

ROBERT J. ZANE
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September 10, 1999

LIZ claiborne

Ms. Melanne Verveer
Chief of Staff to First Lady
The White House
Washington, D.C. 20500

Dear Melanne:

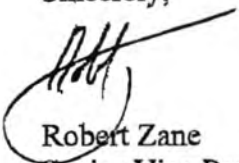
Although all aspects of the Macedonian project are on schedule, Mercy Corps feels that a concept change is in order, given certain infrastructure difficulties which now exist.

Per the attached letter from CEO Neal Keny-Guyer to Paul Charron, MCI would like to sell the garments to local shops and use the proceeds to benefit the textile industry. Neal's letter paints a picture of impossible road conditions between Macedonia and Kosovo, equally poor circumstances affecting the Mother Theresa Society (the local distribution network), all within an environment of more than enough donations of good quality used clothing available for the refugees. His fear is that once the 240,000 Claiborne items are added to the mix, the entire pipeline might grind to a halt.

His solution is to permit the sale of the clothing to retail establishments within Macedonia, at a price slightly above the P.O. agreement. The profit derived from the transaction will be used by Mercy Corps to fund projects which will benefit the textile industry.

The logic is compelling and we are inclined to agree, providing that certain safeguards are taken. Before doing so, however, we wanted to make certain that the First Lady concurs. We would appreciate your perspective on this matter.

Sincerely,


Robert Zane
Senior Vice President
Manufacturing and Sourcing

201 295-6800



August 31, 1999

Mr. Paul R. Charron
Chairman and CEO
Liz Claiborne, Inc.
1441 Broadway
New York, NY 10018

Dear Mr. Charron:

Our field staff in Skopje have informed us about the recent arrival of containers into Macedonia with components for the production of garments, per our agreement with Liz Claiborne and USAID signed in June. We are very excited about this program and are pleased to see its beginnings. This is a tremendous opportunity for the textile industry in Macedonia.

I am writing to you today, however, to let you know about some changes on the ground in Kosovo and how it could affect this program. I would also like to suggest some changes to the program's strategy and hope you will be amenable to those. In summary, we would like to take the approximately 240,000 finished pieces of clothing, monetize them, and use those funds for programs in Macedonia to benefit the textile industry.

Allow me to briefly outline our reasoning for this and why we think this is the best approach for the new reality on the ground in Kosovo.

(1) Commodity Pipeline Stretched

Our field staff in Kosovo are under tremendous pressure right now to deliver basic needed commodities, such as bulk food, to those in need. At the same time, the commodity pipeline is currently stretched and literally jammed with trucks delivering the most needed of commodities to Kosovo. Right now, scores of trucks each day make the journey from Thessaloniki, Greece, Sofia, Bulgaria and other points in and around Macedonia to Kosovo. There are only two main roads, from Macedonia, into Kosovo, and these are also shared by NATO, the humanitarian community and private individuals.

The other reality is that once the commodities are on the ground in Kosovo, they must be distributed to the beneficiaries, through the Mother Theresa Society (MTS) network. MTS currently has a branch network of 40 branches and over 600 sub-branches. These branches and sub-branches which often rely on tractors and cars to make the distributions, are, like the trucking system, literally jammed with the most needed of commodities. To add to this 240,000 pieces of clothing will severely limit the effectiveness of the entire pipeline.

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(2) Generous Donations from Outside

The amount of commodities coming into Kosovo is tremendous. Organizations from around the world, especially churches, have made it their cause to send everything from clothing to food to building materials to the people of Kosovo. Used clothing is especially prevalent. For example, LDS Charities is sending 24, 40-foot containers of quality used clothing. That amounts to 480,000 pieces of clothing. And this is just one charity.

In summary, we believe the best way to handle your generous donation is not to give it to the returned refugees, but instead to monetize it and use the funds for other programs.

Now, allow me to briefly outline our vision for the monetization of these commodities.

Mercy Corps would still take receipt of the clothing as it is produced in Macedonia. This is scheduled to occur between mid-September and the end of October. At the same time, we will search out a buyer, either in Macedonia or a near-by country, who would be willing to purchase the clothing, at a price higher than what we are paying per garment. We should note, up front, that Mercy Corps would in no way attempt to infringe on Liz Claiborne's markets anywhere in the region. We would work with your representatives to ensure that your markets retain their integrity.

Once a buyer is found, Mercy Corps would receive the proceeds from the sale and then use them for a mutually agreed upon program in Macedonia. Initially, our thoughts are to launch a micro-enterprise and small business development program. The program would be administered by Mercy Corps staff in Macedonia.

Originally, when Mrs. Clinton and you were in Macedonia to launch this program, the focus was on job sustainability and creation for Macedonia. Essentially the program was all about helping the Macedonian economy which was reeling from the refugee crisis. This revision in the strategy of the program would continue to be true to that goal. In addition, Liz Claiborne would receive a significant amount of positive publicity over this program and the people of Macedonia would, in the end, be the ultimate winners.

On the US government side, we have spoken informally with contacts at USAID about these changes. They are of the same mind that this change could be made, from their perspective as donor of the funds to Mercy Corps. They agree this new strategy should be implemented, given the new reality on the ground in Kosovo. It should be noted that monetization is a common strategy with donors such as the US government.

It is important that we all come to a meeting of the minds on this and either agree to make changes or continue with the original plan as soon as possible. We understand, for instance, that if the garments were to be monetized, then Liz Claiborne may not want the Liz Claiborne label to be on the garments. Those labels have not yet been sewn onto the garments.

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The benefits of this change in strategy are manifold. First, the integrity of the all important commodity pipeline into Kosovo will be preserved. Secondly, funds obtained from the sale of clothing will be used in creating conditions for long-term employment in Macedonia. Finally, Liz Claiborne will receive significant positive good will in Macedonia from this gesture.

Should Liz Claiborne agree to these changes and to the use of monetized funds for a program in Macedonia, Mercy Corps would work with your representatives in Macedonia to design and implement any number of programs relating to micro-credit or small business development, of which we have significant experience world-wide. If you prefer, we could target workforce development related to the textile industry.

We appreciate your consideration of these changes and look forward to an early response. Should you have questions, please don't hesitate to direct them to our chief operating officer in Portland, Mr. Steven Zimmerman, or our country representative in Macedonia, Mr. Jason Miko.

Thank you again for all you have done and continue to do for the people of this region.

Sincerely,

Neal Keny-Guyer
CEO

Cc: Mr. Steven Zimmerman, COO, MCI, Portland, Oregon
Ms. Nancy Lindborg, Vice President, MCI, Washington, DC
Mr. Jason Miko, Country Representative, MCI, Skopje, Macedonia
Mr. Stephen Haynes, Representative, USAID, Skopje, Macedonia