United States Agency for International Development

Evaluation Report for
Macedonian Competitiveness Activity

Prepared by:

INOTEH Consulting

Order Nr. 165-O-00-05-00037-00

This publication was produced for review by the
United States Agency for International Development

March 2006

Distribution

Public

Document History

Rev. #	Date	Changes	Authors
1.0 2.0	December 2005 March 2006	PROTOTYPE Incorporated recommendations for improvement from USAID reviewers	**INOTEH Consulting** Dr. Sc. Sonja Andonova, Team Leader Dr. Sc. Sanja Tisma, Regional Expert Iliana Philipova, Regional Expert M.Sc. Olga Tikvarovska, Macroeconomist Dr. Sc. Koleta Zafirova, Cluster Expert M.Ss. Slagjana Stojanovska, Cluster Expert Danilo Danailov, Cluster Expert Elica Percinkova, Cluster Expert Svetlana Kirevska, Business Advisor Suzi Papas Caposka, Proof reader

Acknowledgement

The evaluation team of Dr. Sonja Andonova gratefully acknowledges the help and assistance of MCA Project team as we carried out the evaluation. The team is also indebted to the invaluable support provided by all interviewees from cluster members, members of the National Entrepreneurship and Competitiveness Council, representatives from business service providers, representatives from business associations and business community, representatives from governmental institutions, researchers and journalists.

List of Main Abbreviations

B2B	Business to Business
CLC	Cluster Leadership Council
CM	Cutting and making up
GCI	Growth Competitiveness Index
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HACCP	Hazard Analysis Critical Control Point
ICT	Information and Communication Technology
IESC	International Executive Service Corps
IT	Information Technology
EU	European Union
MADE	Macedonian Association of Digital Entertainment
MASIT	Macedonian Association of Information Technology
MCA	Macedonian Competitiveness Activity
MCA 2000	Management Consulting Association 2000
MCIT	Macedonian Consortia on Information Technology
NECC	National Entrepreneurship and Competitiveness Council
OECD	Organization for Economic Cooperation and Development
QMS	Quality Management System
PPP	Public Private Partnership
PR	Public Relations
RFP	Request for proposal
R&D	Research and Development
RM	Republic of Macedonia
SEDA	Swedish Development Agency
SIAL	International food exhibition
SIPO	Swiss Export Promotion Organization
SME	Small and medium size enterprise
SOQ	Seal of Quality Program
SOW	Statement of Work
SRO	Self-regulating organization
TTA	Tourist Trade Association
TTC	Technology Transfer Center
USAID	United State Agency for International Development
WP	Working Package
WTO	World Trade Organization

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1 Executive Summary

1.1 Purpose and methods of the evaluation

This evaluation provides relevant information on the effectiveness and impact achieved through the various approaches implemented by the USAID funded Macedonia Competitiveness Activity (MCA) for increasing the competitiveness of Macedonian companies. The lessons learnt and the recommendations provided by the evaluation team will be used as a tool for developing the new USAID Macedonia Mission strategy for supporting economic growth and competitiveness of Macedonian companies.

The evaluation addresses the following fundamental questions:

- To what extent did MCA meet its goals and objectives?
- What is the overall impact on the selected industry clusters?
- How effective was the cluster selection process and the specific interventions implemented by the MCA?
- What is the current state of assisted entities, i.e. the five clusters, NECC, business service providers (BSPs) and the consulting industry?
- What are the key problems and obstacles for Macedonian businesses to become more competitive?

The evaluation team, consisting of two evaluation specialists, two competitiveness experts and five cluster experts developed an evaluation strategy based on qualitative and quantitative data collection approaches. Evaluation plans were developed, relevant documents reviewed, assessment questioners were designed, individual interviews and focus groups were conducted, a survey was administered to a sample of people involved with MCA and data collected was analyzed quantitatively. Finally, benchmarking with similar initiatives in the region was conducted.

1.2 Rationale

1.2.1 MCA goal and objectives

The evaluation team can conclude that MCA made enormous direct influences on the economy of Macedonia in *initiating the process* of building competitiveness. However building competitiveness is a complex development process. Its progress is also a result of the joint efforts and contributions of many stakeholders, such as government and research institutions, NGOs, business associations and the business community, the international community and donor community.

With respect to the overall **goal**

- *to build the competitiveness of Macedonian enterprises in domestic, regional and global markets*. MCA promoted a unique approach in the region and succeeded in that "everybody is talking about clusters and competitiveness". The economic performance of *assisted industry sectors* has been positively influenced as result of MCA's approach.

The evaluation team analyzed the changes in competitiveness indicators for cluster members and related industry sectors. The results clearly indicate that MCA, with its activities, contributed to percentage increases in GDP, exports, domestic market share and productivity for only some of the cluster members. However, it is not possible to identify the exact measurable increase resulting solely from MCA's efforts. MCA did not achieve visible results in job creation and increasing salaries, but it initiated qualitative improvements in terms of increasing the role of professional knowledge and business skills amongst the employees in all five clusters. The influence on domestic market share was also negligible.

With respect to the second **objective**

- *to facilitate the development of a Macedonian National Competitiveness Council (MNCC),* MCA carried out the activities very well and extensively. However, the role the current NECC has played in improving Macedonia's overall competitiveness is still not recognized. Indeed, the survey findings clearly suggest that the Council only operated at the level of institutionalizing dialogue. It did not focus on concrete results in terms of recommending policies to increase competitiveness of Macedonian enterprises.

In addition, our findings suggest that the Council was not open enough and failed to communicate adequately with cluster members, even though representatives from cluster leadership councils participated in NECC efforts. The Council was also closed to the public and other similar bodies, and did not succeed in sufficiently promoting its results.

NECC lacked expert knowledge input in its advisory working groups and did not fully succeed in creating a communication strategy or direct channels to communicate with the business community or public.

In order for the NECC to function efficiently it needs to be protected against the influences of political changes in the government and has to be open to new members.

The three National Competitiveness Conferences and the street events were highly appreciated by the business community and the Macedonian citizens.

Regarding ***work***

- *with three to five Macedonian "industry clusters" who will be identified through a "self-selected" process,* MCA achieved the objective. During the three years of operation, MCA worked with **five clusters**, which were selected in three selection rounds.

The evaluation team identified certain ***weaknesses*** in the selection processes, such as a non-transparent evaluation methodology and a lack of information flow. However, the selection of the specific five clusters was found to be reasonable and justified, as all the five industry sectors are promising for the country's economic growth.

In the beginning cluster membership was considered a privilege, later on the number of actively participating cluster members, as well as the number of different institutions, continually decreased. The participation of R&D institutions, financial institutions, suppliers, custom offices etc. was only an exception. The main reasons for this tendency were low levels of motivation and unrealistic expectations.
Some of the Project's staff and cluster members had the view that the reason for members leaving the cluster was that they had the wrong expectations. It is evident that MCA did not make any efforts or undertake promotional initiatives to attract new comers into the clusters after they were initially established. The Project identified the most active cluster members and focused most of the efforts on this "responding sample". The fact that the membership suffered a decrease in numbers is also strongly related to the lack of management capacity of the Cluster Leadership Council, which has not initiated development or practiced cluster membership policy.

The "Clusters" practicing in the regions, benchmarked by the evaluation team, show an increase in membership and the Cluster Management body easily attracts new comers.

MCA organized its cluster activities on a national level. Most of the cluster members find national clusters more appropriate in comparison to local clusters, with the exception of the apparel and wine sectors, where members are regionally concentrated. The local cluster development approach is close to the regional economic development activities of the Government of RM and they are part of the development program of each local government authority.

MCA has promoted equal distribution and working opportunities regardless of gender and ethnic group. The evaluation team did not find any gender or ethnic discrimination in MCA's work with the five industry clusters and other assisted entities. In addition, the evaluation team's findings do not show any notable change in the existing "balance" between male and female positions.

There have also been other initiatives for establishing clusters in *postproduction*, *food processing, goat breeding, leather and footwear, construction* etc, however to date these efforts have not been successful. For example, the initiative to establish a *construction cluster* failed because it was based on the post-war situation and country reconstruction in Iraq and the cluster did not secure support from a leading business association in the sector.

The initiative for a *postproduction cluster* was not accepted by the NECC because the major focus was on digital technology. The rejection of the initiative motivated the people from *postproduction* to establish the MADE association.

Finally, the initiative from the *leather and footwear cluster* was not supported by the NECC because of weak leadership demonstrated by the candidates.

When talking about the biggest MCA impact on business, most of the cluster members agree that **MCA** made a substantial contribution by *initiating export growth and in promoting cooperation and partnership*.

With respect to

- *Developing substantially and the capacity of business associations*, for-profit consultants and other business service providers to support the private sector in RM, the survey findings clearly suggest that MCA did not meet the beneficiary expectations. MCA involved BSPs in business consultations delivered to the clusters and in business development programs for BSPs as a way of expanding and improving their portfolio of services.

The consultant's industry impression is that the procedure was not adequately transparent and very limited for new comers in the business. The proportion of local BSPs participating in delivering services to the clusters within MCA verses the involvement of foreign consultants did not support the aim to develop the capacity of BSPs to support the private sector in RM.

Regarding the quality of services provided by BSPs, the survey suggests the need for further capacity development. MCA made efforts to establish a Self-Regulatory Organization for BSPs, however the developed approach was not successful. Business associations could have benefited more if MCA had identified an effective approach on how to work with and how to strengthen the capacity of the existing associations. With this respect, BSPs would have benefited from greater synergies from the collaborative and combined work of MCA with other donors, such as the German Technical assistance, South-Eastern Europe Development, BAS program of the European Bank for Reconstruction and Development and the European Agency for Reconstruction.

The exclusion of other business supporting organizations was viewed as a negative MCA implementation decision. For example, the Euro-Correspondence (now Info) Center was not involved in MCA activities. The European Commission created this Center in 2003 with the mission to inform and consult SMEs and Macedonian authorities about all relevant aspects of business cooperation with the EU countries (standards, EU market/export regulations, agreements etc.). The Consumer Organization of RM was also of marginal interest, even though market economy development asks for symbioses between producers/delivers and consumers.

1.2.2 MCA Overall impact on the selected clusters

MCA has undoubtedly had a positive influence on the economic performance of the selected industry clusters. However, it is premature to say that the clusters have become mature enough to compete on the regional and international markets without external support.

The evaluation team's findings indicate that the MCA project **was *successful*** in:

- Rising professional knowledge and skills of the clusters' members
- Supporting export growth in all clusters, except the Apparel Cluster where a strong orientation to the international markets had already been achieved
- Supporting improvements in productivity through specific education, consultancy, and project grants
- Increasing GDP growth, through informal dissemination of skills and information gathered within the sector/industry
- Initiating cooperation and partnership

MCA has been justified in its main idea and overall design of cluster approach, but the survey findings indicate that the project strategy and content could have been more efficiently targeted to the concrete and specific needs of cluster members and sector development strategies.

It is *very positive* that MCA initiated changes in cluster members' behavior. Cluster members recognized that a change in awareness, attitude, understanding and behavior is crucial for sustainable industry development. The project succeeded in creating awareness of the benefits of networking; however, this was limited only to the firms/associations with higher market potential. Smaller cluster members did not fully understand the potential of creating business linkages. In addition, it must be noted that regardless of the interventions implemented, the knowledge of modern business practices within clusters is still poor. This is particularly the case with knowledge of standardization processes, concept development, innovation management, export sales marketing and export business management.

1.2.3 Effectiveness of the cluster selection process and cluster specific interventions implemented by MCA

The project has initiated a new way of entrepreneurial thinking, based on the competitiveness concept, although this should be perceived only as the early stage of clustering in selected industry sectors.

With reference to the ***selection process***,

- Evaluation team findings suggest that it was not adequately transparent. The evaluation methodology was not made known publicly and there was no information on how and why the selected clusters were chosen to be included in the MCA initiative. In addition, the rejected candidates did not receive any feedback on the reasons for not being selected. Macedonian companies and potential cluster member's level of satisfaction in regards to the selection procedure was not the expected one, regardless of the strong selection criteria.

MCA implemented several types of ***intervention:***

- In terms of consultancies, the evaluation findings indicate that foreign consultants have delivered satisfactory assistance. During the first project year, the consultancies delivered were the least effective, because a lot of time was spent on theory and ineffective meetings. Improvements were achieved in the next two years when the consultancies were targeted to clusters specific needs.

- The engagement of the IESC consultants did not meet the expectations of the beneficiary, because they were not the right experts for the beneficiary problems. In most of the cases, the beneficiaries expected IESC consultants to transfer experience from their country, instead of giving theoretical background on specific topics. The reason for the low satisfaction among the beneficiaries could be MCA's ineffective match of demanded experts' profiles with the available experts' profiles. In addition, the Cluster leadership has also been less effective in precisely defining the problem situation and services required by the beneficiaries.

- Domestic consultants and business service providers have been not utilized effectively. They were given limited opportunities to be involved in the program and there is a feeling that many of them were not clearly aware of the MCA mission.

- The establishment of **NECC** was well received by the cluster members. In the beginning, there was a lot of enthusiasm and many expectations of what the NECC could bring to the national economy. Today, many consider its work to be ineffective, as it did not succeed in becoming a partner to the Government to create solutions for a more prosperous future for the economy.

1.2.4 MCA assisted entities current state

MCA initiated the establishment of **five clusters** with the aim to develop and implement strategies, which will allow the cluster industry to become globally competitive.

The cluster concept succeeded highly in its promotion among the companies involved in MCA. However, rivalry between competitor companies has yet to be abolished and the links among various types of entities are still weak.

When summarizing the effects of the overall MCA effort on cluster business performance, it is important to emphasize that positive outputs are noted in the group of active members. It is evident that the clusters leadership is strong when large companies form part of the cluster, but practicing a teaching approach and the lack of local commitment has created some negative influence.

The clusters are not yet mature enough to operate alone. External assistance from local authorities and donor communities is required to further develop the process of becoming operational, competitive and sustainable. The situation is somewhat healthier with the IT Cluster, which relies on the MASIT association (one of the cluster members) for its functioning. MASIT can further proceed with its positive leading role in the IT Cluster. However, the IT Cluster, as well as the other clusters, should work more intensively on attracting and developing stable and productive relations with R&D institutions, financial institutions, and other business associations. This continues to be one of the weakness points in the current cluster structure and organization.

- With reference to ***BSPs,*** they had two distinct functions within MCA:

a) to provide services to clusters and other assisted entities

b) to gradually evolve into market-based services providers under contract with individual businesses and cluster organizations.

The evaluation findings indicate the BSPs were not sufficiently involved in MCA capacity development activities. The individual consultations with consultant from the US were the most effective support intervention. The training sessions on general consultancy topics did not yield satisfactory results. In addition, the initiative for establishing a self-regulating organization (SRO) for BSPs failed due to the inappropriate approach adopted by MCA. The approach was not received positively and was not considered an effective alternative to working with the existing associations.

- ***NECC*** was founded in 2003 with the idea to serve as a forum for addressing the challenges faced by the Macedonian economy in generating employment opportunities, attracting foreign direct investments, improving institutional infrastructure, preparing for

European Union integration, implementing WTO commitments, and generally in increasing the standard of living in the country.

NECC is in the process of reorganizing its structure and aims to become more efficient, which could secure its sustainability after the completion of the MCA project. The Council is open to new members, but its work and activities are not effectively communicated to the public and to the business community. Aside from the fact that some of its members are representing the Cluster Leadership Councils, the cluster members are not aware of the role of NECC and have not experienced the benefits of its existence. This could lead to a conclusion that NECC has not succeeded in establishing effective vertical communication with this target audience.

NECC lacks experts' who would be involvement in the operations of special advisory groups and would be able to provide a quick response to the emerging needs of the Macedonian economy. In addition, its efficiency has suffered from political changes in the government, which has resulted in a weak partnership with the government. NECC also lacks funds for elaborating economic development research studies. Therefore, its mission needs to be promoted more aggressively to other national councils, advisory boards and relevant institutions in the region.

1.2.5 Key problems and obstacles for Macedonian businesses

The largest obstacle for businesses in their efforts to achieve higher efficiency is *inappropriate*

*Management knowledge***.** This includes the knowledge in management as a process, but also managers' general education, their technical skills and knowledge in management as a practice.

Another serious obstacle is the *quality of human resources*. The proportion of under-skilled workers in the young companies is relatively high.

The *level of technological development* among the majority of Macedonian companies is far behind the standards of developed countries. This has a direct negative impact on the productivity and thus on the competitiveness. Staying behind the competition in terms of technology weakens the ability to turn the ideas into effects.

Macedonian companies have *invested less* than most of their international competitors over the two past decades. It is a result of a number of factors, including lack of ideas about where (in which sector of the economy) to invest, short-term thinking and the absence of strategic planning.

There is no standardization in accordance with international procedures.

Macedonian companies suffer from *poor innovation* performance. Only 11% of the total number of research projects in the country has been ordered by the business sector. Of course, it is not expected that Macedonia should invest larger amounts of money in R&D, but it is necessary for companies to finance improving basic production capabilities, testing, metrology services and total quality management. In addition, Macedonian companies have not incorporated defining demand characteristics and the evolution of markets into the design of their products and the production strategies.

Market research has not become a significant tool in decision-making thus, the knowledge of international demand is low. Very often, the result is a product or service that is not marketable.

Both *horizontal and vertical cooperation between companies* and other related organizations/institutions is inappropriate. The rivalry between companies from the same industry sectors is very strong and "healthy" linkages have not been built.

2 Introduction

2.1 Evaluation Purpose

The purpose of the evaluation was to provide USAID with relevant information on effectiveness of various approaches implemented by MCA for increasing competitiveness of Macedonian companies. The lessons learnt and recommendations given by the evaluation team will be used as a valuable asset for elaborating the new USAID Macedonia Mission strategy for supporting economic growth and competitiveness of the Macedonian companies.

2.2 Evaluation Objectives

The evaluation Statement of Work (See section 8.1: Annex/Resources and Evaluation Plan) identified five fundamental questions to be answered by the evaluation. As stated, these are:

1. To what extent did MCA Project meet its stated program objectives? What are the main successes and lessons learnt?
2. What is the overall impact of this activity on the selected industry clusters, especially in terms of export, domestic market share, GDP growth, job creation, productivity, revenue, as well as cooperation/partnership among companies in the cluster?
3. What was the effectiveness of the cluster selection process and the clusters specific interventions implemented by the MCA?
4. What is the current state of assisted entities, i.e. the five clusters, NECC, BSPs and consulting industry?
5. What are the key problems and obstacles for Macedonian businesses to become more competitive? What are the priorities to maximize the impact of future long-term assistance to the private sector?

2.3 Evaluation Approach and Methods

The evaluation statement of work called for developing an evaluation strategy that would include a mix of qualitative and quantitative data collection methods. In achieving the objective, we applied approach based on parallel execution of the following Working Packages:

- **WP1:** Assessing the progress of the MCA project toward achieving its stated program objectives
- **WP2:** Impact assessment with selected industry clusters
- **WP3:** Analysis of the effectiveness of the cluster selection process and clusters specific interventions implemented by the Project
- **WP4:** Evaluating the current state of assisted entities, such as the five clusters, NECC, BSPs and the consulting industry
- **WP5:** Identification of key problems and obstacles for Macedonian businesses to become more competitive
- **WP6:** Development of Final Report, i.e. integration of individual WP findings, conclusions, lessons learnt and recommendations
- **WP7:** Project Management and Quality Assurance

Relevant documents were reviewed for understanding the development and dynamics of MCA program, individual interviews and Focus group were conducted to capture a qualitative sense of the MCA achievements and a formal survey was administered to a sample of assisted entities' representatives to more rigorously collect data that could be analyzed quantitatively.

As detailed in the Evaluation Work Plan (section 8: Annex/Resources and Evaluation Work Plan), the realization of the Working Packages consisted of 8 operational tasks:

1. Developing Evaluation Plan
2. Conducting thorough review of documents on MCA project
3. Developing Evaluation Questioners
4. Data Collection
5. Sampling
6. Processing and analyzing collected data & benchmarking
7. Submitting of Draft Evaluation Report to USAID
8. Preparing the Final Report and responding to review comments provided by USAID

<u>Task 1: Develop Evaluation Plan:</u> For each Working Package, with exemption of WP6 and WP7, evaluation plans were developed, which defined results expected, the indicators for results achieved, time-schedule of activities, stakeholder map, required resources (human, material, information), assumptions for fulfillment of activities and achievement of results, possible risks and problem solving approach. For WP6 and WP7 detailed operational plans were developed as well.

<u>Task 2: Document Review</u>: USAID provided the evaluation team with a complete backlog of documents on the MCA program. The team reviewed most of these documents, along with conducting interviews with MCA staff members, cluster representatives, NECC members, BSPs, business associations, governmental officials, businessmen, researchers and representatives from donor organizations.

<u>Task 3: Develop Evaluation Questionnaires</u>:

Questionnaires (formal and informal) for assessing <u>impacts</u>, <u>selection process</u> and <u>effectiveness of interventions implemented</u>, as well as the <u>current state</u> in the five industry sectors, NECC and BSPs were developed, so that all questions relevant for the project evaluation got coverage through interviews and desktop analysis. An example of a Questionnaire for the Cluster Impact Assessment, Selection Process Assessment and Specific Intervention Effectiveness Assessment (case: Lamb and Cheese) is presented in section 7 / Annex 7.4. Other clusters' and NECC questioners were submitted to USAID during the Inception Phase.

<u>Task 4: Data Collection - Interviews</u>:

Over the course of a little more than two weeks, evaluation team carried out interviews with MCA staff members, cluster representatives, NECC members, BSPs, business associations, governmental officials, businessmen, researchers and donor organizations.

<u>Task 5: Sampling:</u>

The sampling was handled for each cluster separately, but the sampling method was more or less the same. Group views and recommendations were taken into considerations.

<u>Task 6: Process and Analyze Collected Data & benchmarking</u>: As the evaluation team conducted its work, the team processed information to ascertain whether data gaps exist with respect to the evaluation questions. At the end of the third week, the team members provided summary of initial findings and composed the drafts of the WP reports. The draft WP reports and the field survey results were sent to the team leader and regional experts who analyzed the data. Experiences from similar initiatives in the region (Bulgaria, Croatia, Slovenia) were also taken into the summary report. Subsequently, all of the collected information (qualitative and quantitative data) were reviewed and integrated into the Draft Evaluation Report.

<u>Tasks 7-8: Reporting</u>: Preparation of draft evaluation report and final report to USAID.

2.4 Team Composition

The evaluation team consisted of nine individuals. There were two expatriate evaluation specialists, one of whom was familiar with the evaluations in frame of the German technical assistance and the other was familiar with the evaluations of EU sponsored programs. The third team member was familiar with competitiveness issues in the region and cluster approach in increasing competitiveness. There were also five in-country industry sector's specialists, one of them being also familiar with the issues related to the characteristics of Macedonian business environment.

2.5 Evaluation Schedule

The activities of the evaluation were carried out over a period of six weeks from the beginning of October through middle of November 2005. The detailed Evaluation Work Plan and the list of contacted persons are provided in Section 7 /Appendix 7.2 and 7.5.

2.6 Report Organization

The evaluation team focused on identifying major successes, lessons learnt and unanticipated effects encountered by MCA in implementing and managing its competitiveness growth program. Experience and lessons learnt from similar regional projects as well as other donors' activities in private sector and competitiveness are also part of the evaluation team findings. The extensive overview of recommended actions for further increase of efficiency in operation and sustainability of all assisted entities (clusters, NECC and BSPs) and for improving business climate in the country is providing orientation for the future. Finally, the major constraints, i.e. the key obstacles for the companies in RM to become more competitive are identified and presented in the report.

Here is the structure and organization of the Evaluation Report:

Section 1	Executive Summary
Section 2	Short introduction into the evaluation approach and methods used, team composition and evaluation schedule
Section 3	Summary of findings with regard to: a) project progress towards achieving its stated goal, b) impact assessment with clusters in terms of competitiveness indicators, c) effectiveness of cluster selection process and interventions implemented and d) current state of assisted entities
Section 4	Summary of major lessons learnt with MCA
Section 5	Overview of recommendations for further initiatives, mainly considered as: a) short-term initiatives within the scope of MCA, b) long-term competitiveness activities within eventually new assistance measure, c) initiatives taken by the assisted entities themselves. The section also identifies the key obstacles in achieving goals of recommended actions
Section 6	Analysis of the key obstacles and problems for business development in RM with recommendations for improvement
Section 7 / Appendix	Resource materials: SOW, Evaluation Plan, Assessment Questioner, Persons contacted, Stakeholders, References
Section 8 / Appendix	Individual Clusters' Evaluation Reports
Section 9 / Appendix	Cross reference table indicating coverage of Tasks within the SOW

3 Evaluation Findings

3.1 Project progress assessment

MCA Goal and Objectives

Drawing largely from its experience and strategic objective 1.3 - *Accelerated Development and Growth of the Private Sector* (see USAID/Macedonia Amended Strategic Plan, FY 2001-2004, July 2001), USAID set the following overall program objective for MCA:

> … to build the competitiveness of Macedonian enterprises in domestic, regional and global markets (*Booz Allen and Hamilton/USAID Contract, 165-02-10, Section C – Contract Objective*).

With regard to achieving the goal, at the beginning of its program activities, MCA set high performance targets that were related to exports, foreign direct investment, Macedonia's ranking in the World Economic Forum's Global Competitiveness Ranking, and Macedonian ways of thinking. Working together with the stakeholders, MCA was asked to achieve the following objectives:

- Facilitate the development of a Macedonian National Competitiveness Council (MNCC) composed of forward-thinking private sector, government and other non-government leaders to focus on improving Macedonia's overall competitiveness;
- Provide the MNCC with data analysis support and guidance;
- Work with three to five Macedonian "industry clusters", identified through a "self-selected" process. Clusters are defined as including all stakeholders in the performance of a given industry, comprising private enterprises of all sizes, producers, suppliers, customers, labor, government, research institutes, training institutions, professional associations, and other groups. Over the period of the contract, the efforts of the contractor will contribute to measurable increases in cluster-wide percentages of GDP, exports, domestic market share, total employment, productivity and other indicators that trace a cluster's performance from year to year;
- Develop substantially the capacity of business associations, for-profit consultants and other business service providers to support the private sector in Macedonia on a commercially sustainable basis, by maximizing the use of Macedonian business service providers to implement the competitiveness agenda of the MNCC and clusters.

When analyzing the overall goal and objectives, it is evident that the expected impact on the Macedonian economy and its competitiveness is qualitative as opposed to quantitative, which is typical for development assistance programs. In a complex socio-economical environment that is influenced by a large number of development factors and different participants, we can only talk about the *positive contribution* of MCA in: 1) achieving *direct benefits* (impact) for some companies in increasing their competitiveness and in 2) achieving *indirect benefits* for Macedonian citizens – improved quality of life and higher living standards. However, since MCA developed its approach with particular industry sectors and worked with representative groups from those sectors, when referring to the impact on the Macedonian economy, we need to emphasize that MCA made an enormous contribution to *initiating the process* of building the competitiveness of enterprises in domestic, regional and global markets. But, as building competitiveness is a complex development process, its success depends crucially on the collaboration, joint efforts and contributions of all participants at the macro, mezzo and micro level, including government and research institutions, NGOs, business associations and business community, the international community and donor community.

With respect to the **overall objective** to *build the competitiveness* of Macedonian enterprises in domestic, regional and global markets, MCA made an enormous direct influence in *initiating the process* of building competitiveness of Macedonian enterprises in domestic, regional and global markets. Having in mind that MCA focused its inputs to five selected industry clusters, and within the clusters to the representative groups of companies, one can only follow and talk about the positive changes in the economic performance of this group of companies. As a complex development process, the competitiveness of the Macedonian enterprises cannot only be linked to MCA, but is a subject of the overall conditions in the Republic of Macedonia. More over, when considering the RM ranking in the Global Competitiveness Report for 2004, one can see that RM has fallen from the 84th (in 2003) to the 85th place in 2004. Therefore, we focused our evaluation efforts on assessing the efficiency of the *building competitiveness process*, rather than assessing the overall objective achievements, which is unrealistic within the boundaries of an economic development assistance program. It is evident that MCA was successful in supporting export growth in almost all five clusters except apparel, which was strongly oriented towards the international markets before the Project started. Its support in productivity growth resulted in visible effects and initiated GDP growth. *Based on the opinion of the beneficiaries, the MCA project's main achievement was establishing cooperation initiatives and partnerships.* With its systematic approach, starting with cluster planning sessions, training needs assessment, training delivery, marketing analysis, export market research, developing marketing strategies, group fair exhibition and coaching in negotiation, MCA succeeded in creating an awareness of the need and benefits of partnership and cooperation among cluster members. This is particularly important when targeting foreign markets and when individual producers do not have the capacity to meet client's demands.

The MCA achievements in competitiveness growth are further elaborated in Section 3.2 with the assessment of competitiveness indicators for the five assisted clusters and in Section 8 with the individual clusters evaluations.

With reference to the **second objective** – *to facilitate the development of a National Entrepreneurship and Competitive Council*, MCA achieved the objective regarding *facilitating* the establishment of the NECC and supporting its operations. However, the NECC needs continued assistance to support organizational and institutional development, as well as in building capacities for delivering counseling services and focusing on improving Macedonia's overall competitiveness.

NECC was founded in 2003 with the idea to serve as a forum for addressing the challenges faced by the Macedonian economy in generating employment opportunities, attracting foreign direct investments, improving institutional infrastructure, preparing for European Union integration, implementing WTO commitments, and in increasing the standard of living in the country. During the two years of operation the NECC was fully supported by MCA.

NECC is in the process of restructuring and aims to become more efficient, which could secure its sustainability after the completion of the MCA project and after operational support is cancelled. NECC is open to new members, but its work and activities are inadequate communicated to the public and to the business community. Aside from the fact that some of its members are representing the Cluster Leadership Councils, the cluster members are not aware of the role of NECC and have not experienced the benefits of its existence. This could lead to a conclusion that NECC has not succeeded in establishing efficient two-way communication with the base (clusters, industry sectors, business community, public), which is crucial when working on the creation of strategic documents.

NECC lacks experts' who would be involved in the operations of special advisory groups and who would be able to provide a quick response to the emerging needs of the Macedonian economy. In addition, its efficiency has suffered from political changes in the government, which has resulted in a weak partnership with the government. NECC also lacks funds for elaborating economic development research studies. Therefore, its mission needs to be promoted more aggressively to other national councils, advisory boards and relevant institutions in the region.

The current state of the NECC in terms of functionality and ability to provide services, its positive achievements to date and operational weaknesses are elaborated in Section 3.5. The recommendations on how to proceed in improving functionality and building sustainability are given in Section 5.2.3.

Regarding the **third objective** - *work with three to five Macedonian "industry clusters"*, MCA achieved the objective to some extent. During the three and a half years of operation, MCA worked with five clusters, selected in three selection rounds. The evaluation team has identified certain weaknesses in the selection process during the interviews. For example, almost none of the cluster members interviewed were aware that the selection process existed or that certain selection criteria existed, which needed to be satisfied by the industry sector when founding the cluster. This could lead to the conclusion that most of the cluster members are not aware of the importance of further strengthening the *features* which make them recognizable as clusters, meaning primarily their *leadership, entrepreneurship and commitment*, their *strategic potential* and the *impact* on the Macedonian economy. The selection process was partially considered to not transparent enough, because the evaluation methodology was not publicly explained and the rejected candidates never received feedback on the reasons for not being selected.

On the other side, the defined selection criteria, the decision to go with clusters organized on a national level and the selection of the particular five clusters has been justified and welcoming for economic growth in RM. Yet, the number of actively participating cluster members is decreasing and the variety of cluster member institutions is also low. The participation of R&D institutions (there are 12 research institutes and five universities in RM), financial institutions, suppliers, custom offices etc. were only recorded in exceptions. MCA has not analyzed the reasons why members have left the clusters. Some Project staff and cluster members believe the reason for leaving the cluster could be that wrong expectations were created. It is evident that MCA did not make any efforts or promotional initiatives to attract new comers into the clusters after the initially founded. The Project has identified the most active cluster members and focused most of the efforts on this "responding sample". It is understood that the decrease in number of cluster members could lead to poorer performance of the cluster as a whole. The Cluster Leadership needs to strengthen its efforts in developing a cluster membership policy for bringing the inactive clients back to the program, in particular those with export potential.

More details about the effectiveness of the cluster selection process can be found in Section 3.3 and in Appendix /Sections 8 (8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2 and 8.5.1.2).

The evaluation team analyzed the changes in competitiveness indicators for the cluster members and for related industry sectors. The results clearly indicate that for only some cluster members MCA, with its activities, contributed to the percentage increases in GDP, exports, domestic market share and productivity. However, it was not possible to track the exact measurable percentage increase in the competitiveness indicators for the five clusters and related industry clusters, resulting from MCA's efforts. MCA did not achieve visible results in job creation and in increasing salaries, but it initiated the qualitative improvement by raising the role of professional knowledge and business skills with the employees in all five clusters. The impact on domestic market share was also negligible.

When talking about the biggest MCA impact on the business, most of the cluster members agree that **MCA made a substantial contribution by** *initiating export growth and in promoting cooperation and partnership*.

The table below presents the overall evaluation findings on the impact achieved in changing competitiveness indicators for the five clusters, which is based on the summary given in Section 3.2. (Cluster Impact Assessment). More details about the impact achieved by the MCA project in the selected five industry clusters is given in the Clusters' evaluation reports in Appendix / Sections 8.1.1.1, 8.2.1.1, 8.3.1.1, 8.4.1.1 and 8.5.1.1.

Table 1: MCA Impact on cluster members' competitiveness indicators

Cluster /Indicator	**Export growth**	**Dom. Market Share**	**Product.**	**Revenue**	**GDP**	**Job creation**	**Coop./ Partner**
Lamb Cheese	☺	😐	☺	☺	☺	☹	?
Tourism	☺	😐	☺	☺	☺	☹	☺

IT	☺	😐	😐	😐	☺	☹	☺
Wine	☺	😐	☺	😐	😐	☹	☺
Apparel	😐	😐	😐	😐	☺	☹	☺
Overall MCA achievements	☺	😐	☺	😐	☺	☹	☺

Legend: ☺ Positive growth achieved as a result of the MCA project activities; 😐 The MCA project indirectly influenced positively specific areas; ☹ There is no significant influence of MCA

With regard to sustainability, the clusters are not yet mature enough to operate alone. External assistance from local authorities and donor communities is required to further develop the process of becoming operational, competitive and sustainable. The situation is somewhat healthier with the IT Cluster, which relies on the MASIT association (one of the cluster members). In the last few years MASIT was recognized as a target group for many donor institutions (like USAID, GTZ, UNDP) in their efforts to strengthen the capacity of business associations and to support the development of the IT sector as one of the most promising for the Macedonian economy. In addition, MASIT also established good cooperation with other professional associations, with university faculties and relevant government institutions, and developed a wide portfolio of activities. All of this has contributed successfully to the process of building its sustainability, so that MASIT can further proceed with its positive leading role in the IT Cluster. However, the IT Cluster, as well as the all other clusters, should work more intensively on attracting and developing stable and productive relations with R&D institutions, financial institutions and other business associations. This is still one of the weaker points in the current cluster structure and organization. The cluster sustainability, together with the sustainability of the other assisted entities (NECC and BSPs) is analyzed in Section 3.5.5.

MCA organized its cluster activities on a national level. Most of the cluster members find national clusters as more appropriate in comparison to local clusters, with the exception of the apparel and wine sectors, whose members are regionally concentrated. There have also been other initiatives for establishing clusters: in *postproduction*, *food processing*, *goat breeding*, *leather and footwear*, *construction* etc, h the efforts however efforts have been unsuccessful to date. The assessment of the clusters' functionality is given in Section 3.5.1 and in all Clusters' Evaluation Reports (Sections 8.1.1, 8.2.1, 8.3.1, 8.4.1 and 8.5.1).

Regional clusters are one of the concepts for regional economic development of the European Union. In its approximation process, RM is following the EU recommendations. The Ministry of Local Self-Government drafted the Law for Regional Economic Development with technical assistance from the German Government (GTZ). Aside from institutional infrastructure and its responsibilities, the Law should also open the possibilities for financing regional economic development. With the beginning of the negotiation process with the EU and with the completion of the relevant legal and institutional framework (at least the Law and the Agencies) for Regional Economic Development, new doors will open for the RM to access funds from the EU which are devoted to the regional economic development. In addition, the local clusters development approach is close to the regional economic development activities of the Government of RM and they are part of the development program of each local government authority.

MCA has promoted equally distribution and working opportunities for gender and ethnic groups. The evaluation findings do not indicate the existence of any gender or ethnic discrimination in the work with the five industry clusters and other assisted entities, as well as any dramatic change in the existing "balance" between male and female positions.

The gender structure of the Lamb and Cheese Cluster corresponds to the type of businesses involved. There are fewer women involved in lamb production and slaughtering, but a substantial number has worked in milk processing, business services and education. There is an equal distribution of work as related to the rural structure of the cluster. The rural population is more active in sheep breeding, while the urban population dominates in lamb slaughtering and trade. Having in mind that in the first half of 2003, more than 60 companies, institutions, associations, organizations and individuals from the lamb and cheese sector joined the Project. This group represented approximately 75 percent of the total number of industry entities, farmer associations and other institutions/organizations. All ethnic and gender groups were represented in the structure of the group and the urban/rural balance was achieved in the expected portions as well.

The tourism sector is also made up of "males" and "females". The cluster was open to members from all ethnic groups, but not all of them were interested in this type of cooperation and networking. The number of women in the cluster is slightly larger, because tourism is traditionally considered a female profession. According to the geographical distribution, there are members from various parts in Macedonia, but the largest number is from the Skopje.

The IT sector is no longer typically a "male" oriented sector. It is now also attracting "female" professionals. It is true that men lead most of the companies in the sector, but this picture is typical for all business sectors in the country. The situation with regard to female leaders is changing rapidly in IT companies that focus on *education and training*. The sector does not suffer from any ethnic discrimination and all ethnic groups were given equal opportunity to join the cluster initiative.

Most of the IT companies are located in Skopje. For this reason, MCA's activities were mainly concentrated with local companies in the Skopje region. This is, however, not an indication that a certain demographic group benefited less than others, because almost all cluster members are operating in urban areas, where the ICT infrastructure, necessary for their operations, is quite well developed.

The wine growing occupies work force independently of gender. Wine cellars mostly rely on males, but managerial structures in the same companies do not suffer from this conditional discrimination. As far as ethnic structure in wine sector is concerned, noticeable difference exists, mainly due to the geographic location of wine regions and religious conviction.

When referring to apparel, the association is always a "female extensive labor" sector. Females as well as males occupy managerial positions, while males dominate in the distribution network. The Apparel Cluster is well balanced in terms of gender, ethnic and urban distribution.

With respect to the **fourth project objective** - *developing substantially the capacity of business associations, for-profit consultants and other business service providers to support the private sector in the RM,* MCA partially achieved the objective.

MCA issued RFPs for hiring BSPs services. The consultant's industry impression is that the RFP procedure for hiring BSPs was not transparent enough. Business service providers were engaged on the basis of contracts to consult businesses, but the approach was not concurrent for BSPs evolving in the consulting industry.

The number of BSPs & consultants engaged in the cluster development process was unsatisfactory and varied from cluster to cluster.

The initiative for establishing a self-regulating organization (SRO) for BSPs failed because MCA failed to develop an appropriate approach and did not include the associations in the concept development phase. It would have been much more effective if MCA had identified and developed an efficient approach to work with the existing associations.

MCA learned that other donors (such as SEED, GTZ, BAS and the EAR) were also interested in improving the quality and developing services with BSPs. In combining its own and other donor efforts for increasing the efficiency and improving the quality of consulting services of BSPs, MCA could have been more successful. Its results in introducing and developing quality standards, certification of consultants and capacity building of BSPs associations was also weak.

While foreign consultants where able to inspire BSPs, the common teacher-student approach adopted created feelings of annoyance. The involvement of local consultants in comparison to the foreign was very low, which reduced the opportunity for the BSPs for “learning by doing”.

More details from the assessment findings of the BSPs’ current situation with regard to their functionality, communication and collaboration, sustainability and ability to provide services, are given in Section 3.5. The recommendations for improving BSPs functionality and further promotion of consulting industry can be found in 5.2.4.

In the four years of operation, MCA developed fruitful cooperation with other institutions from the donor community in the Republic of Macedonia, such as the German Agency for Technical Cooperation - GTZ, the Swiss SIPO, the Swedish SEDA, the Italian ICE, and the Norwegian SINTEF etc. Information about other competitiveness initiatives is given in Section 3.6.

3.2 Cluster impact assessment

The goal of this part of the evaluation process is to assess the overall impact of the MCA project on changes in exports, domestic market share, productivity, revenues, GDP growth and job creation. In addition, it aims to determine whether MCA succeeded in encouraging good cooperation and partnerships among the cluster members.

Despite the ambitious start of the clustering process in 2003, when many companies, institutions, associations, organizations and individuals joined the MCA project, to date the number of those participating has fallen by around 50 percent. This is a significant number compared to the examined industry sectors (see Table 2). This fact is not surprising and is much more a normal rather than an exception. The lack of immediate business results led to the decision for some companies to leave the cluster. This is also typical for the clustering process in other countries and is not directly related to the MCA project effectiveness.

Table 2: Changes in number of cluster members per cluster

Cluster	2003	2004	2005/active
Lamb and Cheese	60	30-40	30
Tourism	65	15	15
Information technology	20	96 (34 in MADE)	34
Wine	15	40	15
Apparel	58	37	18

The evaluation team assessed the changes of competitiveness indicators for all five selected industry clusters and the results are given in the Clusters’ Evaluation Reports in Section 8. The summary of the findings and current trends (qualitatively shown in Table 1) is given below.

3.2.1 Export

Lamb

Lamb exports ranged between US $10 million and US $15 million during the period 2000-2004. Compared to 2003, lamb was exported to traditional markets (Italy, Greece and Croatia), but also to Cyprus and Peru. The recorded export growth was 7,8% in 2004. This is mainly due to the good market conditions of Macedonian lamb and the joint efforts of the lamb producers.

According to the market research executed by MCA, it is expected that exports to Greece will slightly grow in 2006 (as a result of the “direct-to-market” approach). The MCA project and the Gostivar Lamb Producers Cooperative are working on preparations for the “test spring-lamb export” which will be a starting point for this type of business cooperation in the future. It is expected that the Sheep Herders Associations from the eastern part of Macedonia will also join this effort more actively. In the meantime, some Macedonian slaughterhouses (*Serta, Klaneks*) are undergoing the final steps in the procedure for implementing HACCP in accordance with the EU requirements. This will expand Macedonian technical capacities for lamb exports.

Cheese

Although Macedonia is a net dairy importer, efforts to make the sheep cheese a specialty export product started in late 1990-s. MCA project has made a very valuable contribution to the previous LOL MAMA Project results by investigating the US and Australian market and has also been eager to identify the opportunities of neighboring country markets, including Albania, Croatia and Slovenia. The MCA trade fairs program (especially the SIAL participation) had additional effects on sheep cheese export growth.

Within its marketing program, MCA has motivated the dairy processors to start activities in the field of sheep cheese standardization and certification for exports.

It is estimated that the volume of sheep cheese exports, by the end of 2005, will account for US $900,000 to US $1 million.

Tourism

The most effective impact was achieved in the increase in the number of tours, which is mainly a result of the fact that cluster members worked intensively on their relationships with key partners and they developed multiple tours with the best customers.

The MCA Project achieved their target with 5.9% growth in foreign tourist arrivals in 2004.

Some of the cluster members signed agreements with foreign tour operators, several of which are now actively promoting Macedonian tourism.

IT

200 Macedonian IT companies have a combined export of US $13 Millions. The export figures of the cluster companies amounted to the official figures for IT exports, US $7,539,000 (2002) and US $8,455,000 (2003), and are continually growing. In 2002, the exporting companies exported to 17 countries, and in 2003 to 16 countries.

Wine

Positive MCA project effects for the small wineries (wine cluster members) are visible: they are producers of high quality wine and mainly export oriented. Apart from the assumptions, unfortunately no data was made available to the evaluation team. There are clear indications for positive changes in the export growth resulting from the MCA project's marketing/promotion activities, but the more significant results from the recent marketing activities abroad are still expected and it is early to make any conclusion for further development.

Apparel

In 2004 the textile sector contributed to 32% of Macedonian exports with an overall export value of approximately US $391 million. Exports to EU countries has gradually increased over the last five years, achieving the value of 80% (mainly Germany) of total textile and apparel export in 2004, followed by the USA with 10% and the other countries with 10%.

The duration of the period of MCA support in apparel sector has not been sufficient to recognize it as a key factor in terms of exports; however the cluster members have identify a positive movement.

3.2.2 Domestic Market Share

Lamb

It is estimated that domestic market share increased by 6-10 percent in 2005 relative to 2003. MCA supported the increase of the sheep herding in general and made an indirect impact on domestic market share growth.

Cheese

MCA, together with the other donors, considerably influenced the domestic market position of Macedonian sheep cheese. 20 cheese-producing companies have increased their domestic market share by between 2 and 5 percent since 2003.

Tourism

Cluster members reported an increase in occupancy rates and the average level of consumption in 2004 and 2005, particularly during the high (summer) season. Another positive note is that the number of visitors during the low seasons is permanently increasing, as a result of fishing trips, hunting, shopping, gambling, congress tourism etc.

IT

Together with the other donor organizations, MCA considerably influenced the domestic IT market. Exact data is not available and the evaluation was made on the basis of interviews and a limited amount of public survey data.

Wine

Small wineries penetrate the market with limited quantities of quality-bottled wine at relatively high prices, while the largest part of bottle wine production, from the bigger wineries, covers the segment of lower quality wine. During the last few years, large quantities of table grapes were used for alcohol production.

Apparel

Domestic market is small considering the available apparel capacities in the Republic of Macedonia. As a result, domestic clients are not the focus of interest of apparel companies and the market share is minimal.

3.2.3 Productivity

Lamb and Cheese

By supporting higher production standards and procedures, MCA made a significant impact on the productivity of a selected number of cheese producers, but rather a weak impact on the productivity of the primary producers.

However, MCA made an impact on productivity growth at the producer level, by assisting the Sheep Breeders Associations from the western part of Macedonia.

Tourism

The Tourism Cluster succeeded in increasing the level of services rendered and in meeting guest's expectations, mostly in country specific cuisine, wine and grappa, folklore, historic monuments and posts, monasteries, beautiful landscape, attractive hiking and biking trails.

IT

Slight growth was reported in productivity over the past three years. MCA supported improving business processes, cooperation with foreign partners, export sales knowledge and skills, etc.

Wine

Clear positive impacts are evident: some wineries introduced new technologies and improved the working process. Other wineries are showing greater interest in certification, and are working to improve management skills.

Apparel

The apparel companies continue to apply classic production systems and have had a limited increase in productivity, even with good and trained workers. On the other hand, the implementation of new production systems requires huge investments in know-how and continuous vocational training at all levels.

3.2.4 Revenues

Lamb and cheese

In the period between 2003 and 2005, lamb sector revenues increased by 8-10 percent and by 5 percent in the cheese sector. MCA contributed to the increase in revenues mainly by supporting export activities and by motivating joint market appearance based on association and an inter-cluster cooperation approach.

Tourism

MCA supported conceptual tour activities (eco tourism, historic routs, biking and hiking), where the expected revenue was $683,250. Unfortunately, evidence was not provided to the evaluation team to prove that the target was achieved. However, the increase in the number of packaged tours sold is visible.

IT

The total sales revenue of 56 companies was US $28,722,000 (2002) and US $31,215,000 (2003). The total revenues from the surveyed cluster companies amounted to US $16,709,000 (2002) and US $14,551,000 (2003).

Wine

Wine producers are not reporting any serious increase in revenue, while grape producers, affected by the low price of grapes, face a decrease in revenue. Positive results are expected following the recent foreign market promotional events organized by MCA.

Apparel

The contracted manufacturing is a predominant manner of working. In *cutting and making up* (CM), the manufacturers' participation in the value added is very small and consequently, the profit is low. However, the massive production leads to good profits for the companies.

3.2.5 GDP Growth

Lamb and Cheese

In 2003, lamb and cheese production accounted for approximately 0.60% of the country's GDP. Positive trends in lamb and cheese productivity, trade and exports contributed to the increased participation of these industries in overall GDP growth.

Tourism

The relative share of the tourism is 3.55 % of Macedonia's GDP (US $180 million) and is expected to grow. Given the sector grows faster than the average and its contribution to GDP will also increase.

IT

According to the State Statistical Bureau, the share of the IT sector in the country's GDP was 0.26% in 2002, 0.18% in 2003 and 0.30% in 2004. The positive trends in the IT industry and the increased exports contributed to the increased participation of this industry in overall GDP growth.

Wine

Wine sector contributes to Macedonian GDP with approximately US $ 45 million, or 1%. The GDP growth rate is estimated at 3%, but it is difficult to determine the contribution of the wine sector, because total purchase of grape this year increased (~55% compared to 2004), while the price of bulk wine as main product was lower than previous years.

Apparel

The apparel sector is significant for the Macedonian economy and accounts for 12.4% of GDP, which is approximately US $500 million. MCA efforts in trade and export supporting activities are contributing to an increase in the participation of the textile industry in overall GDP growth.

3.2.6 Job Creation

Lamb and Cheese

It is estimated that approximately 55,000 families earn a living from sheep breeding and sheep milk processing. However, despite the modest overall growth of the two industries, there is no clear evidence that the number of employees has increased significantly.

Tourism

The tourism sector currently employs less then 4% of the total 545,000 employed people in the country with an annual net salary of US$2,560 (2003). With its activities, MCA encouraged the process of building professional skills and raising the quality of services. In addition, the new types of services, such as cultural heritage, protected areas, and sport and adventure tourism created of new job opportunities.

IT

The Information Technology sector had 822 employees (in 2002), 888 (in 2003) and 1189 (in 2004). Although the IT Sector is one of the fastest growing industries in the country, there is no clear evidence for a more significant increase in the number of employees.

There is no evidence that MCA contributed to the creation of job opportunities, or to the increase of the average salary in the IT sector.

Wine

As a result of the bankruptcy of some of the largest wineries in the Republic of Macedonia, employment in wineries has been negative. The situation with grape-producers is similar, mainly influenced by the low price of grape. Aside from a small number of new jobs created in the new (small) wineries, there is no evidence of any significant increase in the number of employees in wine sector.

Apparel

The apparel sector is the largest employer in Macedonia, accounting for 28% (36.700) of the total number of jobs in manufacturing industries. It is important to highlight that 80% of those employed in this industry are female. Minor fluctuations in the number of employees in this sector can be noticed, however no general trend can be observed.

3.2.7 Cooperation and Partnership among Cluster Members

The MCA Project was very successful in promoting the cluster concept mainly among clusters' members. The Project initiated and/or encouraged:

- Better understanding of the cluster philosophy
- Better cooperation among members
- The recognition of the potential benefit of partnerships among cluster members
- Clusters that provide a venue where members are becoming acquainted with industry practices, they learn about mutual strengths and propose joint projects
- Clusters that have become an arena for exchanging ideas, experiences, match-making and resolving common problems
- Inter-sector cooperation

However, rivalry between competitors exists and linkages among companies offering different types of products/services are still weak.

3.2.8 Conclusions

Based on the interview findings, the biggest MCA impact was in initiating cooperation and raising partnerships among cluster members and between domestic and international partners.

MCA was also **successful** in:

- Supporting export growth in almost all clusters except apparel, which was already strongly oriented towards international markets
- Supporting productivity growth
- Initiating positive trends in GDP growth

Indirect impacts were also recognized in:

- Increasing domestic market share by using the knowledge and skills gained from the MCA training programs and international consultancies
- Positive changes in revenue growth
- Increasing the role of professional knowledge and business skills amongst the employees in all five clusters.

For a detailed analysis of MCA's impact on the clusters' competitiveness indicators, see the Cluster Reports in Appendix / Sections 8.1.1.1, 8.2.1.1, 8.3.1.1, 8.4.1.1 and 8.5.1.1

3.3 Assessment of the cluster selection process

The selection process included 3 selection rounds, based on clearly defined criteria: 1) *Leadership, Entrepreneurship and Commitment*, 2) *Strategic Potential*, 3) *Impact on the economic development in the Republic of Macedonia*.

MCA consultants performed the first round in the selection process, where the Lamb and Cheese Cluster was selected together with the Tourism Cluster. The NECC, during the second and the third rounds, selected the remaining three clusters.

The evaluation team identified some weaknesses in the selection process. The evaluation methodology was not published for any of the selection rounds and the rejected cluster candidates were never informed about the reasons for not being selected. For these reasons the selection process was not adequately transparent. In addition, promoting the selection criteria would have contributed to increasing the awareness of the importance of the various elements in the competitiveness process (the criteria was based on these elements). Unfortunately, very little promotion was completed which has resulted in a lack of awareness. On the other hand, the absence of awareness of the selection criteria has influenced the level of cluster efforts devoted to further strengthening their group advantages, such as leadership, entrepreneurship and commitment, and the strategic potential, which, at the time of selection, differentiated them from the other cluster candidates.

All of the cluster members and other contacted persons view the decision to select the five elected clusters as reasonable and logical. For example, the **lamb and cheese** industries have a long tradition in the country and are known for offering tasteful and respectable products. In the last few years, the two industries have been supported extensively by other donor projects. This has created an awareness of the importance of partnership and commitment and has had an impact on the leadership, entrepreneurship and the strategic potential. Namely, *Land O'Lakes* has provided primary producers with valuable assistance in association building and good cooperation. Primary producers were trained in farm management, lamb health care and hygiene/sanitary procedures. They received consultations in modern sheep breeding, including feeding and milking. They were also trained in quality cheese production and packaging. Their

Association was given the opportunity to participate in the Seal of Quality Program that included standardizing production, as well as assistance in branding and marketing sheep cheese. MCA offered the two industries what was still missing: an organized approach to increasing competitiveness by gaining an awareness of the effects of better cooperation at a *cluster level* and by taking sophisticated actions towards exports.

The situation is similar with the **Tourism Cluster**, whose selection in the first round was found to be reasonable and justified. There are several reasons for this view: 1) an improved tourism industry, both for leisure and business, will contribute towards improving Macedonia's image and creating an attractive place for commerce; 2) significant opportunities exist to link the tourism industry to wine, food, and other cluster initiatives; 3) successful tourism initiatives will increase Macedonian relations with other countries and cultures, therein creating a myriad of additional business opportunities; 4) successful tourism involves customer satisfaction, competences, and all aspects of what regions have to offer; 5) preserving the environment benefits tourism and the general prosperity of Macedonian citizens; 6) tourism will allow Macedonians to move from a basic manufacturing, agriculture, and commodities based economy to a sophisticated service based economy; 7) having in mind Macedonia's country size, an important impact of the tourism industry on the integration and internationalization of the country is expected. 8) tourism as a key success factor in the economic development of emerging markets: generates hard cash, creates more jobs, good entry point for skilled workers, facilitates the entry of foreign investment, and foreign firms, and generates higher tax revenue, 9) the cluster members seek to build a globally competitive tourism industry that offers unique visitor experiences and capitalizes on Macedonia's natural resources, history, culture, traditions, products, and experiences.

The **IT Cluster** was selected in the second selection round together with the Wine Cluster. The decision to select the IT Cluster was based on the same selection criteria used in the first round:

1) The cluster members have a solid background for future development; 2) the companies clearly understand the advantages of working together and are eager to invite other committed firms into the cluster; 3) cluster activities support high quality standards, new market penetration, new products, and constant innovation; 4) the IT Cluster demonstrated clear leadership, strategic potential and long-term impact in its operation , 5) cluster development will increase the cluster's joint vision regarding key products and target markets, 6) the MASIT association plays a significant part in implementing the National Strategy for the Development of Information Society, adopted by the Parliament, 7) all the major players work through MASIT and the local Chambers of Commerce, plus effectively lobby in the Government.

The decision to select the Wine Cluster in the second selection round was effective, because wine producing is one of the most important industrial sectors and because of the growing number of wine cellars. The cluster has fulfilled the selection criteria requirements. Because of a high concentration of wine-producers in the *Tikves* region, the regional–based wine cluster seems to be a reasonable approach. However, to function efficiently, it is also necessary to support the development of local professional associations and business service providers.

The **apparel cluster** was selected in the third round of the selection process. Its selection was conducted by the NECC after being declined in 2003. Shortly after, the textile companies established the Textile Trade Association to support its member's needs. More than 130 companies joined the TTA. The cluster members evaluated the selection of apparel cluster as a correct and logical decision. The predominant reasons pointed out for the selection were: cluster national economic importance, annual cluster growth, and annual export growth. In addition, the identified actions to improve the position of apparel industry were important. The effectiveness of the geographical location of the cluster is still under discussion. The overall cluster infrastructure can be easily identified only in the Stip region. There are sewing, finishing of sewn goods and printing companies and some logistic (warehousing and transportation, CAD/CAM). In that, the companies from the other regions will remain without cluster support. On the other hand, Macedonia is small country and distance is not a serious problem. The decision to have apparel cluster on a national level is reasonable.

The assessment findings with regard to selection processes for individual clusters are given in the Appendix / Clusters' Evaluation Reports, Sections 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2 and 8.5.1.2 for lamb and cheese, tourism, IT, wine and apparel cluster respectively.

3.4 Assessment of the effectiveness of cluster interventions

MCA supported the clusters in three ways:

1. Analyzed the current strategies of the cluster members and assisted in designing a competitive future strategy for the cluster
2. Helped the clusters to execute the new strategy through focused technical assistance to the cluster members (market research, product development assistance, trade promotion, training, etc.) and
3. Identified specific cluster constraints that needed to be addressed in order for the cluster to compete effectively (e.g. improved government regulations, access to foreign markets, banking system reform, infrastructure development, etc.).

The support was delivered through several different types of interventions, such as training, consultations, grants, participation at trade fairs and direct support to export.

In regard to consultations, foreign consultants have delivered satisfactory assistance. It is true that in the first year of MCA's implementation, the consultants provided more theoretical as opposed to practical training. However, during the next two years cluster members received what they really needed. The least effective was the consultation delivered during the first year of the Project, when a lot of time was "lost" on theory and ineffective meetings. For example, consultants who introduced the clustering methodology to the cluster membership and their assistance to the leadership have "opened minds" for cooperation.

Domestic consultants and business service providers have been less effective. They were given the opportunity to be involved in the program, but there is a feeling that many of them did not clearly understand MCA's mission. Cluster members suggest that in the forthcoming activities, foreign consultants should remain the leading consultation providers, but to work together with local consultants. In addition, it is highly recommended that local consultants receive additional training, by foreign experts, prior to their independent work with the clusters.

The quantity of training delivered to the cluster leadership to provide sustainability of the cluster cooperation after the end of the MCA project was not sufficient. It is important to continue working with cluster leadership to further help them understand their role in supporting overall cluster development and to be more transparent in their work.

B2B meetings and fair participation have been highly appreciated by all cluster members and their success has significantly contributed to increasing the level of motivation to be a member of a cluster.

The establishment of the NECC was well accepted by the cluster members. In the beginning there was a lot of enthusiasm and many expectations of what the NECC could bring to the national economy. Yet, many consider its work to be ineffective. It did not succeed in becoming a partner to the Government to create solutions for a more prosperous future for the economy.

It is necessary and urgent that the NECC is reorganized and that it adjusts its activities to support its main purpose. To be effective, the NECC should be composed of representatives from all stakeholders including representatives from smalls and medium enterprises. In addition to reviewing the member selection criteria, there is also a need to evaluate and monitor their work and their level of participation. As participation is voluntary some motivation methods and recognition should be establish in order to be more efficient.

There are some specific topics listed here after, based on different cluster's opinion regarding the MCA interventions. More details from the findings with regard to effectiveness of cluster interventions are given in the Appendix / Clusters' Evaluation Reports, Sections 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2 and 8.5.1.2 for lamb and cheese, tourism, IT, wine and apparel cluster.

The "Ohrid Cheese and Wine Festival" organized for the Lamb and Cheese Cluster was evaluated as one of the most effective activities. Also, the presence at SIAL has resulted in Macedonian cheese producers building valuable business connections with international companies, some of them becoming sustainable partners. The arrangement and support of B2B meetings has also been fruitful. Linkages built with Albanian, Italian, US and Greek partners led to a number of business transactions. The effectiveness of the foreign consultants has been positively evaluated. Consultants engaged in cheese tasting, as well as the British consultant who worked on market research, were the most appreciated. The local consultants and BSPs have been less effective. However, the most successful MCA accomplishment is the ***cheese exports achieved***, whereas the engagement of IESC consultants is considered to be the least effective intervention.

For the **Tourism** Cluster the most important and useful intervention was the *establishment of the tourism web portal*. Nevertheless, it has to be emphasized that some crucial problems were resolved as a result of the intervention and collaboration between NECC and Government with regards to tourist visits from Israel. The value added to tour operators will guarantee that Macedonia will be a new tourist destination for foreign clients. The contribution from foreign consultants during the cluster inception phase has been highly appreciated, but this was not the case as the Project progressed.

For the **information technology** cluster the most successful MCA accomplishment was the *establishment of the IT consortium*. The members of the Macedonian IT cluster established the MCIT (Macedonia Consortium of Information Technology) to respond to an emerging opportunity with a US $8 billion software company interested in the Balkan market. The consortium's representatives have already conducted the first round of meetings with prospective partners in Austria where they presented Macedonia as a provider of IT services and *MacedoniaIT* as a good partner. MCIT represents a model for other clusters to follow.

Another well-organized and effective intervention was building the capacity of MASIT and facilitating productive dialogue within the sector. IESC IT Industry Specialist worked closely with the IT Cluster to develop more commercially oriented products. Working with the MCA Advisors and the MCA IT Cluster was crucial in coordinating MCA's support to MASIT, as it organized the second Conference of IT Associations of South-Eastern Europe (SEEITA) in Skopje.

The Macedonian IT cluster is one of the first to develop innovation and establish new initiatives. The business representatives were particularly interested in seeing how they could use the training platform for other types of training and ways to best use the talents of young people who are eager to learn in a fun and creative way.

MCA activities for the Wine Cluster were well organized, especially the promotions in London and Paris. Cluster members are generally well informed of the support offered by MCA, which is an indicator of good cooperation and good communication. All the planed activities (trainings, promotional activities) were delivered on time to the cluster members. The organized and structured approach to activity implementation contributed to their effectiveness.

Cluster leadership is considered to lack competence, despite improvements over time.

The technical assistance to wineries positively influenced the entrepreneurial management mindset and encouraged market driven thinking. Still, it is noted that grape producers were less open to changes, mainly because of their mentality. Existing "customer care" was moderately improved. However, *export support and training* were considered the most effective activities. Capacity building, especially in field of marketing and promotion, should be emphasized. There is also a positive result from *consultations* in winemaking, and *directly assisted production* in wineries.

There are very few domestic BSPs, mainly from educational institutions, in the field of winemaking and viticulture. BSPs could not give any significant support to cluster members.

There is a great need for more active participation of the aforementioned institutions in cluster activities. The value of the assistance given by foreign consultants is well appreciated. However, here is noticeable difference in the evaluation of benefit of the support provided between large and small wineries. For this reason, it is difficult to comment on the optimum proportion between local and foreign consultants, but there is an opinion that local consultants with experience acquired abroad are most desirable.

Less effective were the various general market research and the seminars dealing with basic skills in wine growing. The latest are considered unnecessary, according to the opinion of wine growers.

Grants for training had the most valuable influence on the members of the cluster. It is too early to measure the influence of the grant for promotion activities. However, the grant awarding process –for individual grants - is considered as *less transparent*. Still there is a view that a restricted group of players exists.

As far as the NECC work is concerned, there is a common opinion that their work can be greatly improved. Actually, none of those interviewed experienced any of the NECC benefits. Even more alarming was that some of them were not aware that such body existed. They did not succeed in establishing dialogue between the wine sector and government. Work that is more transparent is highly recommended.

In the **Apparel Cluster** the most useful intervention was achieved with promotion and marketing. The intervention to attract foreign investment in fabric mills started with a project aimed to make a complete analysis of the profitability of foreign investment in fabric production in Macedonia. The approach should be reconsidered. Instead of analyzing the type of fabrics mostly imported in Macedonia, the question should be what the apparel companies intend to produce in the future. In that case, the turn to semi heavy and heavy products will need to include woolen and woolen type fabrics.

Some of the specific interventions in *sourcing*, such as purchasing raw material, logistics, warehousing and financing, what is a good point as it is a step above in the apparel value chain.

Well-appreciated was the initiative to *introduce Italian knowledge* trough the opening of a branch of the *Academia Italiana di Milano* in Skopje.

3.5 Assessment of the current state of the assisted entities

In analyzing the assisted entities, we considered their functionality, sophistication, sustainability, communication and collaboration, ability to compete in foreign markets and the ability to provide necessary services to target entities.

3.5.1 Functionality

Clusters

MCA initiated the establishment of five clusters with the aim to develop and implement strategies, which will allow the clustered industry to become a globally competitive industry sector. Despite the ambitious start of the clustering process in 2003, when many companies, institutions, associations, organizations and individuals joined the MCA cluster initiative, over time the number of entities involved has declined.

What worked and what didn't work in the cluster selection process?

The criteria for the first selection round were clearly defined by MCA international experts however they were not presented to the public. The evaluation methodology was also made known to the Project's staff only and it was not presented in the public. The same happened with the results of the evaluated proposals, which were also not communicated openly: they were not published in MCA News, potential cluster members were not informed and the Project PR did not comment it, even though the public expected to hear about the selection.

The NECC did not participate in the first selection round, because at the time it had not been established. However, the second and the third rounds were managed by the NECC. It is recommended that the NECC to remain involved in future selections, but the selection procedure needs to be clearly defined and the evaluation process transparent, starting from nomination through to competition and final decision.

There have been other initiatives for establishing clusters: the *postproduction cluster initiative* established the MADE association and joined the IT Cluster, *food processing*, *goat breeding*, *leather and footwear* and *construction*. Although willing to support new clusters initiatives, the NECC did not succeed in securing funds for supporting the clusters whose applications satisfied the cluster selection criteria.

The initiative of the *construction cluster* was based on the post-war situation in Iraq and country reconstruction. According to the NECC evaluation, the application lacked arguments and there was no support secured from a leading business association in the sector.

The initiative from the *postproduction cluster* was not accepted by the NECC because of a lack of funds and because the major focus of the initiative was given to digital technology. It was recommended that this cluster precede its development within the existing IT cluster. This seemed to be the right decision, because it motivated the people from the *postproduction* initiative to establish the MADE Association.

The initiative from the *food-processing cluster* was not accepted by the NECC because of the eventual concurrency with the Wine Cluster, which was in the phase of acceptance. In addition, at that time, the food-processing cluster was very much supported by the GTZ Project for Private Sector Promotion.

The initiative from the *leather and footwear cluster* was not accepted by the NECC because of a lack of supporting funds and because of cluster demonstrated weak leadership. Immediately after this, the Footwear Association was established focusing its activities on the Euro- region Skopje-Sofija-Nis.

The functionality of the cluster depends heavily on the ability and the enthusiasm of the leadership, which seems to be strong when large and successful companies are members the cluster. However, the cluster leadership should avoid adopting a teaching approach and avoid viewing their role in the cluster as a “temporary job”.

BSPs and consulting industry

Business Service Providers (BSPs) had two distinct functions within MCA: a) to provide services to clusters and other assisted entities for which they were fully or partially paid by MCA, and b) to gradually evolve into market-based services providers under contract with individual businesses and cluster organizations.

When BSPs’ services were needed, MCA issued RFPs. On some occasions, MCA found that bids or proposals were sub-standard in their presentation, which indicated a presence of relatively high technical skills, but a lack of business skills.

The consultant’s industry view is that the RFP procedure to hire BSPs was not transparent enough. Business service providers were engaged on a contract basis to consult businesses. This approach did not give BSPs evolving in the consulting industry the opportunity to participate.

The number of BSPs & consultants engaged in the cluster development process was very low and varied from cluster to cluster.

For the BSPs assisted by MCA, the most effective support interventions were the individual consultations with consultants from the United States. These gave them the opportunity to challenge professionally and to systematically go through business cases. On the other hand, the trainings and attempts to establish a self-regulatory consultant organization did not yield satisfactory results. The initiative for establishing a self-regulating organization (SRO) for BSPs failed because of the inappropriate approach adopted by MCA. The approach was not received positively and was not considered an effective alternative to working with the existing associations. MCA learned that other donors were also interested in upgrading the quality of BSPs and should have combined theirs efforts with organizations such as SEED, GTZ, BAS and the EAR. Future collaboration should focus on supporting the establishment of an umbrella SRO, on improving the quality of consulting services, on establishing and supporting the development of quality standards, on certification of consultants and on building the capacity of BSP associations.

With regard to the involvement of foreign consultants, it created inspiration among BSPs, but their "teacher-student" approach adopted created feelings of annoyance. There is an opinion that the optimal proportion of foreign consultants' involvement versus local consultants' should be stabilized at 40%-60%. It is good to start at the beginning with 60%-40% and to move slowly to the target of 40%-60%. However, the involvement of foreign consultants for backstopping domestic partners is worth considering for a longer period.

NECC

The National Entrepreneurship and Competitiveness Council (NECC) was created in 2003 with support from USAID/MCA and following the examples of other countries, like Croatia, Ireland, Singapore, Switzerland and the United States. The main purpose of the NECC is to transfer primary leadership of the nation's entrepreneurship and competitiveness agenda from the public to the private sector. The NECC is a forum for leaders from the public, private and civil sectors to jointly define national priorities, take strategic action and monitor results. By gathering both, the representatives from the public and private sectors, NECC offers an opportunity for the leading factors from all segments of society to help in resolving the challenges faced by the Macedonian economy. Among others, these include: creating employment opportunities, improving the investment climate and attracting FDI, improving institutional infrastructure, EU integration process, implementing WTO commitments, and increasing the quality of life of citizens.

By analyzing the impact of the MCA interventions on functionality and building NECC sustainability, the following can be noted:

- The expertise given in Charter definition contributed to ensuring the functionality of NECC. The Charter gives a clear picture of the importance of the NECC and defines the approach in the organization of meetings, their facilitation, and moderation and also the proposal of topics, working procedures and the philosophy of trilateral partnership.
- The study trip to Ireland and expert guests contributed positively to enhancing the functionality and sustainability of NECC. Twelve NECC members, among them the Minister of Economy, the President of the Federation of Syndicates, the President of Association of Farmers and representatives from the private sector, took part in a study tour in Ireland. These experiences motivated the members and strengthened their belief in the importance of the NECC mission.
- MCA promised support in involving experts and facilitating an advisory group for the NECC, but this assistance was missed which contributed to improvisation and incompetent discussions.
- The skills (presentation, negotiation and lobbying) development training for NECC members was also not delivered, which created additional obstacles in positioning the strengths of NECC and in building the image necessary of a partner to the Government.
- The motivation of NECC members to work on a voluntary basis is very low which influences the efficiency of the Council.

NECC lacks the experts needed to be active in its work and coordinated special advisory groups to be the output-creating engines. NECC's performance also suffers from the political changes in the Government and that is the reason why the expected *partnership with the government* was inactive. During its 2 years of existence, three ministers (members) were changed directly affecting the council leadership. The changes created some free space for public acceptance of the NECC as an "institution" that serves "some individual business interests".

In order to improve its operations and to become effective in public-private partnerships, NECC has an obvious need for capacity building and institutionalization of the work. The establishment of the Advisory Group with an Executive Manager, which is providing administrative, research and other support to the NECC, was effective.

NECC has a new development strategy and has started the organizational changes need to qualify as the recognized Council for enabling business environment in Macedonia.

In the past period of existence, NECC was comfortable with the support from MCA and did not succeed in creating strong links with other donor organizations. This however should be one of its future focuses, together with developing collaborations with similar institutions in the country and in the region. In addition, NECC should continue to concentrate on promoting the cluster approach, on developing competitive and appropriate selection methodologies and on supporting new cluster initiatives.

3.5.2 Communication / collaboration among members

The five clusters

As a result of the broad clustering program, the cluster concept succeeded in its promotion among the companies involved in the MCA project. Many of the cluster members recognized the potential benefits that the cluster partnership offers. For example, the five sheep breeders' associations from the western part of RM showed satisfactory results in improving cooperation and partnership because they recognized the potential benefit in exporting together. Their effort to cope with the exporting challenge was stronger than the prejudice of mutual rivalry. Similar are the effects of the cluster appearance at SIAL.

A good example of inter-cluster cooperation is the "Ohrid Cheese and Wine Festival", which took place in 2004 and in 2005. Both of the clusters are willing to continue organizing the festival even after MCA assistance for the event comes to an end.

With regard to the efficiency of cluster organization, the best one has strong leadership with clear vision "where we want to go and what we want to achieve", motivated members and defined communication procedures. A sector/branch association within the cluster is a strong professional advantage. They can take on the role of the *driving force* in the cluster's organization. The Apparel and the IT Clusters are examples of such positive experiences. MASIT was the driving force of the IT Cluster, because it was highly motivated to strengthen the influence of the IT industry on Macedonian economic development. In the apparel cluster, the membership of the Textile Trade Association was the key factor for the prompt consolidation of the cluster.

Having the branch organizations (as MASIT, MCA 2000, MADE or Textile association) inside the clusters strengthens the negotiating position of the cluster (sector) with the Government. In addition, as a result of the networking efforts, the branch organizations inside the cluster enhance the power of the firms/members in their joint development efforts.

With regard to communication mechanisms within the cluster, the members communicated very frequently, mostly via the telephone or through individual meetings. In the near future they plan to start using Internet, web-based communications and *Internet discussion group*.

Effective leadership is crucial to fulfill the clusters' objectives. To date there are weaknesses in the cluster leaderships and the clusters are open to further assistance. By analyzing the results of the work and the opinions of the contacted persons, it has become evident that the IT and apparel cluster leadership demonstrate maturity and compactness in their operations. While it is not necessary to provide these clusters with leadership support additional assistance is necessary to support the development of the industry sector's competitiveness. Here both of the sectors – the IT and apparel will appreciate further donor assistance.

All the five clusters are willing to continue being active after the completion of the MCA project. Their strategies are focused on becoming self-regulated and sustainable, in which the support from donors, or from the public sector, is very much welcomed.

With regard to the dilemma as to whether the clusters should remain on a national or on a local level, the opinion of the business community is that for the time being the clusters should continue operating on a national level. The regional / local organization of clusters will contribute to a decline in the number of active members and will impose dependence of local development initiatives. However, it is favorable when branches inside of clusters are established at a local level. In addition, it has to be emphasized that the *local clusters development approach* is very close to the *regional economic development activities* of the Government of RM and are part of the agenda of each local government authority. The interest of the local governments to include the eventual local clusters in their activities will be dependant on the potential of the cluster members and their initiatives for partnership.

When talking about cooperation and collaboration, it is necessary to mention that the entrepreneurs in SME business continue to build their partnerships on the basis of information gained in their very limited environment (or even immediate vicinity) and not on the basis of market relevant information. This is where branch organizations becomes very important, because they can play the main role in acquiring and processing information about potential markets and customer needs. The branch organizations are in general independent from the cluster and their mission is long-term. On the other hand, the cluster working groups are task-oriented, with limited duration and usually work on completion of a particular task. Involving and promoting the establishment of specific branch organizations into the clusters was not sufficiently explored by the MCA.

<u>BSPs and the consulting industry</u>

The collaboration between BSP and consultants is very low. Therefore, it is highly important to improve the association process of BSP, especially with regard to communication and collaboration among members.

<u>NECC</u>

The findings indicate that, in the two years of the NECC's operations, the communication and collaboration among its members has been at a low level, which has resulted in the appearance of an informal core group that has acted as a kind of "driving force". However, the communication among the members of the management board has been effective and open: their regular meetings have given equal opportunities to the members to discuss and reach a to compromise on all agenda topics. Some questions have also been voted by mail. On the other hand, the meetings have been very closed and nontransparent for initiatives from coming individuals/institutions other than NECC members or MCA project staff and consultants. The non-existence of a NECC portal or WEB-site has additionally contributed to the NECC closed and nontransparent image.

The dissemination of NECC conclusions was also not efficient enough and it has not succeeded in reaching the appropriate audience. The focus of PR activities organized by the MCA has usually been on clusters' activities and very little on the NECC's work.

The collaboration with similar councils in the country and with PPP institutions is very low, although the necessity has been stressed and recognized.

Until now, the NECC did not succeed in developing communication with other donors, mainly because others consider the NECC as an USAID/MCA institution. This is something that the NECC should address in the future.

The business community, the government, the local authorities, the business associations and the public positively accepted the two national competitiveness conferences and the streets events. In addition to other effects, with these events the NECC succeeded in demonstrating collaboration among cluster members.

One of the main issues the NECC needs to concentrate on in the future is raising funds. Many of the topics that the NECC is expected to discuss and to propose solutions for, need previously conducted research and expert analysis. These cannot be fully covered by the volunteer practice of the NECC members, because they are not always relevant and available. A good example for such an initiative is the Donor Conference, which NECC planed to hold in the middle of December 2005.

3.5.3 Ability to compete on foreign markets

The five clusters

The clusters' ability to compete on foreign markets was improved as a result the following:

1. Policy changes: Few concrete requests and recommendations were submitted through the NECC for policy changes that would enable companies to be more competitive and to improve the industries' performance (strengthening institutions, grower's subsidies and training, branding and promotion at foreign markets).
2. Continuing dialogue on common issues: Continuing dialogue on issues effecting the business environment (including topics on: Labor Law, Eurobonds, FDI, Discussions on Textile Customs Law resulted in new Textile Customs Law)
3. Public debate for changes in customs duties: The representatives from the apparel industry in the NECC initiated the public debate for changes in customs duties due on imported raw materials. The duties negatively affected the industry, because most of the industry is lone production, and the domestic production of raw materials is not satisfying the needs. After some negotiations between the Ministry of Economy and the Ministry of Finance (both members of the NECC), the duties were lowered for some of the export-oriented industries that depend on imported raw materials (like the textiles industry). The expected effect was 7% growth in exports for the textile industry.

4. Joint investments - Thirteen companies from the IT sector made a joint investment of over 150.000 EUR in export sales and marketing activities. Three export consortia were established (Macedonia IT, MADE Export, and 21 companies). One consortium dealt with 15 top European banks (initial value approximately $100,000 and expected to increase in 2006). One IT firm signed a 50.000 EUR contract with Johnson Controls media production.
5. The promotion and encouraging greater country integration into the global trading system by:

- Joint participation at important trade fairs promoting their capabilities and products (apparel companies at 3 top European trade fairs in Denmark, Italy and Spain),
- Joint participation of IT companies at 3 major industry trade fairs (Outsource World Fair, Siggraph, and ANNECY France) plus a series of 4 road shows in Western Europe meet with potential clients.
- Raising public awareness, promoting the country and its integration into the world markets by a journalist familiarization tour
- Participation of three dairies at the SIAL Global Trade Fair
- Participation of three wineries (cluster members) at the SIAL Global Food Trade Fair
- Promotional event for entering the UK wine market (six wineries were involved in developing a marketing program and PR strategy to promote and brand Macedonian wines)

6. **Sponsored investment-related programs**. Eight wine cluster members attended the UC Davis wine marketing course, with support from other USAID programs.
7. **Assistance provided in closing deals between local firms and firms from the US and other foreign countries.** MCA assisted several cluster members in closing deals: 1) *Deltatex*, *Kimico*, *Tetex*, *Modena*, and *Spin Studio* in apparel; 2) one IT company; 3) one company in Digital entertainment; 4) *Nasto*, *Ideal Sipka*, *IMB* and the *Macedonian Export Consortium* in lamb and cheese.
8. **Assistance provided to retail companies aimed at attracting foreign investment or foreign market-opening opportunities.** Assistance provided to apparel cluster members to

attract a Polish company to build a new manufacturing plant and to the MADE Association and Digital Media NGO in developing plans for digital media parks.

9. **Supporting programs to strengthen economic policies and institutions.** Strengthening the apparel cluster's leadership council to serve as a lobby for the industry. The apparel cluster successfully lobbied the government on abolishing the import tax on raw materials and equipment. This resulted in 7% ($35 million US) savings for the companies.
10. **Private-sector growth programs by trained people in USAID**. 150 people from the apparel cluster were trained in sales and marketing and in productivity improvement. 1250 people from the IT Cluster where trained in digital media technology (1140 in Maya / Alias and 50 people from EinSof were trained in C++ and C#/Microsoft, 60 people from the IT Consortia were trained in sale for IT).38 wine cluster members received training (20 in quality improvement, 10 were assisted in developing presentation skills and 8 were trained in wine marketing).
11. **Improving the supply response of enterprises in the private sector.** This was realized through 3 digital animation-training programs (2 in 3D@E-Schools plus 1 in Softimage); C++ training program was realized with EinSof/Johnson Controls; *Tikves* signed 1700 contracts with grape growers (based on model contract introduced by MCA) for improving the quality of grapes supplied.
12. **Enterprises continue to rely mainly on price competition** for competitive advantages on the European markets. Unfortunately, this strategy satisfies the low-profit segments in the EU market, hence its potential for development of the Macedonian SME sector is lower compared to product quality based competition.

The evaluation findings have shown that most of the managers do not recognize company management as a serious issue. That is actually the main reason for the absence of their clear determination to improve the efficiency and the performance of the companies, to improve the quality of management processes and to acknowledge the business value of the certification process. Their technology readiness and their ability to manage innovation processes is very low. With regard to marketing, they have developed some skills, but the larger part of entrepreneurs do not have comprehensive information on customers' attitude to their product/services. Cluster-members need further assistance, mentoring and coaching in building competences in project management, export marketing and sales, concept development methodologies and technology transfer. The existing consulting companies and BSPs are not ready to fully satisfy the challenging requirements of the Macedonian companies.

3.5.4 Ability to provide necessary services

BSPs and the consulting industry

The BSPs provide various services to cluster members: accounting, auditing, tax consulting, customer relations management, general management, communication and facilitation, feasibility studies, start-up coaching, enterprise foundation, finance management, human resources management, investment and development of business plans, IT consulting, management consulting, marketing etc. The BSPs also provide services to the Not-For-Profit Sector, such as: fund raising, operations management, organizational structure and development, project management, sales, supply management, production planning, quality management, strategic planning, training and education.

The Management Consulting Association MCA 2000 prepared a web-based catalog of consultants and consulting firms with assistance from a few donors. The main purpose of the catalogue is to create a platform for affirmation, publicity and presentation of consultants and consulting companies, their expertise, references, partnerships and readiness for innovation.

The greatest MCA achievement with regard to the Macedonian Business Service Providers (consultants) was the recognized need for their intensive cooperation and collaboration in: 1) building competencies, 2) developing new specialization areas, 3) building partnerships and consortia with foreign consultants and improving the quality of services and expertise.

NECC

The NECC improved it's ability to provide services by changing its constitutional bylaws, procedures and it's Charter. The changes were aimed at making the NECC's work more transparent and making the working style more flexible. Special working groups were also organized within the NECC with the objective to be open to external experts, to work on agendas, that follow NECC's strategic plan, and finally to support the development of results oriented Council.

3.5.5 Sustainability

Five clusters

Some clusters like the IT, Apparel and Wine clusters, are becoming recognized players in the country economic development and have the image of well-structured organizations. These clusters are evidently willing to work further on their organizational and leadership capacity development. With a strong influence on the work of the NECC, it is expected that the clusters will become even more aggressive in initiating changes and in improving the economic development indicators. The Apparel and IT clusters are mature and ready to continue operating independently. They are well positioned on the domestic and regional markets and are demonstrating readiness for self-development efforts. They have the capacity to raise finds and to cooperate with other donors to support their need for assistance. On the other hand, the Lamb and Cheese Cluster needs further project support. Firstly, it needs assistance in initiating additional international market research. Secondly, the sensitivity of the Macedonian sheep cheese as a food product calls for organizing advanced training in food safety and quality standards, as well as in the western markets' quality requirements. Thirdly, branding Macedonian sheep cheese has not been completed, thus the upcoming projects should continue training in marketing.

Reorganizing the clusters at a local level, and involving and establishing branch associations (organizations) could improve the level of cooperation among members. This could create opportunities for defining common products, services or activities and for combining efforts in the process of faster growth. For the clusters organized at the regional level, features such as the *geographic and traditional specialties, behaviors, existing business and personal networks*, the *nature of clients and products* etc. are dominant characteristic s for clustering.

The grant awarding process helped clusters and their members in strengthening the capabilities and performances in the following: *process organization, promotion and export sales marketing, implementation of sophisticated technology in production*. For example, the apparel cluster members were assisted in implementing CAD systems in production and modeling.

NECC

NECC is registered as an NGO, allowing it to receive funds and support for realizing specific expertise. The NECC also needs to develop its self-assessment capacities in order to improve quality management of its counseling services. The NECC will strength its position as a partner to the Government.

NECC needs a strategy and plan for operational sustainability, which will include an estimated budget. Lobbying, donors support discussions or a donor conference is urgent to address the financial situation of the NECC activities.

Business Service Providers

The BSPs and consulting sector is improving its performance and is becoming an important sector for economic development. Many of the BSPs are involved in donor assistance programs, giving them the opportunity to develop their professional portfolios. The financial and audit consultants were not involved in the MCA project, but their previous involvement in the privatization and transition processes has significantly contributed to improving their capacities.

BSPs should continue to work intensively on improving their expertise, developing new specialization areas, building partnerships and consortia with foreign consultants, improving the quality of services and contributing to the creation of a competitive environment. The BSPs will also work also on improved specializations, networking and partnerships with international consulting agencies.

3.6 Donor activities in promoting competitiveness

In the period of MCA project, there have been several competitiveness initiatives supported by other donors in the Republic of Macedonia. As part of the bilateral German-Macedonian Technical Development Cooperation, the Private Sector Promotion Project (implemented by GTZ) achieved remarkable results in improving the competitiveness indicators of the IT and food-processing sector and in increasing the efficiency of the BSP and consulting industry in the RM. In achieving the Project objectives, GTZ worked with partners on a macro, mezzo and micro level and succeeded in coordinating its work with other donor initiatives. In addition, the GTZ Project for application-oriented technology transfer worked intensively on the promotion of R&D with the SMEs and on the improving the cooperation between R&D institutions and SMEs. The importance of technology readiness and innovation in SMEs was also promoted together with the Macedonian partners (Ministry of Economy, Ministry of Science and Education, Universities, Agency for Promotion of Entrepreneurship etc.). GTZ is also involved in building capacities with the sheep-breeders associations, organic farming promotion and education, HACCP-related trainings, system introduction and information system maintenance, coaching cheese producing and food-processing companies in HACCP introduction, Good Agricultural and Good Hygienic Praxis, food safety issues, the introduction of quality management systems, harmonization of legislation according to EU requirements etc.

The Swedish Development Agency – SEDA is one the most active donor organization in supporting the growth of the agriculture sector and its approximation to the EU regulations.

The Norwegian SINTEF has also supported technology-intensive sectors in the RM over the last three years. It assisted 6 companies from the RM in improving their technological status, in building their cooperation with R&D institutions and in establishing business and partnership relations with Norwegian companies.

Other donor institutions are also assisting the development of the tourism sector. The Italian Economic Chamber (ICE) provided marketing research for the Portal business plan and sponsored visits to trade fairs and business forums in Macedonia and Italy. GTZ supported the creation of sales literature for the trade fair in Hanover. The USA Embassy organized business contacts with a delegation from Vermont. The Embassy of the Netherlands provided training, sales literature and a stand at the tourism fair in the Netherlands. The e-BIZ Project (USAID) developed the Portal. In addition, SIPO (Swiss Export Promotion Organization) is financially supporting Macedonian wine companies participation at fairs and promotions abroad.

Donors from EU countries in the RM are not providing any assistance to the *apparel sector*, because it is treated as a technology non-intensive sector and is not part of their economic development agenda.

3.7 MCA role in future economic growth activities

The Macedonian economy's competitiveness appears not to have sufficiently improved over the past year (2004). This is likely to be due to the incomplete implementation of reforms. Thus, while Macedonia's economic position has improved in certain parameters of competitiveness, there has been a relatively large decline in the rank of other certain parameters. The macro - economic stability ranks higher due primarily to a combination of monetary, fiscal and income policies implemented in the country. In reality, the only constant improvement in both the value of the index and in the Macedonian economy's competitiveness ranking is to be found in the quality of the macro-economic environment. Therefore, the identified competitive advantages of the Macedonian economy are mostly found in the area of macro-economic stability (Ref. 14).

A dramatic fall is seen in the Technology Index, resulting from the failure to take adequate measures to improve the technological readiness of Macedonian businesses at a time when other economies are advancing in this area. Improvements in the quality and efficiency of Macedonian public institutions is still insufficient to significantly contribute to the overall competitiveness of the economy. Consequently, in the group of South East Europe economies undergoing transition, Macedonia ranks higher than Bosnia and Herzegovina and Albania, but lower than Serbia and Montenegro and significantly lower than Bulgaria and Croatia in 2005/06. Given this assessment, the basic recommendation for the growth of the Macedonian economy is that *the Republic of Macedonia's economic reforms policy should balance macro and micro economic needs to create an adequate framework on which to build a competitive national economy* (Ref. 14)**.**

In other words, structural reforms are as important as macro-economic stability. In the context of the EU integration, a policy of adequately sequenced adoption of EU rules and regulations (Aquis Communautaire) is also necessary. In doing this, not only will other structural reforms be accelerated, but also the legal framework for doing business in Macedonia will be compatible with the equivalent framework of the EU country-members.

In achieving the goals of the recommended actions, Macedonia needs the support from the donor community. MCA (or any follow-on competitiveness activity), together with the other USAID Economic Growth Program activities will certainly play the role of a serious partner in Macedonia's efforts to achieve compatibility with the world market. With its established image, infrastructure, network of partners and collaborators, knowledge and linkages to other donors and USAID/EG projects, MCA is mature to act as a cornerstone for the *USAID Macedonia Economic Growth program*. This however could be successful only if MCA unifies the project goals of the individual EG activities with a focus on specific recommendations for the Macedonian economy, which could include: 1) Making the "one-stop-shop" system completely functional; 2) Promoting legislative and other benefits to attract foreign investors; 3) Providing incentives (and in some cases, subsidies) for innovation and transfer of technology to enable economic growth and creation of greater competitive advantages at a business-level; 4) Support reform in the education system and foster the innovation and development of new technologies; 5) Restructuring Macedonian enterprises, 6) Developing a climate for corporate social responsibility etc. By taking on the role of a catalyst and by improving the linkages to the other mission activities, MCA would certainly strengthen the potential of the USAID Mission's Economic Growth Program.

There have been few successful cooperation examples between MCA and other mission activities. In cooperation with IT cluster members, MCA supported the e-learning 3D@E-Schools project coordinated and supported by a team of several USAID projects, including E-school, Prisma, Community Self-Help Initiative, MCA and the Digital Media Training Center.

In addition, the MCA team was involved with other USAID projects and other donor projects in: Axis-Avid Softimage Certified Training Center (e-Biz, Mechanical Engineering Faculty, Canadian software firm); Johnson Controls C++ training program (World Learning); web portals and e-Biz centers (e-Biz and local firms); Stobi (CSHI, local vendors, Ministry of Culture); and the Greek Lamb Test Market (LOL, SFARM).

4 Lessons learnt

4.1 Lessons learnt from the Project's realization

We learned that the indicators for measuring the Project's achievements were not easy measurable, which complicated the monitoring process during the implementation of the Project. It could be useful to establish cooperation (communication) mechanisms with the beneficiary in the project preparation phase so that the defined objectives of the assistance could be realistic and measurable with SMART (Simple Measurable Applicable Realistic Traceable) indicators.

We also learned that the number and the interest of the individuals (and companies) participating in the Project were continuously falling, because many of them created wrong expectations from being involved in the Project. The reason for this could be an insufficient and inadequate effort devoted to the pre-project phase, which includes the study of the current situation, assessment of the beneficiaries' needs, establishing partnerships and building confidence with the beneficiary and with other stakeholders, building common sense in the project goals, achieving an agreement on the Project's scope and agenda etc. It is crucial to develop a sense "ownership" among beneficiaries and to apply the principle of "minimal effort from the beneficiaries" so that they remain motivated and confident for active involvement.

Impact chains need to be developed on all project levels (possibly together with the beneficiary): on the level of direct impact, objective, outcomes and activities. This gives the possibility to monitor and to position each project phase properly. With regard to risks, we learned that project staff was not aware of the identified risks and of a proper risk management strategy. In addition, we also learned that there was no documented communication between the impact of the monitored results and the review of project plans. With regard to project monitoring and periodical project progress assessments, it was learnt that they were not performed systematically.

With regard to project transparency, aside from the MCA PR section, we learned from the persons contacted that the Project was closed to "hearing the voices from outside". Its web-based information was found to be very poor.

4.2 Lessons learnt from cluster competitiveness initiatives

MCA Project has been **justified in its main idea and overall project design**, but its strategy and content should be further adjusted to address the concrete and specific needs of the cluster, cluster members and sector development strategies. In general, the cluster strategy depends on the nature of the constraints/objectives of sector. Therefore, one important requirement is that interventions are designed after an undergoing thorough analysis of the *needs of the base* and the *surrounding economic environment*. We learned that in the base was not actively involved the needs analysis. While the Project is initiated on the basis of beneficiary's demand, beneficiaries should be proactive in formulating demands based on an analysis of previous growth constraints. An example of project inertia is the reaction to the obligation for having HACCP implemented by the end of 2005 in all firms in the food chain. Although this obligation was pending for the members in the lamb-and cheese cluster, the Project was not efficient enough in developing mechanism to react quickly to assist cluster members in HACCP implementation. It is true that other donors are working on HACCP implementation, but cluster members are not targeted with the other assistance initiatives.

We learned that some Macedonian managers are willing to cooperate with international donors only **if they are granting finance to businesses**. On the other hand, most of the donors, including USAID/MCA, have reservations about providing larger cash transfers to the client companies. Instead, they offer technical assistance in order to contribute to the development of their businesses. In order to be more effective in their future activities, project designers should be more flexible to allow some adaptations proposed by relevant (but experienced) host officials and cluster members. With this, the Project would be designed to encourage managers how to learn and what to adopt. Some authority over the project design should be delegated to respectable local consultants.

We also learned that the number of actively participating cluster members **continually decreased.** However**,** we also learned that the cluster management did not conduct an analysis of the reasons for members leaving the cluster. For most of the interviewed cluster advisors and cluster members, the main reason for leaving the clusters was "unrealistic expectations". If an analysis was made, the roots of the low level of satisfaction could have been identified and it could have become clear "**why unrealistic expectations were created**". In addition, we also learnt that after clusters were initially established, the cluster leaderships never initiated "new recruitments". They concentrated on building trust, understanding and consensus among the remaining active members.

There is increased interest for **additional sources of knowledge** and other services being provided by other related projects in the country. MCA should continue to cooperate with the similarly targeted projects in the country to integrate their efforts in helping the Macedonian sheep and cheese sector become more competitive.

The importance of investing in people was emphasized. The key participants need to receive training and exposure to best practices. The importance of continuous training, as well as the need to disseminate information related on best practices, is critical for orientating cluster decisions. It is extremely useful to rely on concrete clusters success stories and hear directly from others who have implemented successful networking projects.

'Learning networks' was not made obvious enough in clusters. Knowledge on technologies, best organizational practices, markets, designs, fashions etc. has to been transferred from large firms to small firms. For this purpose, various techniques, such as benchmarking, group experience exchange, workshops, factory visits and mentoring could be used. "Encourage knowledge transfer" could be one of the mottos.

The cluster selection process stimulated "group competition" and the recognition of "group competitive advantages". However, for those candidates not selected, the selection process generated some frustration, because they were not informed on the methodology used for evaluating applications or on the reasons for not being selected.

The active collaboration and partnership between all stakeholders is extremely important. What is even more important is collaborate between education institutions and clusters. This needs to be strengthened. Education institutions need to update curricula according to new market demands and new trends in information and communication technology.

The involvement of local consultants in training delivered (as trainers or facilitators) was not sufficient, even though local BSPs or consultants could have delivered many of the interventions. "Regional" service providers could have been engaged in organizing "regional" events. For example, in the Wine Cluster, BSPs from the Tikves region could have had the opportunity to develop trust with the members of the wine cluster. The same could be emphasized for the apparel cluster in Stip, and tourism in Ohrid.

The IESC mission did not bring the expected results, because they were not properly prepared and adjusted to the needs of the hosting company. On the other hand, there are many topics, which could be satisfactorily covered by local BSPs, or by combined efforts between local and foreign experts.

The lesson learnt with MCIT and its understanding of the value of partnership, as one of the pillars for success. As a consortium, MCIT has the opportunity to compete with off-shoring and outsourcing. As a group, MCIT can compete for contracts that would otherwise not be accessible for individual firms. Together, the firms in MCIT combine many years of experience in several industries, including banking, insurance, healthcare, and others.

Specific lesson learnt from the Tourism Cluster model for successful tourism involves an intimate understanding of customers, competences and all other aspects of what the specific region has to offer. The awareness that by making the industry grow one helps the country's image, its positioning, and improves the prosperity of Macedonian citizens, has become a reality with tourism cluster members. It has to be noted that the cluster's strategy changed the focus of the entire industry and developed the need for creating unique Macedonian tours. It is expected that at least two years are needed to see the benefits of these activities.

Additional specific lesson learnt in the Wine Cluster is the benefit of working with enologists. It would have been more effective if the cluster members' enologists participated in on-the job training in the targeted export countries, instead of brining experts from abroad into the cluster members' wineries. In addition, the cluster approach in the wine industry emphasizes the need to increased bottled wine exports, as one of the Wine Cluster strategic objectives. The promotional activities organized thanks to the support of the MCA project were very well organized. Positive results are expected, however more follow-up is required.

4.3 Lessons learnt with assisting NECC and BSPs

We learnt that the NECC started its reorganization in the middle of 2005, but operations are still weak and call for continued assistance. The communication and collaboration among its members, as well as with the base (clusters members and business community) is organized and well documented. This influences the efficiency and the quality of the data collection process, which is extremely important when discussing crucial themes in Macedonian economic development and citizens' quality of life.

We also learnt from the contacted persons that NECC has an image of being a non-transparent institution. The community is not aware of its role in the development of the business environment, because the NECC does not properly disseminate information about the results of its work, its challenges and its decisions. WEB-base**d** communication platforms and PR events could partially solve this.

The NECC needs expert knowledge input in order to serve its mission. The fact that the work in the NECC is on a volunteer basis and the fact that the NECC does not provide any funds reduces its chances for securing permanent expert knowledge input.

Until know, the NECC did not succeed in establishing cooperation with similar institutions in the country and in the region, which makes it anonymous in the country and abroad. The fact that the NECC relies fully on MCA for its operations makes the Council recognizable as a USAID/MCA institution.

Finally, we learnt that the *National Conferences on Competitiveness* and the *street events* were very positively received by citizens.

The **BSPs** involved in MCA had the opportunity to improve their business skills through training, discussion sessions and round tables with assistance from international consultants. With the assistance from MCA and other donors, the MCA 2000 Association created the **Catalogue of Consultants and Services**, which was an excellent promotion effort. The catalogue offers a **platform for affirming** and **publicizing** consulting businesses and offers references, partnerships and their readiness for innovation.

We learned that the representatives from the consulting industry have a view that the procedure used by MCA in engaging BSPs needs to be improved and made more transparent in all phases. New BSPs did not get the chance to be involved in MCA assistance. In addition, the local BSPs cannot find justification for their very low involvement in MCA activities as opposite to foreign BSPs & consultants, who were engaged even for topics that could have been very efficiently covered locally.

The MCA attempts to cooperate with other donor organization (like GTZ, SIPO and SEED) in promoting consulting businesses did not bring visible results. The reason could be the lack of a clear concept in the assistance approach and lack of direction on **how** and **what** should be supported.

The involvement of other business support related institutions (or associations), which were not directly linked to some of the five industry sectors supported by MCA, were also very low. For example, the Euro-Correspondence (now Info) Center, founded by the EU Commission in 2003 with the mission to provide information on all the relevant aspects of business cooperation with EU countries (standards, EU market/export regulations, agreements etc.), was not involved in MCA activities. The Consumer Organization of RM was also marginally of the interest, although the development of market economy asks for symbioses between producers/delivers and consumers.

4.4 Lessons learnt from similar projects in the region

There are a few cluster competitiveness initiatives going-on in the region. A brief overview on their experience and lessons learnt is given below.

In **Bulgaria,** the Clusters Project financed by PHARE started in 2005 with the overall objective to improve the competitiveness of appropriate sectors of the Bulgarian economy by using the cluster model principles for achieving sustainable growth. The project supports the establishment of two clusters, in pre-selected sectors, by strengthening the institutional capacity for implementing the EU cluster model. The selection process, the establishment and capacity building implementation is intended to be used as best practice for future cluster development projects and in Bulgaria. The clusters established so far are highly individual: they were developed in different ways, have different needs and operate in a different local or regional context.

In **Croatia** there are continuous initiatives to form clusters, but one can hardly say that they exist at all.

In 2003, within the National Competitiveness Council in 2003, an expert and policy makers working group for Regional and Cluster Development was established. The document titled "55 Recommendations for Developing Competitiveness in Croatia" was presented and accepted by the Croatian Government and a Task Force for cluster development was established in 2004. The visible results are still lacking.

A promising initiative started in April 2005 with the project initiated by the Croatian Employers Association for developing 8 clusters in Croatia. With USAID support, this association established the *National Center for Clusters* and is expected to sign an agreement with the Government for realizing the "Clustering in the Croatian Economy" Project. Currently, several clusters exist within this Center, the metal cluster from Rijeka being the most developed. The textile and the wood clusters are also showing good performances. Clusters in the IT and food industry will be established in 2006 along with another 10 planned for the year, and an additional 14 are planned by end of 2007. It has to be mentioned that the Croatian Ministry of Economy, Labor and Entrepreneurship started the project called “Mutual Product” and is offering financial support to clusters that have survived the initial phase and are operating. There are also some initiatives to establish clusters on a county level and also bilateral cooperation initiatives between Italy and Croatia for founding mutual clusters. Concrete results are still lacking.

In **Hungary** the cluster policy was implemented under the EU CADSES funded project. They learned that the cluster establishment appeared to be mainly a top-down initiative. Trust and willingness to cooperate are still being built and the common interest needs to be proven and recognized. The size of the firms in the cluster is a limitation to growth in the international market: in absence of links and cooperation, the survival of many firms is seriously at stake. The ability to represent cluster/industry interests at a national level was limited. In addition, companies do not effectively cooperate and the long administrative procedures are still very time consuming. The cluster management suffers from poor strategic management skills and a lack of flexibility to adapt to changes in the business environment.

In **Slovenia** the Ministry of Economy started promoting cluster development in 1999. The Ministry issued a tender, inviting prospective clusters to apply to receive government assistance for developing and implementing cluster strategies. Support for clusters was limited to three pilot projects (Automotive, Tool-making and Transport and Logistics).

In 2002, the Ministry launched a five-year plan for promoting entrepreneurship and increasing competitiveness by co-financing projects in three areas: improving technical knowledge in industry, promoting entrepreneurship and enhancing firm-level competitiveness. The measures should stimulate the linkages between enterprises and the development of clusters. With the program, eight new clusters were granted government support and have achieved very encouraging results.

What was learnt?

A **combination of private and public investment** appears to be the best way to finance networking and clusters development services. In addition, the introduction of elements of **market cost recovery** should be pursued as early as possible in order to avoid beneficiaries becoming accustomed to full subsidies and risk enterprise becoming dependent on the service provider. **Long-term objectives**, like increasing innovation, could be **overshadowed by commercial cooperation.**

There is **no single and pre-defined path to be followed in implementing** cluster/network promotion initiatives that can be effortlessly replicated across countries, regions and industrial sectors. These initiatives need to be flexible and in tune with the characteristics of the environment where the SMEs operate. However, the **cluster initiatives** have to be combined with the efforts **to promote foreign direct investment.**

5 Recommendations

The evaluation team recommends short-term actions to be taken by MCA until the project completion and several *common* initiatives as promising areas for future USAID assistance in RM. Some of the activities have already been recognized, whereas the other would have a strong influence on future development and would ensure long-term economy growth and improvements in the standard living in RM. In addition, there is a group of recommended actions to be taken by the firms in their self-development process. Recommendations for cluster specific interventions are given in the Clusters' evaluation reports in Appendix / Section 8.

5.1 Short – term interventions

In the six months period before its final closing, MCA could undertake some actions aimed at:

- **Strengthening cluster leadership managerial skills** by providing: 1) assistance in the in-house training in cluster leadership and management, 2) assistance in the preparation of guidelines for cluster managers (project management, cluster services, toolbox, case studies) and 3) initiating a system of individual consultations with local BSPs.
- **Intensifying the operative cooperation with business development institutions,** which will improve opportunities for regional promotion.
- **Increasing the openness of the MCA project**, by updating the MCA website and initiating the design of a Macedonian Clusters Network website (first page design, documents, messages, events, linkages, tasks, reviews, interactive vendors, etc.).

5.2 Long-term activities

The recommendations for assistance in increasing the efficiency of assisted entities focus on promoting cooperation between firms in the clusters and on improving the operations of business-advisory institutions. The creation of a more favorable macro-level environment was not addressed in the evaluation process.

5.2.1 Building competitiveness

The sustainability and thus the **success of a cluster** relies on establishing concrete advantages **for** individual cluster members. Clusters will be more attractive if more concrete and faster results become apparent in the firms (e.g. increased productivity, better quality, increasing revenues) and in the institutions (e.g. demand for advisory services, membership growth in the associations. Therefore, cluster members in should incur little risk and, at the same time, yield obvious benefits. Thus, assistance measures should not be spread too widely; on the contrary, they should be concentrated, together with assistance measures of other projects, on selected innovative firms that merit assistance. The dissemination of further cluster promotion initiatives will be most successful if they occur through **bottom-up** approaches and presentations of successful examples; the results of **top-down** assistance polices are certainly less promising.

Our main conclusion is that the greater part of Macedonian production is targeted at the domestic market. Most of the companies even do not consider exporting. On the other hand, there are many opportunities for Macedonian businesses for utilizing some of their advantages to become more competitive. This, initially, refers to the possibility for decreasing their production expenses since the flexibility for reducing the direct, structural and marketing costs are big. The most efficient way to achieve competitiveness is by changing their way of thinking. Businesses must start working on building "sustainable competitive advantages". They need to understand that competitive advantages are built by the businesses themselves and that they need to be proactive in building these.

Building sustainable competitive advantages is a detailed process. It includes day-to-day innovative thinking about how to transform ideas into effects and than make those effects sustainable. USAID/MCA can contribute by promoting the process among Macedonian companies through training and consultations on how this process should be understood and conducted. The focus of the assistance should be on explaining that the essence of building sustainable competitive advantages incorporates a number of key elements that Macedonian companies must become aware of. These include:

1. Understanding how **building a set of assets, skills and capabilities**, enables companies to produce goods and services that meet the test of foreign competition. The majority of the training should focus on this. Macedonian companies must understand that only businesses that provide a good mix of these three components can produce value-added products. They have to recognize the nature of **technological change**, its impact on the quality of their assets and thus deploy life-long learning opportunities for the company's human resources, including the management.

2. Emphasizing that building sustainable competitive advantages is a never-ending process. The **high-technology market** is changing on a daily basis thus investing in both ICT and production technology must be continuous.

3. Promoting the benefit of **market intelligence** among Macedonian companies. **Market research** must become their inherent activity because the better they know the characteristics of the market, the easier strategic decisions could be made.

4. Stressing that an **integrated marketing approach** to the overall company's development must be implemented. Most Macedonian companies have not adopted marketing concepts. There is no group that understands the essence of marketing; some have a misleading idea of it. **Training in marketing thinking** would not only provide companies with knowledge in creating business strategies, but also with skills to respond quickly to government policies that affect their businesses. More importantly, marketing oriented companies can more effectively advise the government on good competitiveness measures.

5. Providing **training in the basics of branding** as one of the most complex, but in the same time one of the most worthwhile marketing processes.

6. Pointing out the **importance of cooperation among companies**. Macedonian companies must realize that building good relations and partnership between themselves, also with their supporting partners from the entire business network, will increase their competitive position. In Macedonia's case, this will contribute to building trust in business deals, something that has been deteriorated over the past decade. The cooperation among all members of the business community may also strengthen their **negotiation position with the Government**. Networking within clusters and **establishing branch organizations** would strengthen the power of the firms in their joint development efforts. This also means that companies must recognize the value of working together with business service providers. As well as the contribution business service providers can make to improving the quality of a companies' strategic decision making, and to its day-to-day operations. The *networking programs instrument*, such as the *general* and *special supplier program* could be useful for this purpose. The *general network program* aims to improve the use of synergy effects (joint utilization of training centers, strategic information, management methods, or marketing strategies) and the *special supplier network* encourages suppliers to work together with their potential customers.

7. Explaining the need for a **higher level of knowledge on technologies, particularly the ICT**. Firms must devote much effort to understand the technological practices of the international competition.

8. Promotion of **international quality standards** and building appropriate knowledge on international markets' standards for products and services. The global environment is responsive only to the best in terms of quality, speed of service, accuracy in delivery and consistency in business cooperation. Anything less means losing market position and reputation.

9. The **business culture** of Macedonian firms also needs major changes in order to match the high standards demanded by international businesses. Training in international business culture can provide Macedonian managers with new knowledge.

10. Explaining the necessity of being **present at international exhibitions and trade fairs**. Both MCA and the Chamber of Commerce to develop cooperation and/or partnership with international businesses, that can provide support for trade fairs related activities.

11. Emphasizing the need for **continued professional education and training** for all of the company human resources, including the managers and other employees in order to increase the overall value of the company. Macedonian firms must recognize that the value of the company is created by its employees. Training could include the following topics: (i) Standardization according to EU directives or other international market specific requirements; (ii) Legislation related to a specific industry sectors; (iii) Brokerage and outsourcing (matchmaking); (iv) Acquiring new technologies; (v) Group marketing; (vi) Quality and process-management partnerships.

12. Adjusting the **curricula** at vocational institutes and universities to follow the sectors strategy and to develop competitive and skilled staff according to market demands.

The effectiveness of the recommended interventions depends on the **project management approach**. It is crucial for project management to base planning on good analysis and to involve the partner organizations in the planning process, in order to promote ownership. Project objectives and activities need to be realistic and indicators should be measurable. Impact chains should be developed (possibly together with the beneficiary) for all project levels: on the level of direct impact, objective, outcomes and activities. Impact monitoring mechanisms should be permanently in place for all project levels. In addition, mechanisms to measure the results against the project plan needs to be established.

During the implementation opportunities need to be managed by the Project and their needs to be flexibility if activities are not successful. Managing beneficiary's expectations needs to be handled carefully from the very beginning. Risks and contingencies should be identified for each project phase.

An adequate recruitment and personnel development policy is crucial for the Project's success. In addition, web-based platform for information exchanging could improve transparency and open the Project to new partners.

5.2.2 Effectiveness of cluster selection and interventions

1. In general, the clusters should remain organized at a **national** rather than at local level since the volume of production at local level is not sufficient to offer substantial quantities of products for the international markets. Macedonia is not big enough to be divided into regional clusters segments. Some activities could be organized locally where cluster members are concentrated in one region (like wine in Tikves and apparel in Stip). However, local R&D resources and educational institutions must be taken into account as important elements to ensure clusters are successful and efficient.

The **local clusters development approach** is very close to *local/regional economic development activities*, which is a part of the economic development agenda of the Government of RM and of the local government authorities. The attractiveness of local clusters to be part of the agenda for the local government depends of the potentials of cluster members and their initiatives for partnership.

2. The clusters need to promote the **importance** of satisfying the **cluster selection criteria** and further improving of criteria indicators. The Cluster Leadership Council has to play the main role.

3. The clusters need to be **open** for new members and to manage the membership balance.

4. Educate on **EU regional development aspects** and make linkages to the EU assistance programs.

5. Involve the newly found national **Agency for Regional Economic Development** and its eight Regional Branches (to be founded shortly according to the Draft Law for Regional Economic Development) in the activities.

6. Additional international market research is needed for the most part of the cluster's products.

7. Assistance in organizing **B2B** contacts between Macedonian and foreign firms should continue since this kind of initiatives was one of the most effective with MCA.

8. "**Competitiveness of products**" should be promoted abroad as well as in Macedonia. The "competitiveness days" events need to target international markets as well as local consumers.

9. Foreign consultants should continue to deliver the majority of consultant services. However, they should work with **domestic consultants** to transfer their experience to Macedonian BSPs. Teaming up foreign and domestic consultants is a win-win approach.

10. Foster **communication/knowledge management** among consultants. Consultancy and training in theoretical aspects of management, marketing and standardization should be avoided. Instead, training in **business improvement practices**, innovation management, introduction of new technologies and international cooperation management should be fostered. On-the-job training in companies abroad should also be considered.

11. Implementation of more transparent procedures for **awarding grants** is needed. Many of the cluster members are not aware of this type of assistance.

12. Training for **cluster leadership** is recommendable in order to assure higher involvement in activities of common interest.

13. Develop procedures for **Long Life Learning** to stimulate local economy development.

5.2.3 Building NECC sustainability

1. The Council should continue to **encourage dialogue** between the public and private sector in identifying the strengths and weaknesses of the Macedonian economy. The public campaign on the importance of competitiveness and productivity of the Macedonian economy needs to be promoted further. At the same time it needs to provide concrete results in recommending policies for increasing the competitiveness of Macedonian companies**.**

2. Provide leadership on economic issues that are truly and visibly for the benefit of all of Macedonia and not only narrow special interests.

3. Seek, develop, and recruit the most respected and competent members for the NECC from all economic sectors to ensure that fresh, diverse, and important economic interests continue to be addressed.
4. Ensure that unimpeachable standards of ethical and transparent operation are upheld and that a strict process of accountability is in place and observed.
5. Improve the communication with the member base and make use of the information from clusters and business community. **Strengthen its leadership** and become more open for new members, especially for representatives from R&D institutions, faculties, chambers, business associations, NGOs, consumer protection associations etc.
6. Follow the principle of **continuous improvement** by performing **self-assessments**.
7. Dissemination of information about the activities and results will open the Council to the public and will make its work **transparent**. Enable public debates through appropriate and efficient PR strategies.
8. Establish fund raising mechanisms for making economic development research studies.
9. Develop collaboration with other national and regional councils and advisory boards.

5.2.4 Building functional BSPs and promoting the consulting industry

The consulting industry needs to focus more on clusters and **SMEs major deficiencies** of intangible assets that drive their competitiveness in marketing, management of production, innovation management and information technology. Forums or expert meetings on **best practice in business advisory services**, counseling and information services for local governments, SME support institutions, R&D organizations could be helpful in sharing experiences, establishing contacts with officials and experts and in intensifying co-operation.

In order to target the specific entrepreneurial needs for business services, one needs to develop **support systems targeted to SMEs** and the others **targeted to business services providers**.

SMEs need assistance in learning **how to recognize** and **how to specify** the need for more **sophisticated business/consulting services,** including organizational and change management, project management, risk management, and innovation management. Also on innovativeness, technology transfers, licensing, patents registration, licenses agreements, franchises etc.

Business services providers need assistance in **upgrading their skills for providing the sophisticated services**, including also skills in benchmarking, ranging, marketing and selling services. Finally, when talking about the delivery of business services to SMEs, there should be an evaluation system established for assessing the results achieved with the delivered service. This evaluation process requires development of additional specific skills.

All the specific skills mentioned above could be developed through specialized trainings and by establishing a self-regulatory process/consultant organizations. The recognition of the importance of quality and certification in consulting services is also very important. Therefore, further co-financing to create new business services and for acquiring international certificates is very much appreciated.

Further improvements to the level of cooperation among BSPs when participating in **donors' focus groups** is recommended in order to achieve higher synergetic effects. Many donors offer assistance to BSPs and business associations in improving the quality of services, in establishing and supporting the implementation of quality standards, in certification of consultants and in capacity building BSPs' associations.

BSPs consider the work with **cluster type networks** in the future competitiveness growth activities as a great challenge and they are aware of the need **to improve their capacity and ability** to **work with them.**

5.3 Self-development activities

In efforts to improve continuously, there is a variety of initiatives that could be undertaken by the cluster members, as well as the NECC and BSPs, regardless of whether external support exists.

1. Firms could proceed by adopting **good cooperation practices with the local government** (as in the case of MADE) and could participate in public-private dialogue to identify development obstacles and to prepare alternative solutions. They can **utilize the sector-specific information** (information about technology, R&D, targeted markets, etc.) for defining adequate business strategies, and to prepare and implement targeted marketing strategies. They can establish a **code of practice** and change management approach for conducting business on **domestic and foreign markets**. By utilizing consultancy services in their process and quality management, they can develop market-oriented products and services. They can establish good relations with **clusters in the region** in order to share experience, best practices and joint markets.

2. Firms can participate in the establishment and **financing of supporting organizations**, such as trade associations, cluster-relevant R&D institutions, training centers etc. They can also implement **joint measures** to open up markets and arrange new business contacts through participation in trade fairs, business trips etc. They can gradually **strengthen horizontal and/or vertical cooperation** by converting informal agreements into formal contractual commitments.

3. Firms can **foster the cooperation and openness** among people in- and out- of the existing clusters to: (i) build a critical mass of information, knowledge, skills and technology, (ii) reduce the cost of developing new products and services, (iii) decrease pressure among local rivalries, (iv) allow groups of companies to use cluster organizational model as business advantage or opportunity, and (v) promote cluster cross-border cooperation.

6 Key Problems and Obstacles for Macedonian Business to Become more Competitive

6.1 Introduction

The process of globalization of the world economy has generated strong interest among countries in their overall development. The interest has specifically focused on increasing countries' national competitiveness. The term "competitiveness" is usually used to express the capability of a country, an industry or a business to achieve, maintain or increase its domestic or foreign market share. The World Economic Forum defines competitiveness as the ability of a country to achieve sustained high rates of growth in GDP per capita. A nation, an industry or a business is competitive only in cases when it has the capability of making profit and maintaining its share of the international and domestic markets.

The academic and business community has, broadly accepted the fact that nations do not compete as businesses do. Nations compete in creating conditions that attract and encourage investors to invest in productive and competitive businesses, as well as in designing such business environment that enables businesses to increase constantly their productivity and competitiveness. On the other hand, competitive are those businesses that succeed to maintain a good ratio between the market value and the production costs of the goods/services they produce. For both governments and businesses, productivity is crucial. It determines the level of prosperity that a nation can achieve and the capacity of businesses to operate efficiently. Increases in productivity supports higher wages, returns on capital and higher living standard.

In the globalization era, competition has sharpened dramatically. Companies are concentrated on taking advantage of new resources, and markets and governments must cope with the challenge of designing supportive policies and strategies for businesses. Competitive policies could be defined as sets of instruments that motivate severe export growth and permanent technological development. Businesses operating in such challenging environment may respond more effectively to the demanding global economy.

While for the developed countries globalization has become a "natural" framework for building and upgrading their competitiveness, most of the developing and transition countries will still have to "learn the lesson". Macedonia, being a country that faces serious challenges on its own economic development, has only just started to work on creating a basis for increasing its competitiveness. The objective of this part of the report is to modestly contribute to the effort of identifying key obstacles for Macedonian businesses to become more competitive.

6.2 Macedonia in the Global Competitiveness Environment

Competitiveness has been a much-exploited subject of interest by many researchers, forums and organizations since the early 1980-s. Different analysis of competitiveness using different methodology has changed over time as a result of global level developments. One of the most respected sources of data and information on the world competitiveness situation is the World Economic Forum. Based on studies on the indicators of competitiveness of more than 100 countries, the World Economic Forum presents the picture of the global competitive environment through its yearly Global Competitiveness Reports (GCR). Macedonia belongs to this group of countries therefore it has been carefully monitored in terms of its macroeconomic and microeconomic conditions to cope on the international market. So far, results have been rather pessimistic for the country: Out of 101 countries analyzed in 2003, Macedonia held the 81st place; in 2004, it held the 84th place in a group of 101 countries, while in 2005, it ranked at the 85th place in a group of 117 countries. The ranking has been created based on the defined Growth Competitiveness Index (GCI), which expresses the competitiveness as a mix of different indicators, considered to be the most relevant driving forces for the country's productivity and thus for the prosperity of its citizens.

This years Global Competitiveness Report, launched on September 28, takes into account "three pillars" that explain the evolution of growth in a country: the quality of the macroeconomic environment, the state of the country's public institutions and the level of its technological readiness. These three pillars present the basis for the composition of the Growth Competitiveness Index for each country. The nature and structure of the three pillars are reflected the most recent global competitive movements and are described in the Report as sets of qualitative and quantitative variables that influence the overall competitiveness. The report gives a signal about what programs, policies and incentives a national economy should put in place in order to enable its enterprises to develop competitive advantages. However, since competitiveness relies on businesses, it also gives a signal to companies about what changes at the firm level would improve their productivity and, by that, their competitive strengths.

In this context, it is important to make a distinction between the three levels of competitiveness: national, industry and firm. This part of the report focuses on the firm-level competitiveness in Macedonia. This means that we are trying to identify reasons, at firm level, for the relatively bad ranking of the country within the global competitiveness ranking of nations. Our research does not aim to check the objectivity of the GCR findings. It tries to assess what would be the priorities of any future USAID/MCA efforts directed to the enhancement of Macedonian competitiveness at firm level.

6.3 What Causes the Low Level of Competitiveness of Macedonian Businesses?

Macedonia is still suffering from the pains of the transition to a market economy. Despite all efforts to makeover the country's business environment, Macedonian governments have not succeeded in achieve a satisfactory result. Operating for a long time in a non-favorable business climate (as described by many experts in the field), Macedonian businesses could be still described as a "community of an infant private sector", with limited industrial and market experience. Although around 70,000 companies operate in the economy, the number of those that have maintained continuous growth is very small.

The case of Macedonia proves that there can be macroeconomic stability without growth. The policy of macroeconomic stabilization did not result in any significant improvements in productivity and exports. Instead of private sector driven growth, poor economic performance has been recorded during the whole period of independence. Private sector operators are still insisting on government paternalism, permanently seeking different type of protection or other support. This cannot lead to improvements in competitiveness since, as we said before, competitiveness comes from businesses rather than from governments. Therefore, the question is why Macedonian businesses are not competitive and what stands behind their low performance.

For the purposes of this Evaluation Report, we tried to identify the "weak points" of Macedonian companies that could be targeted by delivering technical assistance. It is true that most of the managers or owners of Macedonian businesses always repeat that the main obstacle for their growth is the lack of finance at reasonable prices, but our conclusion is that there are many other reasons for their low level of competitiveness.

When describing the concept of competitiveness, we stressed its close relation to productivity, or better, its dependence on productivity. Actually, cost productivity, profitability and market share are all indicators of competitiveness at firm level. They all reflect the efficiency of the overall business operations in terms of the capability of the company to transform the inputs to profitable outputs over a longer term on the same or on increasing markets. However, most of the Macedonian companies are not in a position to anticipate their future, struggling with the problems of their current operations.

In order to identify the internal (in-company) causes of poor competitiveness, we took into account a series of factors described in theory, such as Prof. Michael Porter's analysis and thoughts, the OECD categorization of factors of competitiveness, as well as the view of some EU experts. We also asked a group of Macedonian businesspersons and experts to provide us with answers that come from their views on competitiveness. Combined with our previous experience from other research, we came to the following findings related to Macedonian companies and obstacles to improving their competitiveness[1]:

1. The biggest obstacle for achieving higher efficiency in businesses is the **inappropriate knowledge base of the management.** This includes knowledge in management as a process, but also managers' general education, their technical knowledge and knowledge in management as a practice. The consequence is a relatively poor management of the production flows and low level of integration of market planning, engineering, design and manufacture. In addition, the management of the human resources is ineffective and does not contribute to building motivation and commitment of workers to the company and its goal.
2. Another serious obstacle is the **quality of companies' human resources**. The proportion of workers, under-skilled for new-age businesses, is relatively high. The need of industry-specific vocational training, although recognized by the managers, is rarely a subject of interventions undertaken by the company. The reality is that productivity growth depends on new ideas that come from maintaining an educated and skilled work force. In fact, a good pool of workers exists, but companies do not pay enough attention to the ongoing development of their skills.
3. The **level of technological development** among the majority of Macedonian companies is far behind the standards of developed countries. This has a direct negative impact on productivity and thus on competitiveness. Staying behind the competition in terms of technology weakens the ability to turn the ideas into effects.

[1] Of course, here we are talking about the majority of Macedonian companies. There are a number of well-developed firms that have already combined the competitiveness factors in a proper way.

4. Macedonian companies have **invested less** than most of their international competitors over the two past decades. To a significant extent it is a result of a number of factors, including a lack of ideas about where (in which sector of the economy) to invest, short-term thinking and the absence of strategic planning.
5. There is no standardization in accordance with international procedures/methods. The number of firms that have implemented **quality standards** is very small.
6. Macedonian companies suffer from **poor innovation** performance. Only 11% of the total research projects in the country were ordered by the business sector. Of course, it is not expected that Macedonia should invest larger amounts of money in R&D, but it is necessary for the companies to finance improving basic production capabilities, testing, metrology services and total quality management.
7. Macedonian companies have not incorporated closer definitions of demand characteristics and the evolution of markets into the design of their products and their production strategies. **Market research** has not become a significant tool in decision-making thus the knowledge of international demand is low. Very often, the result is a product or service that is not marketable.
8. Both **horizontal and vertical cooperation between companies** and other related organizations/institutions is inappropriate. The rivalry between companies from the same industry sector is very strong and "healthy" linkages have not been built.

All these firm-specific factors have negative effects on market efficiency. When they are inefficient, firms are unable to raise returns on their resources. That makes their businesses more expensive, so they are forced to either fire a part of their work force or close the business. This is just what happens to Macedonian businesses in every day practice. In this regard, a well designed technical assistance in further promoting competitiveness, as a process would be of a great value.

6.4 Obstacles

The MCA initiative was seriously hindered by the limited competitiveness and growth problems of Macedonian firms. The clustering was also impeded by insufficient expertise in various types of management, such as financial, process, quality and above all, cooperation management. While these problems could be solved with the help of training and advisory services, the continuing widespread mistrust between business persons on the one hand, and between the private-sector and government participants on the other, requires a change in mentality which certainly cannot be achieved in short term.

The evaluation team identified only a few, but very strong obstacles, for achieving the recommended USAID/MCA supported goals and the self-development process. Specific cluster competitiveness obstacles are given in Appendix / Section 8.

The first is that many of the company decision makers are not open enough for additional training. They overestimate their own capacities and often have prejudice views on new types of working. Fortunately, the new generation of Macedonian managers, who are not burdened by "pride related to learning", could be considered as the potential attendees of the training organized within the frame of the technical assistance.

The second is that most of the managers/owners of Macedonian companies spend many hours and energy in finding ways to solve the payment operations of their businesses. They do not have enough time to devote to self-development and learning. Despite their interest in some types of training, they cannot make the time to attend the seminars and workshops to upgrade their skills.

The third is that many managers will remain convinced that the biggest problem is the lack of finance for their businesses. They cannot recognize that the firms competitiveness is related to market performance, where productivity and the low production costs are the keys to success.

For the companies that have built-in such an understanding, financial institutions are willing to offer finance at lower costs.

The fourth is the incapacity to identify and define the needs for growth, and the absence of a clear company mission and vision. Macedonian managers do not understand that a company without mission cannot survive on the market since it has not defined the core values to which the firm is committed. Without vision, the company lacks strictly defined future goals that it would pursue in order to fulfill its mission. Perhaps, the training should start from this necessary beginning.

The fifth is the underdeveloped innovation power and the lack of R&D offer, which is limiting the efficiency of the competitiveness growth process.

The sixth is the limited willingness to cooperate and to share common resources in product development.

The seventh is the low level of standards' implementation and the absence of a code of practice and criteria for appropriate and adequate bidders.

The eighth is the limited access to information, which is due to insufficient data collection systems, processing and dissemination of information.

7 Appendices / Resources and Evaluation Plan

For the evaluation findings given in the main part of the Report, information resources and operational tools were used. Some of them are given in the following appendices:

a. **Appendix 1: Resources and Evaluation Work Plan**
   i. Statement of Work
   ii. Evaluation Work Plan
   iii. Stakeholders
   iv. Assessment Questioner (Example: Lamb and Cheese)
   v. List of persons Contacted
   vi. References / Documents Used

b. **Appendix 2: Clusters Impact Assessment Reports**

c. **Appendix 3: Assessment of Clusters' Selection processes and Effectiveness of Interventions**

7.1 Statement of Work

I. Objective and Purpose of the Evaluation

The United States Agency for International Development (USAID) in Macedonia requires the services of a contractor to conduct an evaluation of the USAID-funded Macedonia Competitiveness Activity (MCA), implemented by Booz-Allen and Hamilton (BAH). This $12 million activity began on October 1, 2002 and will end on September 31, 2006.

The purpose of this evaluation is:

1. to assess the progress of the Project toward achieving its stated program objectives (as defined in the Contract) and to document its successes and lessons learnt;
2. to assess the overall impact of this activity on the selected industry clusters, especially in terms of export, domestic market share, GDP growth, job creation, productivity, revenue, as well as cooperation/partnership among companies in the cluster;
3. to analyze the effectiveness of the cluster selection process and the clusters specific interventions implemented by the Project (what worked best, what didn't work and why not);
4. to evaluate the current state of assisted entities (five clusters, National Entrepreneurship and Competitiveness Council (NECC), Business Service Providers (BSP) and consulting industry) in terms of functionality, sophistication, sustainability, communication / collaboration among members, ability to provide necessary services (for NECC and consultants), ability to compete on foreign markets (for clusters);
5. to identify key problems and obstacles for Macedonian businesses to become more competitive and recommend the priorities in order to maximize the impact of future long-term assistance to the private sector.

The evaluation will be used as source of relevant information on effectiveness of various approaches implemented by MCA to increase the competitiveness of Macedonian companies. The lessons learnt from this evaluation will guide the development of the USAID Mission strategy for private sector development and the new competitiveness activity.

II. Background

The mission of USAID's Macedonia Competitiveness Activity (MCA) is to build the prosperity of the average citizen in Macedonia by helping Macedonian enterprises become stronger, more aggressive and more competitive in the global marketplace. The MCA Team is working with its Macedonian partners and project participants to create better strategies, better products and stronger companies with expanded access to international markets through improved production, operations and quality.

The main objectives of this activity are to work with Macedonian business leaders and industry clusters to:

1) *Promote and strengthen industry clusters that will develop and execute strategies for improving the international competitiveness of Macedonian companies.*

Clusters are inter-related firms and other institutions that drive the competitiveness of Macedonian companies. Clusters consist of private enterprises of various sizes, including producers, suppliers, and customers, plus labor, government, professional associations, and academic, research or training institutes. MCA is now working with five clusters:

- Lamb and cheese: Entrepreneurs in the Lamb and Cheese Cluster are turning the sector around and creating new economic opportunities for the cluster. More than 70 industry representatives are working together to make the operational improvements required to successfully tap into regional and American markets.

- Tourism: The Tourism Cluster, consisting of over 60 Macedonian entities, recognizes that it cannot compete solely on the basis of low prices, and is working to identify tourists willing to pay higher prices for a unique Macedonian tourist experience.
- Information Technology (IT): The IT Cluster will highlight Macedonia's skill base and provide an ICT platform from which leading Macedonian industrial sectors can produce and launch more competitive products.
- Wine: The Wine Cluster will utilize Macedonia's unique varietals to increase premium production and export while developing the Macedonian wine brand.
- Apparel: To increase the competitiveness of Macedonian textile exports, cluster members are: (1) increasing their ability to choose their own customers – customers who value Macedonian workmanship, flexibility, customer service, and other attributes and not simply Macedonia's cheap labor; and (2) improving their operational efficiency (production, sales, marketing, etc.) to meet the needs of those customers.

2) *Facilitate the establishment of a Macedonian National Entrepreneurship and Competitiveness Council (NECC), a partnership of the public, private and civil sectors consisting of forward-thinking Macedonians committed to a better, more prosperous future for their nation.*

   Increased competitiveness is being led by the private and civic sectors, with the Government as a supporting partner. The NECC's priority objectives are attracting foreign investment, increasing exports and improving management capability.

3) *Partner with the Macedonian consulting industry and other business service providers to bring local support to cluster initiatives while strengthening local capacity.*

4) *Inform the Government and community leaders on competitiveness and its benefits, and foster a public-private dialogue on any reforms required to support Macedonian competitiveness so that policy changes translate into economic benefits for Macedonian citizens.*

5) *Sponsor an annual Summit on Competitiveness and produce a yearly Competitiveness Report to track Macedonia's progress.*

   The NECC hosts Macedonia's first National Summit on Competitiveness with USAID MCA. More than 370 participants representing the private sector, donor community, civil society, academia and Government broadly discussed the competitiveness agenda at the national level.

See www.mca.org.mk for more details.

III. Tasks

Specific tasks of this evaluation include, but are not limited to the list below. It should at least provide answers to the following questions:

1) **The team will consider the appropriateness, strengths and weaknesses of the program approach in accomplishing the goals of the Project**:
   a. What worked and what didn't work in the cluster selection process?
   b. Would the assistance have been more effective if clusters were on a local, rather than on a national level?
   c. Is there a strong demand from other clusters for assistance?
   d. Which cluster support interventions were most effective and why?
   e. What interventions do cluster members think did not yield satisfactory results?

f. Which interventions contributed and which did not in ensuring functionality and sustainability of NECC?

g. Which BSP (consultant) support interventions were most effective and why?

h. What interventions do assisted consultant companies think did not yield satisfactory results?

i. How do the counterparts value the expatriate (foreign consultants) assistance versus that of the local MCA staff? What would they recommend as the ideal expatriate/local experts ratio? Does that change over the life of the Project (beginning, middle, end)?

j. How is the implementer progressing toward the achievement of all goals stated in the contract? What are the major obstacles in achieving those goals? What unforeseen opportunities or advantages has the implementer seized?

k. Did IESC volunteers provide added value to the companies?

l. How effective and transparent was the grant award process? What worked and what didn't work?

m. What are the levels of ethnic, gender and urban/rural balance of cluster members? What could have been done to improve that?

2) The team will compare the overall impact of the Project:

a. What is the impact of the Project on cluster members in terms of export, employment, growth, domestic market share, and other relevant indicators?

b. What is the impact in terms of changing the mentality toward entrepreneurial, market driven, competitive business management?

c. What do cluster members identify as the biggest impact of the Project on their business?

d. What portion of all companies in the specified industries participates in the clusters? What were the incentives and disincentives to be a cluster member?

e. How have project interventions impacted the overall sectors as compared to cluster members only? How have the economic indicators moved for the sectors compared to those for the cluster members. How much did the provided assistance from MCA contribute to the growth of exports in selected sectors?

f. What are the greatest improvements among the Macedonian Business Service Providers (consultants)?

g. What services are they providing to the cluster members?

h. How effective is NECC in establishing productive dialogue between the government and the private sector? What are some successful examples?

i. What were the effects of the awarded grants toward achievement of the cluster objectives?

j. Has a certain demographic group (ethnic, gender, location) benefited significantly less the others from the activity? What can be done to make the activity more inclusive?

3) The team will assess the conditions of clusters and other supported counterparts:

a. Which clusters are ready for "graduation" from donor support?

b. How do they see their future development?

c. What follow-up assistance do current clusters need?

d. What assistance are other donors offering to them?

e. What cluster organization is most effective? How do cluster members communicate and continue to develop their relationships?

f. How effective is the existing cluster leadership? How will the clusters organize their operation and continue to implement their strategy when MCA ends? How will the cluster members continue to communicate/cooperate?

g. Would there have been more cluster cohesion if clusters were formed on a local, rather than on a national level?

h. What kind of demand is out there to participate in similar cluster support activities? Were there other cluster applications that satisfied the quality criteria (or were close), but were rejected by MCA due to lack of resources?

i. What services do cluster-members need that the existing consulting companies and other BSPs can not yet provide or did not provide?

j. What is still needed for NECC to become sustainable?

k. What needs to be improved in NECC to better serve its purpose?

4) **The Team will provide conclusions and prioritized recommendations for further long-term assistance to improve the competitiveness of the Macedonian economy**. This should be based on:

a. The conducted analysis in Macedonia

b. The experience and lessons learnt from similar regional projects

c. Other donors' activities in private sector and competitiveness

d. Exploring the possibility to support local clusters, and to what extent the local governments are willing to be engaged in that process.

e. The current and future potential of the MCA or a follow-on competitiveness activity to serve as a cornerstone for the USAID Macedonia Economic Growth program.

   i. To what extent has the MCA established linkages with other activities in the EG and other Mission portfolio?

   ii. How effective are the synergies between the MCA and other activities in the Mission portfolio?

   iii. Would the Economic Growth Program be strengthened by stronger linkages between the competitiveness activity and other Mission activities?

IV. Methodology

The Implementer should describe in detail the methodology they find most suitable for conducting this evaluation in their proposal. This should include a plan for collecting and analyzing the data for each component of the evaluation.

USAID Macedonia proposes that all conclusions and recommendations be based on information gathered from counterparts, government, MCA project staff and USAID staff. The MCA and USAID will provide all relevant background documents such as the contract, project work plans, cluster action plans and midterm assessments, cluster membership lists, performance monitoring plans, etc. The team should put a lot of effort in getting first hand information from counterparts, including a representative number of members of each cluster, of consulting firms and other business service providers and of NECC members. It should also consult the government's export strategy and other strategic documents when formulating recommendations for long-term interventions. The team members should research other should competitiveness projects (or similar efforts) implemented in this region and integrate their lessons learnt into the recommendations. Other donors' activities in this area should be taken into consideration as well.

The final report should include a discussion using the questions listed above as a basis and starting point. The team should feel free to further elaborate on issues they find relevant for the evaluation. The conclusions should be based on empirical evidence rather than subjective opinion and any sources of evidence should be clearly identified. The recommendations for long term assistance should be listed in priority order.

V. Deliverables

1) Upon award of the evaluation, the team will provide a detailed final methodology and schedule outlining all activities they plan to undertake and their timelines.
2) The team should conduct regular (weekly or bi-weekly) meetings to update USAID and MCA on progress and findings to date and consult on future actions.
3) An outline of the report will be provided by the end of the third week. USAID will comment on the outline within a week.
4) The draft report will be provided ten (10) days before the end of the evaluation. USAID will provide comments within a week.
5) Towards the end of the evaluation the team will conduct one or more presentations of the findings, conclusions and recommendations from evaluation to USAID and MCA.
6) The final report provided at the end of the evaluation will detail the findings, conclusions and recommendations. The report shall include an Executive summary, including recommendations, of three (3) pages or less. The body of the report shall not exceed 35 (thirty-five) pages, plus appendices (notes from meetings, statistical data and detailed analysis, etc.). The contractor shall provide USAID with 3 (three) copies of the final report. The final report shall also be submitted to USAID on disk (in Microsoft Word 2000).

VI. Team Composition

The team should be comprised of three to four experts, at least one of which should have regional or international experience in competitiveness projects, preferably in the South-East European region. The team (combined experience of all members) should have significant experience in evaluating development assistance, and at least some experience in working on or evaluating projects aimed at improving the competitiveness of the private sector. All team members should have excellent understanding of the competitiveness concept. Local team members should have excellent understanding of the Macedonian business sector and be able to establish contacts and communicate effectively with both businesses and government officials. At least one team member should be fluent in English (if not an interpreter should be included in the team).

All documents submitted to USAID should be in **perfect English**. It is highly recommended that they are reviewed / edited by a professional working in an English speaking environment on economic or business related issues.

VII. Schedule and Logistics

The evaluation should be performed within six weeks or less, starting in September and finishing no later than October 30, 2005. The implementer should propose the most cost-effective distribution of team members' effort during the evaluation, i.e. not all team members need to be engaged during the whole length of the evaluation.

The evaluation will start with initial briefing with USAID, where both parties will exchange their ideas and expectations regarding the evaluation. At the briefing the implementer will describe in detail the proposed evaluation methodology and will provide a draft schedule of meetings and interviews (work plan). The final methodology and schedule with incorporated comments from USAID will be submitted for approval within the first week of the evaluation.

The contractor is responsible for making all logistical arrangements for the team. That includes full responsibility for organizing meetings and interviews, and implementing the proposed evaluation methodology. USAID and MCA may provide some advice and guidance.

Halfway through the evaluation the evaluation team shall brief USAID orally on their progress and findings to date. At the same time the first draft of the evaluation report will be presented for comments and approval.

One week before the end of the evaluation the evaluation team will debrief USAID on its findings, conclusions, and recommendations. The final draft of the evaluation report will be presented at this time. USAID will provide oral comments at the debriefing, and will follow up with written comments. The final report is due by October 30, 2005.

The report belongs to USAID, not to the consultants or contractor, and use of any material in the report by the contractor is expressly prohibited. USAID will be responsible for dissemination of the final report.

VIII. Selection Criteria

1. Proposed methodology	25 points
2. Team Leader qualifications and experience	
• Minimum 10 years of experience in managing projects of this scope	10 points
• Significant previous experience in evaluating development programs	7 points
• Demonstrated experience in working on competitiveness projects or understanding competitiveness concepts	7 points
• Demonstrated familiarity with Macedonian private sector (especially in industries covered with the Macedonian Competitiveness Activity)	6 points
3. Other team members qualifications and experience	
• regional or international experience in competitiveness projects	15 points
• Significant previous experience in evaluating development programs	15 points
• Demonstrated familiarity with Macedonian private sector (especially in industries covered with the Macedonian Competitiveness Activity)	5 points
4. Cost	10 points
TOTAL	**100 points**

7.2 Evaluation Work Plan

Task/Working Package/ Activity	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Deliverable/Result	Resource/Partner
WP 1								
Collection of relevant materials	X						Literature	Public, USAID, MCA
Identification of resources (information, persons)	X						List of resources	USAID & MCA Materials
Definition of stakeholder map	X						**Stakeholder Map**	USAID & MCA Materials
Definition of evaluation scenario	X						Evaluation Scenario	Experience, other initiatives
Definition of evaluation-related project elements	X						Evaluation-related project Elements	Experience, MCA Materials
Definition of questionnaires	X						**Questioner for WP1**	Experience, MCA Materials, SOW
Presentation of evaluation scenario to MCA staff		X						MCA Project staff
Interviews (5 project staff, 4 rep. From Macedonian institutions, 3 from target group)		X					Filled questionnaires	MCA project staff, rep. from Macedonian institutions, cluster members, NECC, BSP rep.
Analysis of findings from desktop research and interviews			X					Knowledge, collected information, interviews
Reviewing project execution and identifying gaps			X					Findings, SOW, final report outline
Integrating WP1 findings into the Draft Final Report				X			WP1 related part in the Draft FR	Final Report Outline

Improving WP1 findings upon comments from Client					X			USAID comments and improvement suggestions
Benchmarking findings & proposals								Public available materials
Integrating improved WP1 part into the Final Report						X	WP1 related part into the FR	
WP 2, WP3, WP4								
Development of Evaluation Plans	X						Cluster Evaluation Plans	
Development of Questionnaire	X						**Assessment questionnaires**	
Preliminary desk research and gathering information and data	X							
Identification of interviewees	X						List of interviewees for all WPs	
Arrange meetings and interviews		X						
Extend questioner with cluster specific questions		X					Specific cluster questionnaire	
Execute interviews and field research		X					Filled questionnaires	
Desk research-continue		X						
Composing WP Reports on individual clusters and assited entities			X				Draft WP Report	
Improving & benchmarking Draft Reports					X		Improved Assessment Report	Comments from Client, public available materials
WP 5 (Identification of key								

problems and obstacles)								
Desk research			X					
Field research: Interviewees with relevant individuals			X					1 Economic Chamber rep., 2 companies, 1 expert
Benchmarking findings and proposals				X				
Composing summary of WP5 Draft report				X			WP 5 related Draft Report	
Improving WP 5 Draft report & benchmarking					X		Improved WP5 report	Comments from Client, public available materials
WP 6 – Development of FR								
Analysis of requirements for the FR structure and content		X						SOW
Manage client expectations regarding FR				X	X		Draft FR content	SOW
Defining criteria and achieving agreement with client regarding evaluation and acceptance of FR				X	X	X		Public, SOW
Review of existing similar FRs in the region		X	X				Improved draft FR content	Public
Adopting measurement indicators from World Forum and Global Cluster Initiative			X					World Forum, Competitiveness Reports
Integrating findings, conclusions and recommendations			X	X				WP1, WP2, WP3, WP4, WP5
Cross-checking and information quality assurance				X	X			
Developing Draft Outline and Draft Final Report			X	X			**Draft Final Report**	

Improving Draft Final Report according to the suggestions from client (USAID)					X	X	Improved Draft FR	
Editing Final Report (native English speaker)				X		X	Edited Final Report	English-native speaker living in RM
Delivering Final Report Package to Client						**X**	**Final Report**	
WP 7 – Project Management & Quality Assurance								
Initial EvalTeam meeting and starting of project	X							EvalTeam
Detailed explanation of methodology and project realization schedule	X							Methodology, Expertise
Definition of preliminary tasks for Inception Phase	X	X						SOW, Methodology
Delivery of project-related materials to all team members	X	X					CDs with materials	Methodology, Work Plan
Preparation of templates for working materials (questionnaires, time-sheets)	X						Templates	Public resources, SOW, USAID and MCA materials
Team Coordination	X	X	X	X	X	X		Experience
Development of Detailed Work Plan	X						**Project Work Plan**	SOW, Methodology
Signing of Expert Agreements							Agreements	Work Plan, Distribution of Tasks, Workload
Logistic Support	X	X	X	X	X	X		Work Plan
Preparation of kick-off meeting	X							Agenda, SOW

Elaboration of Inception Report		X					**Inception Report**	Methodology, Work Plan, Questionnaires
Coordinating project Work Plan with the stakeholders		X	X	X				Work Plan, Stakeholder map
Updating Work Plan		X	X				**Updated Work Plan**	Issues
Regular EvalTeam meetings	X	X	X	X	X		Minutes	Work Plan, findings
Maintain Relations to Client	X	X	X	X	X	X		Client Expectations
Satisfying Client	X	X	X	X	X		Client satisfaction	Requests from Client
Regular Presentation of findings to EvalTeam members		X	X	X	X		Minutes	Most recent findings
Regular Presentation of findings to Client		X	X	X	X	X		Project generated materials
Quality Assurance (internal control)	X	X	X	X	X	X		Experience
Language proficiency				X		X		English-native speakers in RM

WP: Working Package

FR: Final Report

7.3 Stakeholders

In identifying persons to be contacted for our evaluation and assessment activities, we started from the MCA project established stakeholder structure. Beside others, it involves: government officials, scientist, researchers, industry company managers, business service providers, consultants, business associations, PR agencies, marketing agencies, donor organizations, MCA project staff and ordinary people. Further on, in defining representative sample for assessing the cluster improvement and cluster selection process, we were guided by the following principles:

- ✓ We need evaluation of the MCA interventions from cluster member
- ✓ We need evaluation from subjects who wanted to be a cluster member, but did not succeeded in that
- ✓ We need evaluation from subjects provided with the services of the cluster members
- ✓ We need evaluations from Cluster Leadership representative
- ✓ We need evaluation from researchers
- ✓ We need evaluation from governmental officials
- ✓ We need evaluation from representatives other donor related initiatives
- ✓ We need opinion from representatives from educational institution
- ✓ We need evaluations from representatives from business associations (chambers and others)
- ✓ We need benchmarking & experience from other countries in the region

Finally

- ✓ We need opinion from ordinary people

because the overall objective of the Macedonian Competitiveness Activity is to improve the life of the citizens in the Republic of Macedonia.

7.4 Assessment Questioner: Example Lamb and Cheese

Cluster Impact Assessment/ Cluster Selection Process Assessment	**Cluster: Lamb and Cheese Cluster Member: YES/NO Interviewer: Interviewee:**
Cluster Selection Process Assessment	
Do you think that the decision to select the lamb and cheese sector as one of the MCA clusters has been effective? Why?	
Which criteria were used as the basis for the selection of clusters for the MCA project: - *Cluster's National Share on Exports (against competing clusters in the nation)* - Cluster's National Economic Importance - *Annual Cluster Growth* - *Annual Export Growth* - *Local Firms Have own Foreign Marketing Organizations (vs OEM)* - *Local Firms Sell Primarily under own Brand (vs. Unbranded Commodities)* - *Local Firms Pioneer New Products or Processes (vs. Imitate)*	
Was the selection process carried out transparently?	
What mistakes could have been avoided in the cluster selection process?	
What decisions during the cluster selection could be evaluated as right?	
Would the MCA assistance have been more effective if clusters were at local instead at national level?	
Is there a demand for MCA assistance from other clusters in the country?	
What is the number of members in the frames of the Lamb and Cheese Cluster?	
Assessment of Cluster Specific Interventions Implemented	
Do you think that MCA activities in terms of lamb and cheese cluster assistance have been well organized?	
What kind of assistance does MCA provide to its clients in general?	
How effective was the training part of the assistance?	
Did the organization of trade fair participation bring the expected results?	
Did MCA consultants succeed to develop applicable marketing plans for the cluster members?	
Were all of those activities delivered to the Lamb and Cheese Cluster?	
Which type of assistance delivered by MCA do you consider as the most effective?	
How do you evaluate the assistance provided by the foreign consultants?	
Was it more valuable compared to the assistance provided by the domestic consultants?	
What would be the optimum proportion of foreign versus domestic consultants?	
How would this proportion change over time?	
Which is the area where MCA has achieved the best success in assisting lamb and cheese cluster members?	
Which type of assistance delivered by MCA do you consider as less effective?	
How did MCA influence the work of the domestic business service providers?	
Which type of consultant support was most effective? Why?	

Which type of consultant support was least effective? Why?	
How did the business service providers support the cluster members?	
Was the assistance provided by IESC useful for the cluster members?	
Which grants, awarded to the cluster, had the most valuable influence on the business of the members?	
How transparent was the grant award process?	
Do you receive similar support by other international donors?	
Do you consider the current cluster leadership as competent and efficient?	
How do you evaluate the work of the NECC?	
Did NECC succeed to open the dialogue between the Government and the private sector?	
Is there any success story on such an accomplishment?	
Did NECC ever deal with lamb and cheese cluster problems?	
What is the demographic structure of the cluster? Has any of the demographic groups been favored?	
How has the MCA assistance impacted the overall sectors as compared to cluster members only?	
Overall Impact of MCA on the Lamb and Cheese Cluster	
Do you think that the overall impact of MCA on the Lamb and Cheese Cluster has been positive?	
Did MCA contribute to the lamb and cheese export growth?	
Did MCA contribute to the increase of the domestic market share?	
Did MCA contribute to a growth of the employment within the cluster?	
Did MCA contribute to a growth of the productivity within the cluster?	
Did MCA influence the cluster in terms of growth of the revenues of its members?	
How do you assess the influence that MCA has made on the entrepreneurial management mentality?	
Did it succeed to develop a market driven thinking within the managers/entrepreneurs?	
Has the cooperation among cluster members been improved as an outcome of MCA efforts?	
Suggestions for the Future	
How do you see the future of the cluster?	
What kind of support/assistance would you need in future?	
Based on your opinion, will the cluster continue to exist after the end of MCA project?	
Would the cooperation among cluster members be better if the cluster reorganizes at local level?	
What do you propose for the improvement of the NECC effectiveness?	
How can NECC become sustainable?	
Do you have any suggestions for improvement of the efficiency of the cluster leadership?	
Which clusters from the Macedonian economy do you consider as "clusters with potential" since they may accept future project assistance in a most effective manner?	

7.5 Persons Contacted

Person (Name)	Position	Institution
MCA Project		
Suzi Hagen	Chief of Party	MCA Project
Agim Salja	Competitiveness Advisor	MCA Project
Aleksandar Blagoecski	Competitiveness Advisor	MCA Project
Ines Curapova	Competitiveness Advisor	MCA Project
Dejan Antik	Competitiveness Advisor	MCA Project
Romela Popovic	Competitiveness Advisor	MCA Project
Iva Orceva	Competitiveness Advisor	MCA Project
Sonja Srbinovska	Researcher, Director	Directorate for Food
Cluster Lamb and Cheese		
Beti Delovska	Principal consultant	BASME Consulting
Mihail Danev	Lamb and cheese expert	Vet Institute
Ljupco Genadiev	Owner and manager	NASTO-Tetovo
Mijalce Gjorgjievski	Owner and manager	LAKTIS-Sveti Nikole
Lulzim Fejzulai	Lamb and cheese consultant	Land O'Lakes
Lazar Sokolov	Lamb and cheese Association Eastern Macedonia	Association of sheep breeders – Eastern Macedonia
Agim Shalja	Competitiveness Advisor	MCA Project
Cedomir Pavlovski	Owner and manager	FRIDER-Skopje
Predrag Cvetkovic		Bucen Kozjak-Kumanovo
Cedomir Pavlovski	Owner and Manager	Frider-Skopje
Cluster Tourism		
Tanja Kontevska	Manager	TA Inter-Kont, Skopje
Goran Tintovski	Project Manager	Federation of sportsmen
Gordana Janicijevic	Manager	Hotel Mramor / Skopje
Arsenije Janevski	Manager	TA Kompas, Skopje
Marina Svilicic	Manager	Hotel Atila, Dojran
Aleksandar Stojcevski	Manager	Euro Travel, Skopje
Radica Velickovic	Manager	Restaurant Lira, Skopje
Olga Ilovska	Manager	Hotel Inex Gorica, Ohrid
Zoran Tuntev	Assisstant	Faculty of Torusim, Ohrid
Zoran Nikolovski	Advisor	Ministry of Economy
Roza Siraceva	Manager	Aurora, Skopje

Mirce Dimitrovski	Assistant Director	MAT- Macedonain Avio Transport
Cluster IT		
Avram Stojcevski		Einsoft
Zoran Lazarevski	Customer Services Manger	ECS
Vasko Pavlovski	Manager	ECS
Vancev Gerasim	Manager	Semos
Saso Josimovski	Professor	Faculty of economy
Luben Talev	Consultant	Media Market
Kire Trajkovski	Assistant	MADE (Semos Multimedia)
Ljubisav Lazarevic	Manager and member of MASIT board	Ekonet
Cluster Wine		
Goran Garevski	President	ZZP "IMela" (Grape growers' Association), Demir Kapija
Marija and Natasa	Sales department.	Skovin AD Skopje
Venera Gilibeseva-Krstic	Enologist	Fonko Wine
Bosko Iliev Borce Kocev	Sales manager Salesman	Povardarie AD NEgotino
Divna Jordanovska	Director	Cekorovi
Gjorgi Trenev	Sales manager	Bovin winery
Cluster Apparel		
Risto Stamadziev	Manager	Soniteks, Kavadarci
Vencislav Filipov	Manager	V.I.T. ,Stip
Vlado Netkov	Manager	Milano, Stip
Snezana Janeva	Manager	Geras Cunev, Strumica
Jasmina Miteva	Manager	Magnolija, Skopje
Vladimir Icokaev	Manager, Marketing	Global Plus, Skopje
Marina Svilancic	Manager	FashionMk, Skopje
Nikolina Trajanovska	Senior Advisor	Ministry of Economy
Assisted entities (BSPs, NECC)		
Toni Cvetanovski	Manager	ESA -Ohrid
Ljupco Trajkovski	Director	Trajkovski & Partneri
Beti Delovska	Director	BASME
Mirjana Apostolova	President	MCA 2000
Jasmina Trajkovska	General Secretary	MCA 2000
Nikolina Trajanova	Member of Cluster Apparel	Ministry of economy

Zoran Ralev	Manager	Land O'Lakes
Venco Filipov		V.I.T., Stip
Vlado Sarac	Director	APPRM
Jadranka Rizankova	Manager	Euro Info Center
Aneta Guleva	Manager	Euro Info Center
Snezana Petkovska	Legal Advisor	Ministry of Economy
Zivko Dimov	Director (BSP)	TED Consulting
Bob Smith	Manager	Dutch Chamber of Commerce
Business & Research Community		
Vanco Uzunov	NECC member	Faculty of Law
Ivan Steriev	CEO	Macedonian Stock Exchange
Jovan Milosevski	Managing Partner	METRO
Bosko Cvetanovski	Owner and Manager	METRO
Dragan Simovski	Manager	Intelkom

7.6 References / Documents used

1) Statement of Work for the MCA Evaluation project
2) INOTEH Consulting Proposal
3) State Statistical Bureau
4) *e-val* guide from the German Agency for Technical Cooperation
5) Establishing Plausibility in Impact Assessment, GTZ Eschborn, February 2003
6) Competitiveness of Economic Sectors in EU Association and Accession Countries: Cluster-oriented Assistance Strategies, *S. Schwantz, R. Mueller, M. Will*, GTZ Germany
7) CIDA Evaluation Guide
8) SIDA Evaluation Guide
9) MCA Project Documentation
10) USAID documentation
11) Public available material
12) Meetings (filled questioners)
13) IT Baseline Statistic Survey for 2002 and 2003, CDS-Center for BD, 2004
14) Macedonian National Competitiveness Report for 2005

8 Appendix / Clusters' Evaluation Reports

The goal of the cluster evaluation process was to present the findings from the: 1) assessment of the overall impact of the MCA project on all individual clusters by identifying changes in the main indicators of competitiveness and 2) assessment of the effectiveness of the individual cluster selection process and the effectiveness of the interventions implemented with the individual clusters. Lessons learned as a result of the MCA efforts are an important part of the clusters' evaluation reports. Recommendations for further impact-oriented competitiveness activities, effective selection process and interventions for individual clusters are also part of the reports. The recommendations are followed by a list of the main obstacles identified to achieving the goals of the recommended actions for each cluster.

The specific objectives of the evaluation were: a) to determine whether MCA interventions achieved the desired impact; b) to provide a basis for generating ideas on how the effectiveness of future interventions can be improved, and c) to make recommendations to the USAID Macedonia Mission for further assistance to support the growth of Macedonian businesses.

In the analysis below, a summary of the main findings on competitiveness indicators for all clusters will be presented, followed by the individual clusters' evaluation reports.

8.1 Cluster Lamb and Cheese

8.1.1 Findings

General Findings

The launch of MCA in 2002 was recognized as a new opportunity for the Macedonian lamb and sheep cheese industries to proceed with their efforts to utilize their growth potential with support provided by a new USAID project. The experience in working with USAID had been highly appreciated at the time and, even before the start of the cluster selection process, many companies from the two industries had shown their unhidden interest to participate in the program. Later on, in the spring of 2003, when the project strategy was announced and selection criteria developed, it became clear that the MCA approach was designed to support the development of clusters and to motivate export growth. So there had only been room in the new project for those who had already proven their capacities to expand production, lower costs and improve the quality of their products.

Previously well organized in branch organizations and trained in the basics of marketing, management and quality, the lamb and cheese industries, together with the relevant stakeholders from the potential *lamb and cheese cluster,* passed the "exam" in entering the competitiveness program in the first round of the selection process. Passing this "exam" meant that they had successfully fulfilled the three selection criteria – leadership, strategy and impact to Macedonia. It was just what MCA was looking for: committed and strong leadership, strategy joined by vision for the future and, of course, expectable benefit for the country.

During the clustering process in the first half of 2003, more than 60 companies, institutions, associations, organizations and individuals from the lamb and cheese sector joined the Project. It was estimated that this group represented around 75 % of the total number of industry entities, farmer associations and other institutions/organizations. All ethnic and gender groups were represented in the group structure and the expected urban/rural balance was achieved.

Contrary to the enthusiasm at the beginning of the Project, at the end of 2005 the number of active cluster members was between 25 and 30. Many claim that the first year of the Project's implementation had been lost in a way, and that confidence in the benefits of the project deteriorated. Main reasons for this have been detected in the area of project organization and communication with the cluster members, but also in the type of consultations provided during that period. To make up for the damage, the cluster leadership strengthened its efforts in the second project year to rebuild the commitment and achieve good outputs for the cluster members. Actually, the second year of the Project was the first year of its success in the Lamb and Cheese Cluster. By concentrating more intensively on the "active" group, the Project was further successful in the third year of its implementation. A ,major part of the Project's goals were achieved to a respectable extent, particularly with regard to export growth and responsiveness to market demand.

When summarizing the effects of the overall MCA effort on the cluster's business performance, it is important to emphasize that positive outputs have been recorded exactly within the group of active entities. Of course, the Project has positive implications on the overall performance of the two industries at a national level, but the disparities between "active" and "passive" cluster members should be taken into account.

A very significant finding that may serve as a guide for the future support of the cluster is that despite the effectiveness of a number of MCA initiatives, some additional actions should be undertaken to supplement the project goals. For example, market research has provided lamb and cheese producers with information on international market opportunities, but training of slaughterhouse employees in new ways of lamb handling and educating cheese producers in standardization is still needed. In addition, the support of institutional development of associations has resulted in advanced cooperation among cluster members, but closer cooperation with the Government through the NECC has not been achieved. However, we consider the initiatives related to training in meeting market demands as vital for further growth of the cluster. In this regard, we would recommend extra assistance in the adaptation of production to customer's taste, production of high quality products and product branding. The feasibility of organic lamb and cheese production could also be considered since this type of products may generate additional demand on the international market.

8.1.1.1 Findings with regard to impact assessment

<u>Exports</u>

The overall exports of Macedonian agricultural products ranged between US $180 million and US $230 million since 2000, and account for about 20 percent of total Macedonian exports. An average of 5.5 percent of the agricultural exports come from lamb.

Lamb

Macedonia has always been a net lamb exporter. A significant part of the country total lamb production has been exported to its traditional markets: Italy, Croatia, Greece, Bosnia and other countries from the region. Sheep production is decreasing in the EU countries, including Italy and Greece, where Macedonian lamb is sold at favorable prices. This, is particular the case in Greece where Macedonian lamb is considered a highly rated product. It offers Macedonia a chance to rebuild its stocks and recover market share lost during the period of the 1990-s. MCA conducts a coordinated program of research, information and promotion to expand the markets for Macedonian lamb and lamb products.

Macedonian sheep inventory peaked in 1989 with 2.2 million head, but problems with animal disease concerns, EU import restrictions and downsizing of the Yu-market resulted in a dramatic decrease of the sheep herd. The minimum was recorded in 1995 when the total sheep number was 850,000, with only 550,000 ewes. The situation has become more favorable during the past 9 years. The EU Commission has reopened its market for Macedonian lamb, but Macedonian exports are still pressured by limited quota. On the other hand, international demand for specialized prime lamb cuts is increasing while Macedonia has not yet adopted such production standards.

It is estimated that Macedonian farms had a total of 1.5 million sheep as of January 2005, 4 percent above the previous year. Of this number, 650,000 were milking sheep (ewes). Top producing regions are the western part of Macedonia, concentrated in the Gostivar-Debar-Kichevo area, the eastern part of Macedonia, particularly the Shtip and Berovo area, and the Kumanovo region. Nearly ¾ of the lamb produced was sold domestically and ¼ for exports.

Lamb exports ranged between US $10 million and US $15 million in the period 2000-2004. Compared to 2003, lamb exports to traditional markets (Italy, Greece and Croatia), but also to Cyprus and Peru, have recorded growth by around 7.8 percent in 2004. This is mainly due to the good market conditions for Macedonian lamb, but also as a result of the joined effort of the lamb producers and 9 domestic slaughterhouses certified for exports. The lamb was sold at an average wholesale price of US $4.40.

As a result of the Greek lamb market research, executed by MCA, it is expected that exports to Greece will slightly grow in 2006. This program is based on the “direct-to-market” approach, which turns a number of producers from west Macedonia to direct marketing their lamb to Greece. They will sell their lamb directly to Greek supermarkets, bypassing traditional market channels (intermediaries). Abandoning the “sell-at-the-farm-gate” approach, these producers will be able to increase their revenues from exports. The Gostivar Cooperative of Lamb Producers, founded with the support of MCA, LOL and S-Farm, is working on preparations for the “test spring-lamb export” that will be a starting point for this type of business cooperation in the future. In the meantime, some Macedonian slaughterhouses (*Serta, Klaneks*) are undergoing the final steps in the process of implementing HACCP in accordance with EU requirements.

Cheese

Macedonia is a net dairy importer. Between 25 and 30 percent of total domestic dairy consumption comes from imports. However, when it comes to sheep cheese consumption, domestic sources cover approximately 95 percent of the market needs. With the exemption of the small quantities of Greek and Bulgarian sheep cheese on the market, Macedonian sheep cheese is the dominating product.

Efforts to make sheep cheese a specialty export product started in the late 1990-s with support from the LOL MAMA Project. MCA has made a very valuable contribution to these efforts by investigating the opportunities to export Macedonian sheep cheese, to markets that do not legally prohibit importing non-pasteurized sheep cheese. In this regard, EU markets are closed to Macedonian sheep cheese since a major part of this product is produced from non-pasteurized sheep milk. MCA executed research on the US and Australian markets, but has also been eager to identify the opportunities in the neighboring countries, including Albania and Slovenia.

Historical data shows that Macedonian sheep cheese was exported only in the period of the Kosovo crisis (1999-2000). In 2000, these quantities reached the level of 455 tones, but in 2001, no cheese was exported at all. Despite all the activities carried out to improve the production standards and branding this traditional Macedonian product, no exports were recorded until 2003. However, since sheep milk was perceived as a better source of income than sheep cheese, some Macedonian dairies started to export certain quantities of sheep milk to Greece at a good price of 50 denars, while paying between 28 and 32 denars to the domestic milk producers.

With its marketing program, MCA has motivated the dairy processors to start activities in two directions: a) to work on further sheep cheese standardization and b) to obtain certificates for cheese exports from the relevant institutions. Four companies were successful in achieving the goal to be licensed for exports (*IMB, Nasto, Ideal Shipka and Buchen Kozjak*) and the fifth one is undergoing the licensing procedure (*Laktis*). MCA trade fairs program (especially SIAL participation) had additional effects on sheep cheese export growth. *Nasto*, together with *Ideal Shipka*, joined this program in 2003 and by mid 2005 achieved considerable exports of US $700,000 to the US market. The average wholesale price varied between US $4.30 and US $4.80 per a kilo. It is estimated that by the end of 2005 the volume of sheep cheese exports will account for between US $900,000 and US $1 million.

Domestic Market Share

Lamb

2004 and 2005 were good seasons for lamb producers in the domestic market. Encouraged by the good wholesale prices (140-160 denars per a kilo live lamb) and the high retail prices (250 denars per a kilo), lamb producers decided to increase the total number of lamb sold to slaughterhouses. It is estimated that between 2003 and 2005 the domestic market share increased by 6-10 percent. MCA is supporting the increase of the sheep herd in general, which has indirect impact on the domestic market share growth.

Cheese

MCA overall activities, along with the support to the cheese producers provided by other partner donors, have considerably influenced the domestic market position of the Macedonian sheep cheese in a positive manner. Since there is a lack of exact data on quantities sold on the domestic market, we may only rely on assumptions provided by the cluster members. Based on the information gathered from the cluster leadership, 20 cheese-producing companies have increased their domestic market share by between 2 and 5 percent since 2003. This group of entities includes all of the active companies within the MCA program, such as *Ideal Shipka, Nasto, Buchen Kozjak, Laktis, Fejzi,* and *Kichevo Dairy.*

Productivity

Productivity is a measure of the efficiency with which the firm converts the entire set of inputs required for production into output. As related to the lamb and cheese industry cluster, productivity has recorded a slight growth during the past three years due to the improvement of the herd genetics and the number of productive heads. Better breed composition resulted in higher sheep milk yields. Compared to the period of the 1990-s, when the average yearly milk production per milking sheep (ewe) was 48 liters, in 2005 it reached an average of 55 liters. Combined with the relatively stable animal food prices, this led to improvements in the overall productivity within the industry.

By supporting higher production standards and procedures, MCA has had a significant impact on the productivity of a selected number of cheese producers, but a rather weak impact on the productivity of the primary producers. However, productivity growth at the producer level has been impacted by MCA assistance to the sheep breeders associations from west Macedonia.

Revenues

The increase of lamb prices, productivity growth and export growth has positively influenced the revenue of the businesses within the cluster. Derived from data on these indicators, it can be estimated that in the period between 2003 and 2005 lamb sector revenues have increased by 8-10 percent and by 5 percent in the cheese sector. These figures should be understood as an average for each cluster group since on an individual company/farm level, some smaller producers have experienced a decrease in revenues. Related to this finding is the trend of permanent enlargement of the bigger sheep breeders as well as the close of the smaller, non-viable businesses from the cheese producing industry. There are a growing number of farmers with above 250 sheep head, while the number of farmers with less sheep head is continuously decreasing. Similarly, out of 110 sheep milk processors in 2002, only 40 succeeded to survive due to the unfavorable relationship between the cost of production and the revenues.

MCA had contributed to the increase of revenues among cluster members mainly by supporting their export activities and by motivating joint market appearance based on association and an inter-cluster cooperation approach.

GDP Growth

The agribusiness sector, including primary production and processing, is of great significance for the economy and accounts for 15 percent of GDP, which is around US $690 million. 4.4 percent, or around US $30 million, comes from lamb and cheese production. Positive trends in lamb and cheese productivity, trade and exports contribute to the increased participation of these industries in overall GDP growth.

Job Creation

The primary agricultural sector is a significant employer, accounting for approximately 24 percent of the working population. It is estimated that some 55,000 families make a living from sheep breeding and sheep milk processing.

Despite the modest overall growth of the two industries, there is no clear evidence for a more significant increase in the number of employees.

Cooperation and Partnership among Cluster Members

Through its broad clustering program, MCA has, to a high degree, succeeded in promoting the cluster concept among the companies involved in the Project. Time has shown that the better the understanding of the cluster philosophy, the higher level of cooperation among members. However, rivalry between competitor companies has not been abolished yet and the links among various types of entities are still weak.

Assisted by the network program, a number of the cluster members have recognized the potential benefits that the cluster partnership offers. For example, the five sheep breeders' associations, particularly those from west Macedonia, have presented satisfactory results in terms of improved cooperation and partnership even though they did not receive the degree of training or consultancy that the processors received. Their effort to cope with exporting challenges was stronger than the prejudice of mutual rivalry.

Another example of good cooperation is the success of the "Ohrid Cheese and Wine Festival". Organized by MCA in 2004 for the first time, because of the overall positive effects, this event has the opportunity to become a self-sustainable activity. Similar are the effects of the cluster appearance at SIAL.

8.1.1.2 Findings with regard to the effectiveness of cluster selection process and specific interventions implemented by MCA

Cluster selection process

The Lamb and Cheese Cluster was selected in the first round of the selection process together with Tourism Cluster. Based on clearly defined criteria, this first round selection was performed by MCA. The three remaining clusters were selected by the NECC during the second and third rounds.

The decision to select the Lamb and Cheese Cluster as one of the main focuses of MCA was perceived as quite reasonable and logical. There are several reasons for such consensus. First, the lamb and cheese industries have a long tradition in the country and are known for offering tasteful and respectable products. Second, the geographic and climate conditions for the two industries are very favorable. Third, the two industries have been extensively supported by other donor projects prior to MCA. The support provided by Land O'Lakes from 1996 to 2003 had been particularly useful. The primary producers have obtained valuable assistance in association building and good cooperation; they received training in farm management, lamb health care and hygiene/sanitary procedures; they were granted consultations in modern sheep breeding, including feeding and milking. In addition, they were trained in quality cheese production and packaging. On the other hand, training, consultancy and education in how to market sheep cheese was provided to milk processing companies. Their association was given the opportunity to participate in the Seal of Quality Program that included standardization of their production, but also assistance in branding and marketing sheep cheese. MCA offered what was still missing: an organized approach to increasing the competitiveness of the two industries by increasing the awareness of the effects of better cooperation at a *cluster level* and by sophisticated export activities.

There were no objections to the transparency of the selection. More than 60 firms, organizations, institutions, associations and individuals joined the program in 2003. Within the MCA selection procedure it was recognized that the lamb and cheese cluster members possessed a shared vision about the actions needed for strengthening the cluster's competitiveness, they had a good track record of working together to accomplish group goals and the cluster leadership was appropriately represented by key cluster components. In addition, the cluster's product offerings were assessed as differentiated.

Effectiveness of MCA specific interventions

The Lamb and Cheese Cluster has received all types of support that MCA incorporated in its program, including training, consultancies, grants, participation at trade fairs and direct support to export.

Organization of the "Ohrid Cheese and Wine Festival" was evaluated as the most effective activity. Also, presence at SIAL has resulted in building valuable business connections between Macedonian cheese producers and international companies, some of them becoming sustainable partnerships.

Arrangement and support of B2B meetings has also been fruitful. Linkages built with Albanian, Italian, US and Greek partners led to a number of business transactions. Some additional contracts are underway.

Concerning consultations, foreign consultants have delivered satisfactory assistance to both lamb and cheese producers. It is true that in the first year of MCA' implementation the consultants provided more theoretical, as opposed to practical training. However, during the next two years cluster members received what they really needed. For example, the consultants who introduced the clustering methodology to the cluster membership and their assistance has "opened minds" for cooperation. The consultant who was engaged in cheese tasting, as well as the British consultant who worked on market research, are the most frequently praised program participants.

Domestic consultants and business service providers have been less effective. They were given the opportunity to be involved in the program, but there is a feeling that many of them have not clearly understood the MCA mission. Cluster members suggest that in the forthcoming activities, foreign consultants should remain leading consultancy service providers, but they should work together with the locals.

The most successful MCA accomplishment is the cheese exports achieved. At the beginning of the Project Macedonian cheese export was very poor (almost "zero"), but the MCA support has resulted in decent quantities of cheese exported overseas.

Less effective activity was the engagement of IESC consultants. The least effective was the consultancy delivered during the first year of the Project, where a lot of time was "lost" on theory.

The assistance delivered to the lamb producers from west Macedonia has resulted in the "Test Lamb Market" program with Greek partners. 1,600 spring lambs will be sold directly to large Greek supermarkets during the 2006 Easter season. There is hope that the success of this effort will result in a long-term business arrangement. The establishment of the Gostivar Cooperative, intensively supported by MCA, will resolve the problem of having a good organization to coordinate lamb export activities. It is suggested that similar support should be provided to the sheep producers from Eastern Macedonia, where the quality of lamb produced is very good.

There is a need for additional training for the cluster leadership to make sure that it will be able to sustain cluster cooperation after MCA ends. It needs to understand that its function is to support overall cluster development and to be more transparent.

The establishment of NECC was well accepted by the cluster members. Yet, many consider its work to be ineffective. It did not succeed in becoming a partner to the Government to create solutions for a more prosperous future for the economy. It is necessary and urgent that the NECC is reorganized and that it adjusts its activities to support its main purpose.

The gender structure of the cluster corresponds to the type of business involved. There are fewer women involved in lamb production and slaughtering, but a substantial number has worked in milk processing, business services and education.

There is an evenly distributed ethnic structure in the cluster. The rural population is more active in sheep breeding, while the urban population dominates in lamb slaughtering and trade.

8.1.2 Lessons learnt

The MCA Project has been justified in its overall design, but its strategy and content should be further adjusted to the needs of the cluster members. The Project activities have created awareness of the benefits of cluster networking only among the higher market potential firms/associations. Smaller cluster members have not fully understood the potential of creating business linkages. Since the knowledge of the modern business operations within the cluster is still poor, the Project should continue to deliver training in standardization of lamb and cheese production, business planning, development and organization, export marketing and export business management. Also, there is a strong need for additional elaboration of the active partnership between producers and processors, on one side, and the other parts of the cluster (education institutions, wholesalers, retailers, business service providers), on the other side,

We have learned that building strategic partnerships among all stakeholders in technology generation and transfer, as well as in increasing the level of knowledge, can enhance the efficiency and sustainability of the cluster. Without this, the cluster will "fall apart" when MCA ends.

We have also learned that some Macedonian managers are willing to cooperate with international donors only if they are granting finance to the businesses. On the other hand, most of the donors, including USAID/MCA, have reservations about providing larger cash transfers to the client companies. Instead, they offer technical assistance in order to contribute to the development of their businesses. In order to be more effective in their future activities, project designers should be more flexible to allow some adaptations proposed by relevant (but experienced) host officials and cluster members. With this, the project would be designed to encourage managers how to learn and what to adopt. Some authority over the project design should be delegated to respectable local consultants.

There is an increase in interest for additional sources of knowledge and other services being provided by projects among various cluster groups. MCA should continue to cooperate with the similarly targeted projects in the country to integrate their efforts for helping the Macedonian sheep and cheese sector to become more competitive.

8.1.3 Recommendations

There is no doubt that MCA has had a positive impact on the economic performance of the Lamb and Cheese Cluster. Yet, it is early to say that the cluster has become mature enough to deal with the market challenges without additional support. In order to assist the cluster to become more competitive we recommend several types of support for the coming years:

Short-term actions:

Primary producers should receive more practical consultations. This should be delivered by local consultants, which need to be trained by MCA international consultants prior to their work with the producers. Areas of training would include EU standardization, hygiene procedures, contemporary milking techniques and marketing.

Association and cooperative type linkages should be additionally promoted. The Lamb and Cheese Association from the western part of Macedonia is a success story that could be adopted in other country regions.

Slaughterhouses should be forced to actively work on HACCP implementation. Confectionary and lamb cuts packaging should be tested on the market. This includes investigation if the size/weight of Macedonian lamb allows such procedures.

MCA should more concentrate on cheese producing firms with export potential. B2B contacts should continue to be organized. The some cheese making companies need additional training in the area of production standards. In addition, MCA should continue to pursue the cheese making companies that more significant exports are possible only for the cheese produced from pasteurized milk.

MCA should support the association type of cooperation among cheese producers in order to strengthen the cluster export potential in terms of unified quality standards, joint marketing and providing the market with a permanent cheese supply.

Long-term actions:

Additional international lamb and cheese market research would be of great value. Also, assistance in organizing B2B meetings should continue. Penetration of Macedonian lamb in the Greek and other foreign markets should be supported for the cluster members from all parts of Macedonia. This could be accomplished by including additional training and other assistance for the producers from this region.

A feasibility study for the production of organic lamb should be considered as the international demand is increasing. Finally, legislation related to lamb exports, as well as the export licensing process, should be discussed more extensively with the NECC and the relevant Ministries.

Recommendations for actions that would be implemented by the cluster on its own:

Macedonian lamb and cheese producers should strengthen their inter-sector cooperation and the cooperation with the relevant cluster stakeholders in order to increase their export potential in terms of volume of production, standardization and price negotiations. Building a strong branch organization leadership would lead to long-term sustainability of the cluster.

Specific recommendations for MCA

There have been significant indications of impact of MCA interventions on building a “sense of competitiveness” among the Lamb and Cheese Cluster members. The project has initiated a new way of thinking, based on the competitiveness concept, although this should be perceived only as the early stage of clustering of the Macedonian lamb and cheese industry. To develop more realistic project goals and objectives for the planning of any further USAID/MCA activities, we recommend a number of considerations and actions:

The cluster should remain organized at a national rather than at a local level since the volume of production at a local level is not sufficient to offer substantial quantities of products for the international markets. In addition, it is highly recommended that the opportunities for gradual regional clustering (including Macedonia, Bulgaria, Greece and Albania) of the lamb industry should be taken into account.

Since evaluated as more effective and experienced, foreign consultants should continue to deliver the majority of consultant services. However, they should be required to work with local consultants to transfer part of their experience to Macedonians. The proportion between foreign and domestic consultants should change from 60%:40% (in favor of the foreigners) to 100% domestic at the project end.

Consultations and training in theoretical aspects of management, marketing and standardization should be avoided. Instead, training in business practices and management should be fostered.

Ensure business service providers are fully informed about the MCA mission. Support for trade fairs activities should continue. Implementation of more transparent procedures for awarding grants is needed. Many of the cluster members are not aware of this type of assistance.

MCA should consider more training for the cluster leadership to assure its higher involvement in activities of common interest. More support to sheep breeders’ associations from the eastern part of Macedonia should be delivered, since they claim to be less assisted than their colleagues from the western part of the country.

Include more training related to HACCP for the sheep milk processors and slaughterhouses.

Motivate joined market appearance of SOQ cheese producers to ensure sufficient quantities of quality cheese are produced for exports.

Although perceived as a very significant body, the NECC should undergo restructuring and redirect its activities to become more effective. It must become more open to public debates and involve more experts in its work to assist in the development of program ideas and initiatives.

The MCA web site should be updated on a regular basis. Also, more transparency and Project PR would be valued.

The members of the Lamb and Cheese Cluster suggest that other clusters supported could be fruits and vegetables, food processing and rice.

8.1.4 Obstacles in achieving goals of recommended actions

The main goal of the MCA Project is to initiate an integrated approach to the sustainable development of the Lamb and Cheese Cluster, with the aim of strengthening its growth potential and its competitiveness. Key obstacles for achieving this goal are the following:

- Macedonian sheep producers' low level of educational, thus the difficulty to promote the modernization of their farm businesses;
- High cost of the modern equipment for sheep producers (i.e. milking machines);
- High cost of sheep milk pasteurizes;
- Lack of sources of finance (credits) at reasonable costs;
- Lower productivity due to the old-fashioned processing equipment used by most of the cheese-making firms (many of them use second-hand or, even, third-hand equipment);
- Low sanitary conditions and a lack of control of processing plants;
- Limited market opportunities for Macedonian sheep cheese and strong competition on the international market (i.e. international markets buy Bulgarian products, which are less costly and well positioned);
- Cheese producers refuse to actively cooperate due to strong rivalry among firms;
- Modern business practices are not adopted and the organization of work within most of the businesses is inadequate.

Many of the obstacles to achieving the recommended actions are the same as those that hinder intensive growth of the economy. The following is a summary of the most important barriers:

a) Lack of essential first step: clearly expressed will by all stakeholders involved – the private sector, the Government and the civil sector. The NECC case illustrates the importance of commitment to the efforts to increase the overall country's competitiveness;

b) Low level of involvement from the Ministry of Agriculture. As an institution of crucial relevance, it has to be more pro-active and supportive;

c) Bureaucracy within the institutions responsible for the support of the private sector;

d) Strong feeling of fear of competition on both the domestic and international market. The rivalry among firms in the same businesses is strong. Also, self-esteem is a specific issue.

e) Lack of export business management skills, including marketing skills, leads to inadequate preparations for higher-level operations.

8.2 Tourism Cluster

8.2.1 Findings

General findings

The Tourism Cluster was selected in the first round of the selection process in March 2003 together with the Lamb & Cheese Cluster. Based on clearly defined criteria, this first round in the selection process was performed by the MCA.

The Macedonian National Entrepreneurship & Competitiveness Council, supported by the MCA competitiveness advisors, evaluated the applications and ranked clusters according to predefined criteria. The selection was actually based on the premise that the success of the cluster approach depends on the power of broad-based leadership and the entrepreneurial spirit of the individuals in the cluster. The Cluster Leadership Council (CLC) was to mobilize the broad-based leadership. Although private sector leaders from the tourism industry were expected to comprise the majority of the CLC members, the representatives from the companies, trade associations, government, or unions were permanently improved in the capacities of the cluster by pursuing certain initiatives. The tasks of CLC were the following: 1) prioritize strategic issues, 2) work to remove obstacles identified by cluster members 3) support and coordinate the cluster task forces, and 5) present high priority plans to the NECC.

The Tourism Cluster counted 65 members, including tourist agencies, hotels and restaurants, tourist associations and government and education institutions. Over time, the number of active members decreased and currently only 15 of them are involved in the cluster's activities. The decrease in active members has reduced the opportunities for successfully realizing the planed tasks of the working groups. By leaving the cluster, the cluster members have excluded their institution (company) from the further cluster work. For example, the members from the education institutions have not contributed to designing and the delivery of vocational training for qualification (or additional qualification) of the tourist workers. As a result of leaving the cluster there have been no changes proposed neither at the secondary tourist school nor at the Faculty of Tourism in Ohrid.

The cluster prepared a strategy that focused on various "stories" for Macedonia and its attractions and beauties. As one of its main goals was to approach tourist willing to pay a premium for an extraordinary tourist experience in Macedonia, the strategy aimed at offering demanding tourists first class impressions.

There are four cluster task forces, which are introducing changes to cluster members and are focusing on taking immediate action to create new experiences, attract customers that are more affluent, improve service and preserve Macedonia's natural beauty. The cluster also founded a Steering Committee – an independent body to lead the cluster prosperity.

As result of the internal organization, which is now horizontally and vertically consolidated, the strategic plan was realized and the awareness about the tied relation between the introduction of free trade and the achievement of desired level of competitiveness grew significantly.

There is a good level of cooperation between CLC and the NECC. This has ensured that the Tourism Cluster members' needs and requirements be met.

Regarding the effectiveness of the cluster organization, there is an understanding that the effectiveness is higher if the cluster is comprised of tourist operators with various product offerings. Most of the cluster members are concerned that the cooperation among cluster members will be minimal after the completion of MCA support**.**

During the last year the Steering Committee did not show any remarkable results, mainly due to misunderstandings between the members, arising from the change of strategy from alternative to commodity travel. However, there are opportunities for some members to establish an NGO.

The Cluster is open for members from all ethnic groups, but not all the ethnic groups are interested in this type of cooperation. The number of women cluster members is slightly larger, because tourism is considered as a female profession. According to the geographical distribution, there are members from various parts in Macedonia, but the largest number is from the Skopje region.

The cluster members benefited most from gaining experience in planning and organizing their work, evaluation of lodging and catering capacity, design of sales literature and preparation for visits to trade fairs. Thus, the cluster members improved their operations. However, the improvement in terms of higher wages and trained personnel is missing, because the existing education institutions lack the appropriate programs and do not produce appropriate profiles.

It has to be mentioned that a large number of cluster members were idle during the second year of operations. There are several reasons for this:

a. The experts who developed the concept and who were familiar with the topics were replaced with experts who were not successful in motivating the cluster members to work on the realization of the planned activities;

b. Some of the members (in particular from the CLC) were using their authority to put forward their private interests, despite requests from the majority (this resulted in the rest of the members withdrawing);

c. Companies were reluctant to cooperate with MCA, because they found MCA approach as not serious enough, the planned activities were not performed and there was no proper exchange of information.

There is an opinion among cluster members that the members of the CLC benefited more from MCA at the cost of the other members who were less prioritized.

With regard to impact on the tourism sector, MCA contributed to increasing the *number of tourist arrangements*, increasing the *number of visits of foreign tourists*, *larger incomes* and *increased efficiency*. These achievements made an indirect positive impact on the entire industry.

During the work with the Tourism Cluster, MCA cooperated with other donors in several activities. Some of them include: e-BIZ Project (USAID) developed the Portal; ICE provided marketing research for the Portal business plan and sponsored visits to some trade fairs and business forums in Macedonia and Italy; GTZ supported the creation of some sales literature for the Hanover Fair for Alternative Tourism; USA Embassy organized business contacts with a delegation from Vermont; the Embassy of the Netherlands provided training, sales literature and a stand at the tourism fair in the Netherlands; the Ministry of Economy of RM covered the costs of some promotional material and visits to some trade fairs and forums.

The work of the Tourism Cluster introduced changes in the practice of the tourist worker. It initiated the need for cooperation in different areas of the sector and for the first time the synergy was visible. As result, the awareness of the need for dialogue with the public sector has increased, alternative tourism is recognized as a joint tourist product, group representation at international fairs is recognized as advantageous etc.

The need for further cluster operation, which will impact the growth of the local tourism market, exists and is highly valued by all cluster members. However, none of the interviewed persons has a clear idea of how to proceed. They all recognize the need for an authority to keep the synergy efficient, because otherwise, the members will lose the motivation and the cluster will face the same negative implications as the tourist associations in RM.

8.2.1.1 Findings with regard to impact assessment

In regard to the effects and impact of the MCA Project, it is true that the Project has some positive results at the national level and in particular with some of the active members. However, this positive influence should be further promoted with all the cluster members, as well as new members. Future efforts are expected to increase tourism service exports, increase domestic market share, increase productivity, earn higher revenues, GDP growth and the creation of conditions for new employments. Last but not the least, future efforts are also welcomed in improving cooperation and partnership among the cluster members.

Export

The Republic of Macedonia logged 157,692 foreign tourist arrivals in 2003 as oppose to 2002 when 112,304 arrivals were registered. Therefore, the target growth of 5.9% in foreign tourist arrivals in 2004 was met. However, continued hard work is required in order to meet the targeted 200,000 in 2006 after Project completion. Some of the cluster members signed agreements with foreign tour operators, several of which are now actively promoting Macedonian tourism. Restoring "lost linkages" in the region and connecting with international operators will remain the top priorities of the Tourism Cluster in the coming future. Regarding the number of foreign visitors, after five years of stagnation, it has achieved growth of 30% between 2003 and 2005 (as reported by cluster members).

Worth noting is that in April 2004 a group of tour operators from Bulgaria, USA, UK, Turkey, Netherlands, Spain and Croatia visited the country to assess the capacity of the tourism sector with the intention of including Macedonia as one of their offered destinations. This could considerably augment the number of foreign visitors, because the tour operators (in adventure and special tours) can bring groups from 5 to 500 visitors, spending between US $50 and US $300 per day, and are willing to stay up to 7 days.

MCA initiatives influenced the growth of the number of tourists visiting Macedonia, their average spending per day and the duration of their stay (this is evident from the number of contracts signed with the tour operators, which increased by 50%-100%). This inevitably had positive benefits for the entire tourism industry and the economy. Before beginning with MCA activities, cluster members had on average three contracts per year (2002), while in 2004 this figure grew to 9.6 contracts per year per cluster member.

Building close relationships with foreign tour operators will remain the most effective way of ensuring a sustainable increase in foreign tourist arrivals. Accordingly, assessing progress in the dialogue with the foreign tour operators provides an important indicator of the progress in this area, and it may grant future growth in the number of foreign tourists. By the end of 2005, the cluster members are expected to negotiate with an average of 12 tour operators each year, eight of which should become new contracts.

In 2006, the target should be set to negotiations with 15 tour operators, (nine of them new), resulting in nine tours sold. The MCA tourism team developed these figures based on the assessment results where cluster members increase the contracts with foreign tour operators by 25% per year in the coming period.

The above facts confirm that the most effective impact regarding export is achieved in the increase in the number of tours, which is why the cluster members worked intensively on their relationships with the key tour operators.

Domestic Market Share

There are currently 1,700 companies operating in the tourism industry in the RM. Further promotion of the cluster concept will certainly increase the number of companies in this industry. This is because the follow-on effects from tourism on the other industries are huge (one tourist worker is linked with 10 workers from other industries). Some examples of the sectors influenced by tourism are the hospitality sector, food production and entertainment, transport and retail, telecommunication, media etc. Relevant metrics that show the share of the domestic market in the potential market include the occupancy rate, average consumption per visitor and overall number of visits.

Some of the cluster members, like for example *Inter-Kont*, *Kompas*, *Euro Turs* and hotels *Mramor* and *Atila*, reported larger occupancy rate and an increase in average consumption in 2004 and 2005, particularly during the high (summer) season. Also very positive is that the number of visitors during the low seasons is permanently increasing, as result of fishing trips, hunting, shopping, gambling, congress tourism etc.

Productivity

MCA and cluster members set priorities to change the stagnation trend and to directly impact the level of effectiveness and added-value to current offers.

Many activities have been undertaken to improve the level of services rendered and the level of meeting guests' expectations. Most of them are concentrated on the country specifics, like good and unique cuisine, wine and grappa, folklore, historic monuments and posts, monasteries, beautiful landscape, attractive hiking and biking trails. The trend of improving and adding value to services is expected to continue in the coming years, since many of the worldwide tour operators, - after successful negotiations - finally included the Republic of Macedonia in their destinations for 2005.

Revenues

During the last 17 years (from 1985 to 2003) the reported revenue in the tourism industry decreased by 66%. The companies currently operating in tourism (approximately 1, 700) have the potential to regain the value of revenues reported in 1985 (US $ 270 million).

In October 2003 the cluster members assessed the expected revenue from conceptual tours (eco tourism, historic routs, biking and hiking) and came to the following: a tour in eco tourism (set as 20 visitors, 10 days) could provide a return of approximately $26,000; a tour of historic routes (50 people, 8 days) will bring approximately $66,000; biking tours (150 people, 16 days) could bring $198,500, while the hiking tours (30 people, 7 days) could provide a return of $ 27,195.

In 2004, 14 tour operators from the EU and USA included Republic of Macedonia as a tourist destination. Expected revenue from these arrangements was US $683,250. The evaluation team was not provided with evidence for meeting the expected target.

The opportunities to augment the revenue are still very limitedly exploited and these should be carefully examined in the future cluster competitiveness activities. As a comparison: a visitor in Republic of Macedonia spends US $69 per day on amenities, while this figure in other countries is US $109.

GDP Growth

Tourism is currently the largest industry in the World, accounting for 10% of the World's GDP. In the case of Republic of Macedonia, it amounts 3.55 % of the reported US $4,500 million, or approximately US $180 million.

The relative share of GDP from hotels and restaurants in the country's GDP varies from year to year, but is in the range of 1.5%-1.9%. In 2002, it was 1.7% (or 4,088 million denars of the total 243,970 million denars), in 2003 it was 1.9% (or 4,653 million denars of the total 251,486 million denars) and in 2004 the share was 1.6% of the total country's GDP (or 4,172 million denars of the total 265,257 million denars).

The relative share of the tourism is expected to grow, because the sector grows faster then the average and thus will its contribution to the country's GDP.

Job creation

The tourism sector currently employs less then 4% of the total 545,000 employed people in the country. The average investment needed to open one job post in tourism is approximately $120,000 vs. $260,000 for manufacturing jobs, which is an additional argument for working on the growth.

The data gained from the survey and provided by the MCA, show that 28 cluster members employ 366 men and 419 women. Based on data obtained on the level of the wages, the annual net salary for 2003 was approximately $2,560, with a spread from $1,600 for some companies and up to $ 4,300 for others. With regard to higher salaries or trained and skilled personnel, improvements have not been recorded.

Cooperation and Partnership among Cluster Members

Collaboration is the fifth leading principles of clustering, out of the six in total.

The success in this industry is a result of many small steps. We (hotels, travel agents, retail shops, cab drivers, banks, universities, tour guides, park rangers, government, air lines, marketing professionals and international investors) all have different roles, but our combined actions will drive our profitable industry and will create a new state of the mind for the Macedonian business people.

This underlined paradigm of clustering is one of the biggest benefits for the cluster members, because it was previously hardly recognized. There are many positive examples for building partnerships, such as the cooperation with the Federation of Mountain Sports of Macedonia and the Mountain Biking

Club "Oxygen", collaboration with the Cheese and Wine Cluster, participation in the *Ohrid Cheese and Wine Festival* etc.

8.2.1.2 Findings with regard to the effectiveness of the cluster selection process and specific interventions implemented by MCA

Cluster Selection Process

The decision to select the Tourism Cluster was accepted as logical and justified because of several reasons, but mainly because a better tourism industry will improve Macedonia's image as an attractive country for holiday and commerce. Significant opportunities exist to link a vibrant tourism industry with the initiatives to increase the competitiveness of the wine, food, and other clusters.
The key to competitiveness in tourism is investment in people and an increase in their ability to learn quickly and to meet the needs of demanding customers. This will give an example to the rest of Macedonia: successful tourism initiatives will increase Macedonia's contact with other countries and cultures, therein creating a myriad of additional business opportunities. In addition, successful tourism involves an intimate understanding of customer preferences, competences and knowledge of what the region has to offer.
Improvements in the tourism industry help the country to position itself on the global market and provide hard currency cash inflows. It helps Macedonia to move from manufacturing, agriculture and commodity-based economy into sophisticated service-based economy and contributes to the internationalization of the country. Finally, support to the tourism sector is a good entry point for non-skilled labor, because it facilitates the entry of foreign direct investment and generates extra tax revenues.

With regard to the correctness and transparency of the selection process itself, although there were some objections to the procedures, more than 60 firms, organizations, institutions, associations and individuals joined the Cluster in 2003.

Effectiveness of MCA Specific Interventions

The *organized in-country search* for suitable theme trips and including them in the tourist package, Adventures were successfully organized and resulted in a well-defined product that is sold on the international market. The efforts made to attract some major tour operators to enter Macedonia and to include the country in their regular offer became a reality: several foreign tourist catalogues offer attractive trips and adventures to Macedonia. Press coverage obtained trough organized visits of reporters from a few prominent tourist magazines improved the image of Macedonia by presenting the country as an eco-paradise destination with heritage and historic posts and monuments.

An important achievement is the Tourism WEB Portal: it presents the colorful beauty of the country and promotes it as a destination for extraordinary experiences and relaxation. As a result of an NECC initiative, the portal is also promoted in other official national web-portals.

With regard to NECC involvement, it helped resolving some problems, such as the issue of entry visas for a group of tourists from Israel.

The involvement of foreign experts was dominant and very helpful at the Project's inception and during its early stages, since the local experts lacked the skills to lead the cluster initiation process. The contribution from the foreign experts in the initial phase of the Project is considered as the most effective intervention delivered from MCA. They did not only demonstrate profound professional knowledge; their excellent leadership and organization skills were important to stabilize the project beginning.

The contribution of IESC volunteers was less valuable. They lacked prior orientation on Macedonia's situation and their involvement created some confusion among the beneficiaries.

The input provided by the local consulting companies did not provide any visible results.

The planned education and training program was not realized, despite the clearly expressed need for training of all profiles working in tourism.

The procedure applied for grant disbursement was viewed as being partially efficient and transparent. The application stage of the procedure was quite well, while the granting and level of feedback from MCA (granted BSPs) failed. There is a level of ambiguity on the number of applications received, how many were successful and the number of those rejected. This information is also not available on the web. The project promoted larger involvement of women and contributed to the improvement of the gender structure in some Macedonian tourist companies.

The influence of the Cluster Leadership Council was not very efficient, mainly because of some conceptual disputes with the changes suggested on the *tourism concept* (adventure, exploring, and theme tours) towards reaffirmation of mass tourism.

With regard to its future existence and its sustainability, the cluster might transform into an NGO, but this pending issue has not been resolved.

Cluster members expected more from the NECC. Its performance is considered weak and inefficient, its communication with the base poor and it didn't succeed in creating solutions for a more prosperous future of the economy.

The Cluster was **most successful** in fostering association and mutual collaboration, promoting alternative tourism, making linkages with the world, organizing visits of foreign tour operators and reporters, visiting trade fairs, designing sales literature and creating a tourism web portal. The most important intervention, which **failed** to bring results, is *cooperation with education*. This group of activities (adjustment to the education curricula to the needs of the tourist industry and training in business plan development) was canceled due to a lack of financing.

8.2.2 Lessons learnt

The primary lesson learnt is that change in awareness, attitude, understanding and behavior is crucial for the sustainable development of the industry.

Most of the business decision makers reported that their behavior changed as a result of something they learned about competitiveness with MCA. They learned about the importance and value of research in quality standards in the export market (e.g. countries in the European Union), investing in training, conducting market research etc.

The paradigm that *successful tourism involves an intimate understanding of your customer, your competences and all other aspects of what your region has to offer* became widely accepted and understood. The awareness that by growing the industry one helps the country's image, its positioning, and improves the everyday prosperity of Macedonian citizens is a reality with tourism cluster members.

The Project changed the common mindset of some of the tourist workers and managers in the Republic of Macedonia. Tourism is the single largest stimulator of national self-esteem. It provides incentive for cultural and historical developments and stimulates interchange of perspectives, ideas and cultures.

Cluster members learned how to develop products based on stories and adventures and how to sell them. They also learned a lot about the market, where they can sell and the various target groups worth approaching and willing to pay for the offer.

Another important lesson learnt is the importance of developing and implementing business strategy that emphasize opportunities and constraints (external and internal). Also important is the finding of how difficult it is to enter any foreign market without nurturing the desired country image. Important lessons learnt are how big the marketing costs can be, and how long it takes before any benefits become visible.

Cluster members learned that they need well-educated and skilled personnel in restaurants and hotels and that the level of service must be the highest possible.

There is an obvious need for regular and accurate information about trends in the industry and for regular updating of the web portal with latest news and upcoming activities.

There is an increase in interest for additional sources of knowledge and other services provided by projects among various cluster groups. MCA should continue to cooperate with the similarly focused projects in the country to integrate their efforts for helping Macedonian economy.

8.2.3 Recommendations

Short-term activities

Cluster leadership needs skills to ensure its higher involvement in activities of common interest.

Long-term activities

The Cluster should remain operating at a national level, because tourist products are conceptualized for the country as a whole. The cluster members do not see opportunities the effective existence of local clusters.

The development of a mixed offer of products and services and the promotion of Macedonia as a tourist destination is good to be continued. It is also recommendable to organize easy access to tourist information and rest areas at border terminals, main roads and signposts.

The market research activities, approaching various target groups and the support for the participation at trade fairs should be further continued and improved.

The continuation of dialog between all stakeholders is a mandatory cluster obligation. This requires active involvement from all cluster members. Facilitation of the process is welcomed and the local BSPs could provide effective assistance.

The consultants have to be more involved in competitiveness development activities, based on carefully defined expectations and competence requirements.

Foreign consultants are welcomed, but they need to be carefully selected and properly briefed before the beginning of the assignment. Most of the contacted cluster members believe that in the beginning of the next assistance project, the relation between involving foreign experts versus local experts has to be 60% to 40%. As the project progresses, the involvement of the foreign consultants has to continually reduce to reach 20% by the end of the 4th project year.

Project managers are expected to be professionals with authority, knowledge and experience, because this directly influences the motivation of cluster members. A lesson learnt with MCA is that the change of the project managers directly influenced the motivation of the cluster members. The disruptions in continuity also created some free space for imposing some personal interests and corrupting the sense of interpersonal relations.

Education and skills development in cooking, hospitality management, logistics, language proficiency and communication skills need to be the focus of future assistance, because this is what lacked with MCA.

Grants disbursement is a good assistance measure in its intention, but it needs to be professionally and transparently delivered.

The cooperation with donors was useful and it needs to be further improved and carefully treated, because the potential of the synergetic effects is enormous.

Further assistance in standardization and categorization of restaurants and accommodation faculties is also very much appreciated. Some activities have already been taken, but the cluster members are looking forward to continued cooperation.

Self-development activities

Cluster members could take advantage of the additional promotion opportunity of the national web portal, printed materials, trade fairs presentations, billboards, visitor centers etc.

8.2.4 Obstacles in achieving goals of recommended actions

The key obstacles to achieving the goals of the recommended actions are the following: lack of export business management skills, lack of proficiency in foreign languages, low investment in marketing and promotion, lack of suitable retail outlets for local wine, cheese and handcraft and gift shops, lack of reliable public transportation, poor infrastructure and sign posts, lack of accurate and timely information.

8.3 Cluster Information Technology

8.3.1 Findings

General

Keeping in line with the rapid global development of the Information Technology (IT) industry, the IT Cluster is demonstrating that information technology is already playing an important role in creating a better future for Macedonian business.

The work in the cluster begun in November 2003 and the cluster identified five potential task forces: 1) market learning, 2) enabling innovations, 3) human resource development, 4) legal regulatory and 5) information infrastructure.

There is no doubt that MCA provided very valuable support to the IT Cluster. The Republic of Macedonia hosts over 200 IT companies, most of which are small and privately owned and nearly a quarter of them are members of the IT Cluster. Most of them are also members of the MASIT association and did not have any experience in cooperation with donors prior to becoming cluster members. Few of them have had the opportunity to be involved in training for small and medium enterprises offered by other donors.

Despite the overall growth of the IT industry and the available data for 2002, 2003 and 2004 there is no clear evidence for a more significant increase in the number of employees in the period after 2004. On the other hand, there is an evident improvement in working and managerial skills of IT Cluster members. Although they did not report profit increases, there is awareness of the need for skilled working and quality management.

Most of the IT companies are located in Skopje and for this reason MCA activities with the IT Cluster mainly concentrated on the local companies. However, this is not an indication that a certain demographic group benefited significantly less from the MCA than the other. Due to the fact that almost all cluster members are operating in urban areas and the infrastructure required for their operation in the rural areas is not developed, there is no possibility for achieving a balance between urban and rural areas. With regard to further cluster organization, all the members consider its future as a cluster organized on a national level rather than on a local level.

Women are becoming more and more present in all segments of the IT industry, especially in companies where education is the main focus. The percentage of females employed in the sector was 33% in 2002 and 32% in 2003.

It is evident that all the major cluster players worked through MASIT and the Chamber of Commerce and lobbied the Government effectively. Large regional trade fairs were organized and joint participation at international fairs was realized. The members share an understanding that *differentiation and specialization* by targeting specific niche segments is the only way to increase competitiveness. The cluster has committed to meeting every week, as needed, for several hours. The resources and meetings of MASIT catalyzed cluster efforts.

The impact of the IT Cluster will be significant for the Macedonian economy in long term, but the IT Cluster's short-term successes are less visible. Therefore, the long-term impact potential of the IT Cluster makes it a strong candidate for receiving further external support.

MASIT - as a voluntary, non-profitable association and organizational body of all private companies whose basic activities are manufacturing, trading and services in the area of information technology - was recognized as the most effective member/organization in the cluster. This helped the IT Cluster to demonstrate strong leadership and strategic potential with long-term vision for sector development. In the future, the cluster development process will be focused on strengthening cluster joint vision for key products and target markets and for common use of resources and capacities.

MASIT also had a positive role in establishing cluster relationships with education institutions and in influencing the process of adjusting vocational curricula for satisfying the needs of the market demand knowledge. In this process, better communication and collaboration with local consultants and BSPs is also very important.

The IT Cluster members were most satisfied with the MCA support of fair participation, in export sales and marketing promotion of products and services, and in the facilitation of establishing business contacts with foreign partners. However, they feel the need for additional training for the cluster leadership in managing cluster development and sustainability efforts.

With regard to activities at a local level, there is an opportunity to collaborate with the local government and to participate in the local economic development (LED) programs. As LED is one of the new competencies of the local government and the private companies are lacking skilled and educated staff, the IT Cluster can look for an opportunity to become involved in some donor-assisted initiatives in supporting local economic development. In addition, the partnership with the local government should be also recognized as an important strength of the cluster leadership.

Finally, one has to mention the Digital Media Group - MADE, which is bringing something entirely new to the Republic of Macedonia: *creating prosperity for the country by developing a new workforce in visual arts and animation straight from high school classrooms*.

8.3.1.1 Findings with regard to impact assessment

Export

Republic of Macedonia hosts over 200 IT companies, most of which are small and privately owned, with combined revenues of US $65 Millions and export of US $13 Millions. Software and Services are the faster growing segments, growing at more than 133 % per year.

The export figures in 2002 and 2003 were US $3,577,000 and US $3,971,000. The cluster companies' export figures amounted to the official figures for IT exports: US $7,539,000 for 2002 and US $8,455,000 for 2003. In 2002 the exporting companies exported to 17 countries, and in 2003 to 16 countries[2].

Domestic Market Share

The IT market includes IT production, IT imports, and IT exports. IT production includes both hardware production and software development. Regrettably, official data on IT production does not exist. Only export and import data is available. Export and import data can be tracked through tariff numbers that have been officially assigned to specific products by the Customs Bureau. The tariff numbers for IT products in Macedonia have not been harmonized with the development of the Information Technology. For that reason, many of the IT products that are traded do not match the description of the official tariff register. In the last period, MASIT has formed a number of working groups that communicate with Government representatives, as well as with the Customs Bureau, in order to improve the import and export conditions for products from the IT industry.

[2] IT BASELINE STATISTICS SURVEY FOR 2002 AND 2003 prepared by CDS-Center for business cooperation,2004

MCA overall activities, along with the support to the IT companies provided by other donor organizations, influenced considerably the domestic market in a positive manner. Due to the fact that exact data on quantities sold on the domestic market are not available, we can only rely on assumptions provided by the cluster members.

Productivity

Productivity is a measure of the efficiency with which the firm converts the entire set of inputs, required for production, into output.

As related to the IT Cluster, slight growth has been recorded in productivity over the past three years, mainly due to improved business processes and an increase of contracts with foreign partners.

Recently the members of the IT Cluster established a consortium, the MCIT (Macedonia Consortium of Information Technology) to respond to an emerging opportunity with an US $8 billion software company interested in the Balkan market. MCIT was the original IT consortium, but it was disbanded in August 2004 in favor of the new one - the MacedoniaIT, which held the road shows in Austria. Aside from the fact that the companies covered the travel expenses, MCA support in organizing the trip was highly appreciated. In addition, MCA provided training and initiated an enormous number of new contacts with foreign companies.

The MacedoniaIT worked actively until February 2005 when it transformed into an NGO.

Revenues

MCA contributed to an increase in revenues among cluster members mainly by supporting their export activities and by motivating joint market appearance based on the association and inter-cluster cooperation approach.

The monthly weighted average salary, based on net salary figures, was around US $242 in 2002, US $268 in 2003 and US $271 in 2004.

GDP Growth

The country's GDP was US $4,692 million in 2002, US $4,836 in 2003 and US $5,101 in 2004. According to the State Statistical Bureau data, the share of IT sector was 0.26%, 0.18 % and 0.30% respectively. The positive trends in the IT industry and the increased exports contributed to the increased participation of this industry in overall GDP growth.

Job creation

Compared to other sectors in the RM, the IT sector is still relatively small. Regardless, it is one of the fastest growing industries in the country. In addition, a highly developed domestic IT industry increases productivity in virtually all other industries, including textiles, agriculture and manufacturing, generating similar benefits throughout the economy.

The Information Technology Cluster is improving competitiveness in three main areas: consortium building, e-government and digital media. This innovative consortium of some of the top Macedonian software and IT services firms represents a large percentage of Macedonia's software export revenue, employs more than 400 persons and serves more than 2500 customers.

The total number of employees in IT companies amounted 822 in 2002, 888 in 2003 and 1189 in 2004 (according to the State Statistical Bureau). Recently the Bureau performed a pilot survey on the progress and penetration of information and communication technology in the private, public and civil sectors. The survey was based on the *Eurostat* methodology.

Cooperation and Partnership among Cluster Members

The IT Cluster encourages Macedonian IT companies to increase their communication with one another. In the past, many companies were not aware of other's efforts and thus did not communicate regarding their common interests. The cluster is strengthening its relations with the government to improve policy conditions for the IT industry, attract foreign direct investment, direct the educational system to meet IT challenges, create the appropriate legal framework for e-commerce and inform government and private users about the knowledge-based economy.

IT cluster members, mainly private sector representatives, showed their desire and readiness to improve the economy through open dialogue between the private and public sector within the NECC.

8.3.1.2 Findings with regard to the effectiveness of the cluster selection process and specific interventions implemented by MCA

Cluster Selection Process

The IT Cluster was selected in the second selection round together with the Wine Cluster. The decision to select the IT Cluster was based on the same selection criteria as in first round:

1) The cluster members have a solid foundation for future development;

2) The companies clearly understand the advantages of working together and are eager to invite other committed firms into the cluster;

3) The cluster members seek to be globally recognized as leaders in specialized software development;

4) Cluster activities will support high quality standards, new market penetration, new products, and constant innovation.

Although the selection of the IT Cluster created many benefits for the cluster members and they are very much willing to continue improving the cluster's capacity, the process of selection was not accepted as transparent enough.

Effectiveness of MCA Specific Interventions

The IT Cluster received all types of support from MCA, including training, consultations, grants, participation at trade fairs and direct support to export. However, the most successful MCA accomplishment was the establishment of the *Macedonia Consortium of Information Technology (MCIT)*. The consortium was intended to respond to an emerging opportunity with an US $8 billion software company interested in the Balkan market. The company was investigating the possibility of aligning itself with a local business partner to investigate regional market development, and support-outsourcing opportunities in specialized application development and hosting. The consortium's representatives have already conducted the first round of meetings with perspective partners in Austria where they presented RM as a destination for IT services and MacedoniaIT as the right partner. With the ability to envision the advantages of such an alliance, the consortium may provide support to other sectors of the Macedonian economy. MCIT represents a model for other clusters to follow.

MCIT was the original IT consortium, but it was disbanded in August 2004 in favor of the new one, MacedoniaIT. The new consortium worked actively until February 2005, when it transformed to an NGO.

The least effective was the consultancy delivered during the first year of the project, when a lot of time was "lost" on theory and ineffective meetings.

One of the well-organized and effective interventions was building the capacity of MASIT to facilitate more productive dialogue in the sector. Working with foreign MCA Cluster Competitiveness Advisors at the beginning played an instrumental role in coordinating MCA's support to MASIT for organizing the second Conference of IT Associations of South-Eastern Europe in Skopje. Namely, MASIT organized a regional conference - MASIT Open Days, which offered an excellent opportunity for attendees to establish contacts with associations and companies from several neighboring and EU countries, while promoting regional networks to support technology transfer exchanges.

The consultations delivered by local consultants and business service providers were less effective. They were given the opportunity to be involved in the assistance program, but there is a lack of local consultants familiar with the specific needs of the IT industry and digital media.

Foreign consultants delivered satisfactory assistance to IT companies. In the first year of MCA operations, the consultants provided more theoretical than practical training, but during the next two years, the consultants' contribution was more effective and supportive.

The MCA IT advisors, in cooperation with an IT Cluster members, supported the e-learning 3D@E-Schools Project coordinated by several USAID projects, including E-school, Prisma, Community Self-Help Initiative and Digital Media Training Center. Together with the GTZ Project for Technology Transfer, MCA supported participation at the conference for University Technology Management in San Antonio, in 2003. Another donor cooperation initiative was the organization of the SEEITA (South-East Europe Information technology Association) Conference in 2003 and the research study on *IT workforce demand*, realized together supported with GTZ. There was also cooperation in training delivery by the USAID office in Bulgaria.

Good examples of cooperation with other donor projects include activities with the Axis-Avid Softimage Certified Training Center (e-Biz, Mechanical Engineering Faculty, Canadian software firm), Johnson Controls C++ training program (World Learning), web portals and e-Biz centers (e-Biz and local firms).

Regarding the work and effectiveness of the NECC, the cluster members have the view that the Council should include representatives from all stakeholders and that the Council should give small and medium-size entrepreneurs the opportunity to be part of their efforts. The criteria for the selection of members of the NECC should be carefully defined and their work needs to be evaluated and monitored.

8.3.2 Lessons learnt

The **main lesson learnt** is the need to further promote and build awareness of the benefits of cluster networking among cluster members.

The IT Cluster is clearly showing that it has the right capacities when it comes to innovation and initiative. The business representatives are particularly interested in seeing how they could use the training platform for other types of training and ways to best use the talents of young people who are eager to learn in a fun and creative way.

The knowledge of modern business operations within the cluster is still poor, and this influences the level of interest for implementing standards in the IT industry, business planning, development and organization, export marketing and export business management.

The active collaboration and partnership between all stakeholders is extremely important. What is even more important is the need to strengthen the role of education institutions in cluster collaborations. However, they need to update the curricula according to the new market demands and new trends in information and communication technology.

The most effective benefit of the clustering process was the fact that the cluster members learned that efficiency and cluster sustainability is enhanced by building strategic partnerships between all stakeholders in technology generation and technology transfer, as well as by increasing the level of knowledge.

The cooperation established between MADE and the local government, especially with the efforts to build digital media production capacities, was an excellent example of public-private partnership.

MCIT and other cluster members understand the value of partnership, one of the pillars of success in any business sector. As a consortium, they are pursuing opportunities to near-source, a trend that is increasingly competing with off shoring and outsourcing. As a group, they can compete for contracts that would otherwise not be accessible for individual firms. Together they combine many years of experience in several industries, including banking, insurance, healthcare, and others.

8.3.3 Recommendations

The IT Cluster was one of the most active and high benefiting cluster in during the period of MCA. The IT sector is also attractive for the international donor community, because all donors enjoy working when impact is visible and the beneficiaries are "successful". The IT Cluster needs further assistance in becoming sustainable and competitive on the international market. Beside others, we recommend offering the following assistance:

Short-term activities

The short-term activities should bring apparent results to encourage the active members, but also to motivate the passive ones.

Additional international market research of applications and new software products is required to guide the further development of the domestic IT companies and to build capacities for developing those kinds of applications and products.

The IT companies need further skills and knowledge in different aspects of business practices and innovations management, as well as in export sales marketing. The IT Cluster needs expertise and knowledge in human resource development, project management, communication and negotiation skills, skills needed to participate in international tenders and skills in specific software applications, such as JAVA C++ and other major platform technologies.

It is also important to strengthen the capacity of the cluster leadership to ensure its higher involvement in activities of common interest. Training in cluster managing issues could be appropriate for the cluster leadership.

Foreign consultants should continue to deliver the majority of consultant services, but they should also include local consultants. At the beginning of the eventual new assistance program, it is recommended that foreign consultants should be employed for 70% of the consulting assignments and that there is a gradual sift to employing more local consultants. After a period of four years, the majority of the consultant's involved should be local (60% local consultants – 40% foreign consultants).

In order to be more effective and to be consistent with the other industries, the local consultants need to be better organized in professional associations. In that, they can share knowledge and experience and can be more efficient in providing consultancy services. This will also create more opportunities for institutional cooperation with the IT Cluster. On the other hand, by becoming a cluster member, the consultant associations can contribute to the improving the performance of the IT Cluster.

Long-term activities

The timely knowledge of new technologies and the development of curricula at education institutions (including universities), to support the national strategy for IT, is the primary initiative of the long-term assistance. The strategy - adjusted curricula - will bring competitive and skilled staff, able to respond to the market's demand.

The legal aspects of the IT sector, such as security, cyber crime, digital signatures etc., need to be discussed more extensively with the relevant Ministries. The NECC should play an important role in the dialogue.

MADE / entertainment and digital media cluster could be supported separately from the IT Cluster. The good cooperation practices with the local government, especially in the case of MADE activities and efforts to build digital media production capacities, should continue and be supported.

The introduction of digital technology creates the need to develop new contract practices and to review the work of organizations that are supervising *copyrights*. It may also be necessary to create amendments to legislation, international contracts and international treaties.

The association type of cooperation among IT companies needs to be further supported in order to strengthen the cluster's export potential.

Self-development cluster activities

There is a need to establish a code of practice and to change the managerial approach when performing on domestic and foreign markets. This will bring more cohesion in the sector, will discourage internal conflicts and will help establish good relations with the cluster in the region.

The promotion of the association type of cooperation among IT companies should continue. This will enhance the cluster's export potential in terms of unified quality standards and joint marketing. Each cluster member needs to intensify their efforts in implementing necessary standards for managing quality of services and products.

8.3.4 Obstacles in achieving goals of recommended actions

The main goal of MCA was to initiate an integrated approach to the sustainable development of the IT Cluster. In its efforts to achieve competitiveness, the cluster will further meet serious obstacles, the major ones being the following:

- Low level of managerial and communication skills for negotiation, business contacts and experience in participating in international tenders
- High cost of technology modernization
- Lack of implemented IT standards for quality and security
- Absence of a code of practice and criteria for appropriate and adequate bidders
- Lack of essential first step: clearly expressed will by all stakeholders involved – the private sector, the Government and the civil sector. The NECC case illustrates the importance of commitment to the efforts for increasing the overall country competitiveness;
- Low level of involvement from government institutions.

8.4 Cluster Wine

8.4.1 Findings

Transition processes in the wine sector are still not complete and the sector is prone to frequent changes. In addition, the transition is additionally influenced by fluctuations in the price of bulk wine on the international market, which complicates the situation for companies dealing with wine. Anyhow, the opportunity for improving economical indicators of the sector is large and MCA contributed significantly in having achieved the current situation, especially with the cluster members.

8.4.1.1 Findings with regard to impact assessment

Export

Regarding export growth and the direct influence of MCA, unfortunately no data was made available to the evaluation team. There are some indications for slightly positive changes, but the results from the recent marketing activities abroad are still expected and it is early to make any conclusion for further developments.

Domestic Market Share

It can be understood that small wineries penetrate the market with limited quantities of bottled quality wine at relatively high prices, while the largest part of production (of bottled wine) from bigger wineries covers the lower quality wine segment. Since a few years ago, the trend of producing better quality wine is becoming more evident and this affects even the largest wineries. However, the large wineries are still keeping their well-established position on the domestic market, because the penetration of small quantities from small producers is still low to make any significant change in market share. Regardless, positive effects on market share for the small wineries are visible. In addition, it is worth mentioning that all wineries are mainly export oriented.

Finally, it has to be mentioned that small quantities of table grape are exported from Macedonia, which confirms the negative trend for table grape is continuing. During the last few years, large quantities of table grape were used for alcohol production.

Productivity

MCA activities have positively influenced productivity. It is evident that some wineries have implemented new technologies and have improved working processes as result of MCA's efforts. These are mainly small wineries, where technology modernization can be done with lower investments.

It is positive to mention that some of the wineries have acquired QMS certificates, and others are in process of implementation. However, there is no evidence that this trend was influenced by MCA. In addition, the HACCP implementation (obligatory for the food industry) was not part of MCA's activities with the Wine Cluster.

The number of products offered has increased moderately and it is evident that small wineries expanded their offer not only in terms of new products, but also in terms of new packaging and consumer-tailored taste of wine. MCA's contribution here was significant.

Revenues

In regard to revenues, it is important to make a clear distinction between wine producers and grape producers.

Wine producers are not reporting any serious increases in revenue, while grape producers, affected by the low price of grapes, are facing decreases in revenue. Unfortunately, the current downward trend in bulk-wine and grape price is likely to continue. This trend affects small and large wineries differently, because the largest part of revenues for large wineries comes from bulk-wine export, while small wineries are more oriented to bottled wine sale.

Having in mind the latest promotional events in foreign markets organized by MCA, it is too early to infer any conclusions about their contribution to revenue, but still, according the first indicators there are promising positive results.

GDP Growth

According to the latest data from the State Statistical Bureau, Gross Domestic Product in the Republic of Macedonia had a nominal value of USD $4,842 million. The sector of agriculture, hunting and forestry makes up approximately 11.3 % of GDP, or around US $547 million. The wine sector contributes approximately US $45 million, or 8.2% in the aforementioned sector (or 1% of GDP).

The real GDP growth rate is 4.1% (compared to 2004), but it is difficult to determine the contribution of the wine sector, because the total purchase of grape this year increased (~55% compared to 2004), while the price of bulk wine, as a main product, is lower than ever (~0,35 EUR/l).

Job creation

As a result of the bankruptcy of some of the largest wineries in the Republic of Macedonia, the employment in wineries has been negative. The situation with grape-producers is similar, mainly influenced by the low price of grapes. Existing sorts of grapes also contribute to this. Aside from a small number of new jobs created in the new (small) wineries, there is no evidence of any significant increase in number of employees in wine sector.

Cooperation and Partnership among Cluster Members

The cooperation of cluster members was greatly improved due to MCA efforts, as opposite to the previous associations that did not fulfill their objectives. This fact is considered the greatest success of MCA, because nobody succeeded in this before. Regardless of the mutual competence of cluster members, the Wine Cluster has become a "place" for interchanging ideas, experiences, identifying partners and resolving common problems. One good example is the existing association of "Fine Wine" producers, made up of six companies that have held joint promotions in foreign markets.

However, there is a base for improving the level of cooperation between grape producers and wineries, beside the results achieved in this field with the introduction of *Model grape purchase contract.*

There is also evidence of inter-sector cooperation during the "Ohrid Cheese and Wine Festival", organized by MCA.

8.4.1.2 Findings with regard to the effectiveness of the cluster selection process and specific interventions implemented by MCA

Cluster Selection Process

The decision to select the Wine Cluster in 2003 was reasonable, because wine producing is one of the most important industrial sectors and the number of wine cellars is growing. Needless to say, the cluster has fulfilled the selection criteria requirements. At the beginning, 15 members joined the Wine Cluster. In 2005, the number increased to 40, of which 10 are very active. The current number of members almost fully covers the existing wine cellars.

The Selection Criteria (1.*Leadership, Entrepreneurship and Commitment*; 2.*Strategic Potential* and 3. *Impact in Macedonia and cooperative approach in resolving mutual problems*) were logically chosen and contributed to the right choice of clusters (entities for future support).

The selection process was transparent, without any serious objections or mistakes.

It is true that the highest concentration of grape and wine producers is in the region of Povardarie/Tikves and the area of all wine regions is approximately 150 x 100 square km. In addition, the problems that affect the wine producers in the region are identical. Therefore, the regional–based wine cluster seems to be a reasonable approach for the future. However, for its efficient functioning, support from local professional associations and business service providers will be required. Their founding and operation also needs to be supported.

Effectiveness of MCA Specific Interventions

MCA activities with the wine cluster were well organized (especially the promotions at the international fairs in London and Paris). Cluster members are generally well informed of the support offered by MCA, which indicates good cooperation/communication. All of the planed activities (trainings, promotional activities) were delivered to the cluster members. Certainly, the achieved results are the consequence of personal interest and self-engagement of the participants. The effectiveness, shown in the implementation of the activities, indicates a well-established structure of the organization. However, the current cluster leadership is viewed as being non-competent, despite improving over time.

The technical assistance to wineries positively influenced the entrepreneurial management mindset and encouraged market driven thinking. Still, it is noted that grape producers were less prone to change, mainly because of their mentality. Existing "customer care" was moderately improved. However, *export support and training in sales, marketing and promotion* are considered the most effective activities. Capacity building, especially in the area of marketing and promotion should be emphasized. There are also positive results from consultations in winemaking that directly assisted production in wineries.

In the field of winemaking and viticulture, there are only a few domestic BSPs, mainly from educational institutions. Therefore, it is easy to understand the reason why they were not affected by MCA's work. With this in mind, it is obvious that BSPs could not give any significant support to cluster members, but there is still a need for more active participation of education and R&D institutions in the cluster competitiveness activities, especially in the professional field.

In general, the assistance provided by the foreign consultants was appreciated. However, one can notice the difference in the evaluation of the benefit of the support in large and in small wineries. For this reason it is difficult to define the optimal distribution of services delivered by local and foreign consultants. There is an opinion that local consultants with experience from abroad will be the most desirable way of intervening.

Less effective in giving assistance were general market researches, and some of the seminars that were dealing with basics of vine growing. The latest are considered unneeded, according to the vine growers' opinion.

The grant for training valuably influenced the business of the cluster members. Yet, it is too early to know the impact of the grant for promotion.

The grant awarding process (for individual grants) was considered less transparent. Opinions range from "totally not transparent" to "fully transparent". Still there is a feeling that a closed group of players exists.

There is one more international donor, acting through SIPO (Swiss Export Promotion Organization) working with the wine sector. SIPO financially supports participations at fairs and promotes Macedonian companies abroad. Some of cluster members benefit from their assistance, but there are complaints about the organization of these events.

As far as the NECC work is concerned, there is a common opinion that their work can be greatly improved. Actually, none of the interviewees has seen any benefit of their work or more alarming is that fact that some of them are not aware that the NECC exists. The NECC did not succeed in establishing dialogue between the wine sector and government. Work that is more transparent is highly recommended.

Usually wine growing employs a work force independent of gender; therefore, there is no any gender discrimination. Wine cellars mostly rely on the male work force, but managerial structures in the same companies do not suffer from this conditional discrimination.

As far as ethnic structure is concerned, noticeable difference exists, mainly due to the geographic location of wine regions and religious conviction.

8.4.2 Lessons learnt

During the implementation of the activities, many challenges were met, but they also could be taken as good examples for future improvement. Probably the most difficult task was to change existing habits in wine-production and vine growing – an area that requires careful planning for future similar activities and consultant selection. It was noticed that different problems occupy grape producers and wine producers, and aside from the common objective, there are differences among large and small producers. All of these needs could be addressed in further competitiveness promotion activities.

In the activities aimed at fostering cooperation, it was learned that it is easier to establish cooperation between wine-experts than it is between company managers, but generally speaking, MCA succeeded in establishing cooperation between all interested parties.

Regarding the work with enologists, it would have been more effective if the cluster members' enologists participated in on-the job training in the targeted export countries, instead of brining experts from abroad into the cluster members' wineries. However, the lack of proficiency in foreign languages reduces the chances for such cooperation.

Existing negative trends on the international market for bulk wine emphasizes the need to increase exports of bottled wine – this was one of the Wine Cluster's strategic objectives. Joint promotion in foreign markets is one of the activities that should have happened a long time ago, but because of the ineffectiveness of the previous associations, this was not realized. This type of activity had great impact, as it was noticed during the organized events. Follow-up activities at promotional events could be much better. Gathering information is important and a more systematic approach will certainly increase the effects.

8.4.3 Recommendations

MCA positively influenced the development of the competitiveness of the wine sector, especially of the small wineries, which were the core members of the cluster. However, after two years of being active, it is early to talk about maturity and sustainability. The assistance from external supporting institutions is needed and appreciated. Unfortunately, the future of the cluster, according the opinion of those interviewed, is unclear. Regardless, the cluster has clear guidelines established and should continue with its activities.

Recommendations can be divided into four general categories:

1. Export support
2. Human resources/companies capacity building
3. Improvements in communication/transparency
4. NECC – related recommendations

As one of the strategic objectives, the importance of exports is crucial even now, and surely will increase over time. Under this item the following actions are recommended: assistance in developing export strategies (production strategies are available, but these are not sufficient for export), evaluation of the export potential of spirits, support/assistance of promotional and marketing activities, assistance in following permanent and quick changes on the market, assistance in “costumer-oriented” production, creating a systematic approach to data collection and analysis (from promotional events). Implementation of the mentioned recommendations will probably take longer to fulfill.

Recommendations for capacity building are mainly based on the lack of adequacy skills/knowledge, needed for successful participation in the modern wine business. Training should focus on marketing and on expert skills, including transfer of foreign experiences/technologies. Related to this, possible resistance to accepting change resulting from adopting new technologies should be taken into account. Training related to HACCP implementation and practices is highly recommendable, because its implementation is obligatory for the food production/processing industry. These recommendations can be implemented in a relatively s**hort time** and can possibly form part of the existing MCA efforts.

Better communication between involved parties will surely contribute to better cooperation and work that is more transparent. Related to this, frequent meetings among MCA staff and cluster leadership/members, as well as on-site visits and meetings with cluster members will give a realistic picture of the current situation in the cluster. Providing cluster members with information about MCA activities on a regular basis is important because it will improve transparency and will provide a larger number of potential participants in those activities. More attention should be devoted to the grape producers and their problems, which are usually different from those of wine-producers, yet interrelated. Therefore, additional efforts are needed to stimulate cooperation among grape producers and wine cellars.

Improved communication to the NECC will lead to cluster needs being presented better in front of government institutions. It is also important to emphasize the weak level of cooperation between educational/research institutions and the cluster. This is an issue that could be improved.

As far as the NECC is concerned, there is a need to restructure the NECC in order for it to fulfill its obligations. Capacity development of the council members or at least that of the managing board is also needed. There is a common opinion that the wine sector is insufficiently involved in the NECC, which in turn produces insignificant benefits for the wine cluster.

The cluster/cluster members should implement many of the recommended actions, except the changes proposed in NECC. However, having in mind experiences from the past, MCA should undertake a "catalyst" role.

8.4.4 Obstacles in achieving goals of recommended actions

The main objectives of the cluster are to improve quality of wine, to increase exports of bottled wine and to create a good image of Macedonian wine. Many of the obstacles that obstruct economy growth, have a negative influence on the efficiency of the recommended actions. Some of the key issues are the following:

- Strong competition on the international market
- Lack of financial resources for modernization
- Lack of support from the government institutions
- Frequent changes in the wine industry in the last years, which was a result of privatization, personnel changes and bankruptcy of some wineries
- Lack of marketing skills
- Lack of interest from some cluster members
- Low number of professionals in wine-making
- Fear of changes – it is not easy to change existing habits
- Old-fashioned technology in some wineries has a negative impact on the quality of wine
- Low level of involvement of education institutions in the cluster activities is the most serious issue for the future development of the sector

8.5 Cluster Apparel Evaluation Report

8.5.1 Findings

General

The Apparel Cluster was selected in the third selection round and it is quite early to evaluate the overall achievements. However, optimism and commitment from the active cluster members is evident and they believe the cluster is performing better and better. Still, the cluster needs further external assistance and is not in a position to continue without donor support.

The Apparel Cluster is quite balanced in terms of ethnic, gender and urban cluster members and there is no need to apply any additional interventions for improving these issues. During the evaluation and the discussions with the cluster members, no demographic group was identified as benefiting less than others from MCA. The effectiveness of the geographical location of the cluster is still a question under discussion. The overall cluster infrastructure could be easily recognized only in the Stip region. There are sewing, finishing of sewn goods and printing companies and some logistic (warehousing and transportation, CAD/CAM). In that, the companies from the other regions will remain without cluster support. On the other hand, Macedonia is a small country and distance is not a real problem. The decision to establish the Apparel Cluster at a national level is reasonable.

MCA cooperated with other USAID Mission activities when the e-BIZ center in Stip was founded.

With regard to active participation in the cluster, it appears that the companies' leadership, open to new ideas, participated actively, while those who cannot recognize the immediate benefit, are losing interest and leaving the cluster. The "rumors" about the "non-transparent" awarding of grants reduced additionally reduced the enthusiasm of some members.

Other donors are not currently supporting any initiatives in the apparel sector. There are some cluster initiatives in Bulgaria and in Croatia, but to date experience has not been exchanged with the Macedonian cluster.

8.5.1.1 Findings with regard to impact assessment

The textile and apparel sector is significantly important for the Macedonian economy. Over 200 companies are working with textiles, most of them in apparel. They are characterized by different sizes; they use different technology in the production process and achieve different levels of revenue. With regard to location, the region of Stip is the most concentrated with companies active in apparel.

Product diversity is still very limited, with the so-called "light program" (cotton type products) dominating.

The initial number of 58 cluster members has fallen to 37, most of them production oriented. 18 companies actively participate in the cluster, while the other 19 are quite passive. Those companies, whose leadership is open to new ideas, actively participated in the cluster, whilst those who are reluctant to accept the new challenge were unable to recognize the immediate benefit and lost interest very quickly. Moreover, non-transparent grant awards could be identified as a reason for losing motivation.

The number of cluster members compared to overall textile sector is very low. Therefore, it is very difficult to operate with quantitative measures as indicators of MCA's impact on export, domestic market share, GDP growth, job creation, productivity and revenue. Nevertheless, the positive outcomes recognized by the cluster members, in particular by the active ones, are good indicators for the progress achieved.

Export

The apparel sector is a "gateway" for Macedonia into the global market. In 2004, the textile sector contributed to Macedonian export with 32%. It is important to note that, exports to the EU countries has gradually increased over the last five years, reaching 80% of total textile and apparel exports in 2004. This makes the EU Macedonia's major customer by far, followed by the USA with 10% and other countries with 10%. It should be noted that among the EU partners Germany has been identified as a traditional market with well-established cooperation.
The overall export of textile products in 2004 was about US $391 million while the export excluding Germany was about US $263 million. Overall textile exports showed an increasing trend in 2005. The range is about 7.5% for the overall sector. In August 2005 export of US $280 million was registered compared with US $260 million in the same period of 2004.
The MCA clustering support in apparel is a longer-term activity, and the assessed period is not sufficient to recognize it as a key factor in terms of export; even though the cluster members identify positive movement.

Domestic Market Share

The domestic market is small considering the available apparel capacities in Macedonia. As a result, the companies do not pay attention to domestic clients, nor do they pay attention to clients in neighboring countries. We would say that domestic market share is minimal.

Productivity

Most apparel companies rely heavily on business provided solely by cutting and making up garments on commission for foreign customer, who provided materials, design and all accessories. In such cases, the productivity is of enormous importance. The Macedonian apparel companies still apply the classical system of floor management and workers trained for a few operations. This type of production has limitations to improving productivity even with good and trained workers. On the other hand, the implementation of new production systems needs investment in know-how and continuous

vocational training at all levels. However, significant increases in productivity can not be reached with the classic systems implemented in the companies.
The Apparel Cluster members also worked on increasing their productivity through better promotion with the web-site, new catalogues, using "branded" presentation areas at international fairs (such as the *CIFF Fair* in Copenhagen and *Read to Show* in Milan) etc. The cluster's results portfolio shows that improved promotional capacities led to signing new agreements and opened new opportunities. Here are some examples: *Magnolija* signed agreement with a company from Holland, *Geras Cunev* established new contacts with foreign partners, *Milano* – in cooperation with two other domestic companies – prepared a collection for the foreign market, and the negotiation process is going on with companies from Germany and Italy.

Revenues

The contract manufacturing (MC) as a predominant way of work should be considered. Most apparel companies rely heavily on business provided solely by cutting and making up garments on commission for foreign customers, who provided materials, design and all the accessories. In CM, the manufacturers' participation is a small amount of the value added and consequently, the profit is small. However, the massive production levels leads to good profits for the companies.
The MCA activity focusing on more value added products, providing more profitable full packaged to the clients. MCA had contributed to the increase in revenues among cluster members mainly by supporting their export activities and by motivating joint market appearance based on association and an inter-cluster cooperation approach.

GDP Growth

The textile sector, mainly apparel, is of great significance for the economy and accounts for 12.4% of GDP, which is around US $ 500 million, and 21.8% of industrial GDP comes from textile production. Positive trends in apparel productivity; trade and exports contribute to the increased participation of textile industry in overall GDP growth.

Job creation

The apparel sector is the largest employer in Macedonia, accounting for 28% (36.700) of total number of jobs in manufacturing industries. It is important to highlight that 80% those employed in this industry are female. Minor fluctuations in the number of employees in sector can be noticed, but no general trend can be observed.

The MCA cluster activities did not contribute to creating new jobs because the period of assistance was very short. In addition, in the limited time, the Project was unable to make any influence in changing the quality of employment or in increasing average salaries in the sector.

Cooperation and Partnership among Cluster Members

The MCA clustering program during the one-year activities succeed in generating an awareness of cooperation and partnership among the cluster members. The cluster members have articulated change of mentality, which is the most important achievement for the cluster members. However, rivalry between competitor companies has not been abolished yet.

The cluster concept is promoted but additional efforts are needed to develop a deep understanding of cluster functioning and the level of cooperation to be achieved.
Marketing issues, such as promotion material and participation at exhibitions (like Milan and Copenhagen) are attractive and useful for targeting new markets. In addition, they contribute to developing a mutual understanding and confidence among the cluster partners.

8.5.1.2 Findings with regard to the effectiveness of the cluster selection process and specific interventions implemented by MCA

Cluster Selection Process

The Apparel Cluster was selected in the third selection round. The selection was conducted by the NECC. The textile sector had an unsuccessful application in 2003. Shortly after that, the textile sector established the *Textile Trade Association* to articulate the needs of the sector. More than 130 companies joined the TTA. Its members accepted the selection of the Apparel Cluster as a correct and logical decision. The predominant reasons pointed out for the selection were: national economic importance of the cluster, annual cluster growth and the annual export growth. In addition, the recognized actions for strengthening the position of the apparel industry were important.

Regarding the selection process itself, the cluster members agree that it was conducted in a transparent manner.

The effectiveness of the geographical location of the cluster is still an intriguing question. Overall cluster infrastructure can be easily recognized only in the region of Stip. There are sewing, finishing of sewn goods and printing companies and some logistic entities (warehousing and transportation, CAD/CAM). If the cluster is located only in the region of Stip, the companies from the other regions will remain without valuable cluster support. On the other hand, RM is small and distance does not create serious obstacles. The decision to keep the Apparel Cluster at a national level seems to be reasonable.

The initial number of 58 cluster members has fallen to 37, mostly production oriented. 18 companies are active participants while the others need time to become more active.

Effectiveness of MCA Specific Interventions

The Apparel Cluster was support by MCA in achieving the following: 1) target attractive customers in the European market; 2) increase productivity and flexibility to meet the needs of the European customers; 3) attract foreign investment in fabric mills; 4) reform government policies that undermine the competitiveness of Macedonian textiles; 5) strengthen human resources; 6) lower costs through joint procurement and 7) increase access to finance.

In the short time of cluster operations, MCS's specific interventions not succeed in achieving the above-mentioned goals. However, what is very important is that there is a clearly expressed need and commitment to cooperation with MCA, because and the benefits from the assisted interventions are recognizable.

The cluster members were most satisfied with the results in promotion and marketing. The elected approach was on a very operational level and this was crucial for efficiency and satisfaction. Additional impact was the feeling of a well-done job and this contributed to improving cooperation within the cluster. We are still unable to talk about real measurable output, because the fair participants have not yet signed agreements with their new customers. Regardless, there is an overall impression that things are moving in the right direction.

The activities designed to increase productivity and flexibility are extremely important, but they have not been fully implemented yet. Currently, a foreign expert is working together with a local expert on this issue. It is a good example of knowledge transfer, but the opinion of the cluster members so far is that the involvement of more local experts would have been even more effective.

In general, on consultancy services, foreign consultants have delivered satisfactory assistance, but the local consultants did not have the opportunity to be involved.

Attracting foreign investment in fabric mills was initiated by MCA with an profitability analysis of foreign investment in fabric production in RM. This approach could eventually be reconsidered. Instead of an analysis of the type of fabrics mostly imported in RM, it is probably more relevant to find out what the apparel companies intend to produce in the future. In that case, the turn to semi heavy and heavy products will need to include woolen and woolen type fabrics. *Teteks* is such a production company, with sufficient weaving and finishing capacities and good working conditions. This could be a good example of mutual business interest and cooperation between the apparel companies and *Teteks*.

Some of the specific interventions were focused on sourcing: purchasing raw material, logistics, warehousing and financing. These activities were very positively evaluated and the good thing is that this is a step above in the apparel value chain.

The support in establishing and supporting the operations of the *Designers Association* was viewed as justified only by a small number of cluster members. Namely, they believe that the fashion design process is very individual and is not something that needs to be in the focus of MCA.

The grant awarding intervention was considered non-transparent and made some cluster members unsatisfied. On the other hand, the grants awarding was efficient for the grant receivers. For example, using the grant, *Magnolija* produced three catalogues, which helped in their effective presentation to foreign partners and resulted in new business contacts with companies from Belgium, Greece and Croatia.

The role of the NECC is still not recognized in the cluster, but they expect to benefit if the NECC succeeds in becoming a respectable partner to the Government and in adjusting its efforts towards the needs of the base.

8.5.2 Lessons learnt

The orientation towards improving marketing and fair participation skills, as the primary cluster strength is right and the impacts are already visible. The transfer of knowledge in new production methods is something that deserves further attention and support. In addition, in preparation for targeting foreign markets, the cluster members need to perform serious market research studies, which certainly require resources. This will help them in building a strategic approach for better positioning on the new market.

The creation of individual brands has initiated changes in the working culture of some cluster members, mainly in two aspects: 1) *organizational* (new HR policies, process-based management, better marketing and promotion) and 2) *production* (introduction of sophisticated CAD-CAM based technology, recognized need for quality standards from the ISO 9001 and ISO 14000 families etc.).

Last but not the least – the cluster members learned that, as an organized group, they can be a much powerful player in the dialogue with the government institutions, which resulted in some positive outcomes in resolving customer-related issues, export/import of raw materials for the textile industry and export of textile products.

8.5.3 Recommendations

Long-term activities

With regard to cluster organization, the cluster should remain organized at a national rather than at a local level. The support to the existence of Textile Trade Association is recommendable, as well as more training for the cluster leadership in "good practice" achieved in other textile clusters.
It is good to investigate the possibility to undertake the place of intermediary wholesaler (technical design, purchase of all materials, transportation, warehousing, financing) in the supply chain.
Cluster members need continuously organized training, which could be done in cooperation with the education institutions. For example, there is a Technology Transfer Center at the Faculty of Technology and Metallurgy in Skopje, which offers vocational training programs for the apparel sector.
Primary producers need more practical knowledge in the areas of flow type production and distribution (just in time philosophy, master production scheduling, flexible manufacturing, and flexible labor). Support in introducing quality management systems with regard to production system (conformity to

specification) and design and marketing (fitness for purpose) will be valuable. Building familiarity with business system applications could additionally improve management efficiency.

Activities to be implemented by cluster members

Improved cooperation with education institutions and the development of linkages for knowledge transfer from R&D institutions is importance for accelerated sector development. It is necessary to receive additional knowledge on the domestic and neighboring countries markets and to focus on developing small but targeted collections (for example the “Kara” collection).
The shearing resources concept and its further improvement is of vital interest for the apparel sector.
The production of semi heavy and heavy garments and the establishment of cooperation between *Teteks* – producer of woolen fabrics (on one side) and apparel companies (on the other side) deserves further consideration.

8.5.4 Obstacles in achieving goals of recommended actions

Some of the main obstacles in achieving the goals of the recommended actions are the following: 1) lack of management and leadership skills, 2) lack of floor management techniques, 3) exploration of information 4) knowledge about EU and USA sourcing strategy, and 5) an extremely low level of application of communication technology tools and solutions.

9 Appendix / Cross Reference Table

1) **The team will consider the appropriateness, strengths and weaknesses of the program approach in accomplishing the goals of the Project:**	
	Covered in Section
What worked and what didn't work in the cluster selection process?	3.1, 3.3, 4
Would the assistance have been more effective if clusters were on a local, rather than on a national level?	3.1, 3.3, 4, 3.5.2, 5.2.2
Is there a strong demand from other clusters for assistance?	3.1, 3.5.1, 8.4.1, 8.5.1
Which cluster support interventions were most effective and why?	4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.12, 8.5.1.2
What interventions do cluster members think did not yield satisfactory results?	4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.12, 8.5.1.2
Which interventions contributed and which did not in ensuring functionality and sustainability of NECC?	3.5.1, 3.5.5
Which BSP (consultant) support interventions were most effective and why?	3.4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.4.1.2
What interventions do assisted consultant companies think did not yield satisfactory results?	3.4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2
How do the counterparts value the expatriate (foreign consultants) assistance versus that of the local MCA staff? What would they recommend as the ideal expatriate/local experts ratio? Does that change over the life of the Project (beginning, middle, end)?	3.4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2
How is the implementer progressing toward the achievement of all goals stated in the contract? What are the major obstacles in achieving those goals? What unforeseen opportunities or advantages has the implementer seized?	3.1, 6
Did IESC volunteers provide added value to the companies?	3.4, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2,
How effective and transparent was the grant award process? What worked and what didn't work?	3.4, 3.5.5, 8.1.1.2 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2,
What are the levels of ethnic, gender and urban/rural balance of cluster members? What could have been done to improve that?	3.1, 8.1.1, 8.2.1, 8.3.1, 8.4.1, 8.5.1.2,

2) **The team will compare the overall impact of the Project:**	
	Covered in Section
What is the impact of the Project on cluster members in terms of export, employment, growth, domestic market share, and other relevant indicators?	3.1, 3.2, 8.1.1.1, 8.2.1.1, 8.3.1.1, 8.4.1.1, 8.5.1.1, 8.6.1.1
What is the impact in terms of changing the mentality toward entrepreneurial, market driven, competitive business management?	3.1, 3.5.3, 4, 8.1.1, 8.2.1, 8.3.1, 8.4.1.2, 8.5.1.1
What do cluster members identify as the biggest impact of the Project on their business?	3.1, 3.2, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.1
What portion of all companies in the specified industries participates in the clusters? What were the incentives and disincentives to be a cluster member?	8.1.1, 8.2.1, 8.3.1, 8.4.1, 8.5.1,
How have the Project interventions impacted the overall sectors as compared to cluster members only? How have the economic indicators moved for the sectors compared to those for the cluster members. How much did the provided assistance from MCA contribute to the growth of exports in selected sectors?	3.1, 3.2, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2,
What are the greatest improvements among the Macedonian Business Service Providers (consultants)?	3.5.1, 3.5.2
What services are they providing to the cluster members?	3.5.3, 3.5.4

How effective is NECC in establishing productive dialogue between the government and the private sector? What are some successful examples?	3.1, 3.5.1, 3.5.2
What were the effects of the awarded grants toward achievement of the cluster objectives?	3.3, 3.5.1, 8.1.1.2, 8.2.1.2, 8.3.1.2, 8.4.1.2, 8.5.1.2,
Has a certain demographic group (ethnic, gender, location) benefited significantly less the others from the activity? What can be done to make the activity more inclusive?	3.1, 8.1.1.1, 8.2.1.1, 8.3.1.1, 8.4.1.1, 8.5.1.1,

3) The team will assess the conditions of the clusters and other supported counterparts:	
	Covered in Section
Which clusters are ready for "graduation" from donor support?	3.1, 3.5.2, 3.5.5., 8.1.1, 8.2.1, 8.3.1, 8.4.1.2, 8.5.1.2,
How do they see their future development?	5.2.1, 5.2.2, 8.1.3, 8.2.3, 8.3.3, 8.4.3, 8.5.3
What follow-up assistance do current clusters need?	5.2.1, 5.2.2, 5.2.3, 8.1.3, 8.2.3, 8.3.3, 8.4.3, 8.5.3
What assistance are other donors offering to them?	3.1, 3.6, 8.1.1, 8.2.1, 8.3.1, 8.4.1.2, 8.5.1
What cluster organization is most effective? How do cluster members communicate and continue to develop their relationships?	3.1, 3.5.2, 8.1.1, 8.2.1, 8.3.1, 8.4.1.1, 8.5.1
How effective is the existing cluster leadership? How will the clusters organize their operation and continue to implement their strategy when MCA ends? How will the cluster members continue to communicate/cooperate?	3.5.2, 8.1.1, 8.2.1, 8.3.1, 8.4.1, 8.5.1,
Would there have been more cluster cohesion if clusters were formed on a local, rather than on a national level?	3.1, 3.5.1, 3.5.2, 8.1.1, 8.2.1, 8.3.1, 8.4.1.2, 8.5.1
What kind of demand is out there to participate in similar cluster support activities? Were there other cluster applications that satisfied the quality criteria (or were close), but were rejected by MCA due to lack of resources?	3.5.1
What services do cluster-members need that the existing consulting companies and other BSPs can not yet provide or did not provide?	3.1, 3.3, 5.2.4, 8.3.2
What is still needed for NECC to become sustainable?	3.5.2, 3.5.4, 5.2.3
What needs to be improved in NECC to better serve its purpose?	3.5.2, 5.2.3
4) **The Team will provide conclusions and prioritized recommendations for further long-term assistance to improve the competitiveness of the Macedonian economy. This should be based on:**	
	Covered in Section
The conducted analysis in Macedonia	1, 3, 4, 6
The experience and lessons learnt from similar regional projects	4.4
Other donors' activities in private sector and competitiveness	3.6, 8.1.1, 8.2.1, 8.3.1, 8.4.1, 8.5.1,
Exploring the possibility to support local clusters, and to what extent the local governments are willing to be engaged in that process.	3.1, 8.2.1, 8.3.3
The current and future potential of the MCA or a follow-on competitiveness activity to serve as a cornerstone for the USAID Macedonia Economic Growth program.	3.7
i. To what extent has the MCA established linkages with other activities in the EG and other Mission portfolio?	3.7, 8.2.1.2, 8.5.1
ii. How effective are the synergies between the MCA and other activities in the Mission portfolio?	3.7,
iii. Would the Economic Growth Program be strengthened by stronger linkages between the competitiveness activity and other Mission activities?	3.7