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**Competitiveness Enhancement and
Enterprise Development (CEED)**

Project Annual Report (FINAL)

Year One: October 2005 – September 2006

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SECTION I

Summary

September 30, 2006 marked the first anniversary of the USAID Competitiveness Enhancement and Enterprise Development (CEED) project in Moldova. During the previous twelve months, CEED firmly established itself, and momentum is building for a strong performance in Year 2. CEED is an important part of USAID/Moldova's economic growth strategy; its goals are in line with the new Foreign Assistance Framework (as of July 11, 2006), in as much as the project seeks to encourage the adoption of more advantageous economic policies and to build the capacities of the private and public sectors in three key industries – information communications technology, textile and apparel, and wine – to stimulate accelerated growth.

Building upon prime contractor Chemonics International's technical approach, during Year 1 the CEED team was focused upon building the project's reputation among enterprises in the three target sectors and on creating a portfolio of "client firms" within each industry from amongst the industry leaders. The team accomplished this objective and completed several successful firm-level projects with clients in each sector. CEED also started a number of industry-wide initiatives that will continue into the next year. These initiatives will increase in number during Year 2.

CEED focused on value-adding technical assistance, supporting activities that had strong business buy-in and impact. Some of the highlights from the past year follow below:

- *Information Communications Technology* – CEED provided valuable assistance to two leading firms that produce state-of-the-art IT products to promote and market their products in leading IT media and press. This work completed CEED's support for these firms, plus one other, to attend the System 2006 trade show in Munich, Germany.
- *Textile and apparel* – CEED offered highly targeted assistance to one of Moldova's leading carpet manufacturers to increase efficiency and save nearly €2 million. CEED also started a project to re-brand a local apparel company to compete against imports; and initiated a program to assess and improve the productivity of cut-and-make apparel firms.
- *Winemaking* – CEED assisted several companies to make progress in penetrating the Romanian market, and also began an effort to identify American buyers. CEED is helping one leading company to launch a new brand in the United Kingdom, and working with another to make sweeping changes to the company's wine styles and production practices.

CEED also supported two cross-cutting initiatives; one is in the financial sector and will continue into Year 2 and culminate with the introduction of a new pre-shipment trade finance product called, Purchase Order Finance. This will reduce fixed collateral requirements and give firms access to the working capital that they need to fill orders and grow. The other aims to improve the business environment for enterprises operating in these three industries; CEED commissioned a series of focus groups, whose findings will be used in Year 2 to mobilize joint advocacy efforts.

These technical activities were carried out in parallel with a host of administrative and contractual activities, not the least of which was the project's start-up, which required the team to locate and open an office, equip it, and put in place all the necessary internal operating procedures. A momentary set-back occurred in January 2006 when the original chief of party was replaced after three months at post; but a permanent replace was quickly identified and the team rebounded strongly. While Year 1 was successful in many respects, Year 2 promises to be even more exciting, with an ambitious work plan that was approved by USAID on October 19, 2006.

SECTION II

Project Overview

Chemonics International Inc. (Chemonics) and our partners Crimson Capital Corporation (Crimson) and Dexis Consulting Group (Dexis) are pleased to submit to the United States Agency for International Development in Moldova (USAID/Moldova) this Year 1 Annual Report for the Competitiveness Enhancement and Enterprise Development (CEED) project. This report covers the twelve-month period from October 1, 2005 through September 30, 2006.

A. Background

CEED is a five-year project (2005 – 2010) funded by USAID/Moldova. CEED is market-oriented and demand-driven and seeks to enhance the competitiveness of private Moldovan enterprises within the global marketplace in the following sectors: 1) information and communications technology (ICT); 2) textile and apparel; and 3) wine. CEED also works to increase access to finance for businesses in these three industries and to improve the business environment for these sectors in order to stimulate sustainable economic growth.

B. Results Framework

CEED is one of USAID/Moldova's key projects under Strategic Objective (SO) 2.0, "Private Enterprise Growth Creates Jobs and Generates Income." In addition to contributing to the achievement of SO 2.0, CEED also contributes to SO 2.0's Intermediate Result (IR) 2.0.2, "Role of Small and Medium Enterprises (SMEs) in the Economy Expanded."

During Year 1, CEED's activities were designed around two complementary components – the Business Environment Component (Component 1) and the Business Development Component (Component 2). Under each component there were several key result areas (KRA), around which discrete activities were grouped. Results at the KRA-level led to results at the component-level, which in turn led to the achievement of results at the project- and SO-levels. These relationships are illustrated graphically in Exhibit II-1: CEED Year 1 Results Framework on the previous page.

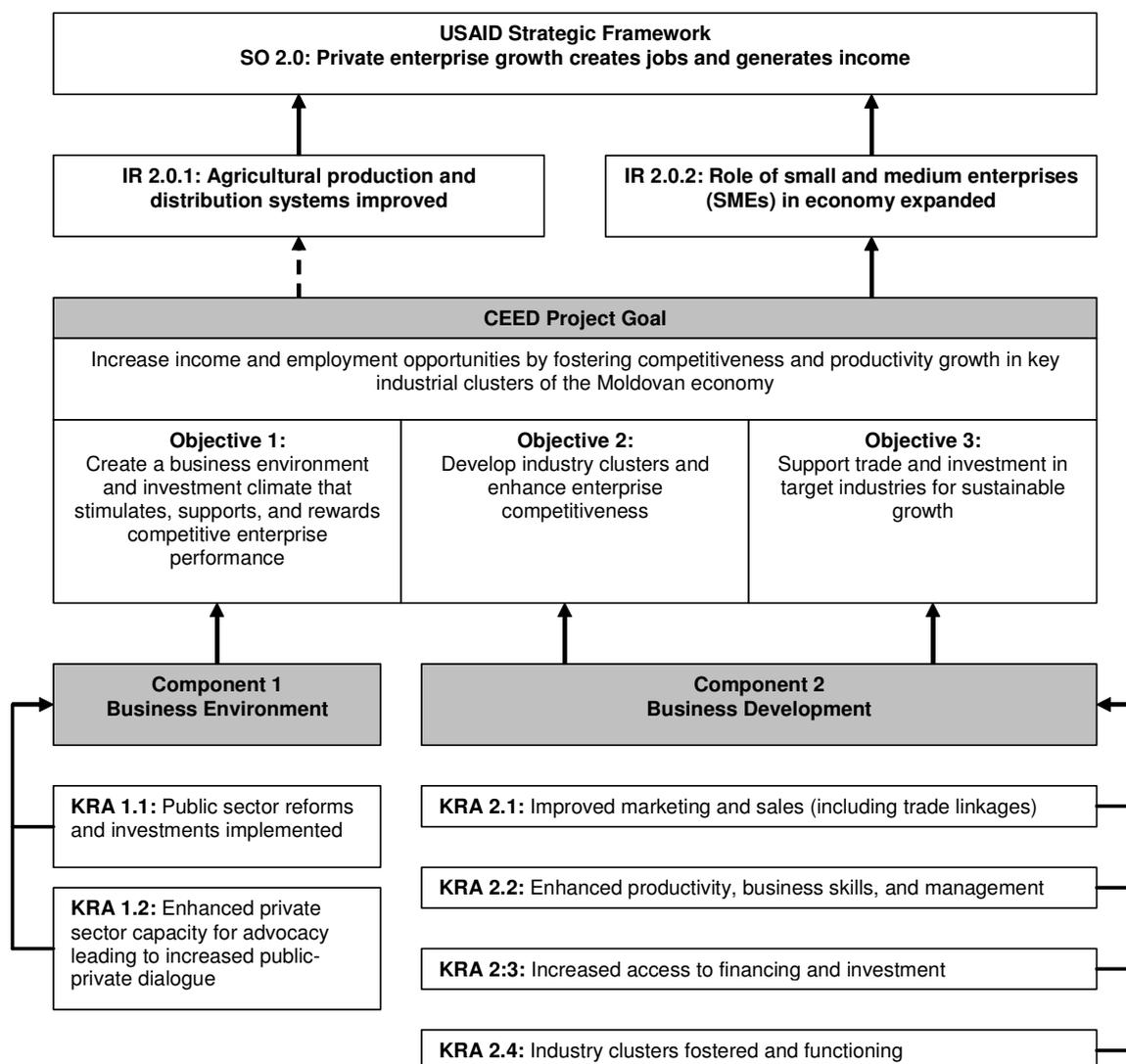
Note: The results framework for Year 2 has been changed slightly to reflect some adjustments made to the approach and organization. The results framework above was in effect for Year 1. Please refer to the CEED Year 2 Work Plan for the current version of the results framework.

B. General Technical Approach

While the results framework is helpful to understand how CEED's activities contributed its contract-level benchmarks and performance indicators; in practice, during Year 1 the CEED team came to see the project in terms of three interrelated activities, each contributing to the achievement of projects goals, defined principally by increases in the following key results indicators: jobs, sales, financing, and investment.

1. *Access to markets*: activities that were intended to help individual businesses or groups of businesses within the target industries to increase their sales (foreign or domestic). This included activities aimed at introducing Moldovan companies to new buyers; helping local enterprises secure more contracts from existing buyers; and assisting firms to upgrade their productivity and capabilities as needed in order to develop or sustain long-term contracts and be competitive in the global economy.

Exhibit II-1: CEED Year 1 Results Framework



2. *Access to finance:* activities aimed at helping target industry enterprises access the finance they need to fill orders and grow their business. This includes, but is not limited to, activities that increase the availability of working capital, such as introducing a pre-export financing pilot project and/or by increasing the use of factoring (i.e. invoice discounting) in combination with pre-export financing.
3. *Business environment improvement:* activities aimed at helping the private sector, specifically businesses and business associations within CEED's target industries, to identify and debate the true legal and regulatory economic barriers requiring reform, then to prioritize those issues, and finally to structure an effective means of delivering this message to the appropriate government institution(s), in particular the National Commission and its sub-working groups, etc.

In all three areas, activities were intended to help enterprises increase their sales. The reason for this is that as companies increase their sales they (a) learn to think and act more competitively and with a greater market-orientation; (b) put into service any unutilized capacity, whether in labor or equipment, which increases efficiency and productivity; and (c) ultimately require a

larger labor force, which drives companies to hire more employees and create jobs. Thus, by helping to increase enterprise sales, and in the aggregate industry sales, CEED was helping to increase productivity (i.e. competitiveness) and stimulate the creation of new jobs.

Within each of the three target industries, CEED worked more intensively with a limited number of individual enterprises (client enterprises) that satisfied the following criteria:

- Strong market presence in local or international markets, or possessing demonstrated potential to increase exports or local sales
- Strong potential to expand or develop extensive forward and backward supply-chain linkages to other Moldovan enterprises, especially small and medium enterprises
- Strong commitment by management to undertake and contribute to the cost of activities to improve their capacity to market and sell their products, to expand existing production, or to develop new products and services that meet international buyers' standards
- Strong potential at reasonable cost for technology or management systems improvements to create new jobs, increase sales, or enhance company productivity

These criteria were meant to emphasize individual enterprises' market potential, or readiness, and their ability to contribute to CEED's key results of jobs, sales, financing, and investment.

In terms of individual client company selection, it was also decided that (a) CEED would only work with private companies (state-owned companies, whether wholly- or partially-owned, will not be eligible to receive CEED's assistance); (b) CEED would give preference to Moldovan-owned companies or joint-ventures between Moldovan and international investors, but would not eliminate the possibility of working with one hundred percent foreign-owned companies if they meet the project criteria and could contribute to the projects results targets, especially new job creation; and (c) CEED would only work directly with legally registered businesses, though it would not eliminate the possibility of trying to incentivizing high-potential companies operating in the informal sector to formalize.

The decision to focus more at the enterprise- rather than industry-level, at least during CEED's early years, was an acknowledgment of the fact that competitive industries are built of competitive companies. In addition, CEED believed that the success of industry-wide initiatives that would require collective action on the part of industry leaders, such as addressing systemic challenges related to the business environment, would be enhanced and made more effective if a core group of companies within each industry achieved measurable successes in their operations, particularly as it relates to increased sales.

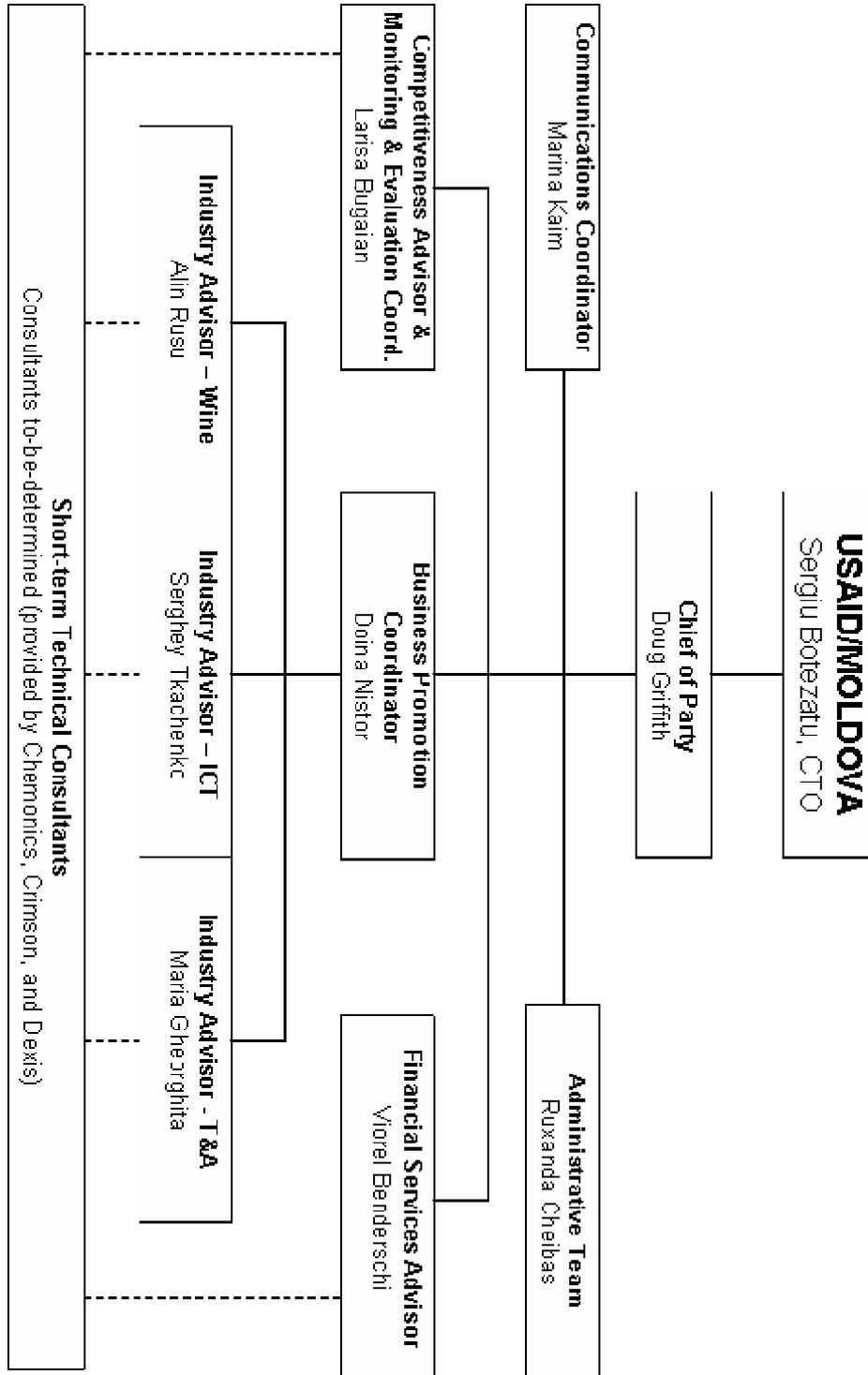
C. Staffing Plan

Throughout the majority of Year 1, the CEED team was structured according to the plan outlined in Exhibit II-2: CEED Year 1 Organizational Chart on the following page. This structure differed slightly from the one that was originally proposed by Chemonics. The key changes were:

- Placing Doina Nistor as the coordinator for the activities in the three sectors (i.e. moving her from Component 1 team leader to effectively serve as the Component 2 team leader).
- Combining the business environment improvement and monitoring and evaluation functions into one person, Larisa Bugaian.
- Deciding not to hiring a full-time lawyer to be part of CEED's team. Though initial attempts to recruit and hire one where made, in the end it was decided that CEED could contract this expertise as needed, rather than having a lawyer in-house.
- Separating the financial services work, and Viorel Benderschi, from Component 2.

These changes were made to align the staffing structure with the approach (outlined above), and to rearrange the team so that all individuals were in their “correct” position vis-à-vis their skills.

Exhibit II-2: CEED Year 1 Organizational Chart



Note: The staffing plan and organizational chart for Year 2 has been hanged slightly some internal restructuring. Please refer to the CEED Year 2 Work Plan for the current staffing plan.

SECTION III

Year 1 Technical Activities

As described in Chemonics' proposal, CEED adopted a more enterprise focused approach during Year 1. We targeted a group of lead (or anchor) firms in each industry, which could serve as role models and agents of change for other industry constituents. Activities with anchor firm(s), whether individually or in group, were designed using a demand-driven principle and were aimed to bring innovation and change primarily in the anchor firm itself, but that would ultimately reach indirectly the entire sector. Technical assistance activities were mainly focused in the marketing and sales area, through support in development of new product(s) and/or new market(s). These activities are described in detail in Section A below.

In parallel, CEED began to lay the groundwork for its business environment improvement work; however, this aspect of the project was of a lower profile. Success in bringing about changes to the legal, regulatory, or administrative frameworks facing the three target industries will require the active participation of key private sector companies, many of which we expect will be CEED's anchor firms. Therefore, a big effort during Year 1 was placed on building relationships and establishing credibility with individual companies from the three sectors. These activities are described in Section B below. In Year 2, CEED will leverage these relationships and work to facilitate positive changes in the business environment.

A. Business Development Component

In this section, we describe CEED's activities under the Business Development Component during Year 1, starting with the three industries and then ending with finance.

A1. Information Communications Technology Sector

The information communications technology (ICT) sector of Moldova remains dispersed and fragmented, represented by a limited number of unique companies. During Year 1, CEED oriented its technical assistance toward the software segment of ICT, and specifically toward enhancing domestic export capacity of software products and services.

In order to structure the technical assistance needs and identify the initial group of anchor firms, CEED conducted a rapid sector assessment in March 2006. CEED ICT advisor and short-term consultant Holt Evans worked together interviewing eleven companies and key industry players. Based on their analysis of the interviewed firms and discussions within the CEED team, an initial group of five client firms was selected: Dekart, RIT Labs, Deeplace, Alfa-XP and Intexnauca.

Taking a demand driven approach, CEED supported activities at the company-level, focused on marketing and sales for exports. As a result, CEED supported four IT companies, the development of which would bring increased sales and new jobs and would also catalyze and serve as role models for the sector. Companies are listed below as follows:

- *Dekart*: encryption/authentication software;
- *RIT Labs*: secure e-mail client solution, owner of *The Bat* e-mail;
- *Deeplace*: e-banking systems;
- *Intexnauca*: dbase applications, testing, engineering design, training.

Three company-level interventions, described below, have been designed and initiated with the mentioned group of companies, which aimed to increase sales in the following two directions:

- *Assistance with off-the-shelf IT products designated for Western markets.* The key challenge faced by Moldovan companies with ready IT products is to increase awareness on Western markets. Two efficient means of doing this are public relations in media and analytical publications as well as participation in trade shows. CEED supported two promising domestic companies, Dekart and RIT Labs, to strengthen their public relations capacities and subsequently supported their participation in Systems 2006 trade show.
- *Assistance to software outsourcing from Western customers.* It is important for companies to understand the requirements and the “entry” point to raise the interest of Western customers, as well as to gain some contacts with prospecting partners who could start buying their services. CEED supported two companies, Deeplace and Intexnauca, to examine their capacities at the strategic company management level.

In addition, CEED began feasibility work for industry-level interventions with the objective to start implementation in Year 2. The key area is workforce development, where improvements are needed at both the higher education level and continuous learning/training level. CEED has undertaken feasibility and assessment, and has researched regional experience and identified potential partners. This ground work will be built-on in Year 2 through design of specific targeted interventions in the workforce development field.

Specific activities are described below:

Activity 1: Participation in Systems 2006 trade show in Munich, Germany

Challenge. Three domestic IT companies, Dekart, Ritlabs and Deeplace have competitive and technologically advanced IT security solutions for Western markets; however, they lack exposure and do not have persistent promotions. This restricts sales growth.

Initiative. CEED decided to support these companies to participate in the IT security area of the Systems 2006 tradeshow in Munich, Germany (October 23-27, 2006) since it is a strong platform for marketing their products in EU market, especially in German speaking countries. In addition, CEED attracted another donor project, Moldovan-German Business Partnership Project, to co-finance the event in the amount of €5,000. Without CEED’s support, the financial support from this project would not have been possible. The three companies will participate in the show with common stand. CEED worked closely with companies to prepare for the tradeshow, in terms of logistics, marketing materials, negotiation skills, business schedules, and other details. Preparation activities included stand reservation and constructions, connection to electricity and the Internet, advertising their participation in trade fair catalogue, on the official site of IT security Area of the trade fair (www.it-sa.de) through banners and press releases and other tools.

Results. It is too early to speak about specific results, since the show took place end of October 2006. However, their participation at Systems is expected to generate productive contacts with potential German buyers, as well as with other buyers from the region. The long term impact of this exhibition will be stronger business marketing practices that will lead to greater export sales. CEED and the companies have estimated that new sales from the show could reach as much as \$60,000 in the first year. The overall objective of this activity is to establish a presence at Systems, and to use this trade show as a platform for marketing and promotion in EU.

Activity 2: Raising exposure in IT media for Moldovan developers of off-the-shelf products

Challenge. Several Moldovan companies have marketable products with strong technical advantages; two examples are RitLabs, with its email client server The Bat, and Dekart, with its Private Disk. These companies sell their products on the Internet; however this requires buyers to find the companies, instead of the companies using proactive marketing. As a result, they do not reach enough of their target buyers (i.e. highly sophisticated technology users with a desire for robust security and encryptions products) and these products remain largely unknown.

Initiative. The experience of these companies shows that publications and media have a direct impact on increasing consumer awareness and interest. It also drivers potential consumers to companies' websites; this often leads to a measurable increase in sales. CEED provided a consultant that is specialized in IT marketing and public relations to work with these two companies and to assist them to devise strategies for gaining the attention of international technology media and analysts, with a view to gaining some international exposure at little direct costs. (This activity was also seen as an excellent complement to the Systems show and aimed to enhance company PR and media skills, as well as to achieve promotion to precede the show.) The CEED consultant took a hands-on approach, helping the companies to identify their target markets, develop marketing and PR messages for these audiences, and then approaching various media with press release that would result in follow-up interview and articles.

Dekart Private Disk 2.07
Compact virtual-disk creator locks down your data
 By Barry Brenesal
 August 29, 2006

Many data-security packages focus on breadth, but Dekart's Private Disk focuses on depth. Its combination of top-of-the-line encryption, virtual-disk protection, and unusual features is striking and effective. Security packages from Steganos and ZoneLabs offer excellent features in other areas, but if you simply want security for computerized data, Private Disk is a better bet.

With its simple dialog box containing tabbed folders (disk, options, recovery, customize) that list selections in standard fonts, Private Disk is one of the plainest-looking utilities we've seen in years. But that's not a reflection on the program's abilities. The app's main job is to make password-encrypted (256-bit AES encryption, to be exact) virtual disks of your files. (Virtual disks behave like physical hard drives that can be easily mounted and unmounted.) You can create virtual disks on hard drives, as well as removable media (flash drives, for example), and launch them directly, without the initial program installation. The program even rates how secure your password choices are.



Disk Firewall, a new feature of 2.07, is a protective layer at the application level. It stops intrusive behavior cold, whether from viruses and worms, or Web-based requests for user information. You can also select which applications are allowed to access files behind the firewall.

In short, the program offers lots of options with top performance. Many are time-consuming to set up, but the built-in help files are well-organized, and the company's Web site does a decent job of walking you through creating virtual disks, including a step-by-step Flash demo. Tech support is available by e-mail form or phone.

Source: Computershopper.com

Results. The mission was very productive and companies were satisfied with the practical level and applicability of advice and assistance. Moreover, as a result, Dekart was successful in attracting the attention of four new IT magazines that published the following articles:

- <http://www.scmagazine.com/uk/products/productdetails/32dd73c7-1803-4c86-80a1-6142a3bd7b0d/dekart-security-suite-encryption-group-test/>
- http://www.maximumpc.com/2006/09/private_disk.html
- http://computershopper.com/reviews/dekart_private_disk_207
- <http://www.comtrader.com.au/> (in a paper printed version)

RIT Labs on the other hand contacted several leading IT magazines and expects to have publications in November 2006, after the Systems trade show, where there are unveiling a new release of The Bat, named The Bat Voyager Pro.

For both companies, these publications are the first steps toward securing a permanent presence for Moldovan companies in Western technology media, and in the reports of technology analysts.

Activity 3: Building capacities for IT outsourcing services from Moldova

Challenge. Two companies, Intexnauca and Deeplace, intend to develop outsourcing as a business line for their company; however, they were facing difficulties with business capacity, in terms of market knowledge, project management capacity, and other management aspects.

Initiative. CEED brought to Moldova a short-term consultant who was asked to focus on building the IT outsourcing capacities for these two companies. The consultant was to assist the companies, in particular Intexnauca, to upgrade their outsourcing services business lines to a level that could be attractive in the global software outsourcing (and near-shore outsourcing, such as Romania) market and to help both to promote their services. The end objective was to help these companies integrate outsourcing within their current business to a level, where it becomes a permanent and income-generating profit center. While in Moldova, the consultant conducted a thorough review of Intexnauca's operations and to a lesser extent those of Deeplace. Both companies, but particularly Intexnauca, were deemed to be quite distance from being able to satisfy international (i.e. American or European) outsourcing needs; and in the view of the consultant a lengthy and comprehensive technical assistance package would be required for these companies to reach a minimum standard. In the case of Deeplace, the consultant suggested an alternative business model; instead writing software code, as was originally envisioned, the consultant suggested that Deeplace could function as a bureau server. However, this too would require some significant changes within the organization.

Results. As a result of this assignment, both companies have a better, and perhaps more realistic, understanding of what it takes to do business in the international software outsourcing world, particularly as it relates to the expectations of US and EU buyers. The work has encouraged Intexnauca to seriously consider adjustments to its development strategy. CEED continues to weight its option on how to move forward with this project, understanding that to achieve success within the life of this project may require a significant investment of CEED resources.

Activity 4: Workforce development project for Moldovan ICT sector

Challenge. The dwindling pool of ICT specialists and programmers is a major impediment to development of Moldovan ICT sector. The quality of young graduates in IT-related professions is decreasing. The key reason lies not only in outdated curricula; faculty knowledge and skills do not keep up to the constantly evolving IT industry. At the same time, training and certification

available in Moldova is very limited and programmers travel to Ukraine or Romania. Currently, only CISCO courses are available in Moldova; however, the market needs more.

Initiative. CEED's objective is to research this problem in detail and develop interventions at the industry level, which could address this labor supply shortage. The first stage commenced with feasibility to (i) research existing training opportunities on the Moldovan market, (ii) study the opinion of business community regarding their needs, and (iii) identify gaps in the education system. Cooperation relations have been established with the local Microsoft representative Office, led by Mr. Serghei Shmigaliiov. CEED also researched the experience in the region, particularly of the Bulgarian European Software Institute (ESI) Center and the Romanian CHF Project, to explore opportunities for replicating successful practices and products to Moldova.

Results. The feasibility work conducted during Year 1 has reconfirmed the need for an intervention in this area. Two potential regional partners, available for replication of experience, have been identified: Bulgarian ESI Center and Learning Solution Center from Romania (that is a Microsoft Certified Partner for training products). Cooperation has been established with the Moldovan Microsoft Rep. Office. During Year 2, CEED plans to finalize the design for an appropriate intervention in the area of IT education, and commence implementation thereof.

A2. Textile and Apparel Sector

The Moldovan textile and apparel industry is actively developing and the number of companies during the past five years has nearly tripled. The sector is dominated by production on cut-and-make terms (i.e. LOHN), with 85-90% of companies working under this scheme. The textile and apparel industry is of key importance for Moldovan economy, accounting for 24% of country's exports and employing 13% of the labor force (it is a key source of employment for women).

In March 2006, CEED textile and apparel sector advisor and short-term consultant Philip Eddleston conducted a rapid sector assessment that identified key gaps and opportunities for the apparel industry. In addition, in order to select an initial group of anchor firms, they discussed with the top management of fifteen companies¹. From this group CEED provided assistance to eight companies, during Year 1, as follows:

- *Apparel companies specialized in exports (operating based on LOHN production):* Dana SA, Flautex SA, Gabiny SA, Rada SA; and Georgheta Design II;
- *Apparel companies operating based on private label production on the local market:* Olga Ceban and Vasconi Textile SRL;
- *Companies manufacturing yarn for carpet production:* Covoare-Ungheni SA.

CEED's interventions were designed to address observed gaps or weaknesses in the sector and in individual companies. Each intervention was aimed to catalyze growth within the target company (i.e. generate sales and new jobs), which will in turn improve the competitiveness of the industry as a whole. The groups of companies above received support in business linkage facilitation, product quality increase, and marketing skills enhancement, as follows:

- *Support to LOHN producers.* CEED assisted apparel enterprises operating on LOHN and own-label production to upgrade their current "sales policies" and adopt more aggressive sales and marketing strategies. This underscored the importance of maintaining current clients and motivating them to place larger and more valuable orders in Moldova;

¹ Dana SA, Rada SA, Flautex SA, Vasconi Textil SRL, Laboratorio Tessile Mol SRL, Finesso Selena SRL, Dalia SA, Olga Ceban II, Saltoianca SRL, Gabiny SRL, Covoare Ungheni SA, Moldabella SA, Infinity SA, Georgeta Design II and Ionel SA

- *Support for private label producers.* CEED assisted Olga Ceban, which produces women's lingerie for the local market. A successful marketing strategy and promotion plan, that included a plan to rebrand the company, were developed by a local consultant, which will allow Olga Ceban to raise its image on the local market;
- *Support for the textile subsector.* CEED assisted the only yarn manufacturer, Covoare-Ungheni, to improve yarn quality and increase competitiveness, through specialized technical and technological consultancy in dyeing and spinning area.

In addition, CEED initiated an industry-level intervention focused on labor force development. Specifically, CEED intends to work through the vocational education system in Moldova to enhance the training of seamstresses through curricula improvement. An initial feasibility has been completed and partners identified. This activity will begin in Year 2.

Specific activities are described below:

Activity 1: Facilitated linkages between Moldovan and foreign customers

Challenge. Moldova has untapped potential to increase its share of the world's cut and make (C-M) market, particularly for European fashion houses, due to Moldova's low labor cost and proximity to the EU. Moreover, Moldovan manufacturers take a passive attitude in marketing, and do not take pro-active sales attitude.

Initiative. CEED decided to support a program to promote Moldova's capabilities to major brand holders, starting with those that have Representative Offices (Rep Offices) in Bucharest, Romania. CEED merged efforts with other stakeholders and supported five apparel companies ("DANA" JSC, "RADA" JSC, "FLAUTEX" JSC, "GABINY" Ltd, "VASCONI TEXTIL" Ltd) to participate at Week of Republic of Moldova in Bucharest (June 12 – 17, 2006). The event was co-sponsored by the Ministry of Economy, the Chamber of Commerce and Industry, and Moldexpo. CEED invited several representatives of client companies to familiarize with Moldovan enterprises, their capacities and abilities.

Results. Participation of Moldovan companies at the Bucharest event has broadened the potential client network of these manufacturers, particularly given the intention of several buyers in Romania to relocate given upcoming accession to EU and increase of prices. Several contacts have been established, including with potentially active clients: Romanian company "J&R Enterprises" Ltd (Bucharest), Flag-Apex Apparel Buying Office (Bulgaria). Both companies expressed interest in placement of orders in Moldovan enterprises.

Activity 2: Assisted start-up company, Georgeta Design, with business linkages

Challenge. A young graduate of the London Fashion College, Mrs. Georgeta Ieahia, decided to upscale the small tailor's shop, and start-up a larger apparel operation. Her goal was to move away from the classical LOHN scheme and begin producing her own collection of blouses, skirts, trousers, and day-dresses for women. However, the problem was to find appropriate customers willing to work with her on own collection terms.

Initiative. In February 2006, CEED has supported Georgeta Design (in the future to be named Actual Confectii) by cost-sharing for the production of a marketing brochure, to participate for the first time in the Ready to Show exhibition in Milan, Italy. The company attended the show hoping to find buyers. Participation at Ready to Show was a premiere event for a Moldovan company. The booklet served as a tool for presenting the design and technical capacity of the company at the exhibition to potential clients and buyers.

Results. Support to Georgeta Design to attend the exhibition has served as an initial platform for the company and has generated several short and long-term impact for this beneficiary:

- Seven productive contacts were generated from Ready to Show, mostly with Italians;
- Building on the previous success, other exhibitions were visited afterwards: Ready to Show and Milano Unica during September 12-15, 2006 for searching customers; and TEXGATE exhibition in Turkey (visited twice in March 9-11, 2006, and September 21-29, 2006) to ensure good quality raw material;
- Following participation in these exhibitions, Georgeta Design produced various samples from her collection and sent them to different interested clients whom she had met and established contacts with during those events.
- CEED's textile and apparel sector advisor is assisting Georgeta Design to place an order from an Italian client with a Moldovan domestic apparel company, Interplast SRL, given that the company's production facilities so far are not equipped.

Activity 3: Assisted Moldovan company Olga Ceban to reposition its Ravetti Brand

Challenge. Though the Moldovan market seems small, clothing consumption is rising and presents business opportunities for private label manufacturers. Currently some small companies have opened up in Moldova to sell their own private labels. Because most Moldovan private label apparel companies are new and do not have much experience, they are weak in product development and marketing. Olga Ceban, a producer of women's lingerie under the Ravetti brand, was facing difficulties with building its brand, particularly as it relates to brand positioning. The company was making very little profit and was "fighting" to stay afloat because it was manufacturing of a product line that was too large for its capacities.

Initiative. Using a local marketing professional, CEED assisted Olga Ceban to develop a new market strategy and promotion plan. The strategy contains concrete suggestions for improving product and price policy, distribution system, and promotion. The strategy was presented to the company top management in September 2006 and was accepted for implementation.

Results. Implementation of the new strategy has already started and will continue into year 2007. Olga Ceban will invest an initial sum of \$10,000 to upgrade its product line, create a new corporate image, and reequip its retail outlets. In addition, because of CEED's support, Olga Ceban has successfully applied and been approved for a €1,500 grant from the EBRD's Business Advisory Services (BAS) program to cost-share for the implementation of this new marketing strategy. Without CEED's support, the financial support from BAS would not have been possible. The new brand will be launched in 2007 and target a specific market segment – young women, ages 15-30. This will help Olga Ceban to consolidate its position and is expected to increase of sales by 30-40% and raise profitability.

Activity 4: Assisted yarn manufacturer Covoare-Ungheni to increase the product quality

Challenge. Covoare-Ungheni (CU) is the only yarn manufacturer in Moldova. It is a key company in an important carpet value chain, supplying 100% of the woolen yarns used by carpet company Moldabella. It is the largest single employer in Ungheni, employing approximately 300 people, many of whom are women. During the past five years, the company has re-equipped the washing, cleaning, scouring and spinning facilities. However, it continued to face problems with the quality of its yarn. The problems were showing up on the final carpet produced by Moldabella, and its customers were complaining. In response, Moldabella told CU increase its yarn quality our risk losing Moldabella's business. The specific problems were described as (i)

striping, appearance of color-related stripes in the carpets with large mono-color areas, especially light colors, (ii) staining, appearance of stains when water was spilled on carpets; and (iii) unraveling (or untwisting) of yarn when trimming the carpets.

Initiative. CEED provided CU with support to improve its yarn quality. Two consultancies were conducted; one focused on the dyeing process (Peter Duffield in May 2006) and another on the spinning process (Kevin Lordan in September 2006). The first assignment was an audit of the dyeing facilities and showed CU that the quality problems were not caused by the dyeing and thermo-fixation process as was originally thought. As a follow-up, an audit of the spinning department was conducted by Mr. Lordan, which showed the origin of the quality problems. Mr. Lordan provided a number of recommendations for process and technical improvement in the spinning line that will help remove quality issues.

Results. Recommendations from the dyeing consultancy by CEED saved CU approximately €1 million according to the General Director. This money was redirected towards a new synthetic yarn production line. CEED's assistance in the spinning department has helped the company to solve the problems that it was facing with its yarn quality; moreover, the assignment brought significant savings in raw material losses. The General Director estimates that CEED helped CU save another €1 million Euros from the second consultancy. The assistance will also increase CU's revenues, which had been reduced due to penalties assessed against it for poor yarn quality. In addition, jobs for its current labor force have been protected and increases are likely.

Other Activities: Activities that began in Year 1 but will be implemented in Year 2

CM company productivity: With only three days remaining in Year 1, CEED launched a program to increase productivity among CM apparel companies. An international apparel specialist visited Moldova to conduct an efficiency audit at three companies, Dana, Rada, and Infinity. Thereafter, the consultant will present his recommendations for where efficiencies can be found with minimum investments and during Year 2 will help the companies to implement these plans.

Workforce development: During the past five years, many new apparel companies opened in Moldova, which contributed to demand increase for skilled labor. Taking into account the existing training system for seamstresses, which is long (4 years) and not teaching the skills required of potential employers, companies are facing labor crisis. Some companies have established their own seamstresses' training centers, such as ICATEX Ltd., a company backed by German capital that created a training center in Anenii Noi. This model, with some adaptations, could be successful elsewhere, and CEED has started to design an activity which would support labor force development through improvement of training curriculum.

A3. Wine Sector

Playing a significant role in country's economy (cca 25% of exports), the wine sector of Moldova is at a crossroads. The ban on Moldovan wines to Russia, which accounted for 85% of Moldovan wine exports, has challenged survival of the industry. The volume and value of the Russian market was so important that it is difficult to envisage any way of replacing this in other markets in either short or medium term. By now the overall export has declined two times and is going to fall further by the end of this year. It is unclear when the ban will be lifted.

In order to structure CEED's technical assistance program, in March 2006, the CEED wine sector advisor and short-term consultant and Master of Wine Caroline Gilby carried out a rapid sector assessment in order to appraise the Moldovan wine sector, evaluate its readiness to compete

internationally, and to give recommendations on how to better channel the technical assistance resources. In order to identify the initial anchor firms, thirteen companies were visited².

The companies were then divided in four distinctive groups. The first group included wineries that were most advanced in wine production and marketing; whereas the fourth and last group included wineries that have a long way to go before they achieve a minimum level of quality. The two middle groups included wineries that either have the equipment, but lack the winemaking skills or have financial or other constraints that keep them from producing high quality wines.

CEED decided to work primarily with wineries from the first group, but also with some from groups two and three, and to tailor technical assistance to the particular needs of each wine company. The strategy was to work with wineries which were the most progressive, committed to implementing changes, and having the highest development potential; as a result acting as agents of change. As a result, interventions have been carried out with seven client enterprises, for the first four of which CEED engaged in more intensive individual support:

- Dionysos Mereni SA
- Chateau Vartely SRL
- Acorex Wine Holding SA
- Salcuta SRL
- DK Intertrade SRL
- Vinaria Purcari SRL
- Lion Gri SRL

During Year 1, CEED assessed the opportunities for providing technical assistance to the wine sector and prioritized them in accordance with their importance. The two main areas that needed substantial improvement in order to make the Moldovan wine industry more competitive and the CEED was able to address are marketing and winemaking. Consequently, interventions have been designed at the company-level, individually and for groups of companies, as follows:

- *Support to expand markets and enhance marketing skills.* Market diversification away from Russia is a key need of Moldovan wine industry. CEED marketing assistance has included activities that have impact on the individual companies, as well as on the whole industry, such as common marketing efforts aimed at publicizing high-quality Moldovan wines, improving access to market information, and facilitating market linkages in countries that are more likely to import Moldovan wines. Interventions have been designed for three main markets:
 - USA – facilitating business linkages and market entrance for three leading Moldovan wineries;
 - Romania – supporting an in-depth market research for wine industry; assisting Dionysos Mereni winery to penetrate and expand sales; and helping Chateau Vartely winery to expand sales in the HoReCa segment;
 - UK – helping Acorex Wine Holding to design a new umbrella brand.
- *Support to improve winemaking.* The assistance aimed at improving technology consisted of helping wineries develop new skills and adopt new practices for producing new styles of wines. A pilot project with Salcuta winery has already commenced implementation, where CEED is supported consultancy of a foreign winemaker at the company.

Specific activities are described below:

² Chateau Vartely SRL, Vinaria Purcari SA, Salcuta Winery SRL, DK Intertrade SRL, Vitis Hincesti SA, Leovin SA, Taraclia SA, Podgoria Dunarii SA, Doina Vin SA, Dionysos Mereni SA, Acorex Wine Holding SA, Basvinex/Romanesti Winery SA, Lion Gri SRL.

Activity 1: Support for raising awareness of Chateau Vartely wines in Romanian HoReCa

Challenge. Chateau Vartely is a young, progressive company, being a successful model of a small winery that is a rarity in Moldova. It has been exporting wines to Romania for more than two years through its own distribution company. An analysis of the winery's sales in Romania showed that even though Vartely wines were present in the HoReCa segment in major cities, where they were on the wine list of 200 restaurants, this on-trade distribution channel was not generating the expected turnover and was an underdeveloped sales platform. The mere presence of Vartely wines in restaurants and bars was not sufficient to get a high degree of awareness. The company management did not have sufficient knowledge and expertise how to conduct effective promotion and marketing tools for this specific segment.

Initiative. In June, Vartely approached CEED with a request to assist them with wine promotion in HoReCa establishments in Romania. The main goal was to help Chateau Vartely upscale its sales in the on-trade segment in Bucharest, Constanta, Pitesti and Timisoara by undertaking a pilot promotion campaign in fine dining establishments where Vartely wines were present. CEED provided a highly skilled wine taster and professional, with intimate knowledge of the Romanian wine market, who helped Vartely design an effective promotion and marketing campaign in the HoReCa segment, and helped conduct wine tastings in 20 restaurants targeted by the winery.

Results. Vartely has increased the profile of its wines with upscale Romanian consumers. Also, it had the opportunity to train its sales staff and teach them a new promotion tool. In the short run, it improved the image of all its wines and increased the market value of the Chateau Vartely brand. Within several months after this activity, sales to Romania have increased by approximately five times. In the long run, the improved brand image will lead to increases in sales, not only for Vartely, but also for other Moldovan wines that will benefit from Vartely's stronger image.

Activity 2: Marketing support for Dionysos Mereni in the Romanian market

Challenge. Dionysos-Mereni (DM) has been undertaking focused efforts in order to enter and expand its sales in Romania. Preceded by some test sales in late 2005, at the beginning of 2006, DM has penetrated more seriously the Romanian market through a local distributor. Taking into consideration that Romania is a new, unexplored market for them, DM needed support for developing a marketing and sales strategy for this market, as well as for setting a promotion plan and budget for implementing it.

Initiative. In May, DM sought CEED assistance for developing a strategy aimed at consolidating their current position in Romania and expanding sales into other regions of Romania. CEED provided support to DM to develop a robust marketing strategy and a promotion plan, which assisted the company to define its segments, entrance and further expansion strategy (in terms of product, targeted regions, and sales channels), and outline promotion budget and channels. The CEED expert has also helped the company throughout implementation of the proposed strategy.

Results. This activity has given immediate results; specifically, a clarified and better company vision regarding their brand positioning on the Romanian market; improved perception of competition and development of a better strategy for positioning company's products; and increased efficiency and effectiveness in spending its planned advertising budget through a well-designed and justified promotion plan. As a result, DM has not only successfully penetrated the Romanian market, but is also achieving its sales goals: 80,000 bottles during the 2nd and 3rd quarters of 2006, and another 80,000 bottles by the end of the year. Its sales have increased too; with 16% increase from the second to third quarters of 2006.

Activity 3: Support for developing a new umbrella brand for Acorex Wineholding

Challenge. Acorex Wineholding is one of the only two Moldovan wineries, who have managed to enter of the UK market, which is considered to be one of the largest but the most sophisticated in the world. In the past Acorex has established sales in UK through a direct mail (catalogue order) company. During the last three years, the company's sales to UK have been 1.8 million USD, which are modest but stable. To build on these efforts, Acorex decided to expand and enter wider in this market in the supermarket chains. However, a prerequisite increasing the chances of success is development of a new umbrella brand for Acorex wines, preferably by an experienced UK designer who is aware of customer preferences in that country.

Initiative. Acorex and CEED discussed a joint activity to develop and launch the required new brand. The new umbrella brand is intended for either exclusive/own-ranges or large-scale national or international distribution. This brand, once developed, may then be applied to various groups of wines that are to be sold under this name and may include further development to accommodate wines of varying price points and origins whilst retaining the general brand appearance. CEED supported the work of a branding expert, Neil Tully, who developed three power brand concepts. These concepts are now being subjected to consumer testing at the Wine Show in London (October 2006) before a final selection is made. The launch of the new brand is planned for May 2007 at the London Wine Fair.

Also, as part of this effort, in August 2006, Acorex requested help from CEED to audit their current operating facilities in advance of international buyer visits. CEED employed a wine specialist who undertook a thorough evaluation of Acorex's winery operations and then prepared detailed recommendations for improvements based on the best operation and sanitary practices that wine buyers and distributors from UK would expect in one of their suppliers' facilities.

Results. The new brand will be launched at London Wine Fair in May 2007. Acorex anticipates sales of approximately \$500,000 in its first year. The new brand will then be used to enter other developed markets, such as Germany and US. However, it must be noted that the most significant impact of this project is that this effort will set a precedent for large-scale penetration of the sophisticated UK market not only for Acorex, but also for Moldova wine industry as a whole. It will serve as an example for others and open the trade path to many other Moldovan wineries.

Activity 4: Romanian wine market research

Challenge. Romania is today one of the most significant markets for the Moldovan wine industry. Sales of Moldovan wine in Romania have increase dramatically in recent years, fuelled in part by underproduction of Romania's own wine industry. While there are many Moldovan wineries that already sell their wines in Romania, discussions with wine exporters reveal that the main challenge they are facing in Romania is linked to the lack of awareness among Romanian customers about Moldovan wines. It is worth mentioning that at present the marketing effort made by Moldovan wineries in Romania is limited, due in part to lack of experience and knowledge about the most efficient promotion practices used in Romania for promoting wines.

Initiative. CEED decided to support an in-depth research of the Romanian market, which in addition to basic information regarding the Romanian wine market, would provide specific information and recommendations regarding Moldovan wines in Romania, and namely: where they are today and how their presence/consumption can be expanded. The research was designed to serve several beneficiaries: (1) the CEED project, (2) wineries that already sell limited quantities in Romania, and (3) wineries that are seeking to penetrate this growing market. The

research was carried out by the Romanian market research company TNS-CSOP selected during a bidding process. The research was overseen by an American wine marketing expert.

Results. After two months of intensive work, the final research was completed in September. It is the first research of this kind, released in Moldova for the wine industry. The work has raised the interest not only of domestic wineries, but also of Moldova VIN. The research represents a large, in-depth and comprehensive research of the Romanian market, with data having been gathered through various methods. It provides the wine industry with an effective decision making tool because it contains, among other things, information about:

- Romanian wine consumers' tastes and preferences;
- Existing marketing chain and distribution network(s) for Moldovan wine;
- Promotional tools and channels used for promoting wines effectively;
- Perceptions of the positioning of Moldovan wines;
- Unused distribution channels, including hypermarkets and supermarkets, and
- Effective advertising for reaching on-trade and off-trade buyers.

Activity 5: Business linkages with American wine buyers

Challenge. The US wine market is one of the most sought after, as it is among the biggest in the world. However, Moldovan wineries are not experienced in working with buyers in this market and sales are small. Companies lack information about the distribution system and contacts with interested wine importers and distributors in US.

Initiative. CEED decided to assist capable Moldovan wineries to penetrate/expand on US market and get productive business linkages. The group of wineries included in this assignment included six leading domestic companies with appropriate products: Chateau Vartely, Purcari, Bostavan, Lion Gri, Acorex, and DK Intertrade. Company profiles and market development requests have been developed for all these companies.

In July 2006, CEED supported a visit by an American business linkage expert, who assessed the products and export capacities of these wineries. Then CEED and five wineries (all except Bostavan) shipped wine samples to an interested importer/distributor, Beverage Bistro, in the US. After tasting the samples, Beverage Bistro has chosen the products from three wineries, Chateau Vartely, Lion Gri, and Acorex to try and sell to major US retail chains.

Results. Even though this activity is still under implementation, CEED has already managed to link three Moldovan wineries – Chateau Vartely, Lion Gri and Acorex Wine Holding – with an interested importer/distributor in US Beverage Bistro. Beverage Bistro has signed six month exclusivity letters with the three wineries and is currently in the process of meeting interested buyers (supermarket chains) throughout the country. This activity will continue throughout end of 2006 and will fall into 2007, until the first sales will occur.

Activity 6: Support for developing a generic wine brand (G7 initiative)

Challenge. The marketing efforts of the Moldovan wine industry are dispersed and at the individual company level. Even participation at specialized events is not under a common country or business group umbrella. As a result, market diversification is happening slowly. All other wine producing countries, such as Australia, France, Chili, have managed to increase the marketing success of their wine only through generic branding and promotion.

Initiative. A small group of progressive Moldovan wine producers has emerged lately. The group is demonstrating a certain level of readiness, which allows them to pursue the international wine markets. They already have high quality wines and good technical capabilities, as well as wine brands or internal capabilities to develop this area. The group includes the following wineries: Acorex Wine Holding, DK Intertrade, Dionysos-Mereni, Chateau Vartely, Purcari, Bostavan, and Lion Gri, which account for 30% of all Moldovan wine exports.

CEED has catalyzed this group through a series of meetings with the representatives of these wineries. The main purpose of the meetings was to make the wineries understand clearly the benefits of working together to create a united front that would lead to establishing a new category of high quality wines from Moldova. After several discussions, the owners of the wineries agreed to form the organization that would be responsible for the marketing activities.

These wineries will be the initiators for activities aimed at raising the profile of Moldova as a wine producing country through press, PR and joint marketing efforts such as joint presence at trade shows, press releases and generic tasting events in key target markets. As the result, they will benefit from an improved country profile by increased sales and wider market access.

Results. CEED's work has catalyzed this marketing initiative at the cluster level. The group of six wineries decided to establish a formal organization that would be responsible for managing the activities related to generic wine promotion, including brand design and management. The organization is to be registered in November 2006. CEED will support the new organization with strategy development, organizational advice, as well as specific support in developing and launching the generic brand. Although this initiative it is at an early stage of development (and next year will be decisive to lay a sound foundation), there is already an extremely high commitment on behalf of the six member wineries to work together and finance the organization.

Activity 7: Technical support for improving winemaking skills

Challenge. Moldovan wine quality issues have been discussed for a long time among industry stakeholders, but they became critical after the Russians banned the import of Moldovan wines on the pretext of their low quality. Furthermore, there are many Moldovan wineries, which admitted that their wine quality standards needed substantial improvement. The wine quality issues are a serious weakness that affect Moldovan wine industry and severely damage its ability to compete on the world wine market. Besides not being able to cope with basic technological faults, many Moldovan wineries are not able to implement modern winemaking tools and practices, though many of them have installed up-to-date winemaking equipment. Therefore, the restraining factor is the lack of experience and knowledge.

Initiative. Taking into consideration the facts described above, CEED decided to support two wineries to improve their winemaking skills and techniques by exposing them to international winemakers who could provide hands-on winemaking consultancy during the 2006 season. The chosen wineries, Salcuta and Lion Gri, were selected during an open contest in August. The key selection criteria were adequate technical endowment and technological capacity to support the changes in winemaking. The activity with Salcuta began in September 2006.

Results. This project will change radically the winemaking technology and the wines produced by Salcuta. It will introduce an international winemaking style at the winery, which was previously focused 100% on the Russian market and had a poor winemaking technology. Salcuta has hired a young local winemaker that is being trained by the international winemaker provided by CEED. After completion of this assignment, Salcuta will produce new wines under a new brand for new markets. In total, Salcuta will produce 2.5 million bottles of wine during the 2006 season (25% of

what it used to produce for Russia) at quality standards competitive in the regional market. They expect this to lead to nearly \$3 million in new sales and that it will save jobs. With the changed production and marketing strategy, Salcuta will serve as an example for other Moldovan wineries. CEED and the wineries strongly believe that improved winemaking is a key factor that would improve the competitiveness of Moldovan wines on the international market.

A4. Financial Sector

Access to finance for firms in CEED's target sectors is a barrier to increased competitiveness, trade and new jobs. Although the banking sector is quite developed, with 15 commercial banks operating on the market, and banks are experimenting with new products such as factoring and leasing, pre-shipment finance, which is required by manufacturing companies, is poorly developed. The non-banking sector on the other hand, which is an indispensable alternative and complementary source of financing for the private sector is at an incipient stage and is not playing its full role on the market.

CEED's work in the financial sector began with a sector assessment conducted in April 2006. The assessment, whose findings were presented in a report entitled, "*Financial Sector Assessment: Analysis of Trade Finance Opportunities in Moldova and Recommendations for CEED Financial Sector Initiatives*", was undertaken by the CEED financial sector advisor and two short-term specialists, Michael Gold and Reese Moyers, from CEED subcontractor Crimson Capital. The assessment evaluated the existing trade finance products for possible expansion and explored other opportunities to develop tailored financial products. In addition, it examined in-depth the financing needs of the private sector, specifically access to short-term operating capital and long-term investment resources. The assessment clearly pointed out the need for new financial products both in the banking and non-banking sector.

Based on this assessment, CEED designed two interventions aimed at developing new financial products, one in the banking sector and another in the non-financial leasing sector, as follows:

- *Introduction of pre-shipment finance product – Purchase Order Finance (POF).* CEED laid the foundation for introducing POF in Moldova with two commercial banks, Mobiasbanca and Fincombank, which were selected through a competitive selection process. During Year 1, CEED completed the feasibility assessment, partner bank selection, training of local team, and design of general support framework for POF. Activity implementation at the bank-level will start in Year 2 and will include support from CEED for product development, procedural enhancement and institutional strengthening. The first POF pilot transactions are targeted for February 2007 with \$700,000 of the banks' capital to be issued during the pilot phase (6 months).
- *Expansion of leasing for commercial equipment.* Given the concentration of the leasing market on automobile leasing (90%), CEED decided to support an intervention for development of commercial equipment leasing. During Year 1, market analysis and screening of potential partner leasing companies was been conducted and IMC leasing was selected as the partner institution for new product development. The final details of the activity as well as its implementation will begin in Year 2. The anticipated results from this leasing intervention including €1 million to be issued by IMC Leasing in the first year for financing commercial equipment and machinery, particularly in CEED target sectors.

Activity 1: Introduction of Pre-Shipment Finance Product

Even though basic financial products in the banking sector are available, the private sector needs more sophisticated products better tailored to their needs. The financial sector assessment,

conducted by CEED in April 2006 showed that pre-shipment finance is poorly developed. Based on estimates received during the assessment, trade finance is only about 5-8% of the total lending in Moldova and is limited to traditional documentary credit, credit lines and overdraft facilities, which are not the most appropriate and attractive financing mechanisms for banks and businesses.

To overcome this challenge, CEED proposed to introduce an innovative financial mechanism, Purchase Order Financing (POF). During Year 1, CEED laid the foundation for POF as follows:

- *Enhance capacity of local CEED team.* CEED financial sector advisor attended a training on POF in Skopje, Macedonia organized by subcontractor Crimson Capital and hosted by Macedonia SME Commercial Finance Funds. The main focus of the training workshop was to understand and learn the specific practical details of POF and get hands on experience on POF in Macedonia through interacting with main actors in the process (clients, loan officers, specific client files, etc.).
- *Select partner banks for POF introduction.* To ensure a competitive selection process for the commercial banks that are willing and able to introduce the new POF product, CEED conducted a tender for selection of two commercial banks. In June, CEED issued a Request for Expressions of Interest (REOI) to invite banks currently ready, willing and able to initiate or expand trade and working capital finance services in Moldova, to submit their institution's application to be considered for participation in the CEED Finance Technical Assistance and Training Project. As a result, three banks submitted an EOI – Mobiasbanca, Fincombank and Moldincombank. Mobiasbanca and Fincombank were ultimately chosen as the final candidates for POF implementation by CEED.
- *Define support needs and framework for POF implementation.* CEED defined the general support needs and implementation framework for POF activity. The activity was designed to strengthen the human and institutional capabilities of the selected institutions in order to enhance their offer of trade financing products to their markets. The activity has been designed and will include an appropriate combination of support by CEED in: (i) institutional and personnel strengthening, (ii) enhancement-improvement of the financial products, including policies, procedures and regulatory compliance, and (iii) design and implementation of pilot lending projects to test market acceptance of the financial products. Each program will be implemented in compliance with the current legal and regulatory framework and in consultation with the National Bank of Moldova.

In Year 2, CEED will take steps to formally introduce and launch the POF product with the chosen commercial banks – Mobiasbanca and Fincombank. The further steps include defining and implementing an action plan with each bank. The first POF pilot transactions are targeted for February 2007, with \$0.7 million financing to be issued during the pilot phase (6 months).

Activity 2: Expansion of Leasing for Commercial Equipment

The primary focus of leasing sector is automobile leasing; over 90% of the leasing market being concentrated there. However, there is strong interest from local leasing companies to serve other sectors, primarily industry and manufacturing, which need to upgrade or purchase new machinery and equipment. Leasing is one of the best alternatives to banks loans and access to medium and long terms investment, because it solves one of the biggest problems for SMEs: lack of collateral. But a key challenge that is keeping local leasing companies from introducing new products is lack of experience and market knowledge.

CEED decided to assist with the introduction of new leasing products on the Moldovan market, in particular serving the needs of CEED target sectors, to upgrade equipment and machinery. The groundwork for a leasing intervention has nearly been completed in Year 1, as follows:

- *Market analysis.* A basic analysis of the leasing market was conducted by CEED as part of the financial sector assessment (March 2006) and by analyzing available sector reports. This confirmed the need for an intervention in the leasing area.
- *Partner company selection.* At the beginning of 2006, CEED met with three of the five most active leasing companies on the market with the view to identify areas of development and support. As a result, IMC Leasing, which is one of the leading leasing companies, stated their considerable interest in diversifying their portfolio and developing new products for the business sector. A request for support was received from IMC Leasing; it stated the company's diversification strategy and areas of assistance, primarily the development of new products for leasing of commercial equipment and machinery for the textile and apparel and wine sectors.

The formal selection process of the partner institution and intervention design will be finalized in Year 2 with a view toward beginning implementation by the end of 2006. The anticipated results from this leasing intervention include €1 million to be issued by IMC Leasing in the first year for financing commercial equipment and machinery, particularly in CEED target sectors.

B. Business Environment Component

In this section, we describe CEED's activities under the Business Environment Component during Year 1.

Activity 1: Defined relevant CEED stakeholders

For the purpose of Business Environment Improvements in Year 1, CEED started to build strong working relationships with key private and public sector stakeholders, gaining a place in the business environment improvement process. Five groups of organizations were identified as main potential stakeholders. Several meetings were held with these organizations to initiate a dialogue and find potential areas of cooperation:

- *General:* Chamber of Commerce and Industry (CCI), encompassing over 1,300 businesses as members, may serve as partner for export promotion activities in the three industry sectors, particularly facilitating participation to chosen domestic and foreign trade events. Also, this partner is one of the most active for the implementation of the Business Environment Improvement activities, and will be a platform for launching the initiative to improve the business environment for the project targeted sectors.
- *ICT sector:* Association of Private Companies in domain of TC & IT is a recently registered organization (May 2006) that just associated 7 TC providers, but this organization has an objective to lobby and advocacy interests of all ICT companies.
- *Apparel sector:* Association of Light Industry Employers, a recently launched association (APIUS) joining over 30 light industry companies, predominantly apparel manufacturers. Its main objective, lobby for better business environment.
- *Wine sector:* Union of Wine Exporters, joining the largest Moldova exporting wineries and Union of Winemakers, a professional association enrolling over 500 winemakers from all over Moldova. Both associations are mature and have well defined objectives and activities. These associations will also represent the main pillars for debating and launching initiatives for improvements in the business environment.
- *Government:* CEED also established cooperation with the Ministry of Economy and Trade, Ministry of Industry and Infrastructure, Ministry of Information and Infrastructure, and State Agency Moldova VIN.

In order to achieve a synergy of activities, CEED also has defined and established the basis for collaboration with the World Bank Competitiveness Enhancement Project (CEP), which has a country-wide business environment improvement component, as a follow-up of Regulatory Reform financed and implemented by USAID in 2004-2006. We discussed with CEP the formula to be introduced in the scheme of the Regulatory Reform, to officially canalize the assistance for solving regulatory impediments through National Working Group and its Secretariat organized by activity sectors within the Regulatory Reform process, under the umbrella of MOET.

Another partner in building good connection with policy decision makers is International Association of Business and Parliament. IABP-Moldova delivers an international protocol for establishing relationships between business and parliamentary leaders. One of its major goals is to facilitate dialogue between Members of Parliament and business community primarily via committee of enquiries that will support CEED clients to lobby their interests.

Activity 2: Defined policy, trade, and investment constraints for legal reform initiatives

Regarding public sector reforms in Year 1, CEED investigated existing legal and regulatory impediments and barriers which limit business grow and competitiveness in its target sectors, particularly those which affect the operational, trade, and investment activities of companies.

CEED began this activity by analyzing existing assessments/reports and discussing with leading businesses, associations, and key representatives from the three target sectors the regulatory business environment in Moldova and the legal and regulatory environment impediments that are constraining the growth of CEED's target sectors. To obtain an independent opinion of the private sector's view of business environment constraints and imperfections, as well as to validate findings revealed during the initial desk research and discussions with private sector, CEED conducted focus group research in each of the three target sectors. These were completed in September 2006. This will serve as the starting point for initiating business environment improvement actions and developing further dialogue between the public and private sector.

In addition, CEED decided on the framework of the business environment component process that is in the line with Law No. 235-XVI, as of 20/08/06, on Basic Principles Regulating Entrepreneurial Activity, passed by the Parliament of Moldova on July 20, 2006. This law is the evolution of the regulatory reform process that began under the USAID BIZPRO project. Moreover, it establishes a clear structure within which to work to achieve legal, regulatory, and administrative changes. Rather than setting up a competing or parallel structure, CEED is committed to supporting this new framework, to helping the various stakeholders to use it, and to wrapping the project's business environment improvement activities around this framework.

Activity 3: Expertise support to government stakeholders

An important step in establishing collaboration with CEED stakeholders such as Moldova VIN, the National Institute of Wine, AGEPI, and private Moldovan wine companies was a roundtable to discuss the protection of geographical indications and appellations of origins of goods for wine organized on June 27, 2006. Forty-five people from twenty-one private companies, representatives from Moldova VIN, the National Institute of Wine, the Wine Exporters Union, the Wine Makers Union, and wine consulting firms participated. The event contributed to building awareness regarding the new draft Law on the "Protection of Geographical Indications and Appellations of Origins of Goods in the Field of Wines" and how it affects the existing legal and regulatory environment in wine industry.

C. Technical Assistance

The following is a list of the short-term local and international consultants used during Year 1.

Consultants	Technical Area	Activities
Philip Eddleston March 13 – 24	Textile/Apparel Specialist <i>Dexis Consulting</i>	Visited 13 companies. Identified targets for 6 companies that must be addressed to get new orders. Also there were selected 3 companies to be assisted to develop products for local market.
Holt Evans March 13 – 24	IT Specialist <i>Dexis Consulting</i>	Visited 11 companies and governmental authorities. Proposed 5 anchor firms will get more assistance however other companies could also benefit from CEED activities.
Caroline Gilby March 19 – April 1	Wine Specialist <i>Dexis Consulting</i>	Visited 13 companies. Evaluated the readiness of the Moldovan wine industry to compete in the international wine market. Suggested technical assistance activities that would help the industry to face the current challenges. Selected 3 companies with good quality wines that need to be promoted on EU markets.
Michael Gold April 2 - 15	Finance & Banking Specialist <i>Crimson Capital</i>	Met with selected financial institutions and non-bank financial institutions to discuss the needs for pre-shipment financing instruments like POF and other trade finance instruments that would help businesses in the three target industries to grow. Also assisted the CEED team to survey leading firms in the project's target industries to determine the demand for and relevance of pre-shipment financing. Finally, led the development of an action plan for CEED's future activities in the financial sector.
Reese Moyers April 2 – 15	Finance & Investment Specialist <i>Crimson Capital</i>	
Peter Duffield May 7 - 14	Textile Dyeing Specialist <i>Dexis Consulting</i>	Conducted a technical audit for Covoare-Ungheni, to structure an investment plan for upgrading company's dye house and laboratory.
Philip Eddleston June 5 – 19	Textile/Apparel Specialist <i>Dexis Consulting</i>	Provided support to Moldovan apparel companies that render services on a CM/CMT basis to participate in the Apparel Business Form in Bucharest in June.
Barbara Zadina June 26 – July 1	IT PR Specialist <i>Chemonics</i>	Worked closely with two companies, Dekart and RitLabs, assessing their current marketing and public relations activities and building together a plan for the companies on expanding their presence in American and European IT media.
Lucia Pirvu July 3 – July 31	Wine Specialist <i>Chemonics</i>	Led wine tastings and trainings at 20 top-class restaurants in several Romanian cities meant to promote Chateau Vartely wines and build awareness at the HoReCa market segment.
Neil Tully July	Wine Branding Expert <i>Chemonics</i>	Worked with Acorex Wineholdings marketing staff to design several options for the company's new UK wine brand to be launched in 2007.

Consultants	Technical Area	Activities
Lou Capitaio July 5 – October 13	Wine Marketing Specialist <i>Chemonics</i>	Oversaw market research of the wine market in Romania. Helped to design the survey; oversaw its implementation; reviewed all research findings and conclusions of the market research company; and compiled a final report for dissemination in Moldova. Presented the findings at a public event hosted jointly by Moldova VIN.
Jim Krigbaum July 13 – September	Market Linkage Specialist <i>Chemonics</i>	Working to develop market linkages between Moldova wine companies and buyers in the USA. Seeking to put together a deal with three specific wine companies and one interested importer/wholesaler in the USA with national coverage.
Jerry Striplin July 11 – July 22	IT Outsourcing Specialist <i>Chemonics</i>	Worked with Intexnauca to assess its outsourcing business processes and to make recommendations on how the company could increase this part of its business. Also evaluated Deeplace with a similar objective in mind.
Alexandru Belschi June 27 – August 5	Marketing Specialist <i>Chemonics</i>	Worked with marketing staff from Dionysos-Mereni to develop a potential marketing and promotion strategy aimed at increasing wine sales in the Romanian market.
Marina Djafarova August	Marketing Specialist <i>Chemonics</i>	Conducted a thorough assessment of local lingerie company, Olga Ceban, with a view to upgrading and improving its marketing efforts. Also carried out a market assessment of the lingerie marketing in Chisinau that would serve as the basis for a rebranding campaign.
Caroline Gilby August 15-18	Wine Quality Specialist <i>Dexis Consulting</i>	Conducted a facilities audit of two Acorex Wineholding facilities in advance of foreign buyer visits. The audits were aimed at identifying potential quality and facilities problems that could discourage new buyers of buying Acorex wines.
Kevin Lordan September 4 - 9	Spinning Specialist <i>Dexis Consulting</i>	Undertook a thorough review of Covoare-Ungheni's spinning department; identified problems and worked with staff to correct them; made recommendations for essential equipment purchases, particularly in the spinning laboratory.
Luca Zavarise September-October	Winemaker <i>Chemonics</i>	Working with Salcuta wine company to change their entire wine profile for the future. Overseeing the wine making process during the 2006 vintages, from grape collection, to fermentation, to storage and bottling.
Mats Nordqvist Sept. 27 – Oct. 6	Apparel Production Specialist <i>Dexis Consulting</i>	Carried out an initial productivity audit of three local cut-and-make apparel companies. Diagnosed their current levels of efficiency and make practical recommendations on how these firms could increase productivity with minimal investments in new equipment or technology.

D. Deliverables

The following deliverables were submitted to USAID during Year 1.

D1. Management Reports

1. CEED Year 1 Work Plan, *(Submitted December 29, 2005)*
2. DRAFT Performance Monitoring and Evaluation Plan *(Submitted December 29, 2005)*
3. Monthly Progress Report: December 2005 *(Submitted January 30, 2006)*
4. Monthly Progress Report: January 2006 *(Submitted February 27, 2006)*
5. Monthly Progress Report: February 2006 *(Submitted March 22, 2006)*
6. Quarterly Progress Report: January – March 2006 *(Submitted May 1, 2006)*
7. Monthly Progress Report: April 2006 *(Submitted May 15, 2006)*
8. Monthly Progress Report: May 2006 *(Submitted June 13, 2006)*
9. Quarterly Progress Report: April – June 2006 *(Submitted July 27, 2006)*
10. Monthly Progress Report: July 2006 *(Submitted August 15, 2006)*
11. Monthly Progress Report: August 2006 *(Submitted September 15, 2006)*

D2. Technical Reports

1. Market Readiness Report and Recommendations, *April 19, 2006.*
2. Financial Sector Assessment: Analysis of Trade Finance Opportunities in Moldova & Recommendations for CEED Financial Sector Initiatives, *May 8, 2006.*
3. Re-Equipment of Laboratory and Dyeing Facility of Covoare-Ungheni, *May 31, 2006.*
4. Facilities Audit – Acorex Wineholdings, *August 25, 2006.*
5. Analysis and Evaluation of the Mechanical Processing Route from Greasy Wool to Spun Yarn of Covoare-Ungheni, *October 3, 2006.*
6. Market Research Report: An Examination of the Romanian Wine Industry and Market Opportunities for Moldovan Wine Producers, *October 20, 2006.*

Pending reports:

7. Romanian HoReCa Market Segment & Chateau Vartely Restaurant Tasting Report
8. Doinysos-Mereni Marketing and Promotion Strategy for Romania
9. Olga-Ceban Marketing Strategy for the Local Market
10. Accessing International IT Media Report
11. IT Outsourcing Report – Intexnauca and Deeplace
12. Acorex Wineholdings UK Wine Brand Report

D3. Other Reports

1. DRAFT Communications Strategy, *December 29, 2005.*
2. Trip Report: Bucharest Wine Fair (December 9-11, 2005), *February 7, 2006.*
3. Trip Report: Central European Initiative (CEI) 8th CEI Summit Economic Forum (SEF), Bratislava, Slovakia (November 23-24, 2005), *February 7, 2006.*
4. Communications Strategy (updated), *May 3, 2006.*
5. Rapid Moldovan Information and Communications Technologies (ICT) Industry Assessment, *May 1, 2006.*
6. Rapid Moldovan Textile/Apparel Industry Assessment, *May 1, 2006*
7. Rapid Moldovan Wine Industry Assessment, *May 1, 2006*
8. Trip Report: POF training in Skopje, Macedonia, *June 26, 2006.*

SECTION IV

Technical Support

This section outlines Year 1 technical support activities, focusing on project communications activities and activities that required resources from the Strategic Activities Fund.

A. Project Communications

Effective project communications is an essential ingredient of any project. During Year 1, CEED laid a solid foundation for a sound communication strategy. This began by developing a project Communications Strategy that would enable the project to accomplish two communications objectives; first, to comply with USAID's branding and communications requirements, and second, to support the project's technical work. The strategy was developed after taking into consideration the project's multiple stakeholders and specific communications messages and mediums that could best reach group. The strategy helped CEED to identify its target audiences, develop its core messages, and to select the best channels of communication. It also enabled project staff to speak with one voice to our key audiences appropriately and effectively.

To supporting USAID's branding requirements CEED took care during the start-up period to develop its visual materials in compliance with the branding guidelines. This was accomplished by developing common formats and templates in English and Romanian for such items as written reports (MS Word), presentations (PowerPoint), letters, internal communications (including Scope of Work), business cards, plaques and banners, etc. In addition, during start-up and work planning the team was introduced USAID's guidelines for writing Success Stories. All these items were "branded" with the USAID-approved project identity, shown here.



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With a strategy in place, communications activities were integrated into specific technical activities. In a few instances, communications-specific initiatives were developed. The list below summarizes CEED's project communications highlights from Year 1.

- CEED's support for and participation in Moldova's Economy Week in Romania was featured prominently in the events materials;
- CEED's co-sponsorship of the DOC roundtable with AGEPI was clear;
- CEED facilitated a published interview with Master of Wine Caroline Gilby in Logos Press (No. 671); the article was titled, "Moldovan Winemakers Need a Shake-up";
- CEED contributed several pieces for a new journal on marketing (publication pending); CEED's entry's were an interview with a Romanian wine specialist on the HoReCa segment in Romania and some information concerning the project and its goals;
- CEED developed three pre-success stories or Work-in-Progress stories for USAID.

Note: Project communications will feature much more prominently in Year 2 activities. Please refer to the CEED Year 2 Work Plan for additional information.

B. Strategic Activities Fund

The Strategic Activities Fund (SAF) complements CEED's activities and facilitates the achievement of results. The SAF serves as a flexible instrument that can be used to contract U.S., international, or Moldovan providers, such as marketing firms, think-tanks or PR firms, for necessary project activities like analyses, surveys, special events, and designs for promotional material or Websites. Activities supported by SAF funds act as a catalyst for growth and competitiveness within target sectors and serve to leverage funds from clients, partners, and other stakeholders. The SAF is a critical tool for supporting the programmatic activities of this project, as well as stimulating more local service partner participation.

SAF-sponsored activities are funded in one of three ways; either through fixed priced subcontracts, in-kind support through commodity procurement, or using direct funding for programmatic activities, as needed. Depending upon the mechanism to be used, various rules, regulations, and procedures must be adhered to. The three funding mechanisms follow:

- Fixed Price Subcontracts to private businesses, public sector institutions, and/or non-governmental organizations and associations;
- Procurement of goods from suppliers for in-kind support; and
- Direct funding of other appropriate programmatic activities as needed, see list above.

As part of the initial project start-up activities, CEED developed a SAF Manual (April 2006) to use as a guide for programming SAF resources.

In Year 1, CEED used approximately \$24,600 from the SAF; some of the activities that required SAF funds follow:

Sector	Activity	Amount
ICT	Systems 2006 trade show in Germany	\$8,600
Textile/Apparel	Georgheta Design brochure	\$600
	Moldova Economy Week in Romania	\$3,600
	Carpet samples to the USA	\$300
Wine	Wine samples to Lionstone in the USA	\$500
	Wine samples to Exclusive Brand Wines (USA)	\$1,000
	Wine market research (TNS-CSOP)	\$8,900
Business Environment	DOC Wine roundtable	\$200
	Focus group research (IMAS Inc.)	\$900
TOTAL		\$24,600

SECTION V

Contract Administration

This section highlights some of the key administrative activities and events of the CEED project during its first year of operations.

A. Project Start-up

Chemonics contract with USAID for the CEED project became effective on September 30, 2005. The Home Office Project Management Unit (PMU) immediately began start-up procedures. One of the earliest priorities was to organize an orientation for CEED's chief of party (COP) Terrance Mohoruk, who started working full-time for CEED on October 17, 2005, when he flew from Belgrade, Serbia Chemonics' home office in Washington D.C. for a three-day COP orientation. The purpose of the orientation was to review CEED's technical approach with the project design team and to familiarize the Mr. Mohoruk with Chemonics' best-practices in project management, the company's standard policies and procedures, and relevant USAID rules and regulations. The following week Mr. Mohoruk drove from Belgrade to Chisinau, Moldova and began working. Within three-weeks of the contract award date, the COP was fully mobilized in-country.

Meanwhile, while Mr. Mohoruk was participating in the orientation in Washington, a Chemonics home office project start-up specialist, Ms. Rachel Weisberger, flew to Chisinau to begin the process of opening the CEED office. Ms. Weisberger remained in Chisinau for approximately five weeks. By the time she left, CEED had achieved the following start-up milestones:

- Signed a lease for the project office
- Located a residence for the chief of party
- Opened a project bank account
- Hired the majority of the project's local staff
- Obtained a fiscal code from the Ministry of Economy for VAT-exemption
- Placed orders for office furniture, computers, telephones, and other equipment, and
- Initiated the process of registering a local "representative office" for Chemonics

Shortly after Ms. Weisberger left Moldova, several staff from Chemonics home office visited for two-weeks of teambuilding and work planning. Among them, home office director Douglas Griffith, manager Ginger Elsea, communications specialist Virginia Ruan, and monitoring and evaluation specialist Douglas Baker. With their assistance, the CEED team completed and submitted its first three deliverables, draft Year 1 Work Plan, draft Performance Monitoring and Evaluation Plan, and draft Strategic Project Communications Plan, on 29 December 2005.

B. Administrative and Financial Management

In parallel to taking care of basic project start-up issues, Chemonics and the CEED team began to put in place permanent administrative and management systems. One of the most crucial systems was the project accounting system. In January 2006, a home office project accountant, John Shin, traveled to Moldova for one week of on-the-job training with CEED Office Manager & Accountant Ruxanda Cheibas. During Mr. Shin's visit, the trained Ms. Cheibas to use QuickBooks software, Chemonics' standard systems, and also instructed her on how to keep and maintain proper accounting, procurement, personnel, and other essential project records.

C. Personnel Matters

Initially, because several individuals proposed in Chemonics' proposal had taken other jobs before the CEED project began, Chemonics had to fill a few vacancies after contract award. However, by mid-November 2005, CEED had a complete team.

Regrettably, in mid-January, Chemonics made a decision to terminate the employment of then-COP Terrance Mohoruk. During this time, then-home office director Douglas Griffith served as acting-Chief of Party until he was confirmed as the permanent replacement on February 8, 2006. Shortly thereafter, Mr. Griffith returned to the United States for 3-weeks to settle his affairs. He returned to Moldova to assume the COP position permanently on March 6, 2006.

In June 2006, CEED translator/interpreter Ms. Aliona Pavalache accepted a position with another employer. She was eventually replaced in August 2006 by Ms. Natalia Vinderau.

Finally, in August 2006, CEED financial services advisor Viorel Benderschi accepted a position with a private company in the real estate business. He was replaced in September 2006 by Ms. Eugenia Stancu, who was completing her service on the USAID BIZPRO project.

Note: Please refer to the CEED Year 2 Work Plan for the current staffing plan.

D. Registration

After taking into consideration USAID's advise to consult local legal counsel concerning the requirement to register as a foreign organization in Moldova, Chemonics was advised by the law firm of Turcan & Turcan that registration was required. Chemonics discussed the matter at length with USAID, and after some delays, Chemonics finally registered as The Representative Office of Chemonics International Inc. in the Republic of Moldova on 29 May 2006.

SECTION VI

Results and Impact

A. Quantitative Results

CEED estimate that the quantitative results as of September 30, 2006 are as follows:

Indicator	Yr 1 Target	Yr 2 Actual	Diff.	Comments
Sales	\$1 million	\$0.9 million (incl. \$0.5 million export)	- \$0.1 million	The situation in the wine industry related to Russian ban on wines from Moldova has had a negative impact on sales. At the same time, 55% of the included \$0.9 million attribute to export.
Jobs	120 jobs	159 jobs	+39 jobs	

B. Qualitative Results

ICT sector:

- Dekart, RITLabs and Deeplace changed their attitude toward PR work and managed to get additional publications in press. Due to the assistance provided by CEED Dekart and RITLabs appeared in 12 international press and internet media.
- CEED support enabled the targeted IT companies to re-consider their marketing and sales perspectives and vision, and product trends as well as approaches to trade shows participation.

Textile/Apparel sector:

- CEED's assistance saved Covoare-Ungheni from unnecessarily spending €1 million in its dyehouse; but identified the spinning line as the source of its business critical problems.
- CEED's assistance to Covoare-Ungheni contributed to increasing the quality of yarn through process changes in the spinning line, helping to reduce the defects that Moldabella experienced in its final carpets and protecting Covoare-Ungheni's position as Moldabella's sole supplier.
- CEED supported Olga Ceban, an apparel company working on the local market under the "Ravetti" brand, to consolidate and expand its position on the Moldovan market through a range of activities from design to marketing. Using a local branding professional, the USAID-funded project helped the company to develop a new marketing strategy.

Wine sector:

- CEED has helped conduct the first in-depth research of the Romanian market and potential of Moldovan wines; thus wine companies received a valuable tool for decision making.
- With CEED support, Dionysos-Mereni, penetrated and expanded on the Romanian market. Support for developing its marketing and promotion strategy has allowed DM to determine the best entry points on that large market, through the off-trade chain.
- A premier promotion tool was used by Chateau Vartely to promote its wines in Romania on HoReCA segment. Wine tasting and trainings for Chateau Vartely sales staff were conducted by CEED specialist at 20 restaurants in Bucharest, Constanta, Pitesti, and Timisoara. Positive results achieved by Chateau Vartely demonstrated the importance of using these tools for wines promotion on such a specific segment as HoReCA.