources are wasted and opportunities lost through duplication. Already, the project has worked closely with GTZ (USAID's German counterpart) on a series of market linkage initiatives and wishes to expand cooperation with other organizations such as SIPPO, CBI, the EU Commission and others.

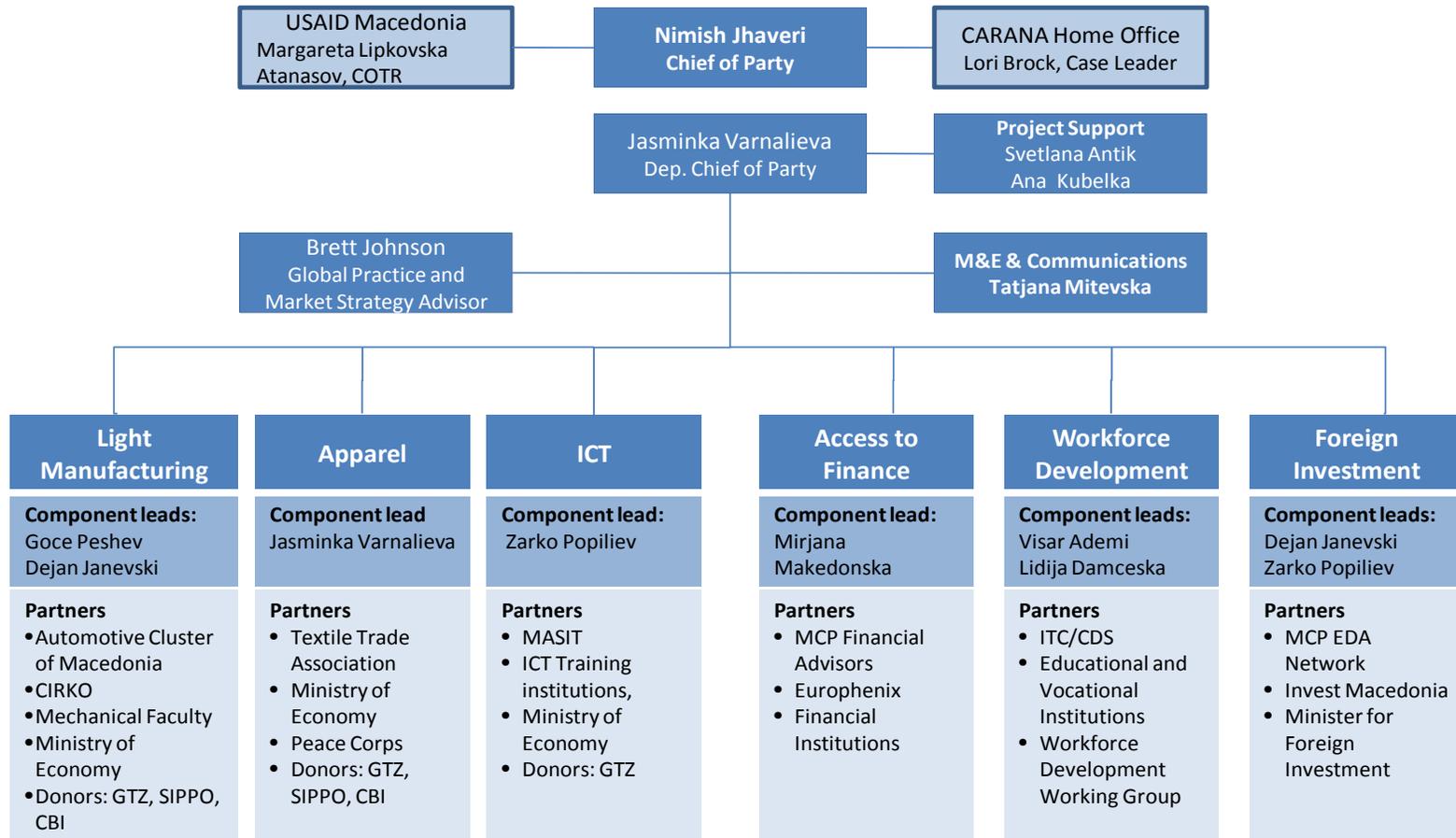
Project structure

The Project's management structure is organized to facilitate effective planning and implementation across the vertical and horizontal components. While activities are managed by specific component teams, significant cross-fertilization increases cost-effectiveness and overall impact through inter-component synergies, so that one beneficiary can benefit from both vertical (e.g. participation in trade shows) and horizontal (e.g. finance, training, and certification) activities. The Global Practice and Market Strategy Advisor plays a pivotal role in supporting this cross-fertilization and ensuring all activities are market-led.

In the interest of *sustainability and leveraging resources to maximize impact*, MCP's activities involve intensive collaboration with private-sector associations, government, financial, and academic partners (who often offer in-kind services), as well as project beneficiaries. When working in the target sectors, MCP prefers to engage business associations or a cluster of companies as implementing partners. Cost-sharing is a critical element to not only stretch use of available funds, but increase the likelihood of success and sustainability, as beneficiaries have a greater stake and ownership in the process. In most verticals, and to some extent the horizontal components, MCP collaborates with other international donors (e.g. GTZ, SIPPO) to optimize the use and impact of resources. Whenever appropriate, activities involving local partners include a 'sustainability plan' to ensure continuity after USAID support, or even a legacy with specific spin-off organizations that will operate after the Project ends.

MCP's organizational structure, including key staff and implementing partners is presented in Figure 3, below.

Figure 3: MCP Organizational Structure and Project Partners



II. STRATEGIC APPROACH FOR FY 2009

Economic Crisis versus Long-Term View

MCP activities this year took place in the context of a deepening global economic downturn and continued market uncertainty. Demand was down in most markets, including sectors covered by MCP, particularly apparel and light manufacturing. In these sectors, flat sales are considered a success, although sadly the lack of demand is causing work stoppages and lay-offs within many Macedonian companies. At the same time, tight credit conditions make it difficult for companies to access the finance required for working capital or investments in upgrades. Market uncertainty, combined with tight credit conditions caused some potential investors to put plans on hold. Even with glimmers of hope that the recession in major economies has receded and a recovery is on the way, the foreseeable future remains challenging.

Although the economic crisis impacted MCP programming decisions, priorities and results, the Project Team took a long-term perspective. While this particular crisis is *unusually severe and has had a significant impact on transactional results*, the MCP Team believed much could be gained by focusing on activities likely to have *transformational, or systemic, impacts that will outlast the recession*, if not help Macedonia and its companies surge as the economy recovers. Examples of this outlook include:

- efforts to help companies become more productive, develop new products, or build the capacity necessary to reposition themselves within value chains;
- facilitating financing in upgrade or expansion projects;
- addressing systemic workforce development issues;
- engaging investors and strategic partners interested in finding lower cost locations as part of their long-term strategy; and
- encouraging a logistics park investment that could be a platform for new investment and industries in the near to long term.

In some cases these activities saw an immediate return on investment, in other cases, the dividends of this approach will be seen in FY 2010, especially if the “green shoots” that pundits speak of actually take root.

Some keys aspects of MCP’s FY 2009 strategy are presented below.

Building platforms

A good deal of MCP efforts in FY 2009 focused on developing effective platforms or service packages—mostly within the horizontal components—to support Macedonian companies and supply chains as they respond to opportunities and challenges in global markets. These platforms were designed to be sustainable and scalable, able to respond to re-emerging market opportunities and increased demand for services as the economy recovers. All platforms are based on beneficiary cost share and intensive local partner input, serving clients within and outside MCP target verticals. They include:

- *Financial Platform*—Packaging bankable financing proposals for expansions, upgrades and strategic partnerships. Launched in FY 2008 and significantly expanded in FY 2009.
- *MyCareer.com*—Online internship and job placement portal. This platform was launched and became fully operational during FY 2009.
- *Economic Development Agent (EDA) network*—International network of professionals identifying opportunities for export, strategic partnerships and investment. This platform was piloted, launched and became fully operational during FY 2009.
- *Foreign Investment Support Program*—Hand-holding, trouble-shooting and support services for investors. This platform started servicing its first clients in FY 2009, with results pending.
- *CIRKO E-library*—Portal facilitating RFQs from customers, and responses from tool and die suppliers. An initial version of this platform was operational in FY 2009. An upgraded version will become operational in FY 2010.

- *Marketing Service Platform*—Outsourced export marketing support. This platform will be rolled out early in FY 2010.
- *Certification Platform*—Standards implementation and certification to access new markets. This platform will be rolled out early FY 2010.
- *Revolving Fund*—Mechanism to rapidly deliver training programs to support new employment through trainee, company, MCP cost-share arrangement. This platform will be rolled out early in FY 2010.

Some of these platforms have gained significant traction, and the Project and its partners are seeing favorable results. In particular, the Financial Platform and MyCareer have produced favorable outcomes (actual and pending) with millions of dollars in new investment (realized and pending), jobs and exports. Over 2010, MCP expects to harvest the fruits of this year's investments in these platforms and extend them with:

- more clients served within each platform;
- new services and capabilities developed within each; and
- enhanced capabilities of platform implementing partners.

If the global recession has in fact bottomed out, as some experts suggest, MCPs platforms will be a launching pad for significant results.

Mobilization of market linkages support program

In the earlier part of FY 2009, MCP's market linkage support program maintained a relatively low profile. This was partly due to the global freeze on business, which would have limited possible outcomes for MCP market linkage investments. Mid-year forward, however, MCP started developing a more proactive market linkage program to serve the vertical components. The program was designed to not only "sell" Macedonia and its companies but also to serve as a feedback mechanism to identify market conditions, trends and requirements to inform responses and interventions that will help Macedonian companies target opportunities and/or compete globally within a product/service segment. Market linkage activities in FY 2009 involved:

- developing a toolbox of potential activities (see next section);
- supporting participation in automotive and apparel trade shows;
- facilitating the launch of a joint business center in Kosovo;
- initiating the inputs necessary to hold an apparel B2B event in February 2010; and
- early research for at least four trade shows for next year.

Even with the recession, some activities, like the automotive show, resulted in strong export leads. MCP expects to see more results from the market linkage program in FY 2010. With buyers and potential investors/strategic partners rebuilding their production chains and supply networks, an aggressive MCP marketing program that raises the profile of Macedonia as a favorable business location and pursues market opportunities within target sectors will result in concrete leads and business deals.

III. MARKET LINKAGES AND CAPACITY BUILDING IN TARGETED SECTORS

Overview: Activities under MCP Vertical Program during 2009

During FY 2009, the Competitiveness Project rolled out its market linkage and capacity building support for companies within its target sectors, or “verticals,” namely light manufacturing, apparel, and information and communications technologies (ICT).

MCP investments in vertical activities in the first half of the year were limited to a series of capacity building activities with minimal market linkage activities. With companies, buyers, investors and financial institutions everywhere in “freeze” mode, it was unlikely that market linkage efforts would result in sufficient outcomes to justify larger investments in vertical activities. As markets showed signs of stabilizing, the Project started to mobilize a pipeline of market linkage activities. Despite challenges in the market, activities under this component resulted in **new exports, investments, strategic partnerships, employment generation, and companies and supply chains better able to compete** in the global economy. Key outcomes within MCP target sectors include:

- Over \$4 million in new exports in light manufacturing, apparel and ICT;
- Over \$1.3 million in new investment (not including an invaluable in-kind investment in the form of technology transfer from a Hollywood visual effects studio);
- 219 direct jobs created; and
- a strategic partnership in Digital Media brought to advanced stages with a multi-million dollar export pipeline.

In addition to these realized outcomes, MCP is monitoring pending opportunities resulting from its activities.

Strategic approach

MCP’s market linkage and capacity building activities support during FY 2009 (and into FY 2010) achieved progress in two primary strategic result areas:

1. **Expanding existing business**—Enable companies to build the capacity and/or customer base to expand and/or better compete within their existing lines of business. Initiatives include market linkage support to identify and engage new clients within an existing product or service segment, taking steps to improve performance against important buyer criteria (e.g. improving productivity to reduce costs, or investing in expanded production capabilities).

Rationale for Vertical Program Activities

Development Context

It is widely agreed that achieving sustained economic growth in Macedonia will require a significant increase in exports—in terms of higher volumes and value. To date, advances in expanding exports have been limited. While there are many reasons for this lack of progress, two issues play a large role.

First, there exists a **two-way information gap** between Macedonia and international markets. While there are potential opportunities to pursue, many Macedonian companies are 1) unaware of these opportunities 2) lack the exposure or contacts to establish relationships with partners, or 3) do not sufficiently understand the steps they must take to be considered reliable partners. On the other hand, Macedonia is “off the map” in the eyes of many potential buyers and partners, keeping it off the list of potential sourcing and investment locations.

Unfortunately, narrowing the information gap is not enough. Even if a market opportunity is identified and an actual business relationship established, many Macedonian companies lack the *capacity to respond to market demands* at a time when buyers expect more in terms of short lead times, higher quality at the same prices, added value through innovation, design and application of modern technologies and practices. The gaps between what buyers want and what Macedonian companies can offer present a pressing impediment to converting opportunities into completed deals.

MCP Response

MCP’s Vertical Program addresses both of the problems mentioned above. First, by providing effective venues to directly engage buyers and investors to develop relationships and a better market understanding. Second, by using market-led capacity building interventions that help Macedonian companies and supply chains meet market challenges and capture opportunities.

2. **Repositioning firms and clusters to penetrate higher value market segments**—Help companies capture new market opportunities and greater value with enhanced products, services and capabilities (e.g. design, supply chain management, offering a full package of services). The objective is to enable Macedonian companies and clusters to compete on the basis of differentiated services and responsiveness to market requirements. In most cases, activities in this result area are long-term in nature, and will often require larger investments by companies, MCP and other partners.

Cost Sharing and Donor Coordination

In the interest of sustainability, vertical component activities are implemented on a cost-share basis with companies to ensure that beneficiaries take a specific intervention seriously and develop the practice of paying for services and assistance. Whenever possible, MCP engages a group or cluster of companies, even if the actual delivery of assistance is tailored to meet an individual company's needs and objectives. In most cases, MCP collaborates with other international donors (e.g. GTZ, SIPPO) and local stakeholders (e.g. Ministry of Economy, cluster or industry associations).

In some cases, MCP works with client companies in target sectors to achieve both objectives simultaneously. Expanding existing business is essential to ensure the survival of the company and to provide the cash flow and capacity for longer-term investments in developing differentiated and higher-value products and services. Examples of sector-specific objectives and activities under each strategic result area are presented below.

Market linkage and capacity-building tools

While both strategic result areas may seek different outcomes, the activities supporting MCP vertical component objectives use a variety of market linkage and capacity building tools. An overview of these approaches is provided below.

Market linkage support

MCP's vertical components involve an ambitious market linkage support program to facilitate engagement with potential buyers: strategic partners and/or investors in target markets primarily, but not exclusively, in Europe. Market Linkage activities aim to:

- *Raise Macedonia's profile as a business location* in the eyes of international buyers and investors, by creating an awareness of what Macedonia can offer, both as a country and within specific sectors.
- *Capture viable business opportunities* through effective market interactions, by increasing firms' and clusters' exposure in international markets, building credibility with potential partners, establishing new market channels, and facilitating new business relationships so that contacts become deals.
- *Guide implementation of effective capacity-building activities* by using market engagement to identify acute gaps between what the market requires and what Macedonian companies and sectors must do to capture specific market opportunities, and designing market-led interventions to target those gaps.

These outcomes will be achieved through a variety of market linkage tools:

1. **Sector-Specific Lead Generation**—Market linkage activities designed to capture opportunities within MCP target sectors. These activities not only identify and pursue leads in existing business lines, but also look for opportunities for firms to reposition themselves within a value chain or pursue a new market segment altogether.
2. **Cross-Sector Lead Generation**—Market linkage activities that cultivate export relationships across multiple sectors. Cross-sector market linkages activities often cast a wide net (e.g. MCP's EDA network, (see "Foreign Investment Promotion," below)) to explore a range of opportunities and concepts in a cost-effective manner, or market a range of Macedonian products and services at once (e.g. the marketing services platform or joint business center based in Kosovo).
3. **Transaction Support**—Getting a business lead is often just the start. MCP holds hands through the transaction process and offers both MCP clients and their potential business partners services to reduce

the risk of pending deals or troubleshoot obstacles to successful completion. In some cases, transaction support will go further to involve technical assistance and use of pivotal capacity building assistance (see below).

Most of the MCP toolbox was developed during FY 2009, and in a number of cases, used to pursue a range of market opportunities. All of the project tools have been integrated into the FY 2010 work plan. Details on specific market linkage tools and their application can be found in Table 1: Market Linkage Tools Supporting MCP Vertical Components.

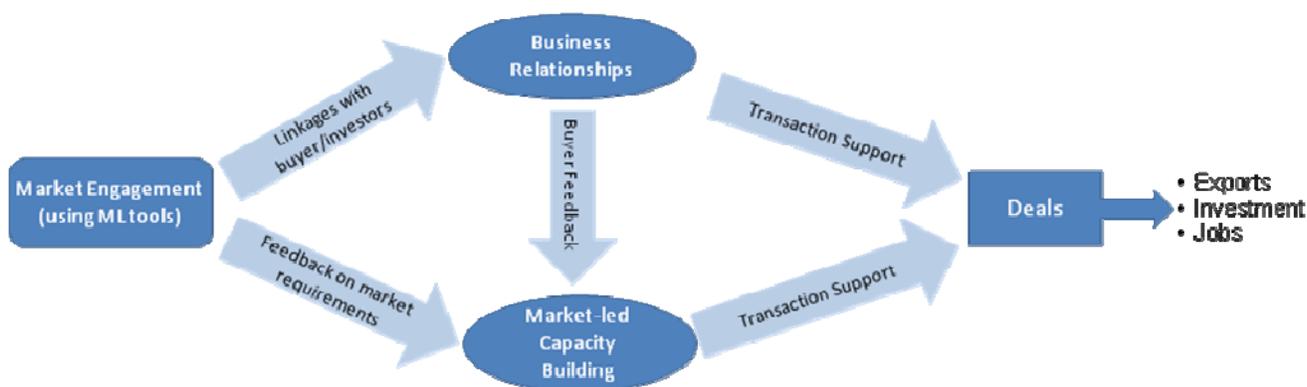
Capacity Building

In many cases, efforts to pursue market opportunities—whether a live lead or target market—will not be successful without some level of firm and supply chain assistance to address companies’ ability to access markets and respond to buyers’ demands. This includes work in:

- product design;
- operations and productivity improvements;
- quality assurance and standards compliance;
- supply chain management;
- skills development, and
- the use of modern technologies and management practices.

Whenever appropriate, MCP places a preference on capacity building support linked to a “live” market opportunity (e.g. a deal “in the works”). The Project also prefers to deliver capacity-building assistance through the various platforms implemented by horizontal components as they offer a cost-effective means to provide assistance to firms. MCP does consider high-impact, tailored technical assistance packages to groups of firms or individual companies willing to share a larger portion of the cost. Table 2: Key Capacity Building Tools for MCP Verticals gives more detail on specific types of capacity-building activities.

Figure 4: Translating Opportunities Into Deals



While executed separately, MCP’s vertical market linkage and capacity-building activities are designed to be complementary and provide a comprehensive means to identify, pursue and capture specific leads. Figure 4: Translating Market Opportunities into Deals shows how deals are forged by combining these capacity-building activities with lead generation and transaction support facilitates new deals.

The sections below present details of specific approaches, activities and achievements under each of the MCP target sectors during FY 2009.

Table 1: Key MCP Vertical Component Market Linkage Tools

Lead Generation (Sector Specific)	
Trade shows	<ul style="list-style-type: none"> Engaging market face-to-face to develop new contacts, while developing firsthand knowledge of market requirements and competition Raise the profile of Macedonia as a sourcing and investment location, change perceptions, awareness of opportunities <p><i>Note: Trade shows not only result in direct orders, but also produce leads and relationships that can be further developed through B2Bs, buyer trips or virtual matchmaking.</i> <i>Effectiveness enhanced if 1) meetings with target buyers/investors arranged prior to the show; or if 2) companies repeatedly attend shows, which buyers see as a sign of credibility</i></p>
Industry-focused market specialists/agents	<ul style="list-style-type: none"> Individuals hired based on their network within an industry, or ability to “open doors” Consultants identify potential targets based on capabilities within Macedonian sectors or client companies and engage those targets directly Consultants also assist transaction support in pre-tradeshow meetings, B2B events, buyer trips, follow-up and transaction troubleshooting
International industry associations	<ul style="list-style-type: none"> Tapping networks found within international business associations to identify potential buyers, investors and strategic partners within a target industry, while obtaining better insights into industry and technology developments
Lead Generation (Cross-sector)	
Economic development agents (EDAs)	<ul style="list-style-type: none"> Individuals/companies with a network of business contacts across multiple sectors EDA’s paid on success-fee basis to conceptualize and pass leads to MCP <p><i>Note: EDAs provided with information on target industries, but may serve multiple sectors</i></p>
Marketing services platform	<ul style="list-style-type: none"> Working with qualified marketing companies to develop export market strategy for individual companies, based on products and market objectives Marketing company assists with initial implementation of strategy and provides training to enhance internal marketing capabilities Client company can choose to “outsource” activities to the marketing company
Joint business centers	<ul style="list-style-type: none"> MCP-supported offices based in regional markets to reduce the costs of market entry Companies pay fee for shared space and marketing staff to make initial business contacts Joint business center in Kosovo open as of September 30, 2009, other locations under consideration
Transaction Support	
Virtual matchmaking	<ul style="list-style-type: none"> Using contacts made through trade shows and networking activities to further engage market targets. Learn more about what they need and present viable partnership options within Macedonia. Can be push (MCP-driven) or pull (target asks MCP for info) Offer support to buyers/investors and/or local partners to reduce transaction risk, troubleshoot
B2B events and buyer’s trips	<ul style="list-style-type: none"> Once buyers’/investors’ interest is confirmed via post-trade show engagement, networking and/or matchmaking, organize trips for individual buyers/investors or groups of targets within a given industry/geographic market Involve specific matchmaking based on buyers’/investors’ requirements and capabilities of local companies
Follow-up and troubleshoot transactions	<ul style="list-style-type: none"> Use market info to proactively identify capacity gaps/potential obstacles, find solutions Working with Macedonian companies and international partners to keep leads “warm” For Macedonian partners: making sure responses are timely and professional; helping gather information related to buyer/investor request or prepare an offer; education and insight on international business norms For international partners: playing the role of liaison (when appropriate) to address misunderstandings; providing information on Macedonian operating environment, assisting in due diligence, being available as neutral partner to reduce transactional risk

Table 2: Key Capacity Building Tools for MCP Verticals

MCP Horizontal Component Services (See “Overview: Activities under MCP Horizontal Program during 2009”, below for more information.)	
Financial Platform	<ul style="list-style-type: none"> • Packaging proposals to banks and other financial institutions aimed at financing investments in expansion, facility, equipment and technology upgrades, product development, etc • Facilitating strategic partnerships with company valuations and equity proposals
Revolving fund and industry-led training programs	<ul style="list-style-type: none"> • Design and support delivery of training programs that address skills gaps in target sectors • Rapid design and support delivery to address skills gaps impeding a potential deal <p><i>Note: Programs can be based in vocational or educational facilities, or in-house</i></p>
Certification Platform (via Workforce)	<ul style="list-style-type: none"> • Support for obtaining certification from accredited body necessary to access new markets and new customers
Foreign Investment Support	<ul style="list-style-type: none"> • Identifying and engaging potential investors or strategic partners interested in partnering with Macedonian companies through joint ventures or establishing their own operations • Attracting infrastructure investment likely to catalyze further investment and export growth • Hand-holding both Macedonian and international partners through the investment process
Sector-specific Technical Assistance	
Tailored technical assistance	<ul style="list-style-type: none"> • Tailored technical assistance designed around a specific market opportunity or live deal • Delivered on a cost-shared basis • Delivered to individual companies (higher cost share) or groups of companies

Light Manufacturing

Light manufacturing has always been an important source of GDP, exports and employment in Macedonia, with activities including automotive components, furniture, metal-processing, rubber and plastics production, tool and mould making, and product assembly for domestic and international customers. In many cases, companies were part of larger supply chains

within the former Yugoslavia. Since the break-up of Yugoslavia, the sector has struggled to establish linkages with European customers. A number of companies are taking steps to modernize and develop capacities to better match market demands, although there is an ongoing need to invest in upgraded technologies, product development, productivity and supply chain management practices to be competitive in a sector where cost, quality and lead time are critical to landing a new customer.

Key Activities	Key Outcomes
<ul style="list-style-type: none">• Marketing support for ACM• Eight companies attending Automotive Components Show in Germany• Launch of the marketing services platform• Joint marketing services for the furniture cluster	<ul style="list-style-type: none">• Over \$980,000 in new investment• Over \$1.4 million in new exports and automotive deals with potential of \$1.5 million in exports under negotiation• \$250,000 in business facilitated by CIRKO e-library.• Creation of 59 jobs

The economic crisis has hurt Macedonia's manufacturers. Sales for many companies are flat or negative, with some work stoppages and layoffs. MCP views the subsequent shake-up of global supply chains as an opportunity to position Macedonia as a low-cost, competitive sourcing and investment location in close proximity to Europe's major markets. If this opportunity is missed, Macedonia will require much more time to reach its aspirations to become a serious manufacturing location.

In FY 2009, The Competitiveness Project worked with the Automotive Cluster of Macedonia (ACM), CIRKO-MES, Ministry of Economy, GTZ and other partners to support market linkage and capacity-building activities for companies in the light manufacturing sector. Efforts targeted both end-products and sourcing (or subcontracting) exports in Balkan, Western European (primarily Germany) and Eastern European markets. Most activities focused on the automotive/tool and die segments, although services were provided to companies involved in metal processing, furniture¹ and hardware/construction materials.

Strategic approach and FY 2009 summary

Most FY 2009 activities under light manufacturing focused on the strategic area *expanding existing business*. Although many companies could (and should) make improvements in quality management, productivity and management practices to compete within their existing business lines, there are a vast array of opportunities without making the additional investments necessary to move further up the value chain.

Most activities in this strategic area involved market linkage activities that 1) raised the profile of Macedonia as a location outsourcing/subcontracting production; and 2) helped companies develop relationships with both end-user customers and medium and large European manufacturers looking for lower-cost partners. Examples include a well-received Macedonia Automotive Pavilion at the European Automotive Components (EAC) Expo in Stuttgart, Germany and joint sales efforts for the furniture sector. Another important activity was the launch of the marketing services platform, designed to provide direct marketing assistance to companies selling products (rather than capacity).

While only a few capacity-building activities were implemented during FY 2009 under light manufacturing, MCP did develop a pipeline of activities that will be rolled out starting in early FY 2010. Examples include the

¹ In the FY 2009 work plan, furniture was designated as a separate component. However, MCP chose to limit budget allocation in the furniture sector such that activities are not sufficient to justify a component focus. Since the Project wishes to continue a number of smaller initiatives in the furniture sector, it chose to do so under the light manufacturing sector.

certification platform (to be managed through workforce development component, but servicing light manufacturing companies) and industry-led training programs to help companies meet the stringent demands of European companies and compete with other manufacturers in the region and further east.

Details on the FY 2009 light manufacturing activities, achievements and expected outcomes by product segment can be found below.

Automotive/Tool and Die

Capacity building for ACM

The Competitiveness Project assisted automotive industry to organize and officially establish the ACM, including guidance for the legal requirements for founding an organization. The Cluster elected a staff member of the Project as a member of the Advisory Board furthering the ties between the Project and the Cluster. MCP signed an MOU with ACM to formalize collaboration, engaged an intern to assist in completing a database of the Macedonian automotive industry and drafting industry promotional material. MCP assisted ACM to prepare financing proposals for European donors supporting regional cluster and market linkage activities. Finally, MCP collaborated with ACM and GTZ in the planning and organization of a nine-company delegation to the EAC Export in Stuttgart, Germany (see below).

Automotive Cluster of Macedonia



Your resource for information related to sourcing automotive components, investment opportunities, and strategic partnerships with suppliers in Macedonia. Members of the Automotive Cluster build or contribute to components found in multiple OEM platforms in Europe. Companies within the cluster offer competitive pricing, proximity to OEM manufacturing facilities and responsive lead times.



Throughout the year MCP has assisted ACM to build its capacity to serve the automotive industry, with a focus on improving companies' awareness of market conditions and requirements, supporting collaborative steps to strengthen members' competitiveness, and joint market linkage efforts. MCP is supporting the development of sustainable market linkage capacities within the industry. Activities include strategic advice on identifying the needs of the automotive industry and effectively marketing the products and services, and technical assistance and cost-sharing for activities that develop international market linkages, build domestic supply chains and encourage strategic partnerships.

In March 2009 MCP supported the Automotive Cluster in its first marketing mission through the MCP's agent in Slovenia. The ACM representative visited Slovenia, Croatia and Bosnia and presented the 20 member companies before the relevant clusters and a number of automotive companies. The mission resulted in two potential leads, one matching a Slovenian company with a Macedonia tool and die supplier, and one matching a Croat auto company with a Macedonian IT software developer.

Macedonia Pavilion at EAC Expo

As part a longer-term initiative to support market linkages for exports and strategic partnerships within Macedonia's automotive sector, MCP organized and provided financial support for the Macedonia Automotive Pavilion at the 2009 EAC Expo in Stuttgart, Germany in collaboration with ACM. The EAC Expo occurs alongside three other automotive shows (dynamics, engines, and testing) whose exhibitors are potential customers for Macedonian companies. MCP's support for the show raised the profile of Macedonia's automotive sector amongst OEMs, and Tier 1 and 2 suppliers, while giving nine individual exhibitors the opportunity to network with potential buyers, strategic partners and/or investors. MCP collaborated with GTZ to share the cost of the pavilion.



MCP funded the use of 64m² (at the cost of 50m²) of booth space, organized the design and construction of a professional Macedonian Pavilion, managed the design and production of company banners and promotional sheets, pre-arranged 17 meetings (as a result of correspondence with 77 potential buyers) between exhibitors and buyers/potential partners at the show, and provided networking and exhibiting support at the show through four MCP staff on site. MCP also submitted an article on CIRKO that was included in the show newsletter.

The Macedonia Automotive Pavilion was regarded a sound investment on the part of MCP and its exhibitors. Despite a relatively low numbers of visitors (a result of the crisis in the sector), the Pavilion enjoyed robust traffic and a fair amount of interest in Macedonia. Together, exhibitors engaged approximately 100 contacts at the show, 20 of which resulted in follow-up discussions and possible deals. To date, two companies received RFQs from potential customers, and are now negotiating potential deals that could easily exceed \$1.5 million. The efforts to pre-arrange meetings between companies and target market contacts were a real success. In most cases, leads with possible follow-up were a result of these meetings. This is the second time MCP has assisted in this way, which is part of an ongoing effort to train local companies to adopt a more structured approach to trade show preparation that add value to participating. A similar approach was used in the 2008 Automechanica (aftermarket) show.

In addition to marketing Macedonia, MCP staff engaged visitors and exhibitors at the show to learn more about present market conditions, and how Macedonia could better position itself in the eyes of buyers and companies looking to invest in production in new locations. The underlining message is that while many European automotive suppliers have an interest in "bringing business back home" in a time of business

"It is very difficult to enter the system of a foreign company when you are in a country not known abroad for its automotive industry. That is why I believe that this joint presentation of the Macedonian companies and the entire Macedonian industry is very good...we are presenting ourselves in front of the foreign companies as a country with all the necessary capacities and know-how which is the guarantee for a successful future cooperation, as well as for gaining distinction for the Macedonian manufacturers within the automotive industry,"

Tomislav Zdravkovski, Te Te Plast



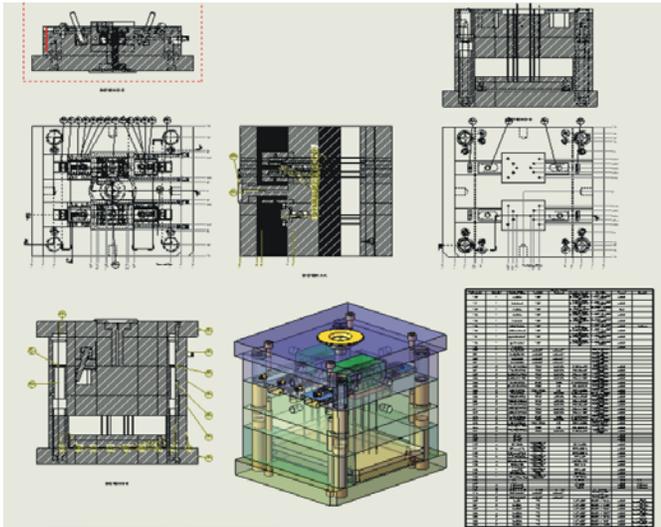
contraction, others are actively looking for new suppliers in an effort to reduce cost. A number of visitors indicated the need for potential suppliers to be TS 16949 certificated. Only a few Macedonian companies have this certification. With this in mind, MCP designed a certification program that will allow companies to be better prepared for next year's show.

Design for upgraded CIRKO e-library and web portal

MCP assisted CIRKO to create a web-based library for the tool and die industry, designed to help 75 member companies (primarily SMEs) provide faster and more accurate responses to potential buyers' RFQs.

As a result of the first stage of cooperation and existing e-library, a number of tool and die companies were able to provide quick and high-quality responses to potential customers' requests, thus achieving tool exports of more than 250,000 euros (\$370,000) to France, Sweden, Germany and Russia. In addition, CIRKO's Slovenian counterpart, TECOS, used the e-library to promote

Macedonian companies in Slovenia and to match Slovenian companies with Macedonian counterparts.



Since April, MCP has been engaging CIRKO MES on how the Project can support efforts to upgrade CIRKO's e-library. The aim is to re-design the existing portal and add new functionality that will enhance its use as an interface between European automotive component/machine tool customers and Macedonian tool and die companies. This interface would offer potential customers access to over 50 suppliers through an order management system that facilitates on-line tender submissions, supplier search tools and prompt and accurate responses to cost and material requests. MCP and CIRKO are discussing obtaining a shared license for online CAD-CAM capabilities. Once the final design and functionality of the portal is agreed upon, MCP expects a rapid rollout of new capabilities.



Furniture

Assessment of furniture sector

The furniture industry, although small at present, has been identified as one of the industries with a high growth potential. In view of this, MCP financed research on the demand and supply side of Macedonian furniture production. Research revealed that Macedonian furniture producers compete well in domestic and regional markets, with Greece and Kosovo in particular, followed by Serbia, Slovenia and Croatia. Macedonian producers are much less established in Western and Northern Europe, and Russian markets, due to high transport and marketing costs, the required volumes and quality standards, and risk of claims. This research served as

a basis for developing a program for overall support to the industry. In February MCP supported the Macedonian Cluster for Wood Industry to organize a conference to presenting research findings and recommendations to its members. Following the event, MCP signed MOUs with 13 companies in this sector, outlining the terms and conditions of mutual cooperation, support and expected objectives.

Development of market aggregator and joint sales initiatives for furniture manufacturers

MCP is working with the Wood Processing Cluster, Ministry of Economy and other partners on efforts to help furniture manufacturers develop linkages with regional buyers and retailers. One of the short-term goals is to provide marketing tools for joint sales and marketing, by supporting outsourced sales agents to lower sales and marketing costs for companies. MCP is also addressing a market failure: an aggregator that would sustainably represent and market products from multiple companies. Through this approach, MCP and the Cluster companies have selected the wider Balkan region as a target market with a specific focus on Albania, Kosovo and Bulgaria. To that end, MCP engaged a sales agent who started by representing a group of 20 companies on a B2B event in Greece with the Hellenic Foreign Trade Board in cooperation with the Macedonian Chamber of Commerce. As a result, at least two leads were identified. The second event was



organized under the auspices of the Skopje Furniture Fair in March where MCP supported the first International Wood Industry Conference in Macedonia, along with a B2B event with companies from Slovenia and Kosovo. A total of seven companies from Slovenia and Kosovo were matched with a dozen Macedonian companies, and one agreement for joint sales has been initiated. The first results of the joint marketing intervention resulted in US\$100,000 in sales during a Zagreb furniture fair, Ambianta, in October.

Joint market linkage program in Albania

MCP and the Wood Processing Cluster see the Albanian market as a potential growth area for Macedonian furniture manufacturers, as they offer competitive designs and prices. While Albania has been a relatively unknown market for Macedonian companies, exports to the country are rising. MCP is working with the industry to develop marketing strategy for Albania, focusing on the real estate development sector (primary focus on hospitality) where construction continues to grow. The aim is to integrate Macedonian furniture designs and products into real estate development plans. To date, MCP and the Cluster have identified a company in Albania that could serve as the anchor for a joint exhibition and sales point targeting the real estate development segment. So far, three companies are expected to use the joint exhibition area. This initiative could serve as a model for further implementation in other target markets and for other sectors.

Other sub-sectors

Development and launch of marketing services platform

Many light manufacturing companies in Macedonia lack the capacity and resources to invest in the export promotion and marketing activities necessary to grow their businesses, even though many have quality products and already fulfill the standards for exporting to the EU. As a result, many companies miss out on opportunities for growth through accessing export markets. While larger companies often have the financial

resources for a marketing team, smaller companies often rely on owners or managers—who are often not trained in marketing—to carry out the marketing function.

In response, the Project has developed a marketing services platform to support these companies as they grow and increase their export promotion capacity and sales. This platform will allow companies to outsource the marketing, promotion and sales activities. To that end, MCP is developing a pool of marketing facilitators able to offer light manufacturing companies short-term assistance marketing their projects (directly or indirectly), while building an internal marketing capacity. Marketing costs are shared by MCP, the client company and the market facilitator (who is expected to recoup their costs through commissions from successful sales). Activities

include development of an export promotion marketing plan, implementation of that plan on behalf of a client, and technical assistance targeted at improving the profitability and marketing capabilities within the company.

Macedonia Export has been selected as the Pilot Marketing Facilitator to work with up to six firms. Macedonia Export is a private company based in Skopje, with experience in helping companies gain access to markets and strengthen marketing capacities. A large portion of their revenues are generated from sales commissions. At present, there is a pipeline of 10 companies interested in using the marketing services platform, and Macedonia Export has already started working with two client companies.

MCP hopes to involve another three to five similar marketing facilitators to scale out a marketing services platform able to serve approximately 30 light manufacturing clients across multiple market segments.

Engagement with companies to promote MCP services

The MCP light manufacturing team regularly visits new light manufacturing companies and companies with which it has ongoing relationships to discuss market conditions, company conditions, future plans and obstacles and to consider where MCP services might be applied. While

visits general focus on MCP light manufacturing activities (e.g. market linkages), the Team looks for opportunities for manufacturers to utilize MCP horizontal services. Within this context, multiple companies were referred to, and received financing through the Financial Platform (see text box, left, and “Access to Finance, below). MCP is also engaging at least two automotive companies to explore ways to develop industry-led training programs under the workforce development program.

Sideros: Expanding Stove Production and Adding Value through Investment

Based in Ohrid, Sideros produces pellet and wood stoves and boilers. For years, the company has manufactured stove housings (with rough metal parts) for customers in Italy (who finish assembly there). The company needed access to finance to expand their production (buy new machines, raw materials) to respond to growing demand from their partners. They also wanted to add value and gain the capacity needed to produce the

outside of the stoves (the fine metal parts). The MCP light manufacturing team suggested that they enter the Financial Platform (see Access to Finance section) to realize their expansion plans. With the help of MCP financial advisors, they received nearly \$75,000 in bank financing for a \$220,000 investment. As a result of this investment, the company has hired 29 new employees and expanded exports by \$500,000. With their new capabilities, they are taking steps to offer customers full package production (i.e. exporting a complete stove), as well as exploring developing their own stove products.



Fashion and Design—Apparel

Macedonia has a long tradition in apparel manufacture, having supplied the former Yugoslavia as well as many major brands and retailers throughout Europe. The industry is an important source of employment for Macedonia with more than 40,000 employed in this sector. It is also a significant export with average annual exports exceeding \$500 million. For the last decade, the industry has suffered a slow decline in both exports and employment, exacerbated recently as a result of economic recession in key export markets. Macedonia struggles to compete in its main type of production—cut make trim (CMT)—when compared to other production locations (e.g. Asia), except in market segments where quality and lead time are as essential as price. Many companies in the Macedonian apparel industry are looking to move upstream, into full package, private label or own design/brand manufacturing where companies can add more value to customers and/or capture higher margins by taking on new roles in the design and production process.

Key Activities	Key Outcomes
<ul style="list-style-type: none"> • Mobilization of “Own Design” initiative • Support for MGI, new apparel investment • Financing Assistance • Engaging UK apparel retailers 	<ul style="list-style-type: none"> • Over \$1.1 million in new exports • 109 new jobs created • \$116,000 in new investment via financial platform

During FY 2009, MCP worked with the Textile Trade Association (TTA), Peace Corps and GTZ to roll out a series of activities that support leading apparel manufacturers in efforts to expand and diversify manufacturers’ export customer base—vital for the survival of the industry—within Europe. Although MCP activities target Germany (the primary market for Macedonian produced apparel), the Project explored ways to penetrate other markets such as the UK, Netherlands and Scandinavia.

Strategic focus

MCP apparel initiatives in FY 2009 focused on helping Macedonian companies *reposition to penetrate higher value market segments*. Like many, MCP believes that companies need to limit reliance on CMT production. Although improvements in areas such as productivity and quality would help boost CMT business, it is important to respond to market changes and take the steps necessary to offer customers full package services (where the buyer sends a design and the manufacturer does the rest), private label (where buyer purchases clothes designed by the manufacturer but uses the buyer’s brand), and own brand.

Many activities, implemented (or developed for FY 2010) within the apparel sector focused on an “Own Design” initiative, coordinated with the TTA (and involving collaboration with GTZ). The initiative involves a group of six to 10 manufacturers in the process of developing their own designs to market their own brands or sell their designs to private label customers. Activities included support for developing spring/summer catalogues for the CPD Fashion apparel show in Dusseldorf, Germany, and identifying fashion fabric sources (primarily in Turkey), both pivotal in developing and marketing designs. A series of Own Design activities developed in FY 2009 with be executed in FY 2010, such as patternmaking training, design advice and financial platform activities that will help companies obtain access to greater working capital so that they can source fabric needed to respond to own design and full package orders.

MCP also provided support to MGI (Macedonian Garment Industry), a new apparel investment—unusual given the economic environment—to establish efficient production and quality control systems.

Since it will realistically take a number of years before apparel manufacturers will be able to replace CMT as their core business with other production models, it is also important to help companies *expand existing business*. Within this context, MCP started planning a B2B event focusing on the UK market targeting potential CMT, full package and private label customers, with the aim of organizing similar events for other countries.

Details on the FY 2009 apparel activities, achievements and expected outcomes can be found below.

Stakeholder consultations for apparel program planning and implementation

MCP engaged a variety of industry, government and donor stakeholders to finalize the design of its apparel program (as discussed above). Given varying capabilities and market strategies within the industry, as well as the number of different donor and government programs, MCP has sought to ensure its activities have the intended impact and do not overlap funding from other programs. Activities included:

- Ongoing meetings with the textile and apparel association;
- Ongoing visits (together with the Association) to companies within the industry interested in receiving MCP support to identify areas of collaboration and monitor progress under the Own Design initiative;
- A donor coordination meeting to discuss the series of programs designed to support the industry and areas of potential collaboration and synergies. This was followed by regular meetings with individual donor representatives;
- Internal development of a draft apparel program;
- A meeting with leading members of the apparel industry to present the proposed MCP apparel program for comments and general agreement; and
- Follow-up meetings with apparel companies to confirm areas where they would like to be involved in the apparel program.

With agreement from the industry, MCP initiated a series of new activities targeting apparel that have already begun and will be implemented over the next year.

Own design support:

Support for CPD show

In July, MCP supported three Macedonian apparel manufacturers to present their own Spring/Summer 2010 collections at CPD fair in Dusseldorf. This was the first time the three participating companies (Milano, AFG, and Kuli) presented their collections at a fashion fair in Germany. Participation at the CPD fair was organized in a collaborative effort with GTZ, who rented a prominent stand. MCP supported the development of professional promotional materials, catalogues, posters, etc. During the fair, a German consultant and a



Designs by Modena

fashion designer chairing the designers' association in Germany were available to the companies. Although traffic at the fair was slow (due to the global crisis), one of the companies managed to sell a part of their collection to a boutique buyer from Ireland. Participation at this event allowed Macedonian companies to learn more about different ways to develop and present their own collections, and better equip themselves for the February 2010 CPD show, where fall/winter collections will be presented.

Fabric sourcing B2B and fabric shows

In order to facilitate the Own Design initiative, MCP supported TTA in organizing a B2B event with Turkish fabric producers in Istanbul. Turkey is a major fabric supplier to the EU market, providing a significant portion of the fabric currently being used for CM/CMT garment production in Macedonia and other countries in the region. The Turkish textile sector is well-developed, offering high-quality services comparable to Asian suppliers, and a much shorter shipping time to e.g. shipment from Turkey to Macedonia takes a week, versus 45-day delivery from Asia.

During the B2B event, 16 Turkish fabric producers presented samples of their latest fabric collections to nine Macedonian producers. After the event, TTA carried out additional research and contacted other fabric producers in Turkey. The fabric samples provided during the event will allow Macedonian apparel companies to start planning their fall/winter collections, and to order fabrics in a timely fashion.

Stemming from the event's success, TTA and ITKIB (Turkish fabric exporter association) representatives agreed to future cooperation in terms of exchanging information, using databases for match making between Macedonian and Turkish companies, cooperation in participation in the EU projects as partners, and organization of additional B2B events.

Immediately after the Istanbul B2B event, MCP supported TTA representatives to visit Premier Vision and TexWorld fashion and fabric fairs in Paris in order to expand the fabric sourcing knowledge and establish contacts with other fabric suppliers. Two Macedonian apparel companies also visited the Paris fair. TTA plans to provide information, contacts and fabric samples to the Macedonian apparel companies that were not able to visit the Paris fair, and that are interested in Own Design initiatives. During the Paris fair, TTA representatives met with the French Textile Federation and Serbian Chamber of Commerce and discussed possibilities for future cooperation.



Selecting and purchasing fabric is a first step needed for companies to prepare collections for the Fall/Winter 2010 season and building a capacity for full package. The Paris and Istanbul Fabric sourcing events allowed Macedonian companies to gain experience in the process of fabric sampling, selection and purchasing fabrics and other trims for preparation of own collections, experience that can also be used to respond to orders from buyers and partners which require them to purchase fabrics.

Vlado Netkov, Owner of Milano and President

Pattern maker

Within the Own Design initiative, MCP is engaging a master pattern maker that will assist Macedonian manufacturers in improving their pattern-making capabilities thus increasing the marketability of new designs and collections in regional and EU markets.

After fabric sourcing activity, pattern making is the next critical step in developing new designs and collections. Many of the Macedonian companies involved in the Own Design initiative do not have an in-house pattern maker. In the past, this capacity was not required, as patterns were provided by the CMT customer. For those that do have pattern makers, the quality of their work is not on par with international standards. Without an improvement in internal pattern making, even the most innovative and modern designs will not fit models or end buyers properly, and products will not sell. By engaging a professional pattern maker, the companies are expected to be better prepared for the February 2010 Fall/Winter launch at CPD.

Pattern-making support is a demand-driven and cost-sharing activity, where companies are provided the option to use the services of the consultant on a cost-share basis.

CMT and full package support:

Meeting with sourcing manager from major UK retail brand

While Macedonia's apparel industry is primarily geared toward German, Austrian and Balkan markets, MCP sees an opportunity to expand linkages with buyers in the United Kingdom. MCP met with a sourcing manager for a major UK-based fashion and retail brand with stores throughout the UK, Europe and US. MCP presented information on the Macedonian apparel capacities and learned about the retailer's sourcing requirements. The sourcing manager indicated his company would be interested in learning more about specific Macedonian manufacturers and where they might fit within the retailers' sourcing needs. Following the visit, MCP developed and provided "one sheets" (profiles of appropriate apparel manufacturers, including photos). The next step is for MCP to organize a buyer trip to Macedonia or encourage involvement in MCP's upcoming B2B event in the hope that the retailer would seriously consider Macedonia as a new sourcing location.

Planning for UK retailer B2B event

As part of its ongoing efforts to support Macedonia's apparel sector expand its business, MCP plans to organize a B2B event targeting the UK (and Scandinavia) apparel market. This event will target costumers for contract manufacturing (e.g. CM, CMT, and full package), private label collections using own design, and own brands. The target is for 10 UK companies to participate. MCP has engaged a former buyer from a major UK retailer with an extensive network of UK apparel buyers and a strong understanding of UK and global apparel markets, to confirm what retailers and brands are looking for, and the types of designs and styles that sell in the UK and other markets.

Overall, I am very impressed and excited about the opportunities for Macedonian manufacturing for UK retailers. The quality of make is certainly the value of Macedonian manufacturing.

**Claire Hamer, Former Top Shop (UK)
Buyer and MCP Apparel Consultant**

During September, the consultant visited Macedonia and met with a number of companies interested in targeting the UK market. During the visit, she developed an initial relationship with company managers; reviewed their product capabilities and learned about companies costing, lead times, supply chains, etc. She is now using this information to determine potential matches between Macedonian manufacturers and UK brands and retailers. From there, she will approach target buyers in order to determine their interest in visiting Macedonia. The B2B event will be held at a time when a number of interested UK buyers are able to visit Macedonia, most likely in February 2010.

Productivity and quality control support for new apparel investment

MGI is a recent apparel investment involving a range of Macedonian and foreign investors. The investment—which is an anomaly during a time when apparel demand is depressed—is focused on the CMT production of high-quality and high value trousers for men for a specific client within the EU market. While MGI had the buyer lined up, the company required technical assistance to develop a streamlined production line able to optimize productivity. Last quarter, an MCP consultant worked with MGI's management through this process.

MGI opened its doors in May. With production underway, MCP's consultant visited MGI again to ensure that production processes are sufficient to meet the client's stringent requirements. As the production continues from initial to full production, it is expected that output quantity will be increased from the current 120 pieces per day to a 1,000 pieces per day at the end of 2009.

To expand the benefit of the productivity consultant's work, a local productivity expert shadowed the consultant as he advised MGI's management, with the aim of providing similar advice to other apparel manufacturers within Macedonia.

Information and Communications Technologies (ICT)

Macedonia's ICT industry plays an increasingly important role in the economy. It is Macedonia's fastest growing sector, with some segments—software and IT services—achieving growth rates as high as 35% a year. Employment in the sector continues to expand at an average annual rate of 13%. ICT's contribution to Macedonia's GDP is expected to reach 3% by 2010.

Key Activities	Key Outcomes
<ul style="list-style-type: none"> Supported negotiations between FX3X and Hollywood visual effects studio Completion of ICT Workforce Survey Support for software company at EAC Show 	<ul style="list-style-type: none"> \$1.5 million in new exports \$212 in new investment FX3X partnership in advanced stages of negotiation, resulting in invaluable technology transfer and multi-million dollar pipeline

That said, much of the sector's growth is focused on the domestic market, and the sophistication of domestic services is generally low. While a few companies stand out as export-ready—targeting opportunities in areas like business process outsourcing (BPO), software development and animation/entertainment content—many do not offer globally competitive services, or operate in segments that are well-developed and saturated with competitors. Further growth of Macedonia's export-oriented ICT market will require a significant increase in the availability of skilled ICT professionals, the development of new competencies, services and products, and in many cases a change in mindset amongst the sector to welcome strategic partnerships, new investment and new management practices.

MCP's ICT component provides assistance to forward thinking Macedonian ICT firms interested in taking the steps necessary to sell products (e.g. end-user software) or development capability to international clients.

Strategic focus and FY 2009 summary

MCP activities in the ICT sector focus on the strategic result area *repositioning to penetrate higher value market segments*, as the Project believes that there are limited opportunities to expand exports within existing capacities and business lines (which are primarily focused on domestic market).

An ongoing MCP priority is support for a strategic partnership between FX3X (a leading local digital media company) and a major Hollywood studio. FY 2009 activities helped bring this deal—which involves both a multi-million dollar pipeline and significant technology transfer—to its advanced stages. This deal promises to raise Macedonia's profile in the global digital animation market.

As skills gaps are considered a major impediment to moving into more export-oriented business lines, MCP is supporting workforce development initiatives in ICT. During FY 2009, MCP completed an ICT Workforce Development Survey with MASIT that is being used to develop training curriculum to build skills needed to respond to a more demanding customer base (for either end products or software development).

MCP also supported participation of a software company at an automotive show with positive results. This was based on the premise that software capabilities can be tailored and sold to meet the needs of customers in a specific sector than cross-cutting, general ICT trade shows.

Details on FY 2009 ICT activities, achievements and expected outcomes can be found below.

Completion of ICT workforce demand survey and development of CEFE² training program

ICT companies in Macedonia often remark that there are not enough skilled workers in the workforce to support the growing ICT sector. This is a particular concern for MCP, as skills gaps within the workforce impede

² CEFE – Competency based Economies through Formation of Enterprise

efforts to expand ICT exports (e.g. offshore services, software products) and attract international investors and strategic partners. In past quarters, MCP collaborated with MASIT to carry out an ICT Workforce Demand Survey to identify specific gaps in the workforce to help design future workforce development programs targeting the industry. The survey was completed in April and presented to MASIT and the Ministry of Information Technology.

While the survey highlighted multiple areas where specific technical skills development is needed (e.g. security, database management, etc.), the results identified ICT workers' business skills as a priority area requiring attention. Based on this finding, MCP is developing a long-term CEFE program. CEFE is a practical and proven methodology with a global track record of benefitting technical-oriented companies. MCP has selected Alexandria Training Center as a qualified partner for the delivery of CEFE training in the short-run and maintaining a sustainable training program in the future. Alexandria and CEFE developed a proposal incorporating survey findings. The proposal complements the MCP framework of activities. At present the MCP team is reviewing the proposal and is discussing details about the cost of training and long-term sustainability.

Support for FX3X/digital media park deal with Hollywood visual effects studio

For years, USAID has supported the development of Macedonia's emerging digital animation industry. Much of this support is oriented towards FX3X, a pioneer noted for its involvement in Hollywood blockbusters such as the "The Aviator," "The Golden Compass," and most recently, "Terminator Salvation." FX3X is also the primary motivator of the Digital Media Park: a production/animation/visual effects hub for 15 co-located companies, as well as tens of others using its services.

Over the past year, MCP has worked with FX3X to attract a leading Hollywood visual effects studio interested in establishing a production studio in the region, using FX3X as the anchor local partner within an upgraded Digital Media Park. A joint venture deal with the studio would put Macedonia on the map as a global animation and visual effects location, and result in investments in the range of \$15 million in the short to medium term, with exports exceeding \$50 million over the next five years. As part of this initiative, MCP engaged a US-based consultant to assist FX3X to take the steps necessary to negotiate a deal with the Hollywood studio (including assistance in preparing for the studio's due diligence process, and working with both parties to resolve issues that arose during negotiations), and improving FX3X's business planning and organizational processes. These internal improvements were necessary for FX3X to: a) be considered a credible partner in the eyes of the studio; and b) develop the capacity needed to effectively manage the pipeline of new animation projects that would result from a deal.



Parallel to the consultant's effort, MCP staff helped identify an institutional investor interested in becoming an equity partner in the joint venture deal and the investment in Digital Media Park upgrade. MCP's workforce development program also designed the framework for a training initiative that uses MCP's revolving fund for two cycles of training for animators and visual effects professionals needed to take on new types of animation projects likely to be part of the deal.

In June, FX3X and the Hollywood Studio agreed and signed the terms of an expected business relationship. With the signing of the term sheet, the Hollywood studio installed and provided FX3X with licenses for 20 copies of the studio's proprietary software. The studio plans to send

“USAID played an important role in raising our competitiveness level to that of the best companies in the industry. The support received from USAID really made the difference and enhanced our ability to compete globally on one hand, and enabled us to further grow our talent base in Macedonia on the region”

Kristijan Danilovski of FX3X.

- hired 42 additional employees.

a technical manager to assist with applying this software to new animation projects.

MCP expects the deal to be formally announced by the end of 2009. Anticipating the realization of the deal, MCP has moved forward on formalizing the training program to ensure FX3X's employees are ready to start work immediately.

As it continues discussions with the Hollywood studio, FX3X continues to make its mark on the animation and visual effect industry. This year it:

- confirmed exports of \$1.5 million;
- contracted a pipeline of US\$2.5 million to be delivered in 2010
- released an animated holiday feature-length film it produced for the U.S. market;
- started negotiations for full production of two feature movies estimated at around US\$10 million; and

Supporting Macedonian commercialization of EDDi (a next generation technology)

MCP explored and supported efforts to incubate the commercialization and use of EDDi, a super high-speed networking technology (based on a unique compression algorithm) that would enable the two-way delivery of full frame TV/video to and from any device using satellites. It can act as a high-speed broadband solution, digital broadcast delivery system and voice system all in one with a bandwidth of 2MBps. The technology promises to be faster than other technologies such as WiMax and could be rolled out in a tenth of the time, and at a fraction of the cost. The technology is under patent, based on its unique compression technology.

In the past year, MCP was successful in attracting the Italian patent-holder to Macedonia and in finalizing a license agreement that will allow a local company (EDDi Global) to have global rights to further develop and market the technology for utilization by global customers (the patent holders are only interested in the Italian market). Already, MCP has raised interest from major players (e.g. Deutsche Telecom, Avanti, and Intel) who may partner with EDDi Global to commercialize the technology if its promised capabilities are proven.

In May MCP and EDDi Global traveled to Pavia, Italy to witness a demonstration of the two-way, triple play (voice, HDTV and internet) service capabilities of EDDi via satellite directly to a Consumer Premise Equipment (CPE), a Consumer Equipment Device (CED) or a Set-Top-Box (STB). While the presentation provided important information on how the technology could be applied in real-world terms, a satellite link was not established, so a live presentation was not possible. MCP expects that the patent holder will invest in the live demonstration of the technology in Macedonia, which will allow MCP to facilitate the full technology transfer from EDDi Italy and EDDi Global and negotiations between EDDi Global and potential commercialization partners, to establish their global center for technology commercialization and support in Macedonia.

The EDDi Project is the first of an initiative to attract and incubate next-generation technologies to Macedonia. By attracting the interest of inventors and technology drivers to Macedonia, MCP hopes to:

- 1) raise Macedonia's profile as a “commercialization” and innovation partner for new technology development;
- 2) use the commercialization of technologies like EDDi from Macedonia to develop a high-tech skill set that could be the basis for attracting technology investment; and
- 3) enable Macedonia and its companies to ‘jump ahead’ through the early use of leading technologies. For example, the application of EDDi would reduce the cost of broadband access and support the

development of ICT-enabled industries where bandwidth speed is an important success factor. EDDi would also enable connectivity with rural areas in a fraction of the time and for a fraction of the cost required for other technologies.

Support for Ein Sof participation at European Automotive Component (EAC) Expo in Stuttgart, Germany

As part of its efforts to create market linkages with Macedonian software development companies, MCP included Ein Sof in the delegation of automotive companies taking part in the EAC Expo (see Light Manufacturing Section). Ein Sof has developed a series of automotive diagnostic tools and aims to expand its market within the automotive industry, where software plays an important (and changing) role.

Prior to the show, an MCP consultant organized 10 meetings between Ein Sof and European automotive companies that took place at the show. These meetings, and six others organized by MCP on-site resulted in a number of business relationships that could lead to new deals. The outcomes of these business relationships will be reported as information becomes available and approved by Ein Sof for publication.

Multi-sector Market Linkage Activities

While most MCP vertical market linkage activities focus on one particular sector or market opportunity, it does support initiatives that can cost-effectively generate leads across multiple product and service segments at once. Details of such multi-sector market linkage activities, achievements and expected outcomes can be found here:

Kosovo Integrated Market Entry System (KIMES) Project

Many consider Kosovo a promising (though relatively small) export opportunity for Macedonian companies (particularly those in construction, ICT and light manufacturing), although many are held back by the costs and uncertainty of setting up an office. This quarter MCP and the Center for Entrepreneurship and Enterprise Development (CEED) initiated the roll-out of the KIMES Project. Once the initiative is fully operational in October 2009, KIMES will offer Macedonian companies—on a cost-share basis—shared office space, equipment and core business services, and use of a business development advisor and office assistant, as a means to reduce the cost of setting up sales operations in Kosovo, while accelerating the process of developing linkages with potential customers there.

Mobilization of FDI Agents for Market Linkage Activities

As part of MCP's foreign investment program, the Project has mobilized a number of FDI agents to identify and pursue investment leads in a variety of markets (e.g. UK, Russia, India, Israel and Slovenia). This quarter, MCP expanded their roles to include export leads. This was done as a reaction to feedback from existing agents that suggested that business leads would more likely turn into investments if there were initial export transactions to develop a track record. Initial results of this activity are expected next quarter.

United Kingdom "Road Show"

The Competiveness Project sees the UK as a potential source of customers, strategic partners and investors for Macedonia. In June, MCP organized a "road show" intended to engage a range of potential business partners and explore opportunities to develop concrete market and investment linkages. MCP met with a range of potential partners in food processing, light manufacturing, automotive apparel and ICT, as well as chambers of commerce in Milton Keynes and Cambridge. Opportunities are being pursued in ICT, apparel and automotive sectors through the individual vertical components.

IV. CROSS-CUTTING ACTIVITIES

Overview: Activities under MCP Horizontal Program during 2009

During FY 2009, MCP implemented and developed a series of activities—often in the form of platforms and service packages—geared towards addressing issues affecting multiple MCP target sectors or the growth potential of Macedonia’s wider economy. These activities were carried out under horizontal components covering:

- *Access to finance*—Helping companies obtain the financing needed to expand or upgrade, while improving internal financial management and business planning. Investments result in *new exports, jobs, and more competitive companies* able to weather difficult economic periods and thrive in a recovery market.
- *Workforce Development*—Building a wider workforce to meet the needs of the Macedonian economy, and addressing specific skills needs that impact employers’ ability to capture new market opportunities and compete globally. Activities support job creation and enhancement, new exports and investment, and more competitive companies.
- *Foreign Investment Promotion*—Attracting and supporting international investors with the potential to *catalyze transformation within sectors and accelerate job and export growth*. A particular focus is on investment in, and development of, infrastructure services³ and innovations crucial for Macedonian companies to compete in demanding markets.

All three horizontals achieved significant momentum during FY 2009, even though some activities were only in their pilot stages at the start of the year. Not only did the components produce impressive results as activities ramped up over the year, they are now fully operational and poised to drive even greater outcomes during FY 2010. Key outcomes of horizontal program activities include:

- \$10.2 million in new investments, supported by the financial platform, result in over \$5.7 million in new exports and the creation of 336 jobs.
- 318 internships and 40 job placements resulting from the launch of the MyCareer portal since March.
- 27 new investment leads facilitated by the EDA network. Leads in advanced stages have potential value of \$37 million.

The sections below present details of specific approaches, activities and achievements under each of the MCP Horizontal Components during FY 2009.

Rationale for Horizontal Program Activities

Development Context

Macedonia enjoys a number of ingredients favorable achieving the objective of sustained export growth: close geographic proximity to EU markets; relatively low labor costs, an improving business environment, and a tradition in sectors such as light manufacturing, apparel and agro-processing. Unfortunately, a number of cross-cutting constraints undermine major progress. Three major constraints include 1) challenges in accessing finance for investments in upgrades, expansions or new technologies; 2) a workforce that while inexpensive, is not trained or sufficiently flexible to meet industry needs; 3) limited foreign investment—compared to its neighbors—in new capacity, products, technologies, knowledge innovation and other factors that help bring a country to a whole new playing field within international markets.

MCP Response

The Project’s horizontal program provides systematic solutions to these constraints with activities that help companies get the finance they need to succeed, build a more competitive workforce and attract the investment needed to transform Macedonian industries and companies and drive job creation and export growth.

³ In the FY 2009 work plan, infrastructure and innovation was designated as a separate component. However, since most activities in that areas focus on attracting foreign investment, midway through the year MCP incorporating the activities into the foreign investment component. This helped streamline management and staffing without impacting activities or desired results

Access to Finance

Finance is a critical element for the growth and development for any company. Export-oriented companies often require finance for investments in upgraded machinery or facilities or product development, as well as working capital to source inputs and engage export customers where a 90-day gap between delivery and payment is standard. Nevertheless, a World Bank study found that only 9% of companies in

Key Activities	Key Outcomes
<ul style="list-style-type: none">Assisting 46 companies through process of packaging and submitting investment proposalsNew partnerships with equity and venture capital partners	<ul style="list-style-type: none">22 companies receiving \$6.2 million in new financing, resulting in \$10.2 million in total investment, 336 jobs, \$5.7 million in exports24 companies in the pipeline, with potential for additional \$14 million in investment

Macedonia approach banks to finance investments (compared with 16.75% within the Balkan region) and only 13% requested working capital (compared with 26% in the region). This is largely due to perceived unfavorable conditions (e.g. loan terms, appraisal procedures, collateral requirements, etc). Banks, on the other hand, note the dearth of bankable financial proposals for consideration. At the same time, non-banking finance, such as equity or quasi-equity finance is relatively unknown, or rejected as a possible avenue of accessing finance. As a result, local businesses often finance upgrading and expansion projects from their internally generated cash or from FFF (friends, family and fools), rather than approaching a bank or considering equity financing. Ultimately, these companies miss opportunities to grow, penetrate markets or improve profitability.

The Competitiveness Project believes that accessing finance is often a matter of companies:

- being aware of various financing options;
- improving financial management and planning (e.g. corporate finance); and
- developing sound business expansion plans and financial proposals.

In many cases, it entails finding the lender or equity partner that best fits a company's needs. MCP's access to finance program works with companies through this process so they can reach their goals.

Strategic focus and FY 2009 summary

MCP's FY 2009 Access to Finance Component focused on the strategic result area of *capturing new investment opportunities*. This was achieved through the expansion of the Project's Financial Platform, which helps companies develop and present investment proposals to financial institutions. While Financial Platform activities initially focused on supporting credit based domestic investment, the Project has further built the platform into a tool to support strategic partnerships, joint ventures, mergers and acquisitions and other equity deals. Presently, multiple equity investment proposals are in development, with many more expected in FY 2010.

While conventional wisdom might suggest that a Financial Platform may struggle to achieve results during the present financial crisis, MCP has proven the opposite is true. With a tight credit environment, the quality and thoroughness of a financial proposal is even more crucial. Thus, financial institutions are showing a preference for proposals developed in conjunction with MCP financial advisors. Those companies that receive financing are then able to make the investments necessary to survive a prolonged recession or thrive during a recovery period.

As an ongoing effort, MCP also implemented activities that *expand capacity to meet investment needs*. This entailed engagement with financial institutions, either to strengthen relationships with MCP clients and financial advisors, or to encourage them to introduce new financial services and offer a wider array of options to ensure that clients get the right financing solution.

An overview of activities and accomplishments during FY 2009 is presented here.

Table 3: Results of Approved Financing s from Financial Platform (as of September 30, 2009)

Sector	Reason for Financing/ Investment	Approved Financing	Total Investment	Job Creation	New exports
Agriculture and Food Processing	New facility and working capital	\$1,160,000	\$1,740,000	24	\$2,900,000
	Start up business for livestock raising	\$261,000	\$623,500	15	
	Framework loan for restructuring of debt	\$1,450,000	\$1,450,000	0	\$465,116
	Investment in new furnace	\$ 471,544	\$617,723	3	
	New warehouse and introduction of HACCP quality system	\$36,250	\$87,000	10	\$14,500
	New equipment a vinery and working capital for raw material	\$290,000	\$435,000	10	
	Compliance with HACCP standards	\$46,926	\$90,426	5	\$290,000
	Sector Total: 7	\$3,715,720	\$5,043,649	67	\$3,669,616
Services and Trade	New facility	\$362,500	\$507,500	7	\$69,767
	New facility	\$43,500	\$261,000	10	
	Equipment to start business in printing services	\$362,500	\$1,450,000	15	\$145,000
	New vehicle	\$87,000	\$116,000	2	\$34,884
	New vehicles for transportation services	\$507,500	\$529,250	82	
	New facility	\$145,000	\$290,000	8	\$139,535
	New facility	\$29,000	\$203,000	14	
	New facility and working capital	217,500	\$507,500	23	\$238,095
	Sector Total: 8	\$1,754,500	\$3,864,250	161	\$627,281
Light Manu- facturing	Working capital and purchase of new equipment	\$43,500	\$116,000	29	\$250,000
	Purchase of equipment	\$21,750	\$94,250	7	\$23,810
	Purchase of equipment	\$72,500	\$217,500	7	\$205,500
	Purchase of equipment and working capital	\$72,500	\$217,500	29	\$500,000
	Working capital for raw material purchase	\$145,000	\$217,500	4	\$46,512
	New equipment and working capital	\$290,000	\$307,400	24	\$72,500
	Working capital	\$145,000	\$145,000	8	\$325,581
	Sector Total: 7	\$790,250	\$1,315,150	108	\$1,423,903
Total	22 companies	\$6,260,470	\$10,223,049	336	\$5,720,800

**Table 4: Anticipated Results from Financial Platform Financing in the Pipeline
(as of September 30, 2009)**

Sector	Reason for Financing/ Investment	Pending Financing	Expected Investment	Anticipated Job Creation
Agriculture	Working capital	\$72,500	\$94,250	10
	New facility and equipment	\$580,000	\$580,000	20
	Green houses	\$507,500	\$652,500	28
	New facility to resolve production bottleneck	\$870,000	\$1,232,500	35
	Cattle	\$43,500	\$87,000	2
	Sector Total: 5	\$2,073,500	\$2,500,250	95
Trade and Services	Expansion of business	\$217,500	\$290,000	4
	New facility	\$50,750	\$79,750	10
	New equipment	\$29,000	\$72,500	2
	New facility	\$116,000	\$217,500	7
	Working capital	\$194,300	\$324,800	8
	New equipment and vehicles	\$507,500	\$565,500	10
	New facility	\$87,000	\$101,500	4
	New cold storage	\$72,500	\$94,250	1
	Sector Total: 8	\$1,274,550	\$1,745,800	46
Light Manufacturing	New equipment	\$2,755,000	\$2,755,000	25
	New business line	\$1,087,500	\$1,450,000	30
	New business line	\$1,450,000	\$1,740,000	65
	Equipment and working capital	\$350,806	\$350,806	25
	New equipment and working capital	\$29,000	\$58,000	3
	Working capital	\$137,750	\$137,750	5
	New production line	\$1,450,000	\$1,450,000	25
	New equipment and working capital	\$406,000	\$841,000	15
	New business line	\$580,000	\$942,500	63
	Purchase of land and working capital	\$82,650	\$116,000	10
	New equipment	\$36,250	\$36,250	2
		Sector Total: 11	\$8,364,956	\$9,877,306
Total	24 Companies	\$11,713,006	\$14,123,356	409

Financial platform

The Financial Platform is the core of MCP's access to finance component, mitigating a challenge that so often impedes companies' growth. Conceptualized and piloted in FY 2008 in response to a clear need to address the asymmetric information regarding the awareness of available financial products and the quality of financing proposals submitted to banks, the Platform was scaled out in FY 2009. The Platform involves a variety of activities:



Support for investment proposals

The Financial Platform uses a pool of 15 (from 4 in FY 2008) pre-qualified professional local financial advisors who collaborate with companies to clearly formulate business growth strategies, finding the financial solution that best fits those strategies, developing investment plans and producing bankable financial proposals that are submitted to banks or other financiers. In nearly all cases, local or regional financial advisors are used on a cost-sharing and success-fee basis, making the program sustainable and scalable. The Platform has proven itself an effective means to support new investments, leveraging between \$100 and \$250 in new investment for every USAID dollar spent.

To date, MCP facilitators worked with a total of 46 companies. To date, twenty-two (22) of those companies "graduated" from the platform and had their investment proposals approved by a bank or financier. The resulting \$6.2 million in financing enabled these companies to invest a total of \$10.2 million in new products, facilities, equipment and technologies. These investments have subsequently facilitated the creation of 336 jobs and new annual exports of over \$5.7 million. Information on the approved financing, by sector is provided in *Table 3: Results of approved financing from Financial Platform*.

The additional 24 companies in the pipeline are at varying stages in the application process. If all of those companies in the pipeline received the desired financing—MCP financial advisors have a high success rate—the potential \$11.7 million in financing is expected to support \$14 million in new investment, the creation of new jobs and new exports. When combining approved clients and those in the pipeline, MCP's existing client pool will deliver a total of over \$24 million in new investments and create a total of 745 jobs in Macedonia. These indicators will rise into FY 2010 as new clients join the Platform all the time.

While the overall figures resulting from the financial platform are impressive, the impact of the process goes beyond just the investment. In many cases, MCP advisors do more than just prepare and submit a proposal. Rather, they use companies' desire to obtain financing to drive internal restructuring, management improvements and process re-engineering required to make a company 'bankable' in the eyes of a financial institution. Facilitators evaluate performance of product lines to re-orient companies towards a more profitable market strategy, and look for opportunities to cut costs. They streamline expansion plans and establish implementation timetables to enhance the likelihood of success and optimize return on investment. The outcome is not only a new facility or piece of machinery, but a healthier, competitive company better able to weather the tough times while growing rapidly in the good times.

"Most of the financial management data has been cloudy to us. We didn't have a clear picture about the productivity and profitability of different production lines in our company...With the help of the MCP facilitators, we have a more structured understanding of our business. We are now able to improve our internal processes and make cost savings that will make us stronger in the long run."

Viktor Petrov, Owner of VIPRO

We receive financial proposals every day with varying qualities. But when I see a financial proposal developed by an MCP financial facilitator, I can be more confident that the investment plan has been well thought out and the proposal sound. Thus, it is easier for us to evaluate the proposal and make a positive determination.

Aleksandar Stanojkovski, Credit and Guarantee Department Manager, Macedonian Bank for Development Promotion

The Financial Platform has played an important role in helping unlock capital at a time when access to finance is as important as ever. Economic crises as severe as today's has prompted many companies to 'freeze' and 'wait and see' before taking action. Forward-looking companies, however, recognize the need to invest: to reduce costs without sacrificing quality, improve productivity, develop new products or position themselves for more stable markets. The Financial Platform helps companies think through their plans and obtain financing in an otherwise unfavorable environment.

At the same time, banks—which face higher reserve requirements, tight credit conditions and more non-performing portfolios—are eager to be presented with well-considered, bankable proposals. They take comfort in the knowledge that companies going through the MCP Financial Platform process are more likely to survive the downturn and thrive in the long term—and thus prove to be profitable borrowers.

Training of financial facilitators

As MCP recruits and screens professional local financial advisors, it provides regular training to further develop their skills and ensure that companies receive a standard quality of service. Occasionally, the Project will facilitate training on specific topics or skills. For example in March, the Project cooperated with Hypo Alpe-Adria to deliver a one-day workshop on leasing products and how to develop leasing applications. This topic is important as it is an attractive option to debt finance when acquiring machinery or equipment for production. In July, MCP worked with EBRD-financed TAM/BAS for a one week training on Certified Management Consulting (see workforce development section) that is helping facilitators provide even more value to their clients.

Financial platform matchmaking events

As part of the promotional efforts of the Financial Platform, MCP organized a series of matchmaking and educational events. Such events bridge the asymmetric flow of information between financial service providers and companies, and enable companies to engage financial facilitators and financial institutions. Representatives from companies, financial institutions and consulting firms attend the events, which include presentations by participating financial institutions, MCP financial facilitators and companies that have gone through the financial platform process, and discuss how working with their advisor helped them. Often the events end with interactions between companies and the advisors, and thus, new clients. FY 2009 matchmaking events include *Investment Strategy Development and Access to Finance* (February) in Skopje, *Access to Finance in Times of Recession* (June) in Skopje, and *Access to Finance in Times of Recession* (September) in Prilep.

Building relations with financial institutions

MCP and its financial advisors work to initiate and strengthen relationships with both domestic and international financing institutions interested in receiving bankable proposals from MCP-assisted companies. This includes local banks and regional capital market players. Out of the 18 banks present in the country and 8 registered leasing companies, MCP has established excellent communication with most and developed special

Developing market for fee-based consulting services

As its facilitators help companies, the Platform is supporting the evolution of a market for professional consulting services. Initially, many companies balked at paying up to 60% of facilitators' fees. That has started changing as companies see the value of engaging professionals. Companies' growing willingness to pay for financial and management services will encourage the growth of a consulting industry not reliant on donor subsidies to offer their services. At the same time, the experience gained from the MCP Platform will support the emergence of more professional and capable service providers able to support business expansion for years to come.

partnerships communication Invest Banka, Komercijalna banka, MBDP, Tutunska banka, Stater banka, TTK banka, UNI banka, NLB Lizing, Hypo Alpe Adria. Cooperation with EBRD is also very close.

Equity finance initiative

To date, most approved financing has come through loans or leasing. While debt financing will remain a core source of the Financial Platform's investment outcomes, MCP started placing an emphasis on promoting various equity financing options within, and outside of Macedonia, with a specific focus of helping companies engage potential equity investors. Equity investments can be an effective ways to help companies grow faster with less debt burden, while benefitting from the transfer of management know-how that often occurs. While the concept of equity finance is not widely understood in Macedonia, MCPs expects to see opportunities to package and support equity, joint ventures, strategic partnerships, merger and acquisition and venture capital deals generated by specially trained advisors, local counterparts, vertical component clients, and the Foreign Investment Component's EDA network.

MCP Equity Partners

As part of its equity finance initiative, MCP has built a network of equity partners able to service or fund a range of investment opportunities:

Euro Phenix – Hungary-based consulting company that packages and pitches equity investments (e.g. strategic partnerships, takeovers, M&A's) to a variety of institutional and industry partners. Deals of \$3 million and up.

RSG – Slovenian-based venture fund with emphasis on technology-based investments. Covering deals from \$500,000 to \$1.5 million

FIMA – Croatian financial group offering a full spectrum of financial services, from debt financing to equity and M&A deals.

Trade Consulting – Affiliate of Fischer Group, a German M&A company with 50 years of experience and a portfolio of 2600 completed M&A projects.

Throughout the year, MCP took steps to develop relationships with a variety of equity partners operating in Macedonia or the Southeast European region (see text box), interested in packaging and/or financing promising deals. It has also identified professionals, including a number of existing MCP financial advisors, who could package equity deals in a manner (success-fee) similar to that of present financial platform proposals. In early FY 2010, MCP will deliver training to these advisors on M&A and other equity deals.

To raise awareness of the equity option to companies and how to take advantage of that option to reach growth objectives, MCP organized an equity breakfast in October of 2008 (another one is planned for October 2009). During the event, companies not only had the chance to learn about equity finance, but also meet with a number of private equity investors and financial advisors to pursue further business relationships.

Europhenix

As part of an ongoing initiative, MCP organized multiple trips in for consultants from Europhenix, a regional equity financing consulting company. Europhenix met with a total of 40 companies throughout the year. Companies were presented with information on equity financing options through Europhenix. To date, companies are yet to give Europhenix the mandate to help them raise equity, as company managers have been slow to seriously consider the type of equity finance (majority shareholding) that Europhenix is able to offer.

Workforce Development

Although Macedonia suffers from an unemployment rate as high as 36%, companies (and investors) often complain about a permanent shortage of talented employees and candidates. This disconnect between supply and demand of workers represents a serious impediment to companies' ability to compete in a global

economy, to the point that skills shortages are widely acknowledged as the most critical issue facing the growth of Macedonia's economy. The shortages are particularly acute in highly skilled, knowledge-based, innovative and technological areas critical to growth-oriented industries such as ICT, but also hinder competitiveness in traditional sectors like light manufacturing and apparel.

Key Activities	Key Outcomes
<ul style="list-style-type: none">• Roll out of NIJP and MyCareer online internship and job placement portal.• Introduction of certified career development facilitator• Certified Management Consulting Training	<ul style="list-style-type: none">• 2224 students, 145 companies registered on www.MyCareer.com.mk• 318 internship placements and 40 permanent jobs facilitated through MyCareer• GCDF Master Trainers• Pool of CMC consultants expanded

Skills shortages also undermine efforts to attract investment. While tax incentives and low production costs can help attract international companies to Macedonia, the availability and trainability of its workforce often play a large role in the final decision process. If a company considering Macedonia as an investment location feels it must use significant resources to train employees to meet its skills requirements, it may choose to locate where a workforce with the required skills already exists.

MCP's Workforce Development Component uses systematic and market-led solutions to "fix the broken links" between what businesses need and the workforce can offer. It uses engagement with the market, employers, and training/education institutions to identify skills gaps and design programs that either provide individuals with the training and experience needed to be more productive members of the workforce, or help improve the quality, availability, delivery and market orientation of training and education services. These activities can be geared towards improving the overall competitiveness of Macedonia's labor pool, or address issues related to an area of market growth or a specific investment opportunity.

Strategic focus and FY 2009 summary

MCP FY 2009 activities in this horizontal component focused primarily on the strategic result area *addressing national workforce requirements* to meet the needs of Macedonian employers. This included:

- the development and roll-out of the National Internship and Job Placement Program (NIJP) and its MyCareer.co.mk online portal;
- training and mobilizing certified career development professionals—a first for Macedonia—to mentor both students and job seekers in making informed decisions to reach their professional goals; and
- involvement in the national Workforce Development Task Force to support initiatives tackling pressing labor market issues through collaboration between businesses, training and educational institutions, and Government. In particular, the NIJP/MyCareer stood out as a platform able to cost-effectively facilitate internship and job placements throughout Macedonia across multiple sectors. After an aggressive national promotional campaign, use of the MyCareer portal has resulted in hundreds of job placements, with the rate of placements increasing every month.

In the latter half of FY 2009, MCP's workforce development team started working with the Vertical Component team to develop activities under the strategic result area *address sector-specific workforce requirements*. These activities, which will be implemented starting in early FY 2010 involve 1) use of the revolving fund to train new recruits, 2) short-term, cost-shared training programs tailored to meet a specific skills gap; and 3) partnering with industry and training/educations institutions to develop curricula that will produce a pool of candidates for specific industry needs. The workforce development team also worked with the light manufacturing team to develop a standards certification platform that will be offered to companies in FY 2010.

Workforce development task force

Many of gaps impacting the quality of Macedonia’s workforce are systematic. In some cases they are a result of policy weakness, whereas in other cases, outdated curricula, educational practices, career development practices and even employer practices play a role. MCP helped establish the National Workforce Development Task for to create a forum to connect government, education and business stakeholders for a unified effort address these gaps and build a more qualified and globally competitive labor pool. Activities include lobbying for issues of common interest, providing policy recommendations, and developing initiatives focusing on workforce development.

MCP works with the Task Force to organize regular meetings. Three such meetings have been held to date. The first meeting focused on implementing a successful internship program and developing an internship methodology that could be used by companies, educational institutions and students. The outputs of this meeting contributed to the NIJP. The second meeting covered the importance of career development courses (self-assessment, career exploration, career search strategies and management) and how they can help students not only make better career decisions, but take the steps to meet their professional goals. The third meeting focused on the benefits of career counseling. The outputs of this meeting contributed to the GCDF (Global Career Development Facilitators) program introduced by MCP.

All aspects of the workforce development program are designed to have a sustainable impact on the quality of Macedonia’s workforce and leave a lasting legacy in the form of capable institutional partners able to continue workforce initiatives after the end of the project.

In some cases, such initiatives are designed to bring stakeholders (e.g. government, universities, business associations and companies) together to implement solutions to bridge the gap between the needs of business and the quality of students entering the labor pool. In other cases, it involves closely coordinated design and delivery of curricula and training that meet a specific skills set to develop a pipeline of candidates required within a given industry

Whenever possible—as is the case for MyCareer.com.mk—MCP explores was to spin off and initiative to be managed by a local partner and funded via non-donor sources (e.g. advertising, subscriptions, training fees, etc).

Launch of NIJP

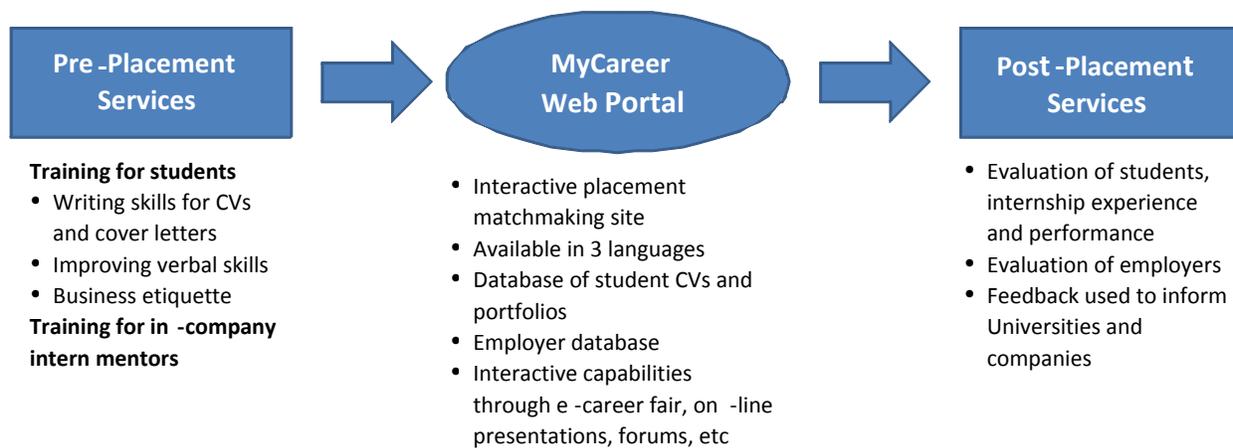
Macedonian employers often complain that applicants (most often recent graduates) lack the skills to work effectively in the modern workplace. Internships can help mitigate this issue by allowing a student to gain professional experience in an occupational area they are considering. Typically, internship experiences provide a level of responsibility where students can develop new skills, capabilities that will not only make them a more credible job applicant in the future, but also help them add more value to future full-time employers that develops.



As part of a major initiative in carried out in FY 2009, MCP launched the NIJP and the MyCareer.com.mk online internship and job placement portal. The initiative provides both interns and employees assistance to optimize the experience of both parties, from pre-placement services, to the use of the MyCareer matchmaking, to post placement services.

In the *pre-placement* stage, the NIJP team offers training for students and job seekers on writing skills (e.g. how to write a CV and cover letter) and “soft” skills (e.g. verbal communication, how to handle an interview, dress code, negotiations, etc). Employers often identify poor communications skills as a main reason they do not award candidates with job offers, and this training helps students increase the likelihood of getting an internship placement, but also prepare them for full-time job applications. NIJP trained 544 students in writing skills and 226 in communications.

Figure 5: NIJP Support throughout Internship Placement



“...Through this experience I am gaining new knowledge and can supplement my theoretical knowledge with practice, which is very important for me. I would like to point out that I have a great support from my mentor and other colleagues who are always available to help me in my work. I am acquiring experience in performing several tasks, like writing reports, loan approval processes, informing clients for the approved loans, as well as working on credit cards for clients...I believe that I’ll have a great benefit from it.”

Intern at Ohridska Banka

NIJP also provides *training for career mentors* or staff responsible for human resource functions and the integration of new employees or interns in a company. Trainings focus on building human resource capabilities within companies and teaching mentors how to use better the skills and knowledge of newcomers by writing clear job-descriptions, how to evaluate the performance of interns (and regular employees), and how to develop curricula for on-the-job trainings. Forty-one in-company mentors also received training.

The www.mycareer.com.mk *online matchmaking portal* serves as a communication tool that brings companies, job seekers, students and career counselors together in one location. Functionalities of the portal allow students and job seekers to upload CVs and a Career Portfolio, companies to add job/internship vacancy, and all parties to take part in e-career fair, in-line forums, video presentations and live chats, all of which are designed to result in the right match faster and easier. In some cases, the NIJP Team helps companies find the right match for a specific posting.

“We have had interns before, but it was limited to candidates that expressed interest and the number varied depending on the students that had visited our website. Now through MyCareer portal we are able to establish a direct link that resulted in over 60 internships ...We are very happy with all of the candidates, we thank them for choosing our company.”

**Slavko Sazdovski, HR manager,
Ohridska Banka, Societe
Generale**

As of September 30, 2224 students and 145 companies had registered on the site, and over 300 internship and 40 full time job positions had been filled. More statistics on MyCareer registration and placement by month are provided below.

During the *post-placement stage* the NIJP team follows the career development of students and job seekers. After facilitating the match, the Program works with the host company to follow an intern’s progress and any impact they may have on the organization. At the same time, students evaluate their experience, and the extent to which they felt challenged. This effort is not only used to guide career development, but also to identify areas where specific knowledge or skills needs should be incorporated into education curricula.

Table 5: Progress of MyCareer indicators (February - September, cumulative)

Month	Feb	Mar	Apr	May	June	July	Aug	Sept
Registered Students	84	232	594	1070	1483	1727	1941	2224
Registered Companies	1	10	21	43	89	107	130	145
Job/Internship Postings	2	8	10	14	47	62	68	90
Students Trained (CVs)			47	360	544	544	544	544
Students Trained (communications)				45	157	191	210	226
Mentors Trained					41	41	41	41
Internship Placements	8	27	43	58	110	192	261	318
Job Placement	4	9	11	16	19	20	29	40

Figure 6: Internship Placements Since Launch of My Career (Cumulative)

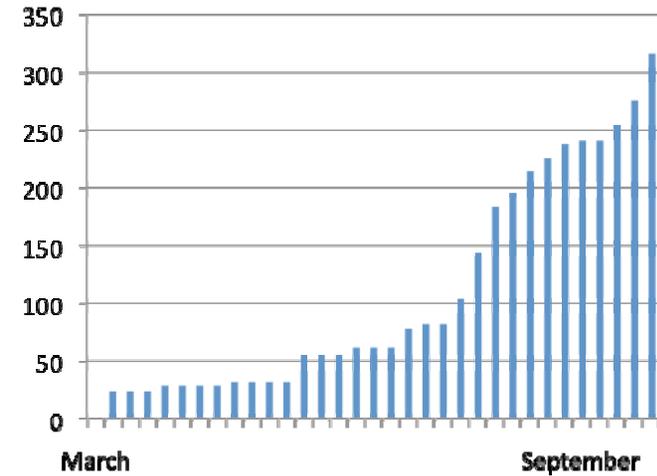


Figure 7: Internship Placements by City

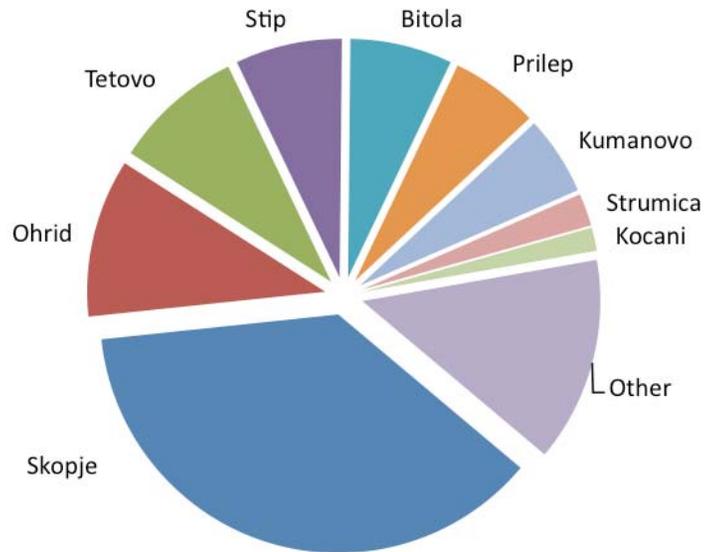
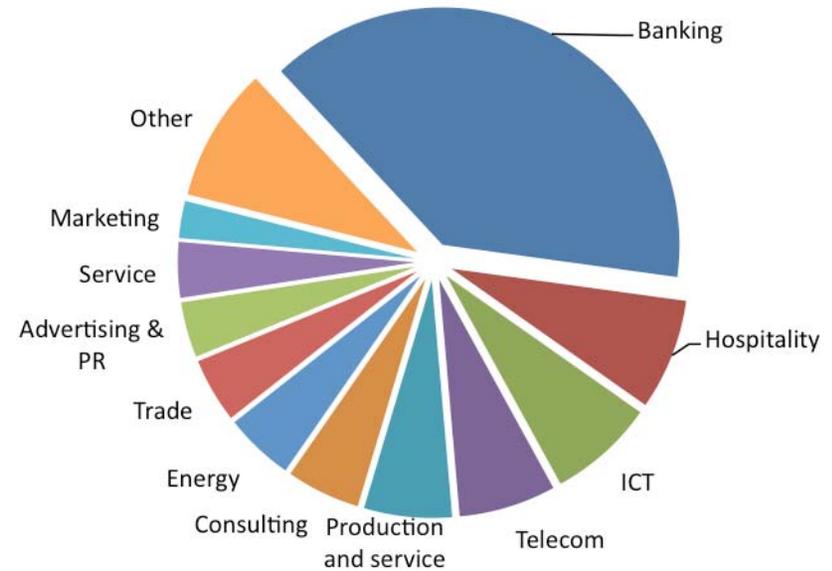


Figure 8: Internship Placements by Business



Promoting the NIJP and MyCareer.com.mk



The long-term success of the My Career portal will depend on its widespread use by both companies and students as an internship and job placement tool. MCP carried out an aggressive nationwide public relations campaign to create awareness and interest of My Career amongst students, job seekers, universities and companies. Road show events were held in 11 cities throughout Macedonia, including (in order) Shtip, Bitola, Prilep, Ohrid, Struga, Tetovo, Gostivar, Strumica, Kumaovo, Sveti Nikole and Skopje. In total, 842 individuals took part, 791 of them students, many of whom registered at or immediately after the events. Other promotional activities include participation in education fairs and a My Career event at the city park. Road show events received significant coverage in national print and broadcast media. To highlight the participation of major companies in the NIJP, MCP organized MOU ceremonies for the following internship partners: Bozhinovski (watch and jewelry, VIP (mobile provider), Vitaminka (food producer), EVN (power distribution), Ein-Sof (IT Company), ERA (Slovenian Trade fair company), Eurolink (brokerage), McDonalds (food chain), Seavus (IT Company), Sigal (insurance company), Skovin (wine producer), Tutunska Banka (Bank), Zhito Luks (food producer), On-Net (Telephony and Internet provider), Alkaloid (pharmaceutical). By getting larger companies involved, MCP helped raise the overall credibility of the program.

Training and certification programs

Through its work in the marketplace and interactions with business and educational counterparts, MCP often finds specific skills and qualification missing, or insufficient in Macedonia. In some cases, MCP responds by developing a training program focusing on those gaps. Whenever possible, these training programs are expected to lead to certifications required for the new skill or qualification to be globally recognized.

Training and certification of Global Career Development Facilitators (GCDFs)

Career Development Facilitators (e.g. university career counselors, career coaches, job search facilitators, employment/placement specialists, human resource career development coordinators) play an important role in helping students and workers take steps to enhance their employability and fulfill their potential. Certified GCDFs are trained and accredited according to the Center for Credentialing and Education (CCE) guidelines to assist in designing, delivering and evaluating career guidance services individuals need to make informed educational and occupational choices, coordinate career development centers, conduct interviews, develop and coordinate human resources strategies and deliver quality career guidance services in educational and employment settings. GCDFs also facilitate access to information resources about the labor market and are specialists in job placement.

The GCDF Program is currently offered in Bulgaria, Canada, China, Germany, Japan, New Zealand, Romania, Turkey, Greece and the United States. The MCP is collaborating with the Business Foundation for Education (BFE), a legacy organization of the USAID-funded Labor Market Project in Bulgaria, to introduce and mobilize the GCDF concept in Macedonia as a means to support crucial career development efforts.

To date, the MCP has selected and trained four master trainers who adapted the GCDF curricula and modules to Macedonian standards. Their role is to provide trainings for additional GCDF trainers and other individuals and supervising them as they deliver their services to the wider public. MCP has identified and selected these additional 30 potential GCDF trainers who will be trained according GCDF standards. Their role will be to conduct trainings for career counselors, to supervise them as they deliver career development advice and support the successful functioning of office/career centre in the institutions they work for.

In order to add value to the program and disseminate the concept wider in the community, selected participants are experienced in delivering trainings with background in counseling and coming from various sectors such as educational sector (universities and vocational schools), municipalities, private sector and training providers. The first GCDF training of trainers will be delivered mid October 2009 where the selected trainers should undergo the certification process.

CMC training

Through programs such as the financial platform, MCP and its client companies depend on local consultants to offer professional financial and management advice. As part of an effort to strengthen the skills of its financial facilitators and the quality of Macedonia's wider consulting industry, MCP collaborated with the EBRD-financed TAM/BAS program to provide training on Certified Management Consulting. The training will expand the number of certified CMC consultants in Macedonia (presently 10). With a larger pool of certified consultants, MCP hopes to see Macedonia obtain full membership status within the International CMC Institute.

Development of industry-led training and certification programs

While most FY 2009 MCP workforce activities focused on national issues, the Project started developing a range of market and industry-led programs that respond to specific export market or investment opportunities during the latter part of the year. These training programs are designed to support either Macedonian exporters that need to enhance the productivity and effectiveness of new or existing employees, or potential investors who need to have access to specific skills sets to smooth out the investment roll-out process. These training programs involve significant cost-share and collaboration with the client and local training institutions to design and deliver curricula. Training and certification programs take different forms:

- Use of MCP's revolving fund (see textbox) to train new recruits;
- Cost-shared short term training programs tailored to meet a pressing skills need;
- Partnering with industry and training/educations institutions to develop curricula that will produce a longer term pool of candidates that meet industry needs; and
- Tailored internship program targeting students and job seekers with a particular skill or educational/vocational background.

MCP's Revolving Fund

During FY 2009, MCP developed a Revolving to accelerate and facilitate the training of new recruits or employees to support business expansion, new business ventures, investments and/or strategic partnerships. As part of the revolving fund concept recruits and employers share the cost of competency development programs. New recruits or applicants pay 10% of the training costs upfront, the company pays 20%. MCP uses the fund covers the final 70% and assists in the design and delivery of the program. Once the training is complete, hired recruits are expected to replenish the fund within 6-8 months. The companies withholds a certain amount from each employee's pay check until the 70% of paid by the revolving fund is recovered. Trainees who are not employed immediately will not be expected to pay back the fund. The funds are then recycled to finance new training programs.

While the Workforce Development team will manage these industry-led training activities, design and delivery of the training will be led largely by the vertical sectors or Foreign Investment Component Teams. Pending examples include:

- Animation and digital animation training (using the revolving fund) to support the deal between FX3X and a leading Hollywood studio (see ICT section). The curriculum has been developed and the program will begin in October/November 2009.
- Training program to support Johnson Matthey's (one of Macedonia's flagship international investors) recent automotive investment (catalysts) and a proposed pharmaceutical investment. MCP is awaiting the training specifications their Human Resources person.
- Collaboration with an automotive company in Kocani to develop a vocational training program within nearly secondary and vocational schools to build a pool of potential employees with the technical skills the company requires.
- Collaboration with Cambridge University and the Faculty of Mechanical Engineering to support a manufacturing development unit (MDU) that will help SMEs develop new products and improve operations.

MCP expects to explore additional industry led training partnerships further into FY 2010.

Foreign Investment Promotion

Foreign investment enables a country like Macedonia to quickly generate new jobs and exports, while benefitting from transformational global market linkages, technology and knowledge transfer, domestic supply chain development and upgraded skills base.

Key Activities	Key Outcomes
<ul style="list-style-type: none">• Mobilization of EDA network developing FDI leads.• MOU with Invest Macedonia• Facilitation of potential logistics park investment.	<ul style="list-style-type: none">• 27 FDI leads from EDA network. Three are in later stages with potential investment of \$37 million• Logistics Park in advanced stages (negotiating with government).

Now is the right time to attract investment to Macedonia. Not only has the Government enacted a favorable legal and incentive regime, but the economic crisis has caused global companies to investigate new investor-friendly and lower-cost locations to make their supply chains more competitive. Furthermore, Southeastern Europe, including Macedonia, is an emerging investment destination considered by many investors in Europe, and further east as Asian companies look to gain proximity and duty-free advantages to penetrate the EU market.

Despite the opportunity, Macedonia remains off the map for many, and little-known by others. With the right pitch and support, these investors could make Macedonia their home. The Competitiveness Project's Foreign Investment program supports Macedonian efforts to attract investments likely to significantly increase employment and export growth or have a transformative effect on the Macedonian economy. MCP's efforts go beyond the green field investments targeted by Invest Macedonia and include joint venture and strategic partnerships in local companies.

Strategic focus and FY 2009 summary

One important element of the MCP FY 2010 Foreign Investment component focused on *developing an investment pipeline*. This entailed building and mobilizing a network of economic development agents (EDAs) tasked to identify and capture targets for investments, strategic partnerships, and sourcing deals on a success fee basis. Piloted towards the beginning of FY 2009, the network is operational and bringing new leads that are screened and supported by the MCP team. To date, the Team is working on multiple potential deals. The concept is so appealing that Invest Macedonia is looking to replicate the EDA model.

FDI: Link with Vertical Program

The Foreign Investment Program plays an important role in magnifying the impact of efforts in both vertical and horizontal components. Investment efforts targeting potential investors and strategic partners in MCP target sectors are critical to spurring growth and transformation within the sectors and related companies/supply chains. At the same time, investment promotion can focus on attracting investments that builds upon or complements various MCP initiatives. For example, the foreign investment program is helping attract new sources of equity finance and promoting investments to expand availability of crucial infrastructure services that will boost the competitiveness of target sectors.

In addition to identifying new leads, MCP developed a program to *service potential investors*. This involves hand-holding, troubleshooting, assisting in due diligence and offering services to lower the decision threshold for an investor considering a deal in Macedonia. During FY 2009, a good deal of effort was focused on bringing two deals to their advanced stages: a potential investment in a logistics park (\$10 million investment) that to catalyze further investment in logistics and lead time dependent manufacturing; and a strategic partnership between fx3x and a Hollywood studio (see ICT section). MCP also designed the revolving fund (to be managed by the workforce development team) to service the training needs of potential efforts. The Project expects the fund to be used by a number of investors in FY 2010.

As part of an ongoing initiative, MCP collaborated with Invest Macedonia and (to some extent) the Minister of Foreign Investment in order to 1) cooperate in the identification, screening and support of priority investment leads, and 2) **strengthen government investment promotion capacity** to identify and service investors.

Activities included training for Invest Macedonia's Country Economic Promoters (CEPs, different than EDA) and provided guidance on ways to improve the organization and coordination of GoM investment promotion activities. As part of an important legacy initiative, MCP is working with Invest Macedonia to help the Agency develop a network similar to that of the Project's EDA network (professionals living abroad, paid on a success basis), and even take on MCP's own EDA network when the Project closes.

Collaboration and capacity building for Invest Macedonia

Since the beginning of the project, MCP has developed a partnership with Invest Macedonia (and more recently the Minister of Foreign Investment) to maximize the impacts of collective investment promotion efforts.

In November 2008 MCP supported the visit of an investment promotion group comprised of Macedonian government officials and business leaders to San Francisco, CA and Chicago. The investment tour group held meetings with major US businesses and learned about these companies' requirements for outsourcing. While



the tour generated many possible leads and interest among the Macedonian Diaspora in the US, no deals were finalized during the investment tour. During the visit it became clear that even some of the strongest businesses in Macedonia require more training and assistance with regards to international marketing.

In May 2009 MCP signed an MOU with Invest Macedonia that provides a formal framework for joint export-oriented investment promotion efforts. The MOU defines the roles and responsibilities of both parties and outlined ways to leverage synergies and efficiencies in their respective programs through cooperation. One area where MCP expects to see a fruitful relationship is in Invest

Macedonia's referral of investment leads that do not involve green field projects. Since Invest Macedonia is not mandated to support brown field investments, mergers and acquisitions and joint ventures, past opportunities to facilitate possible investments were lost. The MOU has helped clear the way for MCP to take responsibility for following up on these leads.

In June, MCP provided training to Invest Macedonia's Country Economic Promoters (CEPs, Macedonians living abroad engaged to promote the country as an investment location). The training included marketing skills, networking and leveraging resources to attract investment.

Mobilization of Economic Development Agent (EDA) Network

To increase the flow of potential investor leads, MCP has developed a network of professionals in Macedonia and abroad (e.g. presently in India, Israel, Russia, Slovenia and UK), tasked to identify contacts interested in investing in Macedonia (direct investment, strategic partnerships, joint ventures, or M&A). MCP uses a tiered incentive scheme where agents are compensated based on the quality of leads generated and the outcome of the actual leads. While compensation for a specific qualified lead is relatively small, the compensation for a lead that becomes an actual deal is much larger. Once leads are generated and qualified, MCP works with the FDI agents to develop a plan and offer investors specific services, as appropriate (see below).

After the initial experience with the FDI agents, MCP decided to extend the role of the FDI agents to include export opportunities (see Cross-Sector Market Linkage Section under the Vertical Component).

Throughout the year, FDI agents have generated 27 opportunities under consideration by MCP for qualification and next steps forward. Three of these potential opportunities are in final stage with expected investment of \$37 million including a regional distribution network company, logistic center, and commercial real estate.

Provision of service to potential and existing investors

The Competitiveness Project offers interested investors a series of services to help them either choose to invest in Macedonia, or accelerate the roll-out (and thus employment and export generation) of a given project. Activities include assistance in identifying local partners, feasibility validation, communication with government agencies, regulatory troubleshooting, capacity-building support for domestic suppliers, and tailored workforce development programs.

Facilitation of logistics park investment

MCP continued efforts to facilitate a major investment in a new export-oriented logistics park in Skopje involving a well-known international commercial real estate company. The potential investor not only specializes in the development of industrial and logistics parks, but also has an extensive network of international business clients, putting it in a position to suggest that major industry players consider locating operations within its Skopje facilities if the investment is realized.

If this proposed logistics parks were to become reality (which all indications suggest it will), it would not only offer world-class logistics services needed for companies to be more competitive, but also play a role in attracting new investors to Macedonia (particularly in industries where logistics costs and speed to market are an important success factor, such as light manufacturing and product assembly). The proposed immediate investment—valued at \$10 million—could generate millions more in further investment, as local and international companies locate themselves within the park or use its services, benefiting from cost-reductions and efficiencies that world class logistics services could bring to their operations.

In April, MCP organized an investor mission for the potential investor. MCP arranged meetings with key government officials, (including Invest Macedonia, Prime Minister, Minister of Transport and Communications, and Deputy Prime Minister), potential local partners and park tenants, and USAID to discuss various aspects of the proposed investment. The real estate company identified a preferred site for the location and sketched out a basic investment framework with the Government. Within two weeks of the trip, the real estate and its investor partners stated intentions to move forward on the investment.

Throughout, MCP has provided the investors with information and advice needed to prepare/finalize a profit and loss (P&L) analysis of the real estate part of the investment (i.e. logistics park infrastructure), assisting in communications with the government of Macedonia to clarify questions or address minor issues that have arisen. At the same time, MCP engaged a local financial advisor develop the P&L analysis to be used for attracting a world-class logistic service provider to serve as the anchor for the logistics park.

In June, MCP organized another trip for the investor's team to finalize the terms for land for the site, continue communications with top level central and municipal government officials interested in the deal. During the visit the investor raised several remaining considerations in terms of the final framework of the investment.

In September, the investor paid additional visit to Macedonia and started negotiating terms of investment with high-level government officials. It is expected that the government will present its final offer in early November.

V. KNOWLEDGE MANAGEMENT

Communication and Outreach

The Competitiveness Project carries out an ongoing Communications and Outreach (C&O) program to introduce new business models and export development concepts and raises public awareness of MCP approaches, activities and achievements. The C&O component uses a variety of communication and outreach tools, including holding public events and conferences, producing and disseminating information via promotional materials, newsletters, success stories, white papers, and the MCP project website. Press releases and press clippings about MCP's work are submitted to USAID on a monthly basis. In addition, MCP is providing regular contributions to USAID and RCI newsletters. Information on C&O outputs by specific outreach medium is provided below.

MCP Project website

The Project web site: www.mcp.org.mk is updated regularly, by posting relevant content in the news and events section for the Project activities. It offers a wide range of information to all Project counterparts and the public about upcoming events, project announcements, project success stories and press clippings.

MCP Newsletter – Macedonia Competes

MCP launched its "Macedonia Competes" newsletter, a regular publication that will focus on a variety of relevant subjects for clients and partners. The series will examine approaches to different issues and sectors, while presenting the experience of the companies and organizations putting them into practice. This quarter's newsletter, "The Financial Issue," provided in-depth information about the MCP Financial Platform approach and achievements to date. Project partners, Bams Treid, ZAVAR and VIPRO, NLB Leasing shared stories about how they benefited from MCP collaboration. The newsletter is distributed widely, including USAID Projects in Macedonia, other international organizations and projects, USAID Missions in the region, Project partners and counterparts, Macedonian embassies abroad, and is available for download from the Project web site. Electronic and printed copies of the newsletter were distributed to the participants of the fourth annual RCI conference in Kiev, June 16-18.

MCP Services Brochures

MCP designed and published brochures promoting its Foreign Investment Service Program, Financial Platform, and National Internship and Job Placement program, which described the variety of services available to potential investors, companies, students, universities, and other beneficiaries. They have been distributed at trade fairs, business-to-business events, meetings with international industry players and MCP's FDI Agent network. The brochures are available for download from the Project website. MCP also developed brochures promoting specific services for target sectors -- light manufacturing, apparel, and ICT, -- which will be published and distributed shortly.

Thought Leadership Articles in Kapital

As part of a long term arrangement with local business magazine "Kapital," members of the MCP team drafted a number of articles about various issues within the Project's vertical and horizontal components. On October 2, 2008 Kapital printed an interview with Les Nemethy, managing director of a Euro-Phoenix, describing the MCP's program aimed at attracting equity investors in Macedonia. Simon Avramovski and Danco Uzuno, partners and owners of Point Pro, one of the main MCP partners in the financial platform, had an interview in the special edition of Kapital, elaborating on the growth of consulting business in Macedonia, which is closely related to the growth of Macedonian businesses. They also discussed the MCP financial platform and the

importance of good business strategy in terms of investment. In the same special edition of April 2, MCP team had a joint article on how important innovation is for growing a business and remaining competitive. On April 30, Kapital printed an article written by MCP Workforce Development Component Leader Visar Ademi about the importance of human capital for the competitiveness of an economy. On May 14 Kapital, another article promoted the internship concept in Macedonia, and recent My Career achievements. This article, aimed at the business community, detailed positive experiences and benefits of the Program as seen by partnering companies and participant students' interns. (Copies of these articles are included in monthly press clips). On July 2, Kapital printed an article written by Nimish Jhaveri, MCP's chief of party, elaborating on how important it is for the companies to keep the competitive edge, and the ways in which MCP could support them in these efforts. In July 16 Kapital edition, MCP support for the Macedonian automotive industry has been promoted, including the support for ten Macedonian automotive components producers using the opportunity to present their potentials and to put Macedonia for the first time on the world map of countries producers in automotive industry at the Stuttgart fair in June.

Success stories

MCP publishes success stories to share information about specific accomplishments of the Project or companies and organizations it works with. Several success stories have been published during the year, including a success story entitled "USAID MCP internship Program brings hope to Macedonian graduates" that celebrates the initial success of first internship placements under the Internship and Job Placement Program; a story on an animated movie produced by local animation firm, FX3X; as well as a success story about the achievements of MCP's Financial Platform entitled "Macedonian companies benefit from investment in time of global crisis." The success stories are shared with the client (USAID Macedonia), distributed to partners and counterparts, and are available for download from the Project web site.

MCP Events

The Project regularly organizes communication and outreach events to raise awareness or enhance effectiveness of specific initiatives. An overview of these events this quarter is provided below:

Road show and press releases covering NIJP

MCP organized a six-week road show (April 22–June 6) with 12 separate events throughout Macedonia, which raised the national profile of the program nationally. These events were covered by more than 40 Macedonian local and national media, creating a "buzz" and increased interest in the My Career program. The number of students registered to use the services of the My Career portal has risen from 300 to 2,200, and the number of companies increased from initial 14 to more than 140.

MCP also held a press conference on May 19 to celebrate the partnership established between MCP's National internship and Job Placement Program and 17 leading Macedonian companies involved in the program. On June 6 an event was organized in Skopje City Park, to commemorate the completion of the "My Career" campaign.

Presentations on accessing finance

As part of the educational and matchmaking efforts of the Financial Platform, MCP organized five matchmaking and equity events covering different topics and different audience. Such events bridge the asymmetric flow of information between financial service providers and companies, and enable companies to engage financial facilitators and financial institutions. Over 300 representatives from companies, financial institutions and consulting firms attended the conferences. Presentations were made by financial institutions, who often promoted their new and innovative products and services; financial facilitators, who described their role in facilitating access to finance for companies, as well as beneficiary companies explaining how important

the advice from the facilitators have been for the companies' growth and success. Unlike the other financial platform events, last conference took a more regional approach and was held in Prilep on September 17, on "Access to Finance in Times of Recession." All of these conferences received extensive media coverage in national television networks and newspapers.

Media outreach

The Competitiveness Project regularly uses Macedonian national and local media as a tool to deliver messages to the public, and gain greater public awareness of the Project's activities, concepts, achievements and results. This quarter, MCP activities and achievements were featured in national television shows and newspapers. Public events, conferences, and presentations organized this quarter (outlined in the previous section) received extended media coverage in major national printed media. This includes Kapital business weekly, Berznik weekly, Nova Makedonija daily, Utrinski Vesnik daily, Vecer daily, Biznis daily, Vreme daily. Also major national television networks covered MCP events, including Kanal 5, Kanal 5+, Sitel TV, Sitel 3 TV, Macedonian National Television (MTV), Telma TV, A2 TV, Alfa TV, Nasa TV, AlSat M, AB channel. Radio Free Europe, Antenna 5, City Radio and many local radio stations. Online news portals, such as TOTAL, kumanovonews.com, pressmonitor.com, also covered MCP activities. The National internship and Job Placement Program, "My Career" benefited most from the media outreach. Specific examples this year include:

- In the February 11, 2009 edition of Tea Moderna, (a life style magazine that is distributed with three national daily newspapers, Utrinski Vesnik, Dnevnik and Vest), featured a three page interview with the Competitiveness Project COP. This provided a great opportunity for MCP to raise public awareness about Project activities to a wider audience. The focus of the interview was the Internship Program and the importance of internships in general, as a tool to mitigate the labour market gap.
- On February 19, 2009 MCP Communications, Monitoring and Evaluation Specialist, Tatjana Mitevaska and MCP Access to Finance and Infrastructure Services Component Leader, Mirjana Makedonska had a joint radio interview on the first channel of National Macedonia Radio, where they presented Project activities and services, and specifically focused on Project access to finance services.
- On February 26, 2009 MCP Project Specialist Lidija Damceska had a television appearance in the morning program of the Macedonian National Television (MTV), where she presented the Internship Program, My Career portal and announced the press conference held later that day.
- On March 26, 2009 MCP Communications, Monitoring and Evaluation Specialist, Tatjana Mitevaska and MCP Access to Finance and Infrastructure Services Component Leader, Mirjana Makedonska had a joint television interview on the first channel of National Macedonian Television (MTV1) morning program, where they presented Project activities and services, with a special focus on Project access to finance services. This interview received significant public attention and resulted in a number of companies contacting the Project and asking for specific Financial Platform services.
- On April 9, MCP Project Specialist Goce Peshev gave a television interview at the Macedonian Television morning program, where he presented the Supply chain management training opportunity offered at the time, to Macedonian companies.
- On May 14, MCP Light Manufacturing Component Leader Dejan Janevski and Director of Macedonian Automotive Cluster Vladimir Tevdov, gave a joint interview on national Macedonian Television morning program, where they presented Macedonian automotive parts industry, informed the public about the establishment of the cluster and advertised the upcoming European Automotive Component Expo to interested Macedonian companies.
- MCP Project Specialist Lidija Damceska gave a live radio interview at the national Macedonian radio morning program on May 14 and on May 25 explained the NIJP's latest achievements live on the national satellite television Nasa TV.
- On June 6, MCP Project Specialist Lidija Damceska and My Career implementing partners (ITC and CDS) representatives appeared live on the morning program "JOURNAL" of the SITEL National Television,

where they presented the Internship Program, My Career portal and announced the happening at Skopje City Park later that day.

Performance Monitoring Update

Overview

As part of an ongoing effort, the Competitiveness Project monitors to measure overall impact and ensure it is focusing resources on the most cost-effective areas, and make appropriate, timely adjustments. The monitoring and evaluation system is a vital tool for measuring the impact of project activities on firms and supply chains in the targeted sectors, making it an important instrument, not only for project reporting, but equally so for project management. Project activities outlined in this work plan are organized around measurable project performance targets (see PMP Table below).

The monitoring and evaluation system incorporates different methods to measure the outputs, outcomes and impact of MCP activities, such as interviews, surveys, regular relationships with the client companies, updated company profiles, etc. The system tracks updates on all PMP indicators, such as sales, exports, number of employees, new capital invested, etc. Regular visits and good relationships with client companies are essential to get updated information on the results of project interventions. All companies and individuals benefitting from MCP activities are required to fill in simple questionnaires prior to and after the completion of the intervention providing data to be captured and tracked in the project PMP. This information serves as a feedback mechanism to guide project management and implementation, and monitor the popularity and use of specific activities and programs.

MCP FY 2009 progress against Performance Monitoring Plan (PMP) Targets

Although the economic crisis impacted MCP performance against its PMP indicators, the Project showed robust results across the board. A review of performance under each indicator is provided below.

- 1) **Number of firms receiving USG assistance to access bank loans or equity -62 companies have engaged MCP** to work out business and investment plans necessary to access finance, exceeding the target of 30. A total of 46 companies have received assistance in accessing finance through the financial platform, exceeded the yearly target of 30. While the financial crisis has impacted overall provision of credit in the Macedonian economy, the crisis has not had a large impact on the financial platform, in fact, banks have shown a preference for financial proposals from MCP clients.
- 2) **Number of firms that successfully accessed bank loans or private equity as a result of USG assistance – 22** companies accessed finance as a result of financial platform assistance, totaling \$10.2 million. Continued progress in this area is exciting given the tight credit conditions within the market.
- 3) **New capital invested in Macedonian firms, through project interventions (million \$)** – MCP activities contributed to a total of \$16.24 million being invested in Macedonian operations. This includes investment facilitated through the financial platform and other activities. It does not include transfer of proprietary licenses provided (as an in-kind investment) to Fx3x as part of a new partnership with a Hollywood visual effects studio. These licenses, which do not have a market value, will allow Fx3x to take advantage of a multi-million dollar pipeline likely to come from the studio.
- 4) **New capital invested in Macedonian firms by external agents, through project interventions (million \$)** – MCP activities facilitated \$5.8 million in new external (foreign) investments in a juice processor with foreign shareholders. MCP recommended changes in their management and operations. MCP expected to see a close of a \$10 million logistics park investment involving a US-based real estate company before September 2009, although negotiations between the Government of Macedonia and the potential investors over the land tender have taken longer than expected.
- 5) **Percent of firms' new investments financed through external agents** – 36% of investment support by MCP activities came from external/foreign sources (see above).

- 6) **Number of firms receiving USG assistance to improve their management practices** – 98 companies received technical assistance aimed at improving management practices, exceeding the target of 20. This includes companies that received training in mentoring and the career development interns and employees (e.g. improving human resource management) and companies that are provided advice on improving business and financial management (and often restructuring internal management processes and systems as a result) as part of the financial platform. Many of these companies are receiving such support on an ongoing or sequential (more than one type of technical assistance) basis. Eight automotive companies attended the EAC Show in Stuttgart Germany, and three apparel companies attended CPD in Dusseldorf, Germany. While taking the step to attend a trade show is considered a good management practice, MCP does not track these companies until they attend a second show and play a more active role in pre-show marketing (with MCP help) and pay a large share of the total show costs.
- 7) **Number of firms receiving USG assistance to invest in improved technologies** – Twenty-four (24 companies) invested in new technologies as a result of MCP activities. This includes a number of companies who access finance for these investments via the Financial Platform.
- 8) **New job capacity added in Macedonian firms** – MCP activities help increase new job capacity to 1860. This includes the creation of 693 new jobs, over 300 intern placements and individuals receiving training that will help them become more employable. Many placed interns received training as well, but are only counted once. The total job number falls short of the target, largely due to the economic crisis, where many employers are either laying off workers or slow to add new workers.
- 9) **Increase in total exports as a result of project intervention. (million \$)** – MCP activities resulted in \$8.38 million in new exports. This is in spite of the fact that the economic crisis depressed new exports leaving Macedonia. In addition, activities in the light manufacturing and ICT sectors have resulted in a multimillion dollar pipeline likely to be realized in FY 2010.

Table 6 below provides details on MCP targets and performance to date.

Table 6: Performance Monitoring Plan

	Performance Indicator and Unit of Measurement	Indicator definition	Baseline	Target FY2008	Actual FY2008	Target FY2009	First quarter FY2009	Second quarter FY2009	Third Quarter FY2009	Fourth Quarter FY2009	Actual FY2009 (NEW)	Target FY2010
1 *	Number of firms receiving USG assistance to access bank loans or equity.	Firms referred to accessible bank loans or equity.	N/A	20	23	30	18	10	24	10	62	40
2 *	Number of firms that successfully accessed bank loans or private equity as a result of USG assistance.	Firms that have been referred to, have accessed bank loans or private equity, and have acquired new capital to expand operations.	N/A	4	0	15	2	6	3	11	22	25
3	New capital invested in Macedonian firms, through project interventions. (million \$)	A total of new capital invested in firms, (includes foreign, domestic, joint ventures, recycling of profit, bank loans and equity financing.)	N/A	6,00	1,80	20,00	3,05	7,97	0,77	4,45	16,24	35,00
4	New capital invested in Macedonian firms by external agents, through project interventions (million \$)	Portion of the new capital invested in firms from foreign sources.	N/A	4,00	1,20	15,00	2,30	3,50	0,00	0,00	5,80	26,00
5	Percent of firms' new investments financed through external agents.	The FDI in firms as a percentage from the total capital invested.	N/A	67%	67%	75%					36%	74%
6 *	Number of firms receiving USG assistance to improve their management practices.	Firms receiving project assistance to improve their management practices	N/A	10	84	20	9	10	43	36	98	45
7 *	Number of firms receiving USG assistance to invest in improved technologies.	Firms receiving project assistance to invest in improved technologies or facilitate its access.	N/A	5	82	10	9	5	3	7	24	10
8	New job capacity added in Macedonian firms. (disaggregated by gender)	Total	N/A	500	353	2.500	141	444	844	431	1.860	3.000
		a. New jobs created or filled in targeted firms, including estimate of their supply chains as result of assistance provided.	N/A				136	382	41	134	693	
		b. Employable workforce developed to meet demand from employers.	N/A				5	35	720	89	849	
		c. Internships placements	N/A				0	27	83	208	318	
9	Increase in total exports as a result of project intervention. (million \$)	Increase in the total of exports in goods and services as a result of project assistance.	N/A	2,00	0,00	8,00	0,93	3,97	0,79	2,70	8,38	10,00

*Some companies have received assistance over multiple periods and only counted once (for the initial quarter). Some companies have received assistance in multiple areas.