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**SMALL BUSINESS  
EXPANSION PROJECT**

# **USAID MACEDONIA SMALL BUSINESS EXPANSION PROJECT**

**Quarterly Report**

**April 24, 2012 – June 30, 2012**

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## **DISCLAIMER**

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## ***Table of Contents***

<b><i>Project Start-Up</i></b> _____	<b>3</b>
Personnel _____	3
Administration and Logistics _____	3
Start-Up activities _____	4
CARANA Home Office Support _____	6
Work Plan, PMP and Project Database _____	7
<b><i>Technical Approach</i></b> _____	<b>7</b>
Project Vertical #1: Private Sector Engagement _____	8
Project Vertical #2: Public Sector Engagement _____	10
Project Horizontal #1: BSO Development _____	10
Project Horizontal #2: Workforce Development _____	11
<b><i>SBEP Organizational Chart</i></b> _____	<b>12</b>

This Quarterly Report covers Project activities during the first two months of mobilization, from April 24 through June 30, 2012.

## **Project Start-Up**

In April 2012 the USAID Small Business Expansion Project (SBEP) was awarded to CARANA Corporation, and the contract was signed on April 24. Upon signing the contract, CARANA initiated the mobilization of staff and resources to establish Project offices, organize logistics, hire staff, develop an initial work plan, and undertake necessary preparations for a quick and functional Project start-up process.

## **Personnel**

CARANA hired and deployed key personnel immediately after the contract with USAID was signed. Expat Chief of Party (COP) Mr. Carl Larkins and Deputy Chief of Party (DCOP) Ms. Mirjana Makedonska started their engagement with SBEP in early May. The Regional Planning and Development Specialist based in Tetovo, Mr. Dimce Damjanovski, also joined the Project in May.

Communications and Monitoring and Evaluation Manager Ms. Tatjana Mitevaska, and Finance, Accounting and Office Manager Ms. Svetlana Antik joined SBEP in June, after completing their engagement with USAID's Macedonia Competitiveness Project (MCP). All individual contracts of locally hired staff were signed in June, and Project staff was registered and insured according to Macedonian Labor Laws. The SBEP Organizational Chart is included at the end of this document.

## **Administration and Logistics**

In the initial stage (May through mid-June), SBEP shared the MCP office with that Project as it was closing down. In June a new Project office space was identified, a lease agreement was signed, and the SBEP office in Skopje was on June 15, 2012. The new Project Office in Skopje is located in the center of Skopje on Debarca 3. All necessary phone, internet communication, and security systems have been installed.

A space for the Project office in Tetovo was also identified in early June, the lease agreement was signed, and the office became available for the Project on June 15. The office in Tetovo is located in the center of Tetovo, on Ilindenska 170, next to the regional office of GIZ. The Tetovo office is currently being refurbished, and furniture has been ordered and will be delivered in July. All necessary phone and internet communication have been installed.

Payments of deposits and office rent for June have been made for both offices. Both offices have been equipped with computers and printers (transferred from MCP), office materials, kitchen supplies, and basic electrical appliances.

The business cards for SBEP staff have been designed and sent out for printing. The Project's USAID-branded signs also have been designed and upon approval, will be printed and installed at the Tetovo

and Skopje offices. New cameras for the offices in Skopje and Tetovo have been purchased, which will make it possible for project staff to document project activities produce high quality photos for communications purposes.

SBEP identified the need for purchasing a Project vehicle, as Project activities will be spread throughout rural areas of the Polog and Pelagonija regions. A thorough financial analysis confirmed that it is more cost effective to purchase vehicle than to lease one, and CARANA initiated the appropriate vehicle procurement process. Meanwhile SBEP made arrangements with a local car rental agency, and is renting a vehicle as an interim solution.

SBEP contacted another USAID project that has conducted market research on car dealers selling US-made vehicles in Macedonia. The only feasible car dealer is the company Automobile SK, which sells Jeep vehicles. A meeting was held with the dealer in regards to the possibility of purchasing a vehicle. SBEP put together the necessary documentation and requested USAID permission to purchase the vehicle in question. Approval from the USAID Regional Contracting Officer (RCO) in Budapest is expected next quarter, when the vehicle will be purchased and delivered.

CARANA is currently in the process of changing the official address and representative for the CARANA branch office in Macedonia with the Central Register of Macedonia. Mr. Carl Larkins, SBEP COP, will be the new authorized representative of the CARANA branch office in Macedonia.

### Start-Up activities

SBEP Project Manager Mr. Eduardo Tugendhat and SBEP Chief of Party (COP) Mr. Carl Larkins arrived in Macedonia on May 17, 2012, directly from the Regional Competitiveness Conference in Tirana, Albania, and organized introductory meetings with potential partners in the Pelagonija region. Mr. Tugendhat stayed in Macedonia through May 25, 2012.

Mr. Larkins immediately assumed the position of COP and managed the establishment of offices in Tetovo and Skopje, the transfer of assets and equipment from USAID's Macedonia Competitiveness Project (MCP) to SBEP, and led multiple introductory meetings with mayors, Local Economic Development (LED) officers, regional development centers managers, and number of small businesses owners in the Pelagonija and Polog regions. Mr. Larkins lead the process of developing the initial Project work plan, and took the lead in strategizing the Project's technical approach and implementation.

In the first round of meetings in the Pelagonija region, on May 17, Mr. Larkins and Mr. Tugendhat, accompanied by SBEP Deputy COP Ms. Mirjana Makedonska, met with the mayors of Bitola, Krushevo, and Resen to introduce the Project, solicit ideas for potential local economic development and business expansion initiatives, and lay the initial groundwork for organizing Opportunity Task Force (OTF) groups. On the same trip they met with potential institutional local partners, such as PREDA + in Prilep, the Business Start up Center (BSC) in Bitola, and the Pelagonija Regional

Development Center (RDC) in Bitola, to assess their capacity and interest in developing long term partnerships with the Project.

In addition Project staff met with local consultants and potential business service providers and organizations (BSOs) that could provide various types of business support services to local businesses, including the Resen-based consultant Anastas Gjurovski, who previously worked as a financial facilitator with MCP, and the consulting company EPI Center, based in Skopje.

Mr. Larkins, Mr. Tugendhat and Ms. Makedonska also had number of meetings with other USAID Projects that have complementary scopes, and which may present opportunities for synergies and collaborative efforts. These meetings were held with the COPs of USAID's Agbiz Project and YES Network Project, the USAID-supported CEED Project, and the Peace Corps Country Director.

On May 22, CARANA's Commercial Practice Director and former MCP COP Mr. Nimish Jhaveri arrived in Macedonia to help transfer knowledge and facilitate links between the previous Project (MCP) and SBEP. Mr. Jhaveri, Mr. Larkins and Ms. Makedonska conducted several field visits in the two regions, meeting with municipal leaders and members of the local business community in each region.

On May 23, Mr. Larkins, Mr. Tugendhat and Mr. Jhaveri attended the MCP close-out event at Aleksandar Palace in Skopje, where they had opportunity to meet with Minister of Economy, Mr. Valon Saracini. On the same day, they met with USAID/Macedonia Mission Director Mr. Bob Wuertz, Mission Economic Growth Office Director Mr. Joseph Lessard, and the USAID Contracting Officer's Representative (COR) for SBEP, Ms. Tanja Markovska. This was the initial review meeting, where SBEP leadership presented the Project's approach and reported on outcomes of initial meetings.

On May 25 and May 28, Mr. Larkins, Mr. Jhaveri, Ms. Makedonska, and the newly-hired Tetovo-based Regional Development Specialist Mr. Dimce Damjanovski, held the first round of introductory meetings in the Polog region. They met with the mayors of Tearce, Jegunovce, Bogovinje, and Vrapchiste. They also met with LED officers from the municipalities of Tetovo, Brvenica, Gostivar; representatives of the Enterprise Support Agency (ESA); and the manager of the Polog RDC, Mr. Adil Emini. The purpose of these meetings was to introduce the Project to local stakeholders to learn about the potential for partnerships and the structure of businesses in the region, and to identify possibilities for establishing a regional OTF.

On May 29 and May 30, Mr. Jhaveri traveled to Resen and Prilep to meet with a number of private companies to investigate possibilities for SBEP partnership and Project initiatives. These included meetings with the executive teams of Donia and Swiss Lion, both Macedonian confectioners and major users of ingredients that might be targets for import substitution. Mr. Jhaveri also met with Markman, a family business in Resen that was compelled to start a logistics company in order to export their apples. These visits informed the project of potential opportunities in local agricultural supply chains.

From June 14-15 Mr. Larkins, Mr. Matt Inbusch (see next section), and Ms. Makedonska held the second round of field visits and a series of meetings with companies in the Pelagonija region. They met with General Manager of Vitaminka, a large confectioner; participated in a meeting of the Economic Council of Prilep; met with representatives of Laminati, a small, Prilep-based maker of laminates; Vigan, wild mushrooms processing company in Demir Hisar, and met with Organic Agro Farm in Prilep in order to assess potential opportunities for Project interventions with these companies, with the goal of increasing sales and hiring new employees.

On June 19 and 20, Mr. Larkins, Ms. Makedonska, Mr. Damjanovski and Ms. Tatjana Mitevaska (SBEP's Monitoring and Evaluation Specialist) conducted a second round of field visits and a series of meetings with companies in the Polog region. They met with egg producer Vezesharri in Trebosh; refrigerating equipment producer Frigotehnika, dairy farm Hit 73 in Kamenjane, gravel producer Golec Trans in Zelino, construction material producer Renova, and vegetables processor GreenProduct in Dzepciste. The meetings with Vezesharri, GreenProduct, and Renova were particularly productive, where opportunities for cooperation were identified and further pursued. More details about these opportunities can be found in the Technical Approach and Implementation section, below.

### **CARANA Home Office Support**

On June 3, two CARANA home office staff members arrived in Skopje to assist in the SBEP launch. Ms. Elisa Zlotowitz, CARANA Human Resources Manager, was in Skopje to aid in the formal establishment of administrative procedures, the development of contracts for local hired staff, logistical needs such as project office leases, and more. Ms. Zlotowitz remained in Skopje through June 8.

Mr. Matt Inbusch, the CARANA Project Specialist who is in charge of supporting administrative, logistical, and technical components of the project from the home office, remained in Macedonia through June 17. Mr. Inbusch's responsibilities during this visit included administrative and logistical duties related to both the SBEP launch, as well as the MCP close-down. Organizing the transfer of property and equipment from MCP to SBEP was among his main tasks. Mr. Inbusch also contributed to the drafting of the initial SBEP work plan, participated in meetings with Project partners including USAID representatives, and began to gather information for the project's environmental compliance strategy.

Mr. Inbusch and Ms. Makedonska met with representatives of USAID's AgBiz Project to discuss that project's environmental compliance experience and lessons learned. Upon returning to Washington, Mr. Inbusch and Mr. Tugendhat met with USAID/ Washington Environmental Officers William Gibson and Jeffrey Ploetz to discuss the Project's initial environmental compliance strategy. The meeting was informative for both SBEP and USAID representatives, with both sides gaining a better understanding of one-another's thinking on the topic and plans going forward. To that end, Mr. Inbusch's next trip to Macedonia has been planned to coincide with the visit to the region by the

Environmental Officers during the first weeks of August. By that point, SBEP plans to be able to provide an initial Environmental Scoping Statement outlining the potential impacts and mitigation plans for SBEP pilot activities.

### **Work Plan, PMP and Project Database**

In early June SBEP staff developed the first Project work plan for June – September, 2012, and submitted it to the Project COR for approval. The work plan outlines the SBEP framework and strategic approach, Project staffing, and planned activities with public and private stakeholders in both target regions. In addition SBEP reviewed the Performance Monitoring Plan (PMP) indicators table and consolidated the indicators, focusing on those most relevant for contributing to the Project's established Intermediate Results (IRs). A revised PMP table was submitted to the Project COR for review and approval on June 26. In July, SBEP scheduled a meeting with the USAID/Macedonia Mission's Monitoring and Evaluation Specialist, Mr. Ivica Vasev, to confirm the new list of indicators and discuss the potential addition of some USAID standard indicators, and/or the removal of some of the less-relevant indicators.

SBEP has identified the need to develop a relational database as an electronic tool to track and report on Project initiatives and partners, as well as its PMP progress. For that purpose Project staff created initial outlines and technical designs for the required database, including a list of desired functionalities. The database would be in a form of simple, customized software solution that would allow all project staff members to contribute Project-related information and updates, and to produce reports on SBEP activities, PMP indicators impact, companies and partner organization in each region, and more. SBEP is planning to procure software development services and develop this database in the next quarter (Quarter 4 of Fiscal Year 2012).

### **Technical Approach**

As established in the initial Project work plan, the SBEP strategic approach can be broken down into two primary, vertical "tracks":

- 1) Private sector engagement with both lead firms and Micro, Small, and Medium-sized Enterprises (MSMEs), and
- 2) Public sector engagement at both the regional and local levels

Two cross-cutting tracks that contribute to goals within the verticals, as well contain project objectives themselves, are:

- 1) BSO Development, and
- 2) Workforce Development (WFD)

These four tracks – along with the goal of creating opportunity for women and youth in all activities when feasible – developed at varying speeds in the Project's first months, with a special emphasis placed on private sector engagement. The reason for this early focus is to create pilots

that both help the Project gain momentum and a reputation for results and which can serve as models to be replicated as strategies for achieving the other Project objectives crystallize in the coming months. In all activities, however, it is clear that SBEP will play a facilitative – rather than implementing – role, in order to take advantage of existing economic dynamics and opportunities in the target regions, and maximize capacity transfer to local organizations.

### **Project Vertical #1: Private Sector Engagement**

SBEP has identified a number of market linkage opportunities in its early stages, is working to link MSMEs with larger, regionally-based companies displaying strong national and external market opportunities. Small businesses with competitive market growth potential have been the principal target of initial activities, both as suppliers for exporting firms, and also as companies themselves that can grow within their own market space – and thus, integrate micro firms into their supply chains. SBEP plans to work with small businesses to increase the efficiency and output from micro enterprises already existing as part of their supply chains. Further elaboration follows in the Specific Project initiative section.

SBEP has begun to promote import substitution as a model for Macedonian anchor firms to extend supply chain opportunities to local small businesses as a creative option that is especially viable under current economic conditions. Initial feedback from a number of companies regarding the proposed initiative has been overwhelmingly positive. Working with selected companies, (opportunities with Vitaminka and Vezesharri, for example, are elaborated in more detail in the Supply Chain Initiatives section), SBEP is developing models based on early analyses of each company's inputs and feasible alternatives for sourcing from local enterprises.

SBEP is pursuing opportunities for public-private partnerships that address local and regional workforce development needs. An example is the construction sector initiative in the Polog region. SBEP is playing a facilitative role, helping create linkages and collaboration between local businesses, such as Renova, local/regional authorities, and training and educational institutions, such as the Worker's University in Tetovo. More details about this initiative can be found further in this report, in the workforce development section.

### ***Supply Chain Initiative***

- Vitaminka - In Pelagonija, SBEP met with VITAMINKA, a large confectionary company, as a potential anchor firm capable of developing backwards supply chain linkages to smaller companies. SBEP entered into preliminary discussions with VITAMINKA to determine opportunities and a process with which to develop a supply chain linkage program. A US based consultant will work with Vitaminka in July to further develop this supply chain linkages initiative.
- GreenProduct - In Polog, SBEP met with the GreenProduct vegetable processing company, based in the Tetovo village of Dzepciste, and identified an opportunity to expand its base of local suppliers by implementing drip irrigation systems. The objective with this initiative is that it would support the farmers to increase their production and revenues, while providing an increased supply of raw materials for GreenProduct, which would also increase production.



*GreenProduct pickled vegetables*



*Plot identified for piloting drip irrigation*

- Vezesharri – In the Tetovo village of Trebosh, SBEP identified another opportunity with major egg producer Vezesharri to establish a local supplier base for certain components of chicken feed. In discussion with the owner of the company, Mr. Arben Abdurahmani, SBEP learned that 98% of the feed for the chickens is imported and that Vezesharri is willing to purchase some of the feed components locally. SBEP, together with the company, performed a quick structural analysis of the agricultural production and farm structure in the region, and came out with an idea to introduce a model of growing a high income crop (soya beans) on small parcels that will be purchased by Vezesharri. To implement this initiative SBEP will facilitate the installation of a pilot drip irrigation system on one parcel with soya beans. The goal is to encourage local agricultural producers to invest in production of this crop to meet the demand from Vezesharri. Vezesharri stands to gain by cutting costs by sourcing locally, and small farmers in the area will benefit from the introduction of a higher value crop and increased incomes.



*Eggs selection line at Vezesharri*



- Market linkages between Pelagonija and Polog regions - SBEP initiated activities to develop specific market linkage opportunities between the Polog and Pelagonija regions. Namely, SBEP connected the Pelagonija-based company Vigan, a processor of wild mushrooms, herbs and fruits, with the municipality of Tearce in Polog. Knowing that Vigan is looking to expand its

operations, SBEP identified an opportunity with the Mayor of Tearce Municipality, who expressed interest in supporting the company to invest in some small processing centers for wild mushrooms, herbs and fruits within his municipality.

### **Project Vertical #2: Public Sector Engagement**

SBEP is acting as facilitator in assisting the RDCs to develop a process with which to convene regional actors to create a development plan specific to each region. SBEP is working with the RDCs, local government institutions, and BSOs to identify existing assets and initiatives which can morph into illustrative economic growth opportunities/models in support of regional strategies.

#### ***Pelagonija***

SBEP developed a Memorandum of Understanding with the Pelagonija RDC to determine Project opportunities and provide support to the development of the regional strategy. This MOU is expected to be signed in July. The RDC in Pelagonija is considered to be the best developed and most active RDC in the country. SBEP coordinates directly with the RDC's Executive Director Emilija Gjersoka, and is building an operating partnership which complements the ongoing initiatives of the RDC.

SBEP also started the process for the development of an OTF at the municipal level, through a number of meetings with mayors, LED officers, and local businesses (these meetings are referenced in the previous section of the report).

#### ***Polog***

SBEP also is developing a Memorandum of Understanding with the Polog RDC to identify Project opportunities and provide support to the development of the regional strategy. In addition, SBEP has started the process for the development of an OTF with the RDC in Polog. The RDC, although lacking in both financial and human resources, is active and benefits from direct support from GIZ. The SBEP office in Tetovo is located in close proximity to the GIZ local economic development office in order to synchronize efforts in support of the RDC. The political complexities of the Polog region may give rise to challenges and obstacles that may impede the development of an active OTF. The Project will continuously evaluate opportunities and challenges in Polog, in order to choose the most appropriate course for regional development.

### **Project Horizontal #1: BSO Development**

Business service providers and organizations (whether independent consultants or entities such as consulting firms or NGOs) play a key role in the Project, as they will constitute the primary means for assessing and then implementing targeted interventions with both anchor firms and MSMEs as they strive for growth and job creation. BSOs will also be critical in SBEP's work with RDCs and LEDs; particularly as those entities seek new sources of development funding (access to IPA funding will be especially important). In its early stages, SBEP has reached out to a number of these individuals and organizations, as described in the sections above. As noted, many of these BSOs were identified and/or developed during MCP as partners and "spin-off" organizations, and those relationships will form the basis for continued cooperation.

## Project Horizontal #2: Workforce Development

SBEP also began to identify possibilities for WFD-related partnerships in its first months. In Polog, for example, SBEP held discussions with large construction companies such as Renova, Golec Trans and others, and was able to identify a common problem these companies have regarding recruitment of skilled local workforce. In an effort to facilitate concrete solutions to this problem, SBEP organized a visit to Kosovo to the vocational school in Skenderai. This is a new vocational school which operates with very high standards to provide top practical and theoretical knowledge and experience to its students in the field of construction, as well as two other vocations.



*Kosovo technical school training classroom*



*Golec Trans gravel production operations*

SBEP initiated contact with a consultant who worked with this school and started by analyzing the opportunities for replicating this educational model in the Polog region. It became apparent that affecting change in the highly-regulated education system will require a long-term approach. However, it is possible to provide quick-response solutions in collaboration with the Workers' University in Tetovo, which provides certified educational programs for the qualification and pre-qualification of adults. SBEP plans to work towards preparing curricula for the required certification trainings provided by the Workers' University in response to the identified workforce needs of the construction companies in the region.

## *SBEP Organizational Chart*

