FYR MACEDONIA
SUPPLIER DEVELOPMENT
PILOT PROGRAM TOOLKIT:
MATERIALS AND LESSONS
LEARNED

Competitive Industries and Innovation Program

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# Acronyms and Abbreviations

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFIEP</td>
<td>Agency for Foreign Investments and Export Promotion of the former Yugoslav Republic of Macedonia</td>
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<tr>
<td>DTIDZ</td>
<td>Directorate for Technological Industrial Development Zones</td>
</tr>
<tr>
<td>EBITDA</td>
<td>earnings before interest, taxes, depreciation and amortization</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EFQM</td>
<td>European Foundation for Quality Management</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
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<td>FIC</td>
<td>foreign investment council</td>
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<tr>
<td>FITD</td>
<td>Fund for Innovation and Technology Development</td>
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<tr>
<td>FYR</td>
<td>former Yugoslav Republic</td>
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<tr>
<td>GVC</td>
<td>global value chain</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>KPI</td>
<td>key performance indicators</td>
</tr>
<tr>
<td>MBDP</td>
<td>Macedonian Bank for Development Promotion</td>
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<tr>
<td>MNC</td>
<td>multinational company</td>
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<tr>
<td>M&amp;E</td>
<td>monitoring and evaluation</td>
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<tr>
<td>OEM</td>
<td>original equipment manufacturer</td>
</tr>
<tr>
<td>Pilot SDP</td>
<td>supplier development pilot program</td>
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<tr>
<td>QCD</td>
<td>quality, cost, and delivery</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>ROA</td>
<td>return on assets</td>
</tr>
<tr>
<td>ROE</td>
<td>return on equity</td>
</tr>
<tr>
<td>RVC</td>
<td>regional value chain</td>
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<tr>
<td>SBS</td>
<td>small business support</td>
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<tr>
<td>SDP</td>
<td>supplier development program</td>
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<tr>
<td>SMEs</td>
<td>small and medium enterprises</td>
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<tr>
<td>TIDZ</td>
<td>technological industrial development zones</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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</table>
Acknowledgements

This toolkit documents the experience of developing and implementing a pilot supplier development program (SDP) in the former Yugoslav Republic of (FYR) Macedonia. Within the World Bank Group, the pilot SDP was developed and supported by a team from the Trade and Competitiveness (T&C) Global Practice that was led by John Gabriel Goddard (Senior Economist) and Gordana Popovikj Friedman (Private Sector Development Specialist), and included as core team members Ravi Gupta, Karuna Elizabeth Phillips, Perica Vrboski, and Todor Milchevski (Consultants). Four international experts with experience working with automotive suppliers or supplier development programs were involved in the pilot program. Vít Švajcr and Stephen Martin (Supplier Development Programs Specialists) shared their expertise on the best practice supplier development programs in the Czech Republic and the United Kingdom; Vladimir Braun (Supplier Development and Quality Management Consultant) led business reviews; and Michel Bacher (Automotive Sector Supply Chain Specialist) contributed to the business reviews and action plans. Harald Jedlicka (Senior Investment Policy Officer) and Wim Douw (Senior Operations Officer) led the regulatory review. A technical note on supplier development, which accompanies this toolkit, was drafted by Ravi Gupta (Consultant) and peer reviewed by Thomas Farole (Senior Economist).

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Executive Summary

1. A pilot Supplier Development Program (pilot SDP) was designed in response to a request from the government of FYR Macedonia with the objective to stimulate linkages between local small and medium enterprises (SMEs) and large foreign companies operating in country. The program used a group of targeted and coordinated interventions to increase the sophistication of local SMEs, help them compete more effectively, and integrate them into the global and regional supply chains of the large foreign companies located in and outside the special technological industrial development zones (TIDZs). The program was a joint effort of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

2. International experience suggests that SDPs can substantially increase domestic value-added. Experience in the Czech Republic and Serbia showed that having a SDP in place is a win-win for all parties involved—the government, foreign investors, and local companies. Countries that attract foreign direct investment (FDI), but do not develop linkages, do not fully benefit from FDI. SDPs are instrumental in attracting additional FDI, therefore governments should include SDPs as part of their FDI strategy.

3. The design of the program drew on successful international examples of SDPs. Successful programs on supplier development have been implemented in Europe and Central Asia (e.g., the Czech Republic, Kazakhstan, Russia, Serbia), and Latin America (e.g., Coast Rica, Chile), among others. Lessons learned from international experience indicate that successful SDPs share the following characteristics:
   - Technical support, particularly on quality standards, lean manufacturing, etc.
   - Management support, including guidance on business and financial planning, tendering advice, regulatory navigation advice, and marketing.
   - Improved human capital from well-supported human resources departments.
   - A sourcing database to match local suppliers with investors.
   - Organizational support (e.g., meet the buyer and networking events).
   - Joint venture support.
   - Introduction of participant companies for joint tendering and possible cluster initiation.
   - Development of national quality standards.
   - Financial products, including a mix of loans, leasing, venture capital, credit guarantee funds, micro loans, export credit insurance, etc.1

4. This toolkit presents practical information of the implementation phase of SDP. It describes various steps that need to be undertaken prior to the implementation and during the implementation of the program (see Figure 1). The key messages from the pilot SDP are summarized below:
   - It is important to identify stakeholders and the key agency responsible for managing and coordinating the program as early as possible.

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Building relationships, communicating with government stakeholders, and mobilizing the private sector are key elements for success.

It is important to work with the foreign investors and include them in the entire process of the program's implementation.

The criteria and methodology applied for identification of local companies to participate in the program should be detailed prior to the start of the program. The criteria should contain both quantitative and qualitative measurements.

Advisory support for the companies that participate in the program should be identified at the beginning of the program and with roles and responsibilities clearly communicated to stakeholders.

From the beginning of the program, it is important to communicate clear objectives and expected results based on defined metrics. Monitoring and evaluation (M&E) is an imperative element of successful program design and implementation.

Figure 1: Activities Implemented in the Pilot Supplier Development Program

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>SUB-ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Implementation</td>
<td>a) Engage with government and private sector; identify need for pilot SDP.</td>
</tr>
<tr>
<td></td>
<td>b) Review international experiences and literature.</td>
</tr>
<tr>
<td></td>
<td>c) Identify team members.</td>
</tr>
<tr>
<td>Activity 1: Collect and Analyze Information on</td>
<td>a) Assess regulatory incentives and constraints.</td>
</tr>
<tr>
<td>Foreign Investors and Potential Suppliers</td>
<td>b) Review database of potential suppliers; identify 200+ potential suppliers.</td>
</tr>
<tr>
<td></td>
<td>c) Identify foreign direct investors and buyers for participation in the program.</td>
</tr>
<tr>
<td></td>
<td>d) Survey foreign direct investors and buyers’ needs.</td>
</tr>
<tr>
<td></td>
<td>e) Review 200+ suppliers against established criteria to shortlist 50 suppliers.</td>
</tr>
<tr>
<td>Activity 2: Training and Capacity Building</td>
<td>a) Conduct training workshops on how to build a successful SDP, how to use the European Foundation for Quality Management (EFQM) excellence model, and how to establish an M&amp;E system.</td>
</tr>
<tr>
<td></td>
<td>b) Share knowledge on successfully implemented SDPs, FYR Macedonia’s positioning in regional value chains, and how multinational enterprises build supplier networks.</td>
</tr>
<tr>
<td>Activity 3: Select Suppliers and Analyze</td>
<td>a) Short list firms’ applications; select five companies for upgrading.</td>
</tr>
<tr>
<td>Production Capabilities</td>
<td>b) Run a gap analysis comparing local firm supplier challenges vs. foreign direct investors and buyers' needs.</td>
</tr>
<tr>
<td></td>
<td>c) Develop firm-level action plans for suppliers on what would be needed to upgrade production</td>
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</tbody>
</table>
5. This toolkit focuses on the activities carried out during the period of program implementation (February–December 2015). It compiles materials used and lessons learned during the implementation of the pilot SDP activities, and it records actions taken in those activities.

1. **Review of International Experience**

1.1 The Importance of Creating Linkages between Local Suppliers and Foreign Investors

6. **Countries that attract FDI but do not simulate linkages between the foreign and local companies do not fully benefit from FDI.** As global competition increases, foreign investors place higher demands on their SME partners to meet international standards concerning product quality, price, and terms of delivery. If local companies lack these prerequisites, foreign investors often prefer to ask their proven international partners to relocate. Producing high quality goods and services in global value chains (GVCs) involves more than trading goods and services—it also requires expertise in cross-border movement, investments, and human capital. As a result, transnational clusters may emerge with very few links to the local economy, leaving the country isolated from the economic benefit of such foreign direct investment.

7. **Attracting FDI is not enough for developing countries to benefit from global value chains.** A strategy to support linkages between local firms and foreign investors is critical to producing greater added value, as these linkages lay the foundation for long-term industrial diversification and export growth. The last two decades of economic research on the role of FDI in development outcomes tells us that while results are mixed, what is clear is that the benefits of FDI do not accrue automatically with the presence of FDI. Rather, a wide range of factors appear to mediate these outcomes, and linkage programs are one of the critical interventions to facilitate spill-overs. One of the key inferences of the research is that developing countries can now industrialize by joining GVCs instead of building their own value chains from scratch, as Japan or Republic of Korea did in the twentieth century. There is also strong evidence that the key spill-over benefit from foreign investors is their potential to help internationalize domestic firms, particularly their suppliers. This is

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2 Enhancing the competitiveness of SMEs through linkages, UNCTAD.
often achieved indirectly by raising demands to meet international standards (e.g., in quality and delivery) and by helping build scale and boost the productivity of domestic suppliers.\(^6\)

8. **Supplier Development Programs or other linkages projects are instrumental in attracting additional FDI**, and thus governments should promote them as part of their FDI strategy. A major benefit of implementing these programs is that they have the potential to help retain FDI and attract additional FDI.\(^7\) Foreign investors that have developed strong linkages to the host country’s economy are less likely to leave due to the expense of building new supplier networks. Thriving SMEs, that have established credentials supplying to multinational companies (MNCs), are viewed as a reason for other foreign companies to establish business in a country. Thus, FDI promotion and linkage projects are complementary components of a comprehensive government FDI agenda.\(^8\)

1.2 **Success Factors for SDPs**

9. **All successful SDPs have a few things in common**: (i) close and active involvement of foreign investors, (ii) enthusiastically committed and ambitious participating suppliers, (iii) a coordinated and customized package with specialist support and expert advice, and (iv) a strong lead agency to anchor effort and drive its implementation.

10. Experience from programs designed with these elements shows that having an SDP in place is a win-win for all parties involved in the process. The government creates a platform for better linkages between foreign companies and local suppliers, thus increasing the spill-over effect of attracting foreign investors to the country. Additionally, such programs can be a powerful model for effective use of support while improving the competitiveness of local companies to bring wider benefits to the economy. Foreign investors can reduce total costs by sourcing from local companies and local companies are able to take advantage of opportunities for doing business created by locally based MNCs, enabling them to move up the value chain and become globally competitive.

11. For example, experience in the Czech Republic showed performance improvement among companies in the first 21 months of program implementation (improvement in companies’ internal and external performance, as measured by the European Foundation for Quality Management methodology checklist). Around 80 percent of the improvements were attributed to the program. Out of 45 companies that participated in the program, 15 companies gained new contracts with a value of US$18 million annually due to their engagement in the program. Only four of 45 participating companies reported no direct business benefits. In the United Kingdom pilot SDP with Japanese vehicle manufacturers, a partial estimate at end of the 18 month program showed that £ 1 of public money produced more than £ 5 of immediate business benefits.\(^9\)

1.3 **Working with the Private Sector**

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\(^7\) UNCTAD 2001, and Czech Suppliers of Multinational Corporations: Benefits and Challenges.

\(^8\) Crescenzi et al. *Innovation Drivers, Value Chains and the Geography of Multinational Firms in European Regions*.

1.3.1 Foreign Direct Investment and Vertical Spill-overs

12. Foreign direct investment can catalyse the development of domestic firms by providing access to existing international marketing, supply, and distribution networks. The phenomenon, referred to as a vertical\textsuperscript{10} spill-over, can take place through: (i) direct knowledge transfer from foreign customers to domestic suppliers; (ii) higher requirements regarding product quality and on-time delivery introduced by multinationals, which provide incentive to domestic suppliers to upgrade their production management or technology; (iii) indirect knowledge transfers through movement of labor; or (iv) increased demand for intermediate products due to the entry of a multinational into the market, which in turn allows local suppliers to reap the benefits of scale economies. While the first tier of suppliers are the most obvious beneficiaries of supplier development programs, suppliers down the value chain also benefit, leading to increased employment and knowledge spill-overs. SDP that creates the SME-MNC linkage is however needed for such vertical spill-overs to happen so that SMEs are connected to GVCs.\textsuperscript{11}

13. In SDPs, it is vital that foreign companies are actively involved during the entire process. Customer pull can be a key motivator and facilitator in the program and that’s why it is important to have the active participation of MNCs on a partnership basis throughout the program. It is also important that key senior management is interested and endorses the involvement of other departments in order to ensure sustainability and commitment during the program (e.g., during purchasing, quality control, etc.). Foreign investors can be involved in:

- Nominating and assessing participating companies.
- Organizing and delivering workshops, as well as meet the buyer and networking events.
- Providing engineering and quality support.

1.3.2 Local Companies

14. The shift in corporate production strategies from simple integration to more complex integration has widened the opportunities for SMEs in developing countries for entering GVCs via FDI. The type and strength of linkages established between foreign investors and SMEs depends to a large extent on the size, specialization, technological, and resource capabilities of local firms. Special support measures and programs have been deployed to nurture these capabilities. Supplier development programs are an example of such measures. MNCs have become an increasingly important means for SMEs to gain access to new technologies and management expertise. A good supplier development program can help SMEs not only become suppliers to MNCs, but also become exporters more strongly linked to GVCs located in other countries.\textsuperscript{12}

1.3.3 Monitoring and Evaluation

15. The program’s monitoring and evaluation activities should ideally be established at the onset of the program. The normal staring point would be the business plan for the program, which should

\textsuperscript{10} A horizontal spill-over refers to knowledge dissemination between firms of equal sizes or involved in similar core business.

\textsuperscript{11} Czech Suppliers of Multinational Corporations: Benefits and Challenges.

\textsuperscript{12} Global Value Chains and World Trade, Hernandez et al.
provide clear objectives and expected benefits and metrics upfront, both at the company and wider economy level, to set the basis for a rigorous review process.

16. **A useful hierarchy of relationships when looking at indicators for reviewing the relative success of a program is:**
   - Inputs: including well-structured process
   - Outputs: company operational performance
   - Outcomes: company sales, growth, etc.
   - Impact: at overall sector or national level (Figure 2).

![Figure 2: Monitoring and Evaluation Hierarchy of Relationships](image)

17. **Possible monitoring indicators, based on the experience of the Czech Republic and United Kingdom programs, could include:**
   - Inputs and activities: spend (public & private), companies involved, projects, consultancy time, etc.
   - Company profiles (financial, etc.).
   - Business review data, such as changes in EFQM scores.
   - Attainment of approved supplier status.
   - Outputs and KPIs: increased productivity; quality, costs, delivery (QCD) indicators, employee qualifications gained.
   - Supplier outcomes: increased value and new products introduced, new jobs, new sales, domestic & export markets.
   - Foreign investors outcomes: lower total costs, increased local content.
   - Engagement and wider policy indicators: use of other public sector support agencies and programs (export, innovation, etc.); take up of funds, certification, etc.; ongoing use of consultants, etc.

18. **The selection of M&E indicators should be done very carefully.** A general principle to follow is to focus on priority requirements only and to select a limited number of key indicators in order to avoid unnecessary burden on both company participants and the SDP. Indicators should be clearly defined, easy to obtain, objectively measurable and preferably independently verifiable. Experience in the United Kingdom and Czech Republic shows the value of:
• Early indicators through assessment tools.
• Obtaining regular qualitative feedback from MNCs, and suppliers (i.e. participating SMEs).
• Focusing on the bottom line, such as increased sales and added value.

19. **The frequency, as well as the extent of data collection, needs to be considered.** The United Kingdom experience also shows the value of mandatory reporting for selected key measures as a requirement for companies receiving assistance. Systematic reporting of monitored data to a steering group for regular review is good practice for refining and taking corrective action on the program, as well as to provide a snapshot of the program's state of affairs. In the United Kingdom, this approach was proven effective and necessary for successful program management.

20. **An independent evaluation, led by a company hired in a competitive tender, is recommended for the evaluation process.** The evaluation process should focus on the analysis of program inputs and all monitoring data. Participating companies should be interviewed (customers and suppliers) to express their views on the coverage and delivery of the program and its benefits, with a mind toward updating and reviewing outputs and outcomes. Experience with M&E for private sector development programs shows that if such an independent evaluation is conducted, it should be designed at the beginning of the program. This helps establish a robust methodology—including, for instance, defining how the control group will be constituted and monitored in order to more specifically identify the impact of the program.

21. **Evaluation could happen immediately after the program’s end or later focus on long-term effects; both approaches have inevitable trade-offs.** Sometimes there is great pressure to evaluate and review a program immediately, due to, for instance, the need to create a successor program. However, waiting one year or longer has an advantage, as the data can provide a better indication of outcomes and impacts. One way of squaring the circle is to have programs managers carry out an immediate evaluation or overview report, with an independent evaluation completed later (as was the case with some of the United Kingdom and Czech Republic programs). Both the United Kingdom and Czech Republic experiences have shown the limitations of quantifying not only the longer term effects, but also all the immediate benefits of a program, with summaries tending to underestimate outputs and outcomes. This limitation needs to be kept in mind when undertaking any evaluation. It especially applies to the harder, more readily quantifiable measures, but particularly to the softer indicators in terms of behavioral change and the effect of skills at shop floor, as well as in technical and leadership and management levels, and the ongoing and cumulative effect these can have on company competitiveness and growth.

22. **There could be variations in the topics covered by evaluation depending on the scale and nature of different programs,** but some of the topics below, used in the evaluation process of the major national Supply Chain Group program in the United Kingdom, could be helpful:

- Review of gross and net outputs and outcomes and their impact (EBITDA and impact to sector).
- Extent to which market failures are addressed.
- Deadweight and displacement, via interview or control groups.
- Cost effectiveness evaluation of public spending.
- Job creation evaluation.
- Added value of program to companies' revenues.
• Assessment of operational requirements for running such a scheme.
• Leverage of program and lessons learned.

2 Pilot Supplier Development Program in FYR Macedonia

24. Over the past 10 years, FYR Macedonia has had success attracting FDI in manufacturing. This FDI has increased the diversification of FYR Macedonia’s export portfolio and created jobs. Although this segment has been relatively successful, local suppliers are still missing support measures to increase the level of integration into foreign investors’ supply chains and thus GVCs. In order to address this issue and to enhance linkages between domestic firms and foreign companies, while capturing the value described in the preceding section, the government asked for a pilot SDP to be developed.

25. The goal of the pilot SDP was to conduct an exercise that would: (i) assess the current state of linkages (including identification of bottlenecks to deeper linkages) between foreign direct investors in the country and domestic firms, and (ii) work with a small group of enterprises to equip suppliers with the information, skills and technical capacity to meet MNCs requirements, enabling them to win more and higher value-added contracts. Two elements impacted the focus of the program: first, it intended to test the supplier development approaches and prepare the ground for a potential future, larger SDP; and second, the budget available for the pilot was modest. During the pilot implementation, led by the World Bank Group team, eight government institutions were involved, 223 companies were listed and subject to desk review before a selection process based on a set of criteria (international standards, links with foreign companies, etc.), and 50 companies were identified to be visited. Out of the 50, five companies were selected for in-depth business reviews and technical assistance. Additionally, four foreign companies participated in the pilot.

26. The pilot SDP focused on identifying opportunities and constraints to linkages between local producers—mainly SMEs—and large foreign companies operating in FYR Macedonia (particularly in the technological industrial development zones, see Box 1). The pilot SDP focused on the light manufacturing sector and targeted interventions piloted under the program addressed the following:

• Assessed and identified which foreign investors to work with.
• Assessed and identified which local manufacturing companies have the most potential.
• Gathered information on foreign investors’ needs and conveyed them to local manufacturing companies.
• Conducted business reviews of local manufacturing companies to compare their existing practices with what would be required to meet the foreign investors’ needs/standards and be competitive suppliers to them.
• Provided reports to the local manufacturing companies on what they would need to do.
• Facilitated linking firms interested in proceeding with further advisory services and support to implement the recommendations (e.g. through EBRD SBS program).

13 See note on the impact of reforms and investment promotion in "FYR Macedonia’s Automobile Components Manufacturing Sector," forthcoming from World Bank.
Box 1: Technological Industrial Development Zones

Technological industrial development zones (TIDZs) are special economic zones first established in 2000 and managed by the Directorate for Technological Industrial Development Zones. TIDZs are customs areas within the territory of FYR Macedonia where special customs and tax incentives prescribed by the Law on TIDZs are applied. Users of TIDZs can be any domestic or foreign entity registered in the country.

The TIDZs provide infrastructure for investors and help them overcome other physical barriers. Difficulties in gaining access to land and shortages of quality industrial infrastructure are addressed by the TIDZs. Investors in the zones have ready access to roads, electricity, water, high-bandwidth telecommunications network connections, central heating, lighting, fire safety systems, security monitoring systems, water, sewage and waste treatment plants, and gas pipeline hookups. Companies have to build their own facilities, but they benefit from the ability to secure a long-term land lease for a period of up to ninety-nine years at symbolic prices. Subsidies of up to €500,000 for construction costs are also available depending on the number of jobs to be created and the level of investments made.

While the ready infrastructure is attractive, by most measures it is the favorable tax policy applied within the TIDZs that raises the level of attention of foreign firms. TIDZs provide a 10 year corporate tax holiday and a broad range of additional benefits that include:

- No customs duties and VAT on imported raw materials, equipment, and construction materials.
- Zero percent personal income tax for 10 years. Investors are not required to withhold the personal income tax (10 percent) from gross wages paid to their employees.
- Zero percent property tax.
- Zero percent excise taxes.
- A green customs channel at the border for expeditious export to European Union (EU) countries.
- Grants for training and job creation.

The DTIDZ plans to establish a total of 15 zones in the country, eight of which are currently in operation. The largest zones in operation are Skopje 1, Skopje 2, Stip, Kicevo, Prilep, Struga, Strumica, and Tetovo. So far, the automotive sector has been the most successful in the TIDZs. Of the 16 active companies present in the zones, 11 are in the automotive sector.
27. The design of the program incorporated lessons learned from international experience (described in the previous section), particularly:

- The level of commitment of the suppliers in the program is a vital success factor. Participating in SDPs is demanding in terms of management time. Thus, the strength of managements’ commitment to the program should be considered as a factor when identifying/selecting firms for participation.
- The potential of the local firms to improve their ability to meet buyers’ needs is also critical. Ways to gauge such potential in the beginning stages of the program include success stories and recognition by other customers.

28. The activities were focused on collection and dissemination of supplier information, capacity building and the improvement of suppliers’ knowledge and skills. Each activity was broken out into specific sub-activities as described in the pilot Supplier Development Program concept note (Annex 2).

29. The pilot SDP has prepared grounds for a broader program to be implemented. It enabled the companies to take such initiatives further, improved the government’s understanding of the importance of such programs for developing SME competitiveness, and built the government’s capacity to run such programs. This toolkit aims to assist different stakeholders in the process of developing and delivering SDP or similar programs that create linkages between local companies and foreign investors, as well as increasing the competitiveness of SMEs.

3 Development and Implementation of the Pilot Supplier Development Program

30. Lessons learned and best practices from similar initiatives around the world provided the analytical underpinning to the linkages program in its early stages. An analytical note “Ascending the Global Value Chain by Developing Linkages among Small and Medium-Sized Enterprises (SMEs) and Multinational Corporations (MNCs)” was prepared by Ravi Gupta, Consultant (World Bank,
Washington, D.C.), and reviewed by the World Bank Group team for the FYR Macedonia pilot SDP. A comprehensive review of the literature and extant case studies was conducted to obtain insights into the best practices and economic benefits of such programs. The analytical note covered the value propositions of such programs for overall economic development, as well as practices and principles that make SDP successful. It was aimed at both policymakers (to sharpen their understanding of the economic significance of SDP and their connection with exports, SME development, and FDI) and at practitioners (to present them best practices and insights from various examples). The note also provided examples of national strategies that integrated SDP into the broader competitiveness, innovation, and regional and global economic integration agendas.

3.1 Assessing Potential Regulatory Barriers

31. During the pilot program, several activities were focused on the possible regulatory barriers and other impediments to the development of stronger linkages between foreign anchor investors in the automotive sector and domestic supplier firms. The team looked into regulatory incentives and other potential policy measures that the Government could consider to proactively support the development of such linkages. The WB team reviewed all relevant available reports, including written feedback on challenges and opportunities around supplier development in FYR Macedonia as perceived by the foreign investors. Additionally, the team conducted in-depth interviews with relevant government agencies (such as DTIDZ, Customs Administration and InvestMacedonia), as well as with both foreign and domestic companies. The regulatory review was preliminary and identified few potential policy and regulatory barriers. Key issues identified are grouped in three categories as shown in Box 2 below.

Box 2: Analysis of Regulatory Barriers

<table>
<thead>
<tr>
<th>I. Regulatory Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Additional transaction costs for delivering goods into the TIDZs. This might represent an obstacle for domestic suppliers, in particular SMEs, as they are facing the bureaucratic burden of preparing specific documentation and paperwork before they can do a delivery.</td>
</tr>
<tr>
<td>• Differential treatment of local suppliers of inputs vis-à-vis international suppliers of the same inputs in payment of VAT when supplying investors located outside the zones. This issue puts domestic suppliers at a cost disadvantage vis-à-vis imports by foreign investors based outside of the zones. However, more research should be done as information received is inconsistent.</td>
</tr>
<tr>
<td>• Operating hours of the customs offices located in the zones. Domestic suppliers are more likely to receive contracts for unplanned deliveries than international ones. Such deliveries would usually need to be done after work hours or on weekends when customs are closed.</td>
</tr>
<tr>
<td>• Lack of understanding of frequently changing regulations and unpredictability of thereof. Frequent changes to legislation and regulations, as well as a lack of an effective public-private dialogue and consultation mechanism, have led to a sense of unpredictability and perceived lack of clarity for both foreign and domestic investors. An example of such misunderstanding was the interpretation of the Law on Financial Discipline effective as of January 1, 2015.</td>
</tr>
</tbody>
</table>
• **Access to information.** Counterparts often provided conflicting information even on basic operational matters (e.g., working hours of customs). Communication and transparency of information could be improved.

• **Identifying an agency that would anchor a supplier development program.** There are two candidate agencies that can take on broadening this initiative (InvestMacedonia and Agency for Support of Entrepreneurship). Linkage or consolidation between the two agencies would strengthen the institutional support structure.

II. Incentives and Policy Support Measures

• **Absence of targeted approach to further development of the program.** While there is a strong interest in the topic, support measures to further build the program are scattered across many different initiatives and implementing agencies. A more targeted approach would benefit suppliers.

III. Economy-wide Policy Barriers

• **Cost effectiveness of incentives to attract foreign investors.** As the policy focus seems to shift from pure investment attraction to better linking investors with the domestic economy and realizing the benefits of those investments, it would be beneficial to assess the effectiveness of the current package of locational incentives to attract investment.

• **Overlapping mandates of government agencies and lack of coordination.** Multiple agencies and Ministries are involved in investment promotion activities, which further compounds the perceived lack of clarity on regulations and policies in this area. Such structure can also result in inefficiencies and coordination failures, difficulties in the planning of resources for state aid incentives and, even more importantly, challenges with monitoring and control.

• **Visas and work permits for foreign employees.** Despite some reforms undertaken recently, the regime still seems to represent an obstacle, primarily for foreign investors, but potentially also for domestic firms seeking to upgrade their production technology and skills sophistication by tapping into the know-how of foreign managers/technology consultants.

3.2 Working with the Key Government Counterparts

32. **In the case of the FYR Macedonia’s pilot SDP, the key counterparts were government institutions, perceived as a future implementation organizations.** However, the implementing organization(s) of SDP could be both private and public organizations such as consulting companies, specialized agencies for private sector development, agencies for entrepreneurship etc. It is also important to have one owner, or champion, institution that drives the necessary coordination and SDP implementation.

3.2.1 Stakeholder Identification

33. **Identification of key government counterpart(s) that may contribute to the program should be done as early as possible.** It is important to identify the number of institutions involved and include them in the training program and in the everyday activities of the program from early on. It’s likely that there will be more than one institution involved, because SDPs are usually tracking
multiple issues that are likely to be under the responsibility of various government agencies. For example, including access to a financial component in an SDP requires the engagement of financial institutions, companies, state-owned financial institutions, etc. In addition, since identification of gaps in backward linkages requires contacting foreign investors and domestic companies, there are likely to be different agencies responsible for this collaboration (see Box 3). Since all of these agencies would be involved in managing and coordinating various program components, it is important to include them from the very beginning.

Box 3: Roles of the Key Government Counterparts

The World Bank Group team worked closely with a number of institutions, each covering different segments relevant to SDP. A government working group designated to coordinate and monitor the implementation was the primary player and consisted of representatives from the Ministry of Finance, the Agency for Foreign Investment and Export Promotion, the Directorate for Technological Industrial Development Zones, the Macedonian Bank for Development and Promotion, Cabinet of the Deputy Prime Minister for Economic Affairs, Ministry of Economy, Ministry of Labor and Social Science, and the Fund for Innovation and Technological Development.

Some of the institutions had very active roles during the pilot. For example:

- **The Ministry of Finance** chaired the working group and had a coordinating role on behalf of the government in the pilot SDP.
- **The Agency for Foreign Investment and Export Promotion** played an essential role as it had a mandate to attract foreign investors and oversee relations with them after they established presence in the country.
- **The Directorate for Technological Industrial Development Zones** was responsible for all the foreign investors located in the zones. Its contribution to the SDP was on buyer (foreign company) needs.
- **The Macedonian Bank for Development and Promotion** (100 percent state-owned development bank) provided valuable input to the process of reviewing domestic companies and identifying those with the greatest potential to be part of the SDP. This institution interacts with many domestic companies, is familiar with their capabilities, capacities and plans, and contributed excellent intelligence to the financial analysis.
- **Others** were actively involved in the process of capacity building by their direct participation on the workshop organized as part of the SDP.

The government has established an economic council that has held regular meetings with the foreign investors in the TIRZs to discuss their operational and regulatory issues and proposals. The World Bank Group team members presented the pilot SDP activities in one of these meetings.

3.2.2 **Coordination**

34. **Communication with all stakeholders should be done as frequently as possible.** Running an SDP requires interaction with a variety of stakeholders on a variety of topics. Of course, the amount of interaction depends on the scope of the program that one will decide on; however, this type of
project by its nature has quite the cross-cutting character. Such programs may involve interaction with public institutions with different competencies and portfolios, interaction with private sector representatives such as associations, individual companies working in different sectors (plastics, metal processing, banks, etc.). Taking a holistic approach when implementing SDP, requires the inclusion of components related to strengthening the capacity of key government counterparts, access to finance, organization of meet the buyer networking events, and working with individual companies (both local ones and MNCs). All of these aspects make the coordination of SDP quite difficult. For that reason, it is necessary to communicate frequently with all the different stakeholders (contact persons should be assigned from the stakeholders), to establish regular meetings with the internal team and key counterparts. Also, many of the involved stakeholders may provide valuable input to certain work that is ongoing, and for that reason, for any outputs and suggestions make sure that all interested parties are kept abreast of the most recent developments. Details on what was done in the pilot SDP can be found in Box 4.

**Box 4: Regular Communication with All Concerned Parties**

Due to the diverse character and intensity of the activities under the FYR Macedonia pilot SDP, the team established regular communication from the beginning. In a short period of time (ten months), the project carried out many activities and had plenty of outputs. For example, four workshops, five business reviews, field visits to over 50 companies, and a number of technical notes, reports, analyses, etc. In order to accomplish this, there were regular meetings where issues would be discussed, updates were provided to everyone, etc. In addition to frequently written correspondence, the following took place:

- Weekly video conferences among the internal team.
- Weekly video conferences with the key counterparts (i.e., the government backward linkages working group, foremost with Ministry of Finance, InvestMacedonia and the DTIDZ).
- At least biweekly meetings between the local World Bank Group team and the key government counterparts.
- Series of country visits of with supplier development, automotive, and regulatory experts that were consulting the project
- Series of meetings with both domestic companies and MNCs.

The communication that was set up did not only enable effective coordination of the project, but also contributed to getting commitment by all stakeholders. The effort that the World Bank Group team displayed, motivated the other counterparts to include in the project proactively.

35. **It is important to strengthen the institutional capacities of the key government agencies.** An important aspect of the pilot was capacity building and training the government institutions participating in the program (see Box 5). This was a cross-group activity ongoing throughout the implementation of the pilot and was crucial for the sustainability of the program and its further scaling. The key counterpart agencies and the inter-ministerial working group received relevant training to develop skills for the program management and support services at firm level that were focused on supplier development.
36. The intention of the capacity building component is to establish a long-term, in-house capability to develop, manage and evaluate SDPs, and to be able to effectively coordinate and monitor employed consultants and other external support to the program, once certain (if any) donor support is over. It is about administrative and management skills. Those responsible for the program need to have enough knowledge on how to effectively evaluate and deploy such specialists contracted to carry out business reviews.

37. One of the first activities is to prepare and communicate a capacity building plan to government ministries and agencies that interact with foreign investors and whose work is relevant to SDP. The plan should include workshops, study tours and other training activities. The approach should be gradual, starting from introductory sessions to specific topics of direct relevance to segments of SDP. At first, the participants should familiarize themselves with the process of planning SDP: what are the key elements, which players should be involved, and what should their roles be. In combination with example(s) from another country(ies) that the participants could relate to, this introductory training provides a good overview of key aspects to consider prior to starting SDP. Further, detailed and targeted workshops should be organized on collaboration with the private sector, particularly on the subject of methodology of identifying the upgrading needs of the domestic companies and the requirements of the foreign investors. This helps achieve the aim of creating linkages between domestic companies and foreign enterprises.

38. In designing an SDP, it is important to make the distinction between possible options for institutional capacity building and to specify the model chosen for the SDP. Administrative and management skills were developed for the government officials in the case of the FYR Macedonia pilot SDP. However, this is not always the chosen model. Running the program, and especially the activities that are related to the private sector, can be outsourced. In the Czech Republic SDP, an international consulting company was chosen to conduct the business reviews (assessment of the companies). An opposite example is the Serbia SDP. Capacity to conduct business reviews was developed in-house (in-depth specialist knowledge), such that government officials, primarily within the Serbia Investment and Export Promotion Agency (SIEPA, which has since been re-organized into Development Agency of Serbia) were trained to conduct the business reviews using the EFQM model.

**Box 5: Capacity Building Workshops for Government Agencies in FYR Macedonia**

Four capacity building workshops were held during the implementation of the pilot program. Experts from the United Kingdom and the Czech Republic were invited on the first workshop to share the experience of the Czech Republic SDP. The content of the workshop was focused on the design of the program, the objectives, as well promotion and incentives provided to the local companies to participate in the program. The results of the program were presented as well. The discussions on this workshop were later used to refine the implementation strategy of the FYR Macedonia pilot SDP. The following workshops were more focused on developing methodology for selection of companies that could be part of this kind of program as well how foreign companies can add value to the process. The capacity building process ended with guidance on how to establish the proper monitoring and evaluation framework.
3.3 Working with the Private Sector

39. International experience shows that a key success factor is for foreign companies to be actively involved during the entire process of developing and implementing an SDP. The Agency for Foreign Investment had conducted a survey and meeting with foreign companies and shared the findings in terms of their supply needs. The WB team held several meetings with the CEOs and in some cases with the procurement managers of the largest foreign companies in the TIDZs (SEZs) in FYR Macedonia. The discussion was focused on their view of the capacity of the local suppliers, the procurement process of the foreign companies, and the potential for local sourcing. The World Bank Group experts also participated in the meetings. The knowledge in their presentations was used during information sessions and capacity building of the government institutions with the working group from the public sector institutions. The World Bank Group team shared all training materials from the workshops with the members of the working group.

40. In the case of the FYR Macedonia pilot SDP, foreign companies were involved during the assessment of buyer needs (what the companies source locally) and identification of potential suppliers. During this process, four foreign companies that are among the largest foreign direct investors in FYR Macedonia were selected to cooperate in the pilot program. These companies were sourcing locally and had the potential to increase the number of suppliers. The meetings of the World Bank Group team with the foreign companies discussed the possibility of expanding their local sourcing. All four companies were considering expanding their production (two of them have since then) and the remaining two are gradually increasing their supplier base. The type of production (plastic components, busses, car seats) and the current level of local sourcing (as per the discussion with the CEOs of the foreign companies) in the selected foreign companies gave assurances that they were going to increase the level of local sourcing and number of local suppliers (SMEs). For the pilot program, having four foreign investors in the process was sufficient. However, the number of companies to be involved depends on how many local suppliers would benefit from the program and how many sectors would be covered. More details are presented in Box 6.

**Box 6: Working with Foreign Investors in the Pilot Supplier Development Program**

<table>
<thead>
<tr>
<th>CEOs and procurement managers from MNCs (foreign investors) were involved in the selection process of the final five companies through review of the company profiles of the 20 shortlisted companies. The procurement managers provided feedback if the companies were current suppliers, if they had previous cooperation but were not current, and whether or not they were potential suppliers (more details are presented in the section where criteria and methodology for identification of companies is discussed). In addition, a study on FYR Macedonia and the European periphery automotive regional value chain (RVC) was done by the World Bank Group. Recommendations have been made on strategic repositioning and on backward linkages programs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Among these recommendations are:</td>
</tr>
</tbody>
</table>

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14 Each of the four foreign investors had a chance to provide comments on the potential of the shortlisted 20 companies to become global suppliers.

• Engage procurement managers of foreign direct investors in the regional headquarters of original equipment manufacturers, Tier 1, and Tier 2 present in the FYR Macedonia as partners of any supplier development program.
• Invest upfront in business intelligence activities to factor in the global and regional corporate strategies of automotive foreign direct investments in the European Regional Value Chain (RVC) in the design of any SDP.
• Calibrate the level of effort of the supplier development program targeted at specific value chain activity according to their upgrading potential, as determined by the competitive dynamics of the strategic segment.
• Move toward a regional platform for FDI attraction in automotive in the Western Balkans and design supplier development programs to leverage the regional dimension of the European automotive RVC.
• Set realistic localization targets for supplier development programs in line with the minimum efficient scale of operation for the localization of value chain activities according to the structural production requirements of the global automotive industry.
• Identify and minimize switching costs for FDI to localize sourcing to local suppliers.

3.3.1 Working with Local Companies

41. The first step in working with local companies is to identify high potential companies that can become reliable suppliers. A simple and practical tool that can assist this process is the creation of a database of potential suppliers. The supplier database should be designed to proactively match foreign investors to the right suppliers. Depending on the objective of the program and target companies, a decision should be made whether the database should contain only domestically owned potential suppliers or companies with foreign ownership as well.

42. The process of developing a database could be the following:
   a) Define and agree on company information
      The information could contain the following elements:16

      Mandatory information:
      • Company name
      • Address
      • Contact details (e-mail, webpage, telephone numbers)
      • Main sector (metal; plastic etc.)
      • At least one product or product category and its attributes

      Non-mandatory information:
      • Year of establishment
      • Turnover
      • Number of employees
      • Quality standards (Certifications)
      • Process capabilities (Technological / technical capacities)

---

16 See the United Kingdom’s Automotive Supplier Finder (ASF) service example in the Annex 2 and the experience from the SDP in Czech Republic as suggestions to the Macedonian Database in Annex 3.
• Supply chain position - direct to OEM (Tier I), indirect (Tier II, III, etc.), aftermarket
• Client reference list

b) Collect information on companies
- This could be done through a questionnaire and an open call for companies to share their information on a voluntary basis (see Annex 5 for the Czech Republic example). If this path is chosen, the objective and information about the program, as well as the benefit for the companies should be widely disseminated and well explained in order to increase companies’ interest in the program. Another option is to collect publicly available information on the companies or upgrade and structure according to program needs an already existing database.

c) Consolidate and validate information collected
- It is critically important to have all the relevant data (see the mandatory and non-mandatory information that should be included in the database discussed above) in the database in order to show that the database is useful for different interested parties and could be reliable. Since some of the collected information could be poor or even missing, there should be an institution that would take responsibility for the accurateness of the database and validation of the data.17

d) Publishing and maintaining the database
- It is important to make such a database available to the wider public, as well as to update it on continuous basis. In order to provide for continuity once SDP is over, the most successful programs managed to publish such a database (e.g., in the Czech Republic and Slovakia). A web platform is the most convenient and user-friendly tool for publishing this data (see Annex 3 and 4 for more information). It could be updated either through a web application by the participating companies themselves or by the responsible institution based on the company’s request. There should be mechanisms to also exclude companies from the database. For example, if the company declines to update its record, does not respond, has entered bankruptcy proceedings, or simply no longer wants to be part of the database, its data should be removed.

3.3.2 Criteria and Methodology for Identification of Companies (in FYR Macedonia)

43. Short-listing candidates from the database happened in several rounds. The first cut helped to identify companies that fit general criteria. The second identified enterprises to which detailed analysis would be applied. Finally, among those final candidates, these steps allowed the selection of companies that have the potential to meet the strict criteria required by the foreign investors and therefore, become their suppliers (see Figure 4).

17 In FYR Macedonia this is done by the Agency for Foreign Investments and Export Promotion – InvestMacedonia.
The identification process of potential suppliers to be included in the pilot program started with improving an already existing database of companies in light manufacturing industries. Various donors have established the initial database by 2014. It was later updated and improved by the World Bank by adding approximately 60 companies recommended by the Chamber of Commerce and the Foreign Investment Council (FIC). The database consisted of 223 companies. It contained information on name of company, address, zip code, city, telephone number, email, webpage, languages, main sector, year of establishment, no. of employees, revenues, exports (percent of revenue), main products and services, technological and technical capacities, certifications, and a client reference list. The general criteria used for the initial selection were:

- **Contracts with foreign investors:** Having a contract assumes that the company has implemented standards, has reliable management and the technical, technological, and financial capacity to be suppliers to the foreign investors. Additionally, working with one foreign investor would make it likely and easier to get a contract with a second or more.

- **Number of countries where a company exports to:** This is an important indicator that a company is doing well and could be a potential supplier of a local foreign company. The more countries a company exports to, the more it’s likely able to meet the needs of a variety of clients. Having previous exposure to foreign markets helps to enrich the product offering. Exporting is evidence of implemented standards, reliable management, and the technical, technological, and financial capacities of companies.

- **Number of implemented standards:** In case the company is not yet a supplier, having implemented a certain number of standards serves as a good proxy of identifying its potential.
45. Through this process, 53 companies were identified as possible suppliers to participate in the program.

STEP 2

46. The next step was to narrow down the list of 50 companies. More rigorous qualitative and quantitative criteria were used at this time and resulted in narrowing the list to 20 companies.

47. This process was done by using quantitative and qualitative methods. The team analyzed different financial indicators of the companies with more detailed focus on the size (number of employees), net profit amount, EBITDA margin, and debt/equity ratio. To complement this theoretical information, the team also visited these companies to check their facilities on the ground and interview senior management, as well as analyzed market trends and companies’ experience in managing contracts with foreign investors.

48. The company site visits (more than 50 companies were visited) followed a set of questions that resulted in information organized in a consistent format of company profiles. The site visits included meetings with the CEO and owner for one to two hours, a walkthrough of the facilities or factory in order to learn more about the evolution of the company, validating information about the company (e.g., products and services offered), and a rough assessment of the technical and technological capacities (e.g., standards, equipment, human capacity). In addition, the World Bank Group team examined the market trends and customer base and looked into the company's experience approaching and managing contracts with foreign companies to identify competitive advantages (costs, efficiency, and quality).

49. The financial capacity analysis included:

Figure 5: Final Capacity Analysis: Factors for Evaluation

<table>
<thead>
<tr>
<th>HORIZONTAL TREND ANALYSIS</th>
<th>RATIO ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>Debt/equity ratio (below 2.333 in the last three years on average)</td>
</tr>
<tr>
<td>Net profit (positive results in the last three years)</td>
<td>Productivity (net profit per employee)</td>
</tr>
<tr>
<td>Total assets</td>
<td>Profitability (ROE = net profit/equity)</td>
</tr>
<tr>
<td>Total debt</td>
<td>ROA = net profit/total assets</td>
</tr>
<tr>
<td>Equity</td>
<td>Current liquidity ratio</td>
</tr>
<tr>
<td>EBITDA margin (average in the last three years, ≥ 6 percent)</td>
<td></td>
</tr>
</tbody>
</table>

50. The above mentioned financial indicators demonstrated that all companies were in a good financial position. Therefore, four additional indicators were analyzed:

- **Suitable size of the company (ten to 250 employees):** Experience in more developed countries demonstrates that SMEs are the most suitable for SDP. The companies are not very small (micro), but also not very large, and are usually already established as serious players on the market. SMEs have the most potential of becoming suppliers due to their fast growing potential, flexibility, and readiness to learn and invest to further enhance their capacities.

- **Net profit:** Looking at the net profit in the past three years identifies whether the company has the ability to create constant profit or not, which is crucial for its stability.
and sustainability. Companies that have positive results are keener on investing in new technology and in increasing capacities, which is important for becoming a prospective supplier.

- **EBITDA margin**: According to the machinery guide developed by IFC investment and advisory experts in the automotive industry, companies that have EBITDA margin $\geq 6$ percent, demonstrate a larger potential for becoming more successful suppliers.

- **Debt/Equity ratio**: This indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings. For the purpose of our analysis we have used the debt/equity ratio that is used when commercial banks are analyzing one particular company. This ratio should not be higher than 2.333. The rationale behind this is that the company should work with maximum of 70 percent borrowed funds (debt) and minimum of 30 percent of own funds (equity).

The general findings from the financial analysis of the 53 shortlisted companies are summarized in Box 7.

**Box 7: Findings from the Financial Analysis of Suppliers**

- General findings from the financial analysis of the 50 shortlisted companies: upward revenue trend in over half of companies.
- Average revenue growth rate: 6 percent.
- Only 6 out of 53 companies have recorded losses in the last three years.
- Low risk-taking and low-growth companies tend not to invest in new assets.
- Companies that have contracts with foreign investors are investing in assets or are planning to do so.
- More than half of companies increased total debt (i.e., increased short-term liabilities due to working with a larger base of suppliers of their raw materials).
- Low risk-taking among local suppliers evidenced by incremental trend of capital and reserves.
- Suitable EBITDA margin (average in the last three years, $\geq 6$ percent) have 76 percent (38 out of 50) of the companies. These companies could be eligible for potential investment by different stakeholders.
- Debt/equity ratio below 2,333 in the last three years on average have 86 percent of the companies (43 out of 50), which indicates that majority of the companies have space for additional funding.

**STEP 3**

51. **Since participation in the program has to come from a will of the company, the final step was to invite 20 short-listed companies to express their interest.** As additional criteria, four of the largest foreign investors in the country (as explained above in the text) provided feedback on the 20 shortlisted companies and Macedonian Bank for Development Promotion (MBDP) provided comments on the financial capacity of the companies.

52. **Based on the submitted Letters for Expression of Interest (see Annex 6) feedback form, the foreign companies' interest, and comments from the MBDP and company profiles from the site visits, 25 companies and three reserve companies (suppliers) were identified to be included in the program.** This was based on analysis and recommendations by three foreign consultants with
more than 30 years of experience in this area and the World Bank Group team. The number of selected participating SMEs was determined by the available resources in a short-term pilot SDP. Larger, longer term pilots, such as the one in the Czech Republic (model for the methodology used in FYR Macedonia), included around 40 participating companies, and one in Russia included 10 companies. In addition, and based on their experience in the automotive sector, during the review of the company profiles the consultants have used the following selection criteria: the type of products companies produce (both plastic and metal producers were included), how well they can be integrated into the production process, interest by the foreign investors, and how focused they are in the production process. The takeaways from the site visit are presented in Box 8.

**Box 8: Takeaways from the Site Visits: Selling to Foreign Investors in FYR Macedonia**

<table>
<thead>
<tr>
<th>The site visits helped to identify some of the challenges of doing business with foreign investors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Lack of publicly available information about foreign investors and their supplier needs.</td>
</tr>
<tr>
<td>▪ Approaching foreign investors is a quite difficult process, especially getting in touch with the procurement managers (in cases when there was already a contract and established relations, the local suppliers have been approached by foreign investors).</td>
</tr>
<tr>
<td>▪ Many companies claim that implementation of certain technical standards has not been required by the foreign investors as prerequisite to obtain a contract with them.</td>
</tr>
<tr>
<td>▪ Even if local SMEs manage to obtain a contract with the foreign investors, it’s likely to be <em>ad hoc</em> and rarely leads to a long-term engagement.</td>
</tr>
<tr>
<td>▪ If the inputs supplied by local SMEs are to be included in the production process, the process of negotiations, including quality testing, usually takes more than a year.</td>
</tr>
</tbody>
</table>

### 3.3.3 Business Review

53. The purpose of the business review is to map and understand the capabilities and areas of potential improvement of the local companies. Not only does the analysis help to structure the support given to a specific company to address certain gaps, it also serves as a source of information in the selection process for inclusion in the program.

54. The model chosen for the review came from the European Foundation for Quality Management (EFQM), which uses nine criteria, upon which to assess company capacity (Figure 6). These criteria help to identify key areas for improvement that are in line with the requirements of foreign investors and assign a score to the overall readiness level of the supplier.

**Figure 6: European Foundation for Quality Management Excellence Model: Nine Criteria**
55. **There are several key characteristics of this model:**
   
a. It is an entirely confidential process, and depends on a full and frank exchange of information between the company and the assessors and consultants.

b. The review is not an external audit. It is based on a participative approach, with the assessors working together with the company’s management and staff, and it focuses on facilitating a self-assessment of the company against international benchmarks.

c. It provides the company with a management system for continuous assessment of performance and improvement.

d. The company still has the opportunity to access additional support to help it improve performance.

e. It requires a considerable commitment of management time, both in carrying out the reviews and following through with improvement plans.

56. **The EFQM model was chosen because it is a proven methodology** developed by leading European companies as a tool for identification of areas for continuous improvement of all aspects of the business. This model was used in SDPs in the Czech Republic and Serbia, and as such, it was used in the FYR Macedonia pilot SDP. The model is holistic, as it covers all of the important aspects of company management and is applicable to companies of all sizes and from all sectors.¹⁸

57. **There are two options of using the EFQM model in SDP as presented in Figure 6.** In both cases EFQM-based assessment is used to find areas for improvement and to monitor the impact of the program through identified progress between the first and second business review. The main conclusions from the business reviews conducted under the FYR Macedonia pilot SDP are presented in Box 9.

¹⁸ For more information, visit: [http://www.efqm.org/the-efqm-excellence-model](http://www.efqm.org/the-efqm-excellence-model)
Box 9: Main Conclusions from the Business Reviews

The main conclusions from the business reviews were:

- The result of the business reviews (BRs) should be mainly used for selection of type support for the companies in SDP.
- BRs allows participants to customize companies’ actions plans and select the type and amount of support needed that is aligned with their individual priorities and needs.
- Since the companies are in different stage of development, they should not receive the same amount of support. The amount of support should be defined based on a detailed action plan relative to specified support needs.
- Local companies may have achieved growth in traditional markets, but scaling sales to compete in the global marketplace requires significant effort and a long-term vision with concrete improvement actions over a five year horizon.
- Company management often knows the local market very well, but needs to invest more time to improve their understanding of the global market and the requirements of foreign investors, enabling to thereby develop a strategy that can help them compete with low cost suppliers in emerging countries.
- There is no scarcity of investment in machinery and equipment; however, there is sub-utilization of resources and a need to optimize production according to the principles of lean manufacturing and continuous improvement.
- Further investment in training for managerial skills, as well as for technical, quality, and sales personnel are essential for long-term development and contracts with foreign investors.

Figure 7: Using the Business Review as a Tool in Supplier Development Program

Note: BR = business review.

58. In the selected option (shown first in Figure 7), the first business review is conducted and consultants work with the top management of the company to selected areas for improvement. Companies are then given time (around six months) to implement the action plan. After the period of implementation, a second business review is conducted and the business review score is updated to reflect improvements. Additionally, fulfillment of the action plan is measured and scored separately. Only those companies that have demonstrated the highest improvement are invited to participate in the program and to receive intensive consultancy.
support for their capacity building.\textsuperscript{19} This selection process was used in the first two rounds of the Czech Republic SDP and in the Serbia SDP to select the companies that have demonstrated a certain level of commitment to the process. One important aspect of a successful business review is the selection of the right consultant(s). The best practices is to choose a team with official EFQM assessor/s and an industry expert (international or local consultant). The second option shown in Figure 7 was used in the third round of Czech Republic SDP and in the FYR Macedonia pilot SDP. In this option, the period between business reviews is longer and program’s support ends after the second business review. In FYR Macedonia this option was taken because of the nature of the pilot – its purpose was to test the concept and lay the groundwork for a scaled-up program to be implemented, which could use the first option. More information on what was done is presented below.\textsuperscript{20}

59. The business reviews were part of the World Bank Group’s activities to increase and strengthen the capacities of participating government agencies (especially the Agency for Foreign Investments and Export Promotion of the FYR Macedonia: AFIEP and DTIDZ). In this segment, the World Bank Group’s activities were focused on assisting public agencies and building local capacity by transferring world-class knowledge, tested locally, to jointly (with the institutions) develop the tools and mechanisms for the design and implementation of an effective supplier development program, to be financially supported by public resources in the future.

60. To the five companies participating in the business review program, expert consultants provided a two day review of each company’s total business.\textsuperscript{21} The first day of the program included an orientation for key managers in the development program and the presentation of a methodology for self-assessment. Business reviews were based on existing European Union experience, incorporating the EFQM, and other methodologies such as lean manufacturing, with the goal of maximizing the scope for early performance gains by the participating companies. Managers of each company were also asked to fill out a self-assessment workbook during the course of first day. They spent considerable time in interviews with the assessors. These interviews were necessary to create a complete overview of company operation and performance. This external assessment and the information gathered enabled external assessors to help each management team identify strengths, as well as areas for improvement. The second day of each business review was dedicated to the presentation of each management team’s self-assessment findings, the assessors’ view on each company, and discussion of areas for improvement. As a result of the collaborative work of the management team and the assessors, a realistic picture of each company’s operation and performance included strengths and

\textsuperscript{19} The application for this stage in the Czech program mainly contained identification data on the applicant. It also included the following: a. number of employees; b. branch in which the company operates; c. balance sheet, income statement for the last three years; d. tax returns for the last two years; e. certificates awarded; f. ratio of own production program to cooperation; g. affidavit on proper settlement of all obligations toward the institutions defined under the program; h. affidavit on not damaging the environment; i. affidavit of the applicant stating that bankruptcy has not been declared on his assets, that he has not received permission to settle with creditors, that a petition to declare bankruptcy on his assets for insufficient assets has not been rejected, that an execution of a decision has not been conducted against him, and that he is not in liquidation.

\textsuperscript{20} During the period of writing this document, the second business review was not conducted yet.

\textsuperscript{21} Before starting the business review process, the EFQM excellence model and the checklist for assessment was adjusted to better address the local market conditions. Introductory and preparatory documents for top management were prepared and sent in advance (overview of the program, draft agenda, and methodology of work).
weaknesses against international benchmarks (see Box 10). An improvement plan was then created for each company to execute during the six months following the project.

**Box 10: Applying the European Foundation for Quality Management Excellence Model: Findings in Small and Medium Enterprises in FYR Macedonia**

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>POSITIVE ASPECTS</th>
<th>AREAS FOR IMPROVEMENT</th>
</tr>
</thead>
</table>
| Leadership and management     | • Management deeply involved in day-to-day work with a deep knowledge of the company  
                                | • Results-focused (short term)                                                   | • Long-term focus and vision                                                      |
|                               | • Ambition to make the company successful                                        | • Deeper knowledge of the international market and requirements of foreign companies |
|                               |                                                                                  | • Broader management and leadership knowledge and capabilities at every level of the company |
| Strategy and planning         | • Knowledge of current customers’ expectations                                   | • Medium term planning, three to five years                                          |
|                               | • Opportunistic approach to business                                            | • Annual budget supporting medium term plan                                         |
|                               |                                                                                  | • Monthly tracking of results:                                                     |
|                               |                                                                                  | • Financial                                                                        |
|                               |                                                                                  | • Sales and new orders                                                             |
|                               |                                                                                  | • Quality                                                                          |
|                               |                                                                                  | • Customer satisfaction                                                            |
| People                        | • Good rapport between management and employees                                  | • Alignment of people behind shared vision                                           |
|                               | • In general, people are very loyal to the companies                             | • Development of knowledge, capabilities, and skills of people in line with business plan |
|                               |                                                                                  | • Empowerment of people                                                             |
|                               |                                                                                  | • Involvement of people in day-to-day improvement                                  |
| Resources                     | • Companies able to invest from their own resources and from bank loans          | • Investment decisions not based on long term plans                                 |
|                               | • Adequate machinery                                                             | • Decision process for investment is informal and done in a close circle of people |
|                               | • Relatively low utilization of machines and space                               |                                                                                  |
| Processes                     | • Companies are process oriented                                                | • Processes not designed to maximize productivity and quality                      |
• Good understanding of technological processes
• No process flow approach from material to finished product
• Lean production principles not systematically used
• Focus on continuous improvement not recognized as a priority

61. It is important to point out that specific tools, based on the EFQM Excellence model, were developed for the pilot SDP: A checklist, used by external assessors and the Work Bank Group, was used by each company’s management for self-assessment. These tools were initially developed as part of the Czech Republic SDP and updated during the Serbia SDP. In the FYR Macedonia pilot SDP, the checklist was used as is and the workbook was only partially updated.

62. A certified EFQM assessor, together with other consultants (automotive expert and World Bank Group consultants), carried out the business reviews. The business reviews focused on the leadership and management capabilities of top management and how policy and strategy is developed and communicated in the company. Furthermore, human resource (HR) policies and processes were analyzed, as well recruitment strategies, training, and the decision-making process on every level. Regarding the production process, discussions were focused on production control, quality management systems, health, safety, and environmental management, product design, development, the introduction process, and lean manufacturing capabilities. At the end of the process, a detailed report covering the strengths of the company and areas of improvement were developed and discussed with the top management. Once the business reviews were completed, companies were expected to work on identified areas for improvement over a period of six months.

63. The participating local SMEs, through the business reviews, worked closely with experienced industry experts to conduct in-depth reviews, identify issues, and provide valuable inputs and suggestions for further improvement of each company’s operations. Template documents (e.g., a cost calculation model) were provided to some of the companies, as needed. Collaboration with EBRD Small Business Support (SBS) project was developed. EBRD SBS continued the cooperation with the participating SMEs and provided advisory services for specific areas of need for the SMEs. This enabled the SMEs to improve their operations toward becoming a more reliable supplier to foreign companies. By including foreign companies in the selection process, the pilot SDP managed to establish initial communication between some of the foreign companies and some of the local suppliers. EBRD is still actively advising local and international consultants in some of the SMEs. A second round of business reviews in the near future might be good to measure the impact of the pilot in more detail.

3.3.4 Access to Finance

64. Facilitating access to finance is defined as the ability of an enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services. In
the SDP, access to finance could be helpful in upgrading a suppliers’ capacities. In the "Executive Opinions Survey of the Global Competitiveness Report," access to finance was identified by managers of firms in various sectors as one of the most problematic factors for doing business in the country.

65. **The SDP can facilitate access to finance through different activities such as:**
   - Financial analysis of supplier firms.
   - Catalogue development of public and private (banking and non-banking) financing products and sources.
   - Assisting in the preparation of applications for suitable financial products.

66. **In FYR Macedonia, sources of funding** support available for enterprises include:
   - Public sources: matching grants, innovation vouchers, credit guarantees, and export credit insurance, the Fund for Innovation and Technology Development (FITD), the Ministry of Economy-Agency for Support to Entrepreneurship, and the Macedonian Bank for Development Promotion (MBDP).
   - Private sources: banks with short-term and long-term credit products (from internal bank sources and external funding, such as the International Finance Corporation (IFC), European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD) for SMEs. Non-bank sources and products include leasing, venture capital and equity finance, as well as donor-funded matching grants.

3.3.5 **Reverse Exhibition**

67. **A reverse exhibition is an industry event or conference where the buyers, typically foreign investors and their staff, meet the vendors, or local companies.** These meet the buyer events are fairly one-sided in the sense that they represent more of an opportunity for MNCs to display or convey information about products and components that they need now, or will need in the future, rather than a forum for hearing about seller capabilities. But they can be an efficient way for local suppliers to directly meet with foreign investors, collect contact information, ask questions about their operations and expectations, and get a better understanding of their needs and requirements. In the case of the Czech Republic SDP, several exhibitions were organized during the period of 2003 and 2008 that opened doors for many Czech Republic companies to cooperate with foreign investors. Currently, in the case of FYR Macedonia, such an activity is more suitable for an SDP that is fully scaled-up, rather than a pilot, but they represent an important objective that could be reached if a program flourishes.

3.3.6 **Supporting Local Companies with Advisory Assistance**

68. **While many companies in the country need improving, they do not always have the capacity to do so, and building that capacity can be a challenge.** The time and resources that senior managers and staff have to devote to big-picture issues and long-term competitiveness competes with urgent day-to-day activities. But it is particularly important to find this time, as the benefits that can accrue to a company that successfully engages a foreign investor can be manifold. With

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this in mind, participants in the SDP might benefit from certain forms of customized advisory support to address specific needs depending on their stage of development. This could be done through action plans developed together with each company during the business review process.

69. The World Bank Group team had regular coordination meetings with technical assistance providers who advised and directed them to different programs that could be used as a source of technical assistance to the companies participating in the pilot SDP. Those programs included the EBRD Small Business Support Program, the Dutch Embassy PUM program for supporting SMEs, and the Fund for Innovation and Technology Development. Several of the companies participating in the pilot were approached by representatives from EBRD and the PUM program. Examples of technical assistance support provided by suppliers during site visits are presented in Box 11.

Box 11: Site Visits – Areas in Which Companies Requested Support

| All companies were interested in participating in networking (e.g., business forums). Specific areas of technical assistance identified in order of priority were: |
| • Developing marketing and promotional strategies. |
| • Facilitating communications with foreign investors. |
| • Implementation of technical standards. |
| • Implementation of corporate governance best practices (succession planning, improving internal processes). |
| • Optimization of the production process. |
| • Developing feasibility studies for new investments. |

70. The quality of mentors and experts working with companies is critical. Credibility and sound solutions based on hands-on business experience is important. Experts could be invited from private sector management consulting companies (or individual consultants), or public sector agencies. Most of their contributions would be to:
- Mentor and coach
- Transfer skills to company’s staff to ensure sustained improvement
- Provide tailored advice (see Figure 8 for examples from the the United Kingdom experience)
- Agreement with, monitoring, or modifying improvement plans.

71. For example, in the Czech Republic pilot, KPMG won a contract to carry out business reviews, but the European Union experts who were the lead mentors in the individual mentoring teams were appointed by Czech Invest from a cadre set up in the United Kingdom.
72. **Sanctions for withdrawal from the program could be imposed.** Any company that decides to take part in the project agrees to actively participate and avail themselves of the support offered throughout the duration of the project. Premature withdrawal from the project must be done in writing with a statement of the reasons that led to withdrawal. Should a company withdraw, it shall pay the amount of funds allocated for the company’s participation in the project. However, it shall not be deemed premature withdrawal if a company uses up the assigned consultation days of the expert sooner than the project officially terminates.

73. **If the company breaks the terms and conditions of the project or its affirmations, it shall be disqualified from the project.** Disqualification should be sanctioned in a similar way as premature withdrawal.

4 **Summary of Lessons Learned**

74. **The SDP pilot was envisioned as a segment (pre-implementation, diagnostic phase) of a potentially larger undertaking on backward linkages; it was not a stand-alone, long-term initiative.** The outputs were of diagnostic nature, as planned, consistent with this scope. These included a literature review of international experience and best practices in supplier development, assessment of foreign companies’ needs and local SMEs’ challenges, and capacity building for local SMEs and members of the working group from public institutions.

75. **The key lessons learned from the FYR Macedonia pilot SDP are summarized below.**

   a. **Scope of activities:** The scope of activities varied between diagnostics to observe the current situation in the country, region, and sector to providing concrete and customized technical assistance to companies (SMEs) to help increase their capacities. It is important to have a clear vision of what the program needs to achieve from the very beginning. For example, in the case of FYR Macedonia, if the program goal had been to prepare for a larger program that would focus only on technical assistance to the companies, then a smaller budget and team with consultants who have specific
programing knowledge and experience implementing similar programs, in partnership with an industry specialist, would be all that is needed.

b. **Duration and budgeting of the program**: Naturally duration and budgeting mainly depend on the scope of activities of the program. Based on past international experience, diagnostic activities last between eight and 12 months and might cost between US$300,000–US$500,000. Larger programs that include direct technical assistance to the participating companies might cost a minimum of US$2 million for a two year program. In the case of FYR Macedonia, experience suggests a larger program should last at least two years to show tangible results and improvements in participating companies. The cost for a program depends on the number of companies targeted and the availability of consultants to provide specific technical assistance (SDP is a very labor intensive program). Proper budgeting is vital for the sustainability of a program.

c. **Stakeholders**: The biggest challenges probably arise when it comes to selecting and working with different stakeholders. It is of utmost importance to identify as early as possible the key agency (government institution) that will be responsible for managing and coordinating the program. Even though, from organizational point of view, it is better to have one agency that will lead and coordinate the program (if the government is leading the initiative), it might also be the case that several institutions could be equally able to run such a program. In the case of the latter scenario, a coordination body might be established (as in the case of FYR Macedonia, compared to the Czech Republic experience where only one institution was responsible for implementing the program).

d. **Selection of MNCs and local potential suppliers** is a key challenge that needs to be properly addressed and is crucial for a program to be successful. Finding the right incentive for both MNCs and local suppliers to participate in the program is often not straightforward, even though there are obvious benefits for participating in the program. In most cases, top management is very busy, which can create delays in interest and participation. Well-targeted (specific sector, previously established) relations coupled with defining the optimal number of companies that can be included in the program can increase the chance of success. Constant dialogue with MNCS and local companies to ensure their active involvement throughout the program is vital. Another important aspect of success is the consultants that will work on the program. Besides consultants who will be involved in organization and coordination activities, the quality of mentors and experts working with companies is critical. Credibility and sound solutions from first-hand business experience is important to assure the right approach to assisting participating companies in their capacity building.

e. **Coordination activities** are a very important aspect of the program. Bringing together relevant public sector stakeholders to increase their understanding and support for the program (as in the case of FYR Macedonia during the pilot program) is crucial; however, more and different coordination would be required to implement a large program. The managing agency would have to lead delivery, in terms of, for example, ensuring the provision of appropriate government or consultancy support in a customized and straightforward way for participating SMEs.
76. Activities under the pilot program show companies' potential in FYR Macedonia to become approved suppliers to many of the foreign investors operating in the country. This potential should be unlocked, and with the assistance of an SDP, can increase the spill-over effect from the FDI. Additionally, such a program will assist companies’ in developing their expert capacity. Working with the government institutions clearly showed that there are several institutions (such as InvestMacedonia and DTIDZ) that have the capacity (built during the SDP) to start and run an SDP as a key part of a larger program. Until new scaled-up activities begin, designating a state institution with strong private sector development experience that can take a lead role in addressing the needs of the local companies, and can combine resources from various sources, would be a good way to maintain momentum and continue helping companies build linkages with foreign investors.
Background
The Minister of Finance has requested support from the World Bank Group to design and pilot a supplier development program. Funded by the FYR Macedonia Competitive Industries and Innovation Support Program (which is funded by a multi-donor trust fund), the initial focus will be on light manufacturing, including automotive parts. The proposed six month pilot initiative described in this concept note will aim to increase the integration of local companies with successful large foreign companies currently operating in FYR Macedonia. Local companies with the most potential to become reliable suppliers will be identified using a database of potential suppliers developed with support from USAID. Active participation is expected from the Directorate of TIDZs, the Agency for Foreign Investment and Export Promotion (InvestMacedonia) and other institutions represented in an inter-ministerial working group chaired by the Ministry of Finance and set up to lead the initiative on the government side.

Activities under the FYR Macedonia Supplier Development Program will stimulate linkages between local SMEs and large foreign companies operating in FYR Macedonia (particularly in the TIDZs) in selected light manufacturing and services sectors. The program will pilot a group of targeted and coordinated interventions to support local SMEs to increase their sophistication and compete more effectively by investing in innovation and new technologies and integrating their products and services into the global and regional supply chains of the large foreign companies located in and outside the special economic zones (TIDZs).

The overall goal is to equip participating suppliers with the information, skills, and technical capacity to meet investors’ requirements, enabling them to win more and higher value contracts. The project will also benefit foreign and other domestic companies by helping to improve the quality and reliability of the supply of products and services that they can source on the local, market in FYR Macedonia.

Duties and Responsibilities
The consultant’s main responsibility is to coordinate the day-to-day project management and implementation of the six month pilot program and to be the key contact point in Skopje. The consultant assists in managing the implementation of all tasks related to the specific sub-activities under the four main activities envisioned in the pilot: (1) collection and dissemination of supplier information; (2) capacity building and training; (3) upgrading of suppliers and technology extension; and (4) facilitating access to finance.

The consultant’s main responsibilities will be:
• Coordinate the implementation of pilot development and implementation, which includes, but is not limited to, liaising with government and private sector counterparts for data collection requests.
• Draft terms of reference for expert consultants, study tours and workshops for the pilot program.
• Assist in the selection of target foreign investors in FYR Macedonia and contribute to identification of their supply needs (products and services) based on surveys and interviews.
• Organize and coordinate workshops and study tours, in coordination with the World Bank Group team.
• Contribute to the development of reporting and analytical outputs including supplier analyses, surveys, terms of reference for study tours, and lessons learned, according to the action plan and timeframe of the pilot project.

Outputs and timeline for completion:
• Supplier analysis: end of March
• Survey: end of March
• Interview notes and recommendations: end of March
• Terms of reference for consultants: end of March
• Organize workshop #1: end of March
• Organize workshop #2: end of April
• Organize study tour(s): end of April and end of June
• Lesson learned: end of June

Qualifications Required
1. Advanced degree in economics, public policy, engineering or management with at least five years of relevant work experience in private sector development, including previous interaction with suppliers and FDI in FYR Macedonia.
2. Demonstrated expertise building effective working relations and partnerships with private and public sector institutions, exhibiting a collaborative and proactive approach to problem solving.
3. Strong and proven organizational, research, analytical and quantitative skills.
4. Ability to deliver in a dynamic environment with multiple demands and quick turnaround of outputs.
5. Leverage available data and makes timely decisions.
6. Understands project management concepts sufficiently to propose and develop action plans and implementation strategies, can apply standard project management tools, methodologies, and processes, and is able to identify and mitigate project risks as well as manage project issues.
7. High levels of initiative, judgment, and decisiveness in accomplishing tasks, with the proven ability to work independently.
8. Good time-management skills and an eye for detail, and the ability to work effectively under stress to juggle multiple tasks within tight deadlines.
9. Language skills: fluent in Macedonian and English.
Background and Rationale

Export, competitiveness, and private investment
FYR Macedonia has maintained macroeconomic stability through a time of global and European crisis, creating a stable environment for investment with low inflation and manageable external balances. However, moving to a higher growth trajectory requires continued macroeconomic stability and development of a competitive export sector in FYR Macedonia. In a small open economy like FYR Macedonia, firms must look to export markets for growth. Today, only 5 percent of manufacturing firms in FYR Macedonia export, but this group of firms generates 55 percent of the total sales revenue in the manufacturing sector. The key to accessing export markets is to boost firm productivity in the conditions of a pegged exchange rate as there is a strong relationship between exporting and productivity: exporting firms have six times more revenue per employee than the average firm in FYR Macedonia. Moreover, international evidence suggests that participation in export markets helps to improve firm-level productivity, so that a competitive export sector will translate into a more competitive and dynamic economy.

The government scaled up export promotion through the adoption of the Export Promotion Strategy and implementation of exporter support programs. The strategy aims to ensure that appropriate institutional mechanisms are operating at the ministerial and agency levels, and that programs with high potential impact are put in place. The exporter support programs help build the capabilities of those exporters aiming to increase the quality of their products or reach new markets, which could progressively increase FYR Macedonia’s share of medium and high tech exports.

Recent and ongoing analytic work confirms the need to continue and deepen reforms in the area of competitiveness. The Global Competitiveness Report (GCR) 2013-14 ranks FYR Macedonia in the middle of the range (73 out of 148). The country ranks highest for goods markets efficiency (44) and macroeconomic environment (59), and lowest for market size (109) and business sophistication (100). The report identifies the top three obstacles for doing business in FYR Macedonia as access to financing, infrastructure and skills of the labor force. In the past several years the country has made significant progress in improving the business climate beyond the first generation of reforms often related to the methodology of the Doing Business (DB) Report. A series of two Competitiveness Development Policy Loans (DPL) recently implemented reforms in the governance and efficiency of public spending for private sector and foreign investment. However, many challenges remain with implementation of business regulations for investment at the municipal and regional levels, due to uneven capacity at lower levels of administration and lack of experience in dealing with foreign companies.

A key pillar of the government’s competitiveness strategy focuses on attracting foreign direct investment (FDI) through a package of proactive promotion in key markets, incentives, and special economic zones (SEZ) around Skopje, Stip, Tetovo and other cities. These measures and SEZ infrastructure, which receive high ratings in global comparisons,24 resulted in increased FDI inflows.

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24 Financial Times study European Cities and Regions for the Future 2014/15 rates several regions in FYR Macedonia among the top 10 in nine out of 10 categories. Ratings for price efficiency, business cooperation, and FDI strategy were particularly favorable.
especially in medium and high tech manufacturing industries. These investments jumped to € 78 million in 2013, accounting for net exports of € 87 million in 2013 and are expected to be up to € 190 million in 2014, with total exports of € 1.2 billion. The new FDI located in and outside the SEZs employed around 5,000 workers in 2013, and this is expected to increase to 9,000 by end 2014. Companies received state aid packages, which include tax incentives and skills training for the employees. They are also developing cooperation with local universities and some of the companies have developed supply linkages with domestic producers of plastic and metal products.

Constraints to linkages with FDI and export competitiveness of domestic firms are related to firm-level productivity, skills, business sophistication, and some aspects of the business environment at the local level. By end 2013, supply linkages between companies in FYR Macedonia and foreign investors was only estimated at € 50 million in goods and services (including construction), with potential for increase in the medium and long term. The government is determined to stimulate partnerships among foreign manufacturing companies operating in FYR Macedonia, local small and medium enterprises (SMEs) and financial institutions by providing assistance to upgrade product quality, quantity, and reliability through technical and managerial skills, business planning and access to capital. One important element of this support is the Fund for Innovation and Technological Development (FITD or Innovation Fund). Established in 2014, the fund receives support from the World Bank.

The minister of Finance has requested support from the World Bank Group to design and pilot a supplier development and backward linkages support program. Funded by the FYR Macedonia Competitive Industries and Innovation Support Program (funded by a multi-donor trust fund), the initial focus will be on light manufacturing including automotive parts. The proposed six month pilot initiative described in this concept note will aim to increase the integration of local companies with successful large foreign companies currently operating in FYR Macedonia. Local companies with the most potential to become reliable suppliers will be identified using a database of potential suppliers developed with support from USAID. Active participation is expected from the Directorate of TIDZs, the Agency for Foreign Investment and Export Promotion (InvestMacedonia) and other institutions represented in an inter-ministerial working group chaired by the Ministry of Finance and set up to lead the initiative on the government side.

The pilot Supplier Development Program will draw upon strong analytical and operational experience from similar programs in Europe and Central Asia (Czech Republic, Kazakhstan, Russia, Serbia), Latin America (Costa Rica, Chile), as well as from SME support programs globally. Lessons drawn from international experience conclude that successful supplier development programs share the following characteristics: (i) technical support particularly on quality standards, lean manufacturing, etc.; (ii) management support, including guidance on business and financial planning, tendering advice, regulatory navigation advice, marketing; (iii) support to skills through improved human capital in the human resources departments; (iv) sourcing database to match local suppliers with investors; (v) organizational support, such as meet the buyer matchmaking and B2B events; (v) merging and matching business-to-business (B2B) networks; (vi) joint venture support; (vii) Introductions of participant companies for joint tendering and possible cluster initiation; (viii) development of national quality standards; (ix) financial products, including a mix of loans, leasing, venture capital, credit guarantee funds, micro loans, export credit insurance, etc. A study of successful small and medium enterprises in FYR Macedonia showed that cooperation with international companies is one of the top three factors of success for these companies.
**Program Objectives**
Activities under the FYR Macedonia pilot Supplier Development Program will assess and stimulate linkages between local SMEs and large foreign companies operating in FYR Macedonia (particularly in the TIDZs) in selected light manufacturing and services sectors. The program will pilot a group of targeted and coordinated interventions to support local SMEs to increase their sophistication and compete more effectively by investing in innovation and new technologies and integrating with their products and services into the global and regional supply chains of the large foreign companies located in and outside the special economic zones (TIDZs).

The overall goal is to address information asymmetries and equip participating suppliers with the information, skills, and technical capacity to meet investors’ requirements, enabling them to win more and higher value contracts.

**Program Description**
The six month pilot program will be carried out with assistance and international expertise provided under the auspices of the FYR Macedonia Competitive Industries and Innovation Support Program (MCIISP). The activities under the program, described in detail below, will be rolled out starting in the second half of December 2014 and ending in June 2015. The activities are grouped into four main categories: (i) supplier information dissemination; (ii) capacity building and training; (iii) provision of international expertise; and (iv) assistance accessing financing sources. To the extent possible, the analysis and dissemination activities will seek to engage in-country stakeholders through workshops and high-level meetings in order to contribute to more robust outcomes with strong potential for scale-up. Taking the short timeframe and ambitious results into account, it will be necessary to secure a strong and shared sense of ownership of the activities by the responsible institutions and public agencies, as well as a strong partnership with relevant organizations from the private sector and donor agencies.

**Value proposition:** The World Bank Group will conduct an assessment (diagnostics) of the market needs, gaps and results, which will further inform the design of the pilot program and the future broader engagement in supplier development and backward linkages. Under the auspices of the Competitive Industries and Innovation Support Program, the World Bank Group will assist with the design and implementation of the program and monitoring and evaluation of results. In doing so, the World Bank Group will provide international expertise and lessons from similar programs and, in cooperation with the public and private sector entities and donor agencies, will contribute to institutional strengthening of the partner (public) agencies to implement a successful and sustainable (scalable) pilot program for supplier development in FYR Macedonia.

The proposed pilot program will be launched with a presentation of the program to counterparts in January 2015. The presentation will present (a) findings in an analytical note, which summarizes relevant international experiences and best practices in support to supplier development and backward linkages from different countries and regions; (b) successful cases and lessons learned from domestic companies (SMEs) who have already established business linkages for supply of goods and services to large foreign investors\(^26\) in FYR Macedonia.

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\(^{26}\) E.g., Van Hool, Tehnohoze, Kemet Electronics, Johnson Matthey, all located in the TIDZs.
The pilot program is demand-driven and based on a practical approach, which consists of the following and interlinked four elements:

(i) Collection and dissemination of supplier information of the products and capabilities of potential FYR Macedonia suppliers, so as to enable foreign manufacturers to shortlist and contact potential suppliers. This will be achieved by the following activities: (a) Review of Database of Potential Suppliers to determine quality and relevance of entries, information gap, and ease of search; installation and upgrade possibilities; develop a user manual and administration agreement between agencies. The firm-level data (financial, jobs, exports, references) will serve as a baseline for ex-ante assessment of firm (supplier) performance. This information will be important for the company analysis and selection criteria; (b) Survey of FDI and buyer needs to identify the types of products and services that potential buying companies and large foreign investors are expecting to source from local companies; quantities and quality standards sought, payment terms, regulatory constraints, etc. This activity would follow up on assessments that may have been previously conducted by partner agencies and private sector organizations; (c) Assessment of regulatory incentives and constraints, which stimulate or impede opportunities for supplier development. The activities (a-c) would be conducted in a concurrent and efficient manner.

Timeframe: December 2014–February 2015
Outputs: (a) Database assessment and installation, (b) buyer needs assessment (survey results) and (c) assessment (analytical note) on regulatory incentives and constraints.
Resources: Two T&C specialists (GF level): one economist or private sector development and one investment regulation specialist and two local consultants (survey or needs assessment).
Partners: Directorate for Technological Industrial Development Zones, Agency for Foreign Investment and Export Promotion, Council of Foreign Investors at the Chamber of Commerce and relevant (sector-specific) business associations.

Result indicator: Information resources (database, buyer needs assessment, and regulatory assessment) are completed and available to public agencies and interested companies.

(ii) Capacity Building and Training: The key counterpart agencies and the inter-ministerial working group need to receive relevant training to ensure that there are skills for program management and support services at firm level focused on supplier development. The activities under this component will be carried out at the onset of the pilot program and at the time around the completion of the program. In the initial phase, it will incorporate the results (i.e., feedback received from the Survey of FDI and Buyer Needs and the baseline performance of the supplier firms), so that the agencies have knowledge from the end users (buyers and supplier firms) during the capacity building activities.

Firm selection criteria: As part of the capacity building, the project will help with development of criteria and methodology for selection of companies which will receive support to upgrade their technology, expand the business, and enter the supply chains of large foreign companies. The selection criteria and methodology will be based on best international practice and will be competitive based on proposals for upgrading and performance indicators.

At program completion, the capacity building and training activities will be adjusted to and inclusive of lessons learned (from public agencies and private sector participants) during the implementation of the activities.
**Timeframe:** January–February 2015 and June 2015.

**Outputs:** (a) Two training workshops in program administration and management, supplier assessment and selection. The training workshops will include case studies and targeted interviews with management and staff involved in supplier development and backward linkages in other countries. The interviews with relevant managers and staff at or from agencies in other countries (e.g. Czech Republic, Chile, Costa Rica) or with World Bank technical specialists could be organized with a video conference or via virtual connection (WebEx) from the World Bank office. (b) Potentially one study tour to relevant agency(ies) in another country (Austria, Czech Republic, or Poland). (c) Methodology and criteria for company selection, which will include but not be limited to company performance and ownership records, quality of technical proposals, etc. 

**Resources:** One T&C specialist, two international expert consultants or trainers.

**Result indicator:** Improved capacity of public agencies to manage a design and deliver services for supplier development to local firms, as demonstrated by the number of technical staff trained and quality of outputs (surveys, back to office reports, and methodology and criteria for firm selection).

**(iii) Upgrading of suppliers and technology extension:** Based on the pre-defined methodology and criteria for selection, companies in target sectors and industries will be invited to propose specific areas of support, which they need from adequate industry or management experts (both international and local). The proposals and documentation will be assessed and based on the assessment, a small number of companies (three to five) will be selected as potential candidates to receive support which would help them to enter into the supply to foreign companies in FYR Macedonia.

**Provision of international and local expertise:** Resources from MCIISP will be deployed to competitively engage international and local expertise in management and industry or technology specific issues. Additional targeted local expert support could be sought through the EBRD supported Small Business Support (SBS) program. The team of the SBS program has expressed readiness to cooperate with the World Bank Group team in the pilot program. The technical assistance interventions will focus on operations, production and quality management, supply and standards gap analysis, financial management, marketing, supply chain management, organizational change, as well as on communication and negotiations with the foreign partners. The companies and experts will produce an assessment and upgrading plan in consultation with the potential buyer (foreign company) who will also have a consultative role in the implementation of the upgrading plan (standards adoption, product test run, etc.). At the end of the program, the suppliers will be evaluated on the level of technological upgrading and business improvement. The type of technical support which companies will need based on the assessments and consultations with the FDI will inform the understanding and diagnostics of the gaps between suppliers’ operations, product quality, and skills and buyer needs. This knowledge will further inform the design of the follow-up larger program on backward linkages, as well as the design of a scope of activities of a Center of Excellence in manufacturing, which could be supported by MCIISP.

**Timeframe:** March–June 2015

**Outputs:** (b) Assessment of companies’ proposals and selection of three to five companies for upgrading services; and (b) support to selected firms/potential suppliers with successful interventions and quality upgrading; (c) gap analysis summarizing local firms and supplier challenges vs. buyer or FDI needs, (d) terms of reference for a Center of Excellence in Manufacturing which could be developed by a relevant industry association and could apply for
funding and technical support from the Fund for Innovation and Technological Development (FITD).

*Partners:* Directorate for Technological Industrial Development Zones, Agency for Foreign Investment and Export Promotion, Council of Foreign Investors at the Chamber of Commerce; Business Associations including Association of Certified Management Consultants, EBRD Small Business Support Program in FYR Macedonia and FITD.

*Result indicators:* (a) at least three local companies have upgraded their technological capacity and have initiated supply linkages with large foreign investors by the end of the pilot program; (b) local institutions and business organizations enhanced their understanding of local supplier capacity needs and gaps, (c) public agencies and business organizations increased their capacity to respond to the needs and gaps.

*(iv) Facilitating Access to Finance:* On an as-needed basis, this component will help selected suppliers with financial analysis, planning, and information about relevant funding sources and products through the public and private (banking and non-banking) sectors in FYR Macedonia. The public sources of funding support (through matching grants, innovation vouchers, credit guarantee, and export credit insurance, respectively) include the Fund for Innovation and Technology Development (FITD), the Ministry of Economy, Agency for Support to Entrepreneurship and the Macedonian Bank for Development Promotion (MBDP). Private sources of finance include banks with short-term and long-term credit products (from internal or bank sources and external funding such as the IFC, EIB, EBRD) for SMEs. Non-bank sources and products include leasing, venture capital, and equity finance, as well as donor-funded matching grants. The goal of this activity is to assist with improved financial capability of local firms in order to develop and improve their processes and capacity.

*Timeframe:* May–June 2015

*Outputs:* (a) financial analysis for supplier firms; (b) catalog of financial products and sources in the public and private (banking and non-banking) sectors; (b) at least three applications for a suitable financial product.

*Partners: Public:* Fund for Innovation and Technological Development (FITD), Ministry of Economy and Agency for Support of Entrepreneurship; Macedonian Bank for Development Promotion (MBDP); *Private:* Bankers Association, IFC, EBRD, SEAF, KfW, USAID (Small Business Expansion Project, Center for Entrepreneurship and Executive Development/CEED), Crimson Capital.

*Resources needed:* Two local consultants (financial specialists).

*Result indicator:* At least five companies are assisted with financial analysis and information about appropriate sources of funding from public and private (bank and non-bank financial sources).

**Monitoring and Evaluation**

The monitoring and evaluation (M&E) of progress of the program activities will be a joint effort by the key counterpart agencies and the World Bank Group team. An M&E framework will be established at the onset of the program and will be managed by one of the key counterpart agencies. Training on M&E will be part of the training and capacity building activities at both the initial and completion stages of the program, so that the staff in the implementing and counterpart agencies gain and improve their skills in M&E. The feedback loop will inform the public agencies of (a) the firm (domestic and foreign) needs and gaps, (b) capacity of public agencies to design and manage a program which responds to those needs; (c) availability and efficiency of local and international expertise, (d) efficiency and adequacy of public
funding schemes, and their complementarity to private funding products, so that the public programs and schemes would be adequately adjusted.

The table below indicates the outcome(s) and related indicator(s) which the proposed backward linkages program is expected to achieve.

**Figure A.1: Expected Outcomes and Indicators of Linkages Program**

<table>
<thead>
<tr>
<th>OUTCOME</th>
<th>INDICATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Finance Informed</td>
<td>☐ Preparation of new operation informed</td>
</tr>
<tr>
<td></td>
<td>☐ Existing operations informed</td>
</tr>
<tr>
<td></td>
<td>☐ Mobilization of non-bank resources informed</td>
</tr>
<tr>
<td></td>
<td>☐ Government expenditure informed</td>
</tr>
<tr>
<td>Policy/Strategy Informed</td>
<td>☐ Government policy / strategy informed</td>
</tr>
<tr>
<td></td>
<td>☐ Public debate stimulated / initiated</td>
</tr>
<tr>
<td></td>
<td>☐ Contributed to stakeholder involvement</td>
</tr>
<tr>
<td></td>
<td>☐ Development community/partner policy/strategy informed</td>
</tr>
<tr>
<td></td>
<td>☐ Bank country strategy (CAS/CPS) informed/influenced</td>
</tr>
<tr>
<td></td>
<td>☐ Bank sector strategy informed/influenced</td>
</tr>
<tr>
<td>Client Capacity Increased</td>
<td>☐ Design capacity strengthened</td>
</tr>
<tr>
<td></td>
<td>☐ Implementation capacity strengthened</td>
</tr>
<tr>
<td></td>
<td>☐ Monitoring and evaluation capacity increased</td>
</tr>
<tr>
<td></td>
<td>☐ Clients are recognized with good practice award</td>
</tr>
<tr>
<td>Knowledge Increased</td>
<td>☐ Facilitated exchange of best practice with clients</td>
</tr>
<tr>
<td></td>
<td>☐ Facilitated exchange of best practice with partners</td>
</tr>
<tr>
<td></td>
<td>☐ Disseminated best practices</td>
</tr>
<tr>
<td></td>
<td>☐ New innovative approach fostered</td>
</tr>
<tr>
<td></td>
<td>☐ New innovative approach developed</td>
</tr>
<tr>
<td></td>
<td>☐ Client is able to adopt/harness new technologies, innovative ideas, know-how</td>
</tr>
</tbody>
</table>

**Risks**

Risks to the implementation and sustainability of the pilot supplier development program are moderate. There is strong interest from the Minister of Finance and his team for this pilot program, but the timeframe is tight and resources for a future scale-up are not guaranteed. There may be operational risks both on the World Bank Group and client side, including delays in engagement of technical specialists (both internal and external) and the slow deployment of resources. There is also the risk of not getting response or interest by local SMEs and potential suppliers under the program criteria. The fledgling implementation capacity and the sustainability risk are substantial. A steep learning curve in terms of project implementation and governance is anticipated. Close supervision and capacity building from the World Bank Group and trainings in specific functions to ensure availability of competent staff with adequate skills will be critical. Additional institutional risks include the possibility of weakening of the level of ownership and engagement over time by the key institutional partners. This may in turn impede access to supplier information which could retard the speed and efficacy of implementation. Political risks include management or staffing changes in counterpart agencies in the next six months.
Mitigation Measures
To minimize these risks, early and interactive presentation of the concept for the pilot project to the counterparts will take place in December 2014 and a strong dialogue particularly about the necessity for strong commitment by the agency staff. Additional mitigating measures include: (i) ongoing consultation with stakeholders to ensure the program responds to their objectives; (ii) lessons from other countries in addressing the institutional and other risks; (iii) a strong focus on capacity building and institutional strengthening; and, (iv) leveraging of the working group in the early stages of project implementation to ensure positive momentum is built. The World Bank Group team will continue to coordinate with other government authorities, private sector associations, donors, and other stakeholders, as necessary, to support successful program implementation.

Team
The pilot program will be co-led by John Gabriel Goddard (Senior Economist, GTCDR) and Gordana Popovikj Friedman (Private Sector Development Specialist, GTCDR). The activities under the supplier development program will be managed and executed by a group of technical specialists (staff and consultants) in the Trade and Competitiveness Global Practice in the Bank. On as needed basis and when opportunities arise, cross support will be sought from other global practices (e.g., finance and markets, education, agriculture, etc.), and from cross-cutting solution areas (jobs and employment), as well as from other parts of the World Bank Group (IFC investment and advisory services, etc.).
Annex 3: Macedonian Supplier Database: The Option of the United Kingdom’s Automotive Supplier Finder (ASF) Service

The ASF is the United Kingdom’s online automotive supplier database designed to proactively match buyers to the right suppliers. It was developed and is run by the Society of Motor Manufacturers and Traders (SMMT), the United Kingdom’s automotive trade association.

It now has the details of about 8,000 individual sites, or about 6,000 companies, currently in its system.

It has features in common with the Czech Invest database, but two significant differences are:

- a detailed product classification system developed by the industry with 4,000 product classifications on a branch and leaf basis down to seven levels of detail.
- the ability to process RFIs/RFQs, including supporting CAD drawings, with built-in monitoring and alert functions.

Further details of the coverage of the database and the services offered are given below.

**Offer from SMMT**

If such a database format was of interest to InvestMacedonia, SMMT would be prepared to provide the system for them on one of two bases:

- a managed service.
- set up the system and provide training on its use for an upfront charge, which covered their costs.

A further independent option would be to link such a system with the main ASF, so that suppliers in FYR Macedonia could have access to the RFIs/RFQs handled by that system, if they met the criteria set by the buyers.

SMMT would be happy to provide further details on both the system, and what they could offer. If it is planned to put the setting up of the Macedonian supplier database out to tender, it would certainly make sense for them to be one of the organizations invited to respond.

**Some further details of the ASF**

(i) **Coverage**

The information held includes on (a) a mandatory basis:

- Company name
- Address
- Site type (i.e., office, manufacturing, R&D, etc.)
- Member status
- A contact (which is hidden)
- At least one product/product category and its attributes (i.e., is it for a car, LCV, etc.)
- Data protection/terms and conditions acceptance

and on (b) a non-mandatory basis:

- turnover
- number of employees

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27 This annex was drafted by Steve Martin, Senior Private Sector Development Consultant.
• quality standards
• process capabilities
• supply chain position - direct OE, indirect, aftermarket

What information is mandatory and what information held is shown or hidden are variables down to the choice of the managing organization. All the settings and what can be shown are flexible, but considerations taken into account in respect of the latter include data protection and the purpose of displaying that type of information. For example, all that the SMMT have chosen to show on the current system is the company level details, a generic contact email and phone, a description, and list of the product categories.

Although non-product details such as quality standards and turnover are non-mandatory, it is made clear to companies that it is in their interests to include fuller information, as they might be parameters of search set by buyers. Other fields could be readily added to the database if necessary.

No financial information is included. This is left as part of the subsequent due diligence by the potential buyer.

Below is a diagram giving an example of the level of product and service data that the database holds. Over 4,000 classifications exists, and as new products are known, new classifications are added to accommodate these.

Figure A.2: Product and Service Database Levels

(ii) Services — RFQs
Buyers can access the system themselves or SMT can provide a customized service, using a back-office tool. As well as using the database to establish a list of potential suppliers, buyers can issue a specific RFQ that is either public or private and excludes their name (in case for example the RFQ might go to their existing supplier.) In addition to including supporting CAD drawings, buyers can also put in pricing
requirements and the deadline for reply, as well as pre-defining criteria such as location and quality standards. More details are given below.

Suppliers do not have to keep checking the system. They are sent an email alert to have a look at the details of a RFQ if their profile matches a buyer’s criteria. SMMT filter and monitor the RFQs and suppliers respond through the online system. Buyers receive alerts to let them know that there are quotations to be viewed. There are no charges made for these services. The only advantage to SMMT members is that they get listed first, if they meet all of the buyer’s criteria.

This model is summarized in the following diagram:

![Figure A.3: Online Buyer and Supplier System](image)

(iii) Database quality and verification
In terms of verification, the SMMT carry out specific campaigns twice yearly to ask whether company details are up-to-date, as well as updating through their ongoing contacts, such as meet the buyer events. The ASF is the sole source for invitations to its meet the buyer events, so it acts as both an incentive and a check. Suppliers can securely login and edit their company’s profiles as often as they like, but the SMMT has the opportunity to approve amendments before they go live on the website.

SMMT experience demonstrates the virtuous cycle in terms of use and quality of database. Quality of information on suppliers encourages the buyers to actively use the system, which in turn encourages the suppliers to input their information and keep it up-to-date, and so on.

In the situation in FYR Macedonia, this emphasizes the importance of quality control from the outset of the database, when it is seeking to establish its reputation. A key element in it being successful is that the large investors have confidence in the quality of the data, so that they use it in looking for suppliers.

In the Czech Invest case, the initial database was built on the companies that had participated in the pilot SDP, before widening it to include other companies with the support of trade associations. Verification systems to ensure that the data is accurate and up-to-date then need to be put in place. Minimum standards for inclusion could usefully be set. More positively, it might be useful to flag up in the database those companies which have been through improvement programs as part of the FYR Macedonia pilot SDP, as in the case in the United Kingdom for recognition standards achieved through the United Kingdom SC21 aerospace SDP.
(iv) Other points
In respect of the system:

- There is an administration portal for both the database aspect and the RFI/RFQ management.
- The system can also be used for collecting other details including surveys and all data collected in one place.
- There is also the provision for data analytics internally.

The ASF facility is presently limited to the automotive industry, but SMMT has ambitions to widen it to other sectors and trade associations, e.g. aerospace. It would also like to widen its coverage by linking up with other European databases, particularly lower cost countries in Eastern Europe. At the moment over 1500 non-United Kingdom based companies have independently registered a profile on the database, but there has been no formal linkage of databases. If FYR Macedonia wanted to consider that option, they would be the first country to do so.

RFQ details
These include scope for specifying:

- Product category (if put in general description, e.g., brake systems, will provide prompts on in detailed options to select, e.g. air brake system check valve.)
- Location
- Quality standards (checklist - EFQM, ISO, TS, etc.)
- Industry areas (manufacturer, distribution, reconditioned, importer, exporter, R&D, etc.)
- Company exclusion (specific named companies)
- Public/private RFQ choice
- RFQ form contains:
  - Number of units for quotation
  - Capabilities (early stage investigation of process, fundamental research, high volume production supply, initial concept design, low to medium production supply, small batch supply)
  - Maximum price per unit (not shown to suppliers)
  - Currency to be quoted
  - CAD attachment - drawings
  - NDA attachment - if require respondents to sign a non-disclosure agreement
  - Transport - Incoterms
  - Delivery date required
  - Tooling details - any tooling requirements
  - Packaging requirements
  - RFQ response date
  - Comments: any other comments
Project Summary

One of the key roles of investment organisation is to attract foreign companies across various industry segments to come to develop business in the country. A major factor driving investors' decision to invest in a country is to what extent there exists a capable and competitive supply base in the region, hence enabling potential investors to develop a successful supply chain strategy.

In FYR Macedonia there is a growing demand from international automotive manufacturers (both OEM and sub-system manufacturers), who are considering or are already establishing business activities in South East European countries, to have a preliminary overview of the potential of FYR Macedonia’s supply base in the segments relevant to their production.

To develop a positive impression and support an investor’s decision making, FYR Macedonia should develop a simple tool to provide potential investors with preliminary overview of the supply base potential in FYR Macedonia and its regions. In particular, grouping them by tier within the supply chain and by type of product that could be priorities.

The objective is that the tool should be developed in a user friendly form, simply electronically presentable to a potential investor, available both on the InvestMacedonia website and distributed by CD.

FYR Macedonia has already developed a database of automotive suppliers including over 220 contacts with some essential and product/customer specific information.

Objective and Scope

The proposed solution and scope of work reflect the overall project objectives and other FYR Macedonia expectations.

The primary objective of the project is to create, based on data input from InvestMacedonia, a database of suppliers in the automotive sector and or other manufacturing sectors in FYR Macedonia. This database should include up-to-date essential data about the listed companies, should enable sorting by defined specific criteria (tier level, region, product group, industry) and has to include a full-text searching function.

Additional Expectations:

- Information in the database should be up-to-date. Companies in bankruptcy proceedings must be excluded from the final database list.
- The database must contain the following obligatory information: company name and other contact data, product description, webpage link.
- The final database should be worked out in two language versions: (Macedonian, English).

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28 This annex was drafted by Vit Svajcr, Senior Consultant.
• The primary database should be created in MS Excel of design from which an Excel file could be extracted. As for the operation system, LINUX is recommended, but the final application platform to be used is left up to a contractor's professional consideration.

• The criteria for classification in an automotive suppliers’ database into tier level is to be defined by the contractor in cooperation with InvestMacedonia.
  o The future contractor is expected and encouraged to propose other solutions (functionality, database content), which could further enhance the user value of the database along with the overall objectives.

Basic project scope:

• The scope of this project, should be determined by the objectives and InvestMacedonia expectations specified above, includes the following main stages:
  ▪ *Stage 1*: Review of current InvestMacedonia database, confirm target numbers of supplier, review outputs.
  ▪ *Stage 2 and 3*: Main tools development, such as the database and questionnaire.
  ▪ *Stage 4*: Data collection and verification for a target number of suppliers.
  ▪ *Stage 5 and 6*: Database completion, including translation into one language version.
  ▪ Final: Reports and final presentation.

• Some partial involvement and assistance of InvestMacedonia staff is expected and will be required particularly with the following activities:
  ▪ Verification of proposed data in the database from suppliers.
  ▪ Expanding current InvestMacedonia automotive supplier database.
  ▪ Data collection and validation for a selected number of suppliers.

3. Suggested approach and deliverables
Outline of the technology used and user functions solution:

• Based on Czech Invest experience the base data source should be Microsoft Excel. From Excel the data will be exported to XML format, which will use Macromedia Flash as the main publishing technology. The data will be viewed from a standard Internet browser. The data can be presented on a CD as well as on the Internet.

• The main part of the presentation on internet webpage should be an intelligent search form in an attractive layout allowing the user smooth and straight forward access to the required data. The major links between searching layers, as well as data content and layouts are outlined in Appendix 1.

• In the first screen (layer 1), two options to view data could be offered: either MAP or DATA view.

• In the lower layer screen, for both view types there should be possibility to select the desired regions (multiple selection), tiers (multiple selection) and product module (specific selection). There must also be the full text search bar which could supplement the main selection criteria.

• After clicking on the MAP view, link the selection results appear for the particular chosen regions as well as the total for all of them. The number will indicate how many options of Tier 1, Tier 2 and Tier 3 suppliers and the total of how many companies were identified (e.g., 15 Tier 1 suppliers, 35 Tier 2 suppliers, 35 Tier 3 suppliers, 65 total companies identified).
• An approximate location of the selected supplier could be displayed on a map by clicking on the specific link.
• The DATA view option displays a list of the selected suppliers in the form of a database structure. Information like company name, tier level and product module are shown in this detail level. More detailed company profile could be displayed by ticking on the DETAIL buttons. Example of company profile is in Appendix 2.

4. Potential for future enhancement of the database tool
• The above described database should be developed in a form which could enable future enhancement and adjustments according to the up-to-date status, specific industries and the final user (i.e., an investor) decision making purpose. In particular, the following four main aspects could be taken into consideration during the creation of the database solution:
  o Updating of data by companies themselves.
  o Interfaces with other InvestMacedonia databases.
  o Application for other target industries (Plastics, Electronics, Services, Agro business, etc.).
  o Adjustment to the requirements of the final users (MNC’s) of the info, such as decision making level (vice-president for strategic sourcing, procurement director, senior commodity buyers, purchaser, etc.).
• It is anticipated that the project duration will be four to six months, depending on the responsiveness of companies on the database.
• This initial stage could result in simple re-application of the project to other target industries such as plastics, electronics, services, and agricultural business.
• Constant improvement so sustainability of the database will be achieved. In this context sustainability means that the database is broadly recognised among companies of FYR Macedonia. They should constantly update their records or alternatively InvestMacedonia should do that since the overall goal is to promote FYR Macedonia as place for investment. Constant IT support is essential.
• At this initial stage, minimum two people from InvestMacedonia should be involved on daily basis maintenance of the database. Later on one employee will be enough.
• Promotion is crucial factor. Promotion materials should be developed and shared with MNCs. Some project might be linked with the database in a sense only companies from the database can apply.
Figure A.4: Example of Database Tool

Survey of automotive suppliers in the Czech Republic

Map view

Database view

Layer 1

Layer 2a

Layer 2b

Layer 3

Switch to DATABASE view

Switch to MAP view

All regions selected 2 x 3

Show locations on map

Show details

<table>
<thead>
<tr>
<th>ID</th>
<th>Company name</th>
<th>Tier</th>
<th>Model</th>
<th>Region</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/13</td>
<td>ABC</td>
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<td>Motor</td>
<td>Prague</td>
<td></td>
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<tr>
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<td>Motor</td>
<td>Prague</td>
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<td>5</td>
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Options identified: 6

Subjects identified: 4
### Company Name [Retracted]

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<thead>
<tr>
<th>ADDRESS - STREET, NR.:</th>
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<th>SWITCHBOARD:</th>
<th>[Retracted]</th>
</tr>
</thead>
<tbody>
<tr>
<td>AREA CODE (ZIP), CITY:</td>
<td>[Retracted]</td>
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<td>[Retracted]</td>
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<td>REGION:</td>
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<td>[Retracted]</td>
<td>WWW-PAGES:</td>
<td><a href="http://www.fimes.mesit.cz">www.fimes.mesit.cz</a></td>
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</tbody>
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<tr>
<th>CONTACT PERSONS:</th>
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<th>PHONE:</th>
<th>LINGUISTIC KNOWLEDGE:</th>
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</thead>
<tbody>
<tr>
<td>[Retracted]</td>
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<table>
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<tbody>
<tr>
<td>TURNOVER-LAST YEAR (EURO):</td>
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</tr>
<tr>
<td>TURNOVER EXPORT (%):</td>
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</tr>
<tr>
<td>QUALITY CERTIFICATES</td>
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### AREAS OF ACTIVITY

<table>
<thead>
<tr>
<th>Automotive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
</tr>
<tr>
<td>Subcontracting Metal</td>
</tr>
<tr>
<td>Subcontracting Plastics</td>
</tr>
<tr>
<td>Engineering</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>PREVAILING NATURE</th>
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</thead>
<tbody>
<tr>
<td>Tier 3</td>
</tr>
<tr>
<td>Production/Assembly</td>
</tr>
<tr>
<td>Casting</td>
</tr>
<tr>
<td>Tools and Molds</td>
</tr>
<tr>
<td>General engineering</td>
</tr>
</tbody>
</table>

### PRODUCT/SERVICE

<table>
<thead>
<tr>
<th>Injection molds for plastic materials</th>
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<tbody>
<tr>
<td>Castings</td>
</tr>
<tr>
<td>Precision Al, Cu, Fe alloy castings</td>
</tr>
<tr>
<td>Molds for injecting plastic materials and metals</td>
</tr>
<tr>
<td>Molds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TIER/CHARACTER</th>
<th>MODUL</th>
<th>MAJOR CUSTOMERS</th>
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<tbody>
<tr>
<td>Tier 3</td>
<td>Molds/Jigs/Tools</td>
<td></td>
</tr>
<tr>
<td>Tier 3</td>
<td>Services/R&amp;D/Projecting/SW</td>
<td>Porsche</td>
</tr>
<tr>
<td>Production/Assembly</td>
<td>Cockpit</td>
<td></td>
</tr>
<tr>
<td>Production/Assembly</td>
<td>Molds/Jigs/Tools</td>
<td></td>
</tr>
<tr>
<td>Production/Assembly</td>
<td></td>
<td>EADS ARTHUS THALES PAGE AIRSPACE</td>
</tr>
<tr>
<td>Production/Assembly</td>
<td></td>
<td>RAYMOND KASKO DICOM</td>
</tr>
<tr>
<td>Tools</td>
<td>Tools for machining, Tools for pressing plastics, Tools for casting metals</td>
<td></td>
</tr>
</tbody>
</table>
Production of precision castings made of aluminum, copper, and steel alloys by the method of lost wax and Rapid prototyping technology up to the dimension of 700 mm

<table>
<thead>
<tr>
<th>Production of precision castings made of aluminum, copper, and steel alloys by the method of lost wax and Rapid prototyping technology up to the dimension of 700 mm</th>
<th>Casting</th>
<th>Casting - Low-pressure aluminum, Casting - Smeltable model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precision Castings</td>
<td>Casting</td>
<td>Casting - High-pressure aluminum, Casting - Smeltable model, Casting - Other</td>
</tr>
<tr>
<td>molds</td>
<td>Tools and Molds</td>
<td>Injection molding - Other inserts, Pressure molding</td>
</tr>
<tr>
<td>Molds</td>
<td>General engineering</td>
<td>Tools</td>
</tr>
</tbody>
</table>

### TECHNOLOGICAL EQUIPMENT

<table>
<thead>
<tr>
<th>TECHNOLOGICAL EQUIPMENT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>3D measuring machine</td>
<td>1</td>
</tr>
<tr>
<td>Wax presses</td>
<td>3</td>
</tr>
<tr>
<td>Machining centers</td>
<td>5</td>
</tr>
<tr>
<td>Robotic shell room system</td>
<td>1</td>
</tr>
<tr>
<td>REIS die-spotting press</td>
<td>1</td>
</tr>
<tr>
<td>RTG</td>
<td>1</td>
</tr>
<tr>
<td>Heat treatment</td>
<td>2</td>
</tr>
</tbody>
</table>
Annex 5: Request for Expressions of Interest

Supplier Development Project

The Project Will Enable Czech Companies to Become Suppliers of Multinational Companies

The Project

The goal of the Supplier Development Project is to improve the ability of Czech suppliers to compete, to secure good local sources for current investors working on the domestic market and to increase the attractiveness of the Czech Republic for new investors. The success of the recent Supplier Development Program for suppliers in the car part, aviation part, pharmaceutical, biochemical and medical equipment industries led to the initiation of the third round of this project. All the above-mentioned industries will be incorporated into this new round as well.

In recent years significant investment has flowed to the Czech Republic. While global foreign investment from traditional sources (for example from the US) has been decreasing significantly, the Czech Republic has been able to keep a high level of incoming foreign investment and is going counter to the global trend of decrease in foreign investment.

The use of local sources gives investors a competitive advantage in the form of lower costs and shorter supply time. The goal of the Supplier Development Program is to make Czech companies the first choice for multinational companies in the Czech Republic.

Project Costs

The cost of the project is covered from the state budget; the participants cover only a motivational fee in the amount of CZK 50,000 for the duration of the entire program.

The Project Offers:

- Evaluation of suppliers’ business enterprise based on the model of the European Foundation for Quality Excellence and other methods with the goal of determining areas for improvement and suggesting concrete steps leading to further development of supply abilities.
- Methods that will enable suppliers a comparison with global supply standards and show the way for continuing improvement.
- Practical guidelines and support of suppliers during the improvement of their own performance standards with the goal of meeting the demands of multinational companies and other investors.
- The project was designed in close cooperation with multinational companies and the methods of evaluation are based on all criteria used by these companies for the evaluation of their suppliers. The project also makes use of the experience gained during other successful supplier development programs conducted in other countries of the European Union and especially in Great Britain and Ireland. These programs led to a significant increase in multinational company supply from local sources.
Process of Supplier Development

The process includes an initial overview of business activities and determination of priorities for further improvement. Within the process the selected suppliers will determine their priorities for further improvement and will compile detailed long-term plans for improvement, which will enable the suppliers to meet the requirements of multinational companies. This will be done in cooperation with experienced Czech consultants. CzechInvest regularly organises workshops and courses dealing with problems which proved to be the common priorities of participating companies.

Contacts with multinational companies will be maintained throughout the whole programme duration to ensure that the programme effectively reflects their priorities and requirements on suppliers and also to maximise their efforts to meet the objectives of the programme. The programme implementation will be ensured by specially trained Czech consultants with the support of EU experts from Great Britain and Ireland, which will facilitate the sharing of best practices.

Apart from establishing contacts with multinational companies, CzechInvest also started to cooperate with Czech banks and other government agencies, such as CzechTrade, and today we are able to offer a wide range of services to the participating companies.

Process of Supplier Development – Selection Criteria

- It must have its registered seat in the territory of the Czech Republic.
- It must be registered for income tax at a tax office pursuant to section 33 (1) of Act no. 337/1992 Coll., the Administration of Taxes and Fees Act, as amended, and prove that it satisfied its tax liability, as regards income tax, during the two preceding closed tax periods prior to the date of filing the application for support.
- It has to make a declaration of honour stating that, as at the day of filing the application, it fulfilled all obligations towards the tax office, the Czech Social Security Administration, insurance companies, the Land Fund, the National Property Fund, the State Environment Fund etc.
- Support will be especially provided to industries no. 17; 21; 24; 25; 27; 28; 29; 31; 32; 33; 34; 35; 72; 73 according to the general classification.
- Support cannot be provided to an entity if on the day of filing the application:
  - the entity and its property is adjudicated bankrupt;
  - it has been authorised to reach a settlement with creditors;
  - its bankruptcy petition has been rejected due to insufficient property;
  - it is facing an execution of judgment or is winding up.
- Financial stability
- A company commitment at the management level to earmark necessary resources and an interest in attaining the objective
- Results in business activity improvement, ISO 9000 etc.

Expected Time Framework

June to August 2005 – recruitment of companies; September 2005 – selection of companies; October to December 2005 – initial audits, compilation of action plans; January 2006 to December 2006 – consultations, professional training and other forms of support.
FYR Macedonia Pilot Supplier Development Program  
Assignment title: Upgrading of Local Companies/Suppliers and Technology extension

The government of FYR Macedonia, with the support of the World Bank Group, under the umbrella of the FYR Macedonia Competitive Industries and Innovation Support Program, is working to design and implement a pilot Supplier Development Program (SDP). The aim of the SDP is to stimulate linkages between local SMEs and large foreign companies operating in FYR Macedonia in selected light manufacturing and services sectors.

The SDP will provide technical assistance and international expertise to up to five local SMEs that want to increase their sophistication and compete more effectively in order to integrate their products and services into the global and regional supply chains of the large foreign companies located in and outside the special economic zones (TIDZs).

The goal of the SDP is to equip participating suppliers with the information, skills and technical capacity to meet investors’ requirements, enabling them to win more and higher value-added contracts. The project will also benefit foreign and other domestic companies by helping to improve the quality and reliability of supply of products and services that they can source on the local, market of FYR Macedonia.

In order to select the companies that will participate in the SDP, the Agency for Foreign Investments and Export Promotion of the FYR Macedonia is launching a call for expression of interest for Upgrading of suppliers and technology extension to confirm the interest of the companies in participating in the program and obtain relevant company data that will be used to design the technical assistance. The selected companies will receive free international and local expertise in management and industry or technology specific issues over a three to six month period.

The technical assistance interventions will focus on operations, production and quality management, supply and standards gap analysis, financial management, marketing, supply chain management, organizational change as well as on communication and negotiations with the foreign partners. The program comprises of a business review to be jointly carried out by each company with experts which will lead to an assessment and upgrading plan. This will be organized in consultation with the potential buyer/partner (foreign company) who will also have a consultative role in the implementation of the upgrading plan (standards adoption, product test run, etc.). At the end of the program, the suppliers will be evaluated on the level of technological upgrading and business improvement.

Companies who are interested in participating in the program and seeking technical assistance are kindly asked to fill in and submit the Expression of Interest form provided as Annex 1.

Interested companies may obtain further information at the address below from 10.00 to 15.00 hours. Expressions of interest must be delivered in written form to the address below (by email, in person, by address, or by mail) by June 5, 2015.

Agency for Foreign Investments and Export Promotion of the FYR Macedonia  
Nikola Vapcarov, 7, 1000 Skopje
Annex 7: Expression of Interest Format

EXPRESSION OF INTEREST

1. Company details
Company name:
Date of registration:
Address:
Tel:
Fax:
Email:
Contact information:
Website:

2. Contact person
Name and Surname:
Position:
Tel:
Mob:
Email:

3. Please indicate with how many foreign companies operating in FYR Macedonia you have established cooperation:

| Products/services you have supplied and which are integrated into final production | Contract duration |
| --- | --- | --- |
| Foreign company #1 | Short term (one time cooperation and/or less than a year) | Long term (continuous cooperation and/or more than a year) |
| Foreign company #2 | | |
| Foreign company #3 | | |
| Foreign company #4 | | |
| Foreign company #5 | | |
| Foreign company #6 | | |

Note: There is no need to specify the names of the companies with whom you have had contract, the purpose of this question is just to understand how many companies you have worked with and the type of cooperation.

4. Which challenges are most crucial for your company (5-most important, 1-not a challenge)?

| Challenges listed | On a 1-5 scale evaluate the importance for your business of the challenges listed |
| --- | --- | --- | --- | --- | --- | --- |
| Approaching new buyers/finding new markets | 1 | 2 | 3 | 4 | 5 |
| Investments in new machinery/equipment/facilities | | | | | |
| Introduction of quality management standards | | | | | |
| Optimization of production process | | | | | |
| Hiring skilled workers | | | | | |
| Other: ________________ | | | | | |
5. Which of the following areas are most likely to assist your business in establishing cooperation with foreign company operating in FYR Macedonia (5-most likely, 1-least likely)?

<table>
<thead>
<tr>
<th>Area</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved communication and marketing skills</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Improved quality management</td>
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<tr>
<td>Access to finance</td>
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<tr>
<td>Increased capacities of the employees</td>
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<tr>
<td>Technological and engineering expertise</td>
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<td>Other: (please specify)</td>
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</tbody>
</table>

6. Which type of support would you find most useful and needed for your company (5-hihgly needed, 1-not needed)?

<table>
<thead>
<tr>
<th>Support</th>
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<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Support to improve communication and marketing strategy (reaching out to new buyers)</td>
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<td>Support to increase quality</td>
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<td>Access to finance</td>
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<tr>
<td>Training for the employees</td>
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<tr>
<td>Technological and engineering support</td>
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<tr>
<td>Other: (please specify)</td>
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<td></td>
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</tbody>
</table>

7. More generally, what are your future ambitions for your company, and how do you see the program helping you to realize them? Please elaborate further details for the type of technical assistance you would require what difference is going to make for your company and how will your company benefit from it?

No more than 1 page

I, the undersigned, herewith express our interest to be included in the activity upgrading of suppliers and technology extension, as part of the Pilot Supplier Development Program executed by the World Bank.
Position:
Name of signatory:
Signature:
Date:
CIIP Competitive Industries and Innovation Program

Financed by

in partnership with WORLD BANK GROUP