

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

C. STATEMENT OF WORK

C.1 EXECUTIVE SUMMARY

The goal of the **Macedonia Competitiveness for the 21st Century** project (**MacComp-21** or Project) is to help Macedonia improve its competitive position within the global market place. In coordination with USAID/Macedonia, the Project will identify and select certain industry sectors and provide necessary technical assistance to improve the productivity and technological capabilities of private enterprises, and the business environments in which they operate. This effort will result in increased private sector contribution to the Macedonian economy and employment generation. Specifically, areas of assistance will include, but not be limited to the following areas:

- Introducing and or improving business practices;
- Introducing innovation, and new and appropriate technologies;
- Developing workforce skills;
- Establishing business advocacy organizations; and
- Improving access to capital.

C.2 INTRODUCTION

This project is consistent with the Economic Prosperity and Security section of the Department of State/USAID *Strategic Plan for Fiscal Years 2004 to 2009*, as the Project contributes to strengthening of world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation¹. The Project will be implemented under USAID Macedonia's Strategic Objective (SO) 1.3: Accelerated Development and Growth of the Private Sector, program component Improve Private Sector Competitiveness.

This Statement of Work (SOW) describes a five-year technical assistance intervention. The Project builds on several previous or existing economic growth activities in Macedonia, while increasing the focus on private sector competitiveness. Set forth below is a description of (a) the current business environment in which small- and medium-sized enterprises (SMEs) operate in Macedonia and USAID Macedonia's prior activities and achievements in the existing environment; and (b) the Project's expected results and illustrative activities for each Project component.

C.3 BACKGROUND

C.3.1 Economic Overview

Despite assistance from USAID and other donors, Macedonia's economy has yet to show major progress. GDP growth of 3.8 percent in 2005 is far behind other developing countries in the region. This growth was generated by increased industrial production (mostly metals) and rapid expansion of services (*e.g.*, transport, telecommunications, trade and financial services). Exports grew by 22 percent last year, but still lag well behind imports. Principal exports are textile, steel and agricultural products, which are competitive in global markets because of plentiful raw

¹ http://www.usaid.gov/policy/budget/state_usaid_strat_plan.pdf

materials and cheap labor. High value added products comprise a very small share of overall exports. The European Union is the main destination of Macedonian exports, followed by ex-Yugoslavian countries. (see http://www.wto-ca.org.mk/dokumenti_en.htm)

Foreign direct investment in Macedonia in 2005 was estimated at only \$90 million, ranking Macedonia at the bottom in the region. Forty percent of investments went into the service sector, mainly banking and retail, while sixty percent was invested in manufacturing, predominately in the metal and the pharmaceutical industries.

Unemployment continues to be a concern in Macedonia; the current rate of unemployment is estimated to be steady at 37 percent. There is an excess supply of unskilled labor (52% of the unemployed); while the private sector often complains that they can not find the professionals they need. Thus, the mismatch of skills between the labor supply and labor demand is very high. In addition, greater flexibility of the labor market is required to support job creation in the private sector. The European Commission in its avis (opinion) on Macedonia's EU membership highlighted the need to reduce unemployment and strengthen investment, both domestic and foreign, before the EU could consider opening accession negotiations. (see [http://www.cea.org.mk/Documents/ First USAID report labor final 4.pdf](http://www.cea.org.mk/Documents/First_USAID_report_labor_final_4.pdf))

Employees are concentrated in mining and manufacturing (26%), public administration, education and health (20%), agriculture, hunting and fishing (17%) and trade (14%). New jobs are mostly available in the service sectors, while employment is declining in agriculture, manufacturing and the public sector.

The agribusiness sector is important to Macedonia, accounting for about 15 percent of Macedonia's GDP. Agricultural production accounts for two-thirds of this and the remaining one third is food processing. Food exports predominantly tobacco, processed and fresh fruits and vegetables, beverages, and lamb comprise approximately 17 percent of total exports. Together agriculture production and processing employ approximately 14 percent of the total workforce.

Infrastructure reforms have made some progress. For example, the energy sector is undergoing restructuring with the recent privatization of the energy distribution company. Railroad restructuring is in the early stages of development. A new progressive electronic communication law was adopted in 2005, but the sector has yet to recognize full benefits of liberalization and as a result, Internet penetration remains much lower than other EU accession countries. USAID's efforts to establish a wireless Internet throughout the whole country is expected to increase Internet usage among students, businesses and the broader public. The wireless network provides competition for the monopoly telecommunications provider in Macedonia and has already resulted in lower prices for broadband access and also increased PC and internet usage.

The inflation rate of about 2% is very low by the standards of other transition countries. Much of the extensive gray market activity, currently estimated at 40 to 45 percent of the official GDP, falls outside official statistics. Relatively tight fiscal and monetary policy, in line with IMF recommendations, acts as a brake on faster economic expansion.

The key challenge facing the Government of Macedonia in the near to medium-term is the need to focus on promoting economic growth and job creation based on robust private sector led

activity, and increased foreign and domestic investment.

C.3.2 USAID Economic Growth Assistance

USAID support for economic growth is focused under Strategic Objective 1.3 Accelerated Development and Growth of the Private Sector. Under this Strategic Objective, efforts are directed to improve the business environment, make private firms more competitive, and address unemployment and underemployment. Assistance to the private sector falls specifically under Intermediate Result 1.3.2 Private Sector Firms More Competitive.

The program of the Economic Growth (EG) Office is highly integrated with the other USAID offices. The democracy office works on strengthening the civil society and increasing citizens' participation in all levels of government, implementing effective decentralization and helping the Government to reform the judiciary, which includes increasing the efficiency of courts and bringing its laws to a European standard. More effective rule of law, increased transparency in both government and business transactions, and reduced corruption are key prerequisites for economic growth. The education office focuses on reforming primary and secondary education by making it more responsive to private sector needs, ensuring it provides students with employable skills to compete in the job market and taking advantage of the available information and communication technology. The most prominent areas of cooperation are in workforce development, increasing use of ICT and Internet penetration, and engaging local governments in local economic development.

For more detailed discussion of the USAID Macedonia assistance program, in particular its economic growth assistance, and other relevant documents, please refer to the USAID public website www.usaid.gov or the USAID Macedonia website <http://macedonia.usaid.gov/>. Below is a brief discussion of current and future USAID programs directed toward accelerating the development and growth of Macedonia's private sector.

C.3.3 Current and Future USAID Efforts to Improve the Competitiveness of the Private Sector

In the new Mission strategy (currently under development), to begin in 2007, the economic growth programs will be focused on two Intermediate Results (IR) and will be comprised of the respective projects:

Improving Private Sector Competitiveness

MacComp-21 In 2007, USAID intends to implement this new project, which will be a lead project in this IR.

Macedonian Agribusiness Activity (MAA) – In 2007, USAID intends to implement this new project, which will be a lead project in this IR. This project will increase the competitiveness of targeted agriculture sectors and economic growth in Macedonia through expanded, environmentally sustainable production and sales of value-added agricultural products. The project will enable agribusinesses to identify and enter new export food markets; increase producers' and processors' capacity to understand and meet market demand for value-added food products; enhance market linkages between producers, processors, and traders; improve business management and operations throughout agribusiness value chains; and produce greater incomes for agricultural producers and processors, and create new employment opportunities.

Seal of Quality and Agribusiness Assistance (www.sealofquality.org.mk) - Since 1993, USAID has provided agricultural assistance to address key constraints to competitiveness and opportunities by

working with individual farmers and agribusiness enterprises and by introducing new production and processing techniques. Emphasis is placed on quality control, food safety, technological advances, adding value, and improving marketing access. USAID's assistance generates economic return to Macedonia through high-impact, market-driven development assistance in the dairy, sheep and livestock sector. Improved livestock husbandry, management, and marketing skills have been introduced to more than 3,000 producers. The introduction of Seal of Quality for meat and dairy products increased the quality of those products and their share in the domestic market. USAID is also helping the National Meat and Dairy Association to become a leader advocating their industries' interests. The project is scheduled to close out in September 2007.

USAID Macedonia's e-BIZ project (www.ebiz.org.mk) – In 2003, USAID Macedonia initiated the e-BIZ project, which has coordinated closely with the MCA. The project's innovative approach identifies and assists with implementing high impact technology-enabled applications that help businesses in targeted sectors increase operating efficiencies and preserve jobs for Macedonians. The project uses a competitive process to select local entrepreneurs to create e-BIZ centers in targeted sectors. These centers then provide technology-enabled applications as business services to local companies. The local entrepreneurs are required to co-invest with the project, ensuring the local partner's commitment to making the e-BIZ centers successful and scalable. Today there are seven e-BIZ centers serving Macedonian SMEs in sectors including apparel, shoes, tourism, and business and technical training. The centers already serve 267 clients. The project is scheduled to close out in June 2007.

Support the Business Environment for Investment

Businesses Environment Activity (BEA) – In 2006, USAID Macedonia initiated this project, which will lead this IR. The project was implemented to assist the Government of Macedonia with implementing a focused and successful national economic development strategy. Public-private dialogue is being institutionalized and applied regularly in developing crucial strategies and policies to improve the business environment. Complementing the enhancement of public-private dialogue, the legal and regulatory framework and enforcement are being made more transparent delivering an effective and clear level playing field for all stakeholders. Investment capacity is being improved through the introduction of new financial products, and establishing legal precedent for non-bank financial institutions. Unemployment is being targeted through changes in administrative and legal measures to create a more flexible labor market.

e-GOV (www.impact.org.mk) – In 2004, USAID Macedonia initiated the e-GOV project to introduce a variety of applications to the government of Macedonia. Since inception the applications have been developed and installed in various government offices related to public procurement, tax administration, health administration, budget planning, and personnel recruitment to increase transparency and improve government services to businesses and citizens. Presently specific applications to increase transparency and accountability of municipal governments are being designed in coordination with government counterparts. This project is scheduled to close out in September 2009.

It is envisioned that among the three lead projects (*i.e.*, MacComp-21, MAA and BEA) there will be strong coordination and partnering where MacComp-21 and MAA will identify specific impediments in the business environment and BEA will work to resolve them with appropriate government counterparts. Conversely, BEA will obtain input from MacComp-21 and MAA on current business environment conditions when conducting assessments and developing positions to lobby the government. Coordination and partnering between the projects will be restricted to the scope of each project's objectives and approved workplans.

C.4 PROJECT DESCRIPTION

The Macedonia Competitiveness for the 21st Century project (MacComp-21 or Project) will provide assistance to improve the performance of selected industrial sectors (targeted sectors). The Project will commence with a broad assessment of not more than fifteen Macedonian industrial sectors, from which USAID and the contractor will select a final list of targeted sectors that will benefit from assistance to be provided by this Project. Selection of targeted sectors will be based on criteria, including but not limited to potential and existing market-based demand for products and/or services; potential for job creation; potential value and revenue accretion; potential and existing opportunities to export products and/or services; and buy-in from key industry stakeholders.

The goal of the Project is to improve the productivity and technological capabilities of private enterprises operating in targeted sectors, and improve the business environment of those targeted sectors. This Project will result in increased private sector contribution to the Macedonian economy, employment generation, and greater foreign investment inflows. The results of this Project will serve as an example of potential interventions that can be extended to other industries to further improve the economic competitiveness of Macedonia.

To broaden the transfer of technical know-how and business acumen, the project will collaborate with business and information technology schools based in Macedonia to include appropriately qualified students and instructors as both beneficiaries of the project and as collaborators in the delivery of technical assistance. The Contractor is encouraged to maximize the use of paid internships throughout the project in an effort to strengthen project capacity and broaden the knowledge base. To the greatest practicable extent, the Project will avoid duplication and maximize use of available research and analyses/studies. Further, the Project will utilize, where practicable, indigenous business service providers, think tanks and chambers of commerce when conducting research or delivering technical assistance to further transfer business practices and knowledge.

C.5 PROJECT COMPONENTS

MacComp-21 will have two closely related components, which will be implemented sequentially: 1) Assessment of Macedonian Industry Potential and Selection of Targeted Sectors, and 2) Strengthening of Targeted Sectors.

C.5.1 Assessment of Macedonian Industry Potential (AMIP)

Under the AMIP component, the Contractor will conduct an assessment of not more than fifteen industrial sectors in Macedonia. The assessment will be based on existing or potential demand for Macedonian products or services, both domestically and globally. The assessment will focus on quantifying necessary interventions and investments to satisfy existing or potential demand *and* achieve measurable growth in industry-wide revenues, value accretion, and employment generation. An additional consideration will be the extent to which legal and regulatory issues impede those industrial sectors under review and the resolutions required to resolve such impediments to achieve the intended results of the Project.

The conclusions of the assessment will be compiled in a report that will be delivered to USAID within the first four months of the Project. The report, at a minimum, will discuss i) the approach, methods and analyses used to conduct industry assessments; ii) existing and potential market demand for Macedonian products and or services provided by each industrial sector assessed as well as potential for catalytic economic growth.; iii) proposed technical interventions and financial investments to increase industry-wide revenues, value accretion, and employment generation; iv) relative legal and regulatory

impediments; v) specific financial products and services needed to provide start-up, expansion, and working capital to private businesses operating in the various industrial sectors.

The report and the conclusions of the assessment will be the basis for USAID and the Contractor to jointly agree on a list of targeted sectors that will benefit from assistance to be provided by this Project.

C.5.2 Strengthening of Targeted Sectors (STS)

Under the STS component, the Project will provide assistance to targeted sectors to improve the operating performance and management of private enterprises that are vertically and horizontally integrated, to develop the skills of the respective workforces, and to assist with the identification and resolution of legal and regulatory impediments. Assistance and interventions will be guided by the assessment conducted under AMIP; however, the Project will have the flexibility to address opportunities and issues that become known during the duration of the project.

Result 1 – Improved business practices

Objective: Improve firm-level business practices to improve management, business performance and economic contribution to targeted sectors.

Illustrative Activities:

- Training of cross cutting business skills, including but not limited to financial planning, effective utilization of leveraging credit and equity investments, market analysis, sales and new business development practices, improved business processes, operations management, and human resource management.
- Aggregated consulting initiatives, including but not limited to vertical supply chain linkages in industry sectors, collaborative product development, and manufacturing.
- Assist with developing market penetration and understanding, with a focus on consumer needs and demands, and competitive positioning.
- Work closely with industries and key stakeholders to develop a better understanding of how to sell and deliver products and services, which could include looking at the relevance of marketing and logistics in production orientation and understanding critical elements of supply chain management within an industry sector.
- Assist with establishing, developing or expanding business networks within and between targeted sectors.
- Benchmarking for quality effectiveness, and where appropriate introducing quality and benchmarking techniques.
- Enable SME's to better understand and gain potential market access to respective industry supply chains.
- Leverage resources for business oriented training and education.
- Test the potential for new investment and market penetration.
- Identify performance based approaches to investment promotion.

Result 2 – Effective utilization of innovation, and new and appropriate technologies

Objective: Identify and introduce firm-level and/or industry-wide technologies to improve the efficiency of private business operations and the economic performance of targeted sectors with a keen focus on market demand.

Illustrative Activities:

- In partnership with SMEs or key industry stakeholders, identify and promote commercially feasible and affordable technologies to improve operations and productivity of businesses within targeted sectors.
- Assist with redesigning business practices, at the firm-level and at the sector level, to accommodate new and appropriate technologies.

- Identify creative ways to spur, cultivate and encourage innovation and entrepreneurship.
- Through collaboration and research, present lessons learned in the areas of services for entrepreneurs, access to capital, and market innovation and identify success factors such as enabling technologies and innovation, market and economic assessments with a focus on niche markets, value of entrepreneur networks, flexible deal structure and importance of shared passion.

Result 3 – Improved skills of workforce and potential for employment

Objective: Develop skills of workforce to engage in higher value-added work activities and cultivate pool of appropriately qualified candidates for employment opportunities.

Illustrative Activities:

- Conduct an evaluation of the Center for Entrepreneurial and Executive Development (CEED) program to i) determine its potential effectiveness and benefit in delivering training to SMEs in Macedonia and providing services to SMEs, such as structured networking sessions, and ii) assess the degree to which a CEED program could become a sustainable legacy program in Macedonia. (see www.ceed.bg).
- Assist with establishing or enhancing sustainable vocational and/or technical training facilities to address industry demand for identified skills in target sectors, and other sectors if applicable.
- Establish linkages between education facilities (e.g., secondary schools, vocational schools, technical institutes and universities) and targeted sectors to enable effective communication of education and skills needed to obtain employment in targeted sectors.
- To the extent practicable and in coordination with educational facilities and/or employment generating organizations, assist with establishing on-the-job training opportunities for students.
- In collaboration with other interested organizations, identify building blocks that can be used to design strategic assessments and plans based on attracting a creative workforce and illuminating Macedonia's strengths.

Result 4 – Established business associations effectively advocating issues and concerns to government representatives.

Objective: Establish business advocacy organizations and develop their capacity to effectively identify, agree upon and advocate changes to laws and regulations that impede the flow of legal business activities.

Illustrative Activities:

- Identify key sector leaders and actively assist with the establishment or development of business advocacy organizations that best serve the interests of their members, or industry.
- Promote purpose and benefits of unified voice provided by independent and objective organizations to advocate business interests to the government, and assist with developing strategies to advocate interests to the government.
- Work closely with business organizations to assess the impact that existing regional and national regulations and laws have on production, import and export of products and services, foreign investment, and on business growth.
- Work closely with business organizations to assess the impact that local or national constraints have on business performance, including but not limited to telco and energy costs, transaction costs, technical barriers, tariff and rate structures, transportations costs, and other impediments to moving goods across borders.
- Review local and regional business networks, including formal and informal networks, and assess their effectiveness in impacting or influencing positive change to legal and regulatory regime. To the extent practicable, assist with formalizing networks and developing their voice to advocate the government. Partner with the BEA project to develop and propose appropriate changes to legal and regulatory regime.

Result 5 – Increase access to capital

Objective: Increase access to credit facilities, strategic and financial equity investments.

Illustrative Activities:

- Assist businesses with accessing capital from bank(s) that are supported by a Development Credit Authority (DCA) mechanism - USAID/Macedonia intends to implement a DCA mechanism to benefit private sector enterprises. (Further information on DCA mechanisms can be found at http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/index.html)
- Provide training to private businesses on how to i) assess capital needs, including but not limited to working capital requirements, long-term financing, and equity investments; and ii) develop viable business plans and financial models that demonstrate capital need, ability to repay, and investment opportunity.
- Develop referral list of potential sources of capital, including but not limited to i) donor-sponsored debt and equity programs; ii) domestic and foreign strategic and financial investors, including private equity firms and venture capital funds.
- Create initiatives to improve SME access to reasonably priced capital, such as leveraging various funds to provide loan guarantees as a way of encouraging lenders to loan to SMEs.
- Develop concept papers to introduce financial products and services to existing financial services companies (e.g., working capital facilities, inventory financing, accounts receivable factoring).
- Develop a concept paper that highlights the value of a technology growth fund as a catalyst for accelerating development of technology companies in selected market sectors that generally do not qualify for conventional bank financing. Typically, such companies may have marketable products but require non-conventional financing to help launch company products or services into new markets or acquire inventory necessary to grow. The paper would be distributed widely to various businesses, banking and investment consortiums.
- Identify creative investment interventions as a catalyst for exports and employment

C.6 EXPECTED RESULTS AND PERFORMANCE MANAGEMENT PLAN

Achievement of tangible results is the essence of the contract. USAID will judge the Contractor's success or lack thereof under the contract based on whether or not the tangible results (as set forth in this Statement of Work and the PMP) are achieved. The overarching results by the end of this Project are:

- 15% increased contribution of SMEs to the Macedonian GDP.
- 20% increase in employable positions across targeted sectors.
- 30% increase in higher value added exports across targeted sectors.
- 30% increase in economic performance measures such as (improved productivity, efficiency, new market penetration) across targeted sectors.
- As a direct result of the Projects activities, \$25 million in new FDI and \$20 million in local investments will be realized.

C.7 SPECIAL PROJECTS

MacComp21 will conduct grant programs to address special project needs to facilitate implementation and to expand involvement of national entities. This may entail grants or other sub activities i.e. studies, publications, pilot projects, special purpose training, etc. at the national, regional, industry or firm level. Offerors should include a budget factor of up to \$50,000 per year for this component. The proposal should describe conceptual ideas relating to special projects.

C.8 RELATIONSHIPS AND RESPONSIBILITIES

Technical direction will be provided by the CTO located at the USAID Macedonia, Economic Growth Office.

The Contractor shall meet regularly with USAID and representatives of the private sector and business associations in targeted sectors. It should also build a productive relationship with Government of Macedonia officials and other donors in order to exchange information and coordinate project activities.

