

CEP

Croatian Enterprise Promotion

Croatian Enterprise Promotion Activity

Quarterly Report #9

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Submitted by:
Deloitte Touche Tohmatsu Emerging Markets

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Progress from October 1 through December 31, 2003



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EXECUTIVE SUMMARY

The fourth quarter of 2003, was devoted primarily to conduct of practicum assignments in the food and beverage industry and tourism industry, and planning of assignments with small hotels and wood processing enterprises. CEP also continued its activities in training and certification, and support to the Association of Management Consultants (AMC), our principal partner organization.

With the completion of this quarter, CEP has nine months of work left in its period of performance. During this remaining period, CEP is pursuing five major work components:

- Institutional strengthening and support to the AMC, including transfer of training delivery capacity for all CEP workshops, continued development of basic association infrastructure and member councils, promulgation of the professional code of ethics, development of member services, and implementation of marketing programs to position the association and publicize its activities;
- Completion of development of international certification programs for consultants, specifically in quality management topics (ISO and HACCP Food Safety), and provisional certification of 60 Croatian consultants in these skill areas;
- Development of industry-specific training curricula, using existing CEP courses as a foundation, for consultants in the food processing, tourism, and wood processing industries;
- Establishment and supervision of paid practicum assignments for at least 48 consultants in the war affected areas;
- Provision of a full-time advisor to the new Small Business Promotion and Guarantee Agency (HAMAG) to develop capacity and SME support programs.

1. REVIEW OF THIS QUARTER'S ACTIVITIES

1.1 Project Background

On September 28, 2001 Deloitte Touche Tohmatsu Emerging Markets, Ltd. (DTTEM) and the United States Agency for International Development (USAID), through its Regional Contracting Office (RCO), signed contract #160-C-00-01-00108-00 ("the Contract") for the implementation of the Croatian Enterprise Promotion Activity ("CEP" or "the Project").

The purpose of CEP is to provide technical assistance aiming at removing constraints and market failures impeding the smooth and affordable provision of expert business consulting services and financial products to Croatia's small and medium enterprises (SMEs).

CEP will support USAID/Croatia's Strategic Objective 1.3 - Growth of a Dynamic and Competitive Private Sector. The intermediate results include:

IR 1.3.2 Strengthened Capacity of SMEs to Operate and Compete

IR 1.3.2.1 Adoption of Improved Technologies

IR 1.3.2.2 Increased Access to Financing

IR 1.3.2.3 Strengthened Business Associations

This report summarizes our activities and overall progress for the 4th quarter, 2003. It is provided in accordance with Section F.4.d, Technical Reports, and Section G.5 Periodic Progress Reports of the Contract.

1.2 Overview

During the quarter, the CEP team achieved the following results:

Consulting Practicum Assignments

- Successfully completed enterprise practicum assignments with four enterprises in the food and beverage industry in Slavonia (1st program)
- Conducted first ten weeks of assignments with five enterprises (large hotels and tourism agencies) in the tourism industry in Dalmatia (2nd program)
- Selected enterprises and consultants for practicum assignments focusing on small hotels in Dalmatia, with consultant training scheduled for February 9, 2004 (3rd program). Negotiated and signed agreements with enterprises and consultants. Recruited industry experts to assist consultants.
- Identified enterprises for wood industry practicum assignments in Slavonia, to begin in April (4th program).

Croatian Small Business Agency (HAMAG)

Mobilized full-time resident SME Promotion Advisor to assist HAMAG and facilitate cooperation between HAMAG and AMC.

Assistance to the AMC

Assisted AMC with the following activities:

- Delivery of HACCP training
- Production and distribution of CD-Roms for six AMC/CEP courses (SME Finance, Marketing, Consulting Excellence, Cost Reduction, HACCP Introduction, Hazard Analysis – 2 day certification course)
- Approval and promotion of Professional Code of Ethics
- Development of work program for Councils on Membership & Marketing, and Training and Certification
- Creation of a tactical promotion and publicity plan
- Preparation and distribution of November issue of AMC newsletter

A Review of AMC Activities in 2003 is appended.

Certification Programs

- Completed and conducted a new Hazard Analysis course purchased from the UK
- Negotiated the purchase of an ISO Food Safety Management auditor course

1.3 Work Completed and Underway

1.3.1 Development and Administration of Enterprise Practicum Assignments in Cooperation with the AMC

CEP and AMC are on schedule with the enterprise practicum programs, in which selected participants receive two weeks of training in various management consulting topics, followed by up to 20 weeks of paid consulting work in team assignments within enterprises. During December, CEP staff completed implementation work at the four food and beverage industry practicum enterprises in Slavonia: Lovac (cooperative farm); Lipovac (processor of frozen vegetables), Osjecko Pivovara (brewery); and Kanaan (processor of snack foods). The closing ceremony for the food and beverage industry programs was held in Osijek on December 13, hosted by the Osjecko County Development Agency. The event was well attended and publicized. Results of the enterprise work included the following:

Kanaan d.o.o., a processor of snack foods located in Osijek-Baranja County, has saved almost 1 million kuna per year in production costs for their new potato chip product, by obtaining a share of the import quota for potatoes through the assistance of the consulting team. The consulting team developed a financial projection for the next three years, including employment, turnover, profit, balance sheet and cash flow. The team also prepared a marketing plan, including sales and distribution of each product, which helped prevent the premature purchase of vehicles for distribution. They also successfully assisted the management in obtaining additional loan funds for working capital.

Pivovara d.o.o. is the producer of Osijecko beer and the licensee for Lowenbrau beer in Croatia. The consulting team has assisted Pivovara management in reorganizing its national marketing and distribution system, reducing its overhead costs, and positioning the brewery to gain market share outside of Slavonia. The team trained sales personnel, reorganized the commercial department and organized market research during the assistance effort.

Lipovac d.o.o. is a processor of frozen fruits and vegetables with facilities in Vinkovci, Lipovac, and Zagreb. The consulting team has assisted Lipovac with reorganization of its management structure and creation of a number of new management positions, thus establishing a solid foundation for future growth among its three separate locations.

Lovas Cooperative is a 22-member agricultural cooperative located in Vukovarsko-Srijemsko County. The consulting team conducted feasibility studies of four alternative investment projects for the Cooperative. Based on the comparative results of the four analyses, the Cooperative voted to implement a project expanding their existing dairy production, which will enhance their prominence in that market with both suppliers and buyers.

We also finished the first half (10 weeks) of the tourism practicum assignments in Dalmatia, working with three large hotels and two tourism agencies, and focusing on marketing, customer relationship management, and development of incoming tourism promotion products. Preliminary results are encouraging. Excursion products for the agencies have been developed (historical tours, jeep tours and a sailing excursion) and sales linkages established with the hotels. Also, two hotels are well underway with HACCP food safety system design, and all three have received training in customer relations management.

1.3.2 Assistance to HAMAG

Paul Moran, SME Promotion Advisor to HAMAG (Croatian Small Business Agency) under CEP Project, mobilized on October 20, 2003. He will be full-time at HAMAG through the end of CEP in September 2004. His program will consist of three main elements: 1) building the SME assistance network; 2) establishing a public/private sector certification program for SME business consultants working under government funding; 3) training HAMAG SME promotion staff. Mr. Moran has relevant experience in the UK, Ireland, China, Poland, Czech Republic, Canada, and Republic of South Africa. He was selected by CEP and the Ministry of SME's and Crafts after a thorough international search.

1.3.3 Training and Certification Activities

The following tasks or activities were in progress during this quarter:

- **New Food Safety Management Course** - Several important events occurred during the quarter in terms of furthering CEP / AMC's abilities to train consultants leading to international certification. It has been decided to specialize in the area of food safety and not attempt to compete with the international providers, many now in Croatia, to offer generic ISO auditor training services. CEP has modified its Hazard Analysis course to align with CIEH, a UK based organization that certifies consultants and food workers in hygiene standards. This allows AMC HACCP trainees to take the CIEH exam at the end of the Hazard Analysis workshop for certification. This workshop has already been successfully run twice during the last quarter. AMC now has two introductory/intermediate level courses, Hazard Analysis and ISO Intro, which will be used as prerequisite courses for those interested in taking an advanced food safety auditor course, ISO 9000 Food Safety Mgt. (FSM). During the last quarter, the purchase of an internationally registered and certified ISO Food Safety Management course was negotiated between AMC/CEP and one of only two providers in existence (both located in Ireland). This course will be piloted in March, in three successive one-week seminars, to train and certify AMC tutor-trainers, while establishing the first graduates with FSM provisional certification.
- **Training results survey update** - In December 2003, CEP updated its periodic survey of consultants who have participated in CEP/AMC training workshops, in order to determine the effectiveness of the courses in building consulting skills, developing industry specialization, and creating opportunities for new assignments. Participants reported a total of more than 300 paid consulting assignments in which CEP/AMC consulting tools were utilized.

- Completion and distribution of CD-ROMs. The following table shows the status of preparation of CD-ROMs for workshop courses.

	Courses	Versions	Status	Provided to AMC
1	HACCP	For participants	Complete	Yes
2	HACCP	For trainers		
3	Consulting excellence *	For participants	Complete	Yes
4	Consulting excellence *	For trainers		
5	Marketing	For participants	Complete	Yes
6	Marketing	For trainers		
7	Cost reduction *	For participants	Complete	Yes
8	Cost reduction *	For trainers		
9	SME finance *	For participants	Complete	Yes
10	SME finance *	For trainers		
11	Human resources	For participants	In process	
12	Human resources	For trainers	In process	
13	Hazard analysis	For participants	Complete	Yes
14	Hazard analysis	For trainers		
15	ISO introduction	For participants		
16	ISO introduction	For trainers		

* Course materials are being re-evaluated - new version will be prepared in near future

1.3.4 Assistance to AMC

All of the training courses either developed or purchased (such as the new FSM course described above) are arranged on behalf of the AMC. The Food Safety Management course, for instance, will be licensed to the AMC for its use. CEP is handling the purchase, piloting of the course and assisting to get AMC tutor-trainers certified.

Support to the AMC counsels has involved participating in meetings and assisting with developing a structured approach to conducting AMC activities. This has recently included working on the creation of a financial plan and budget to help define activities and revenue needs. It has also included intensive assistance with the marketing counsel to transform the AMC marketing plan into workable actions via a GANNT chart action plan with timeframes and persons responsible. A promotion and publicity program has now been undertaken to communicate the AMC mission and specific events to members, potential members and the business community at large.

The Code of Ethics (Conduct) has been finalized with the assistance of CEP and will soon be published for distribution to member consultants and at AMC events.

1.4 Progress Against Benchmarks – Intermediate Results

We are making progress against major project benchmarks, as shown below:

Benchmark Per RFP	Progress
1.1 Establish an Advisory Group	Advisory group established –first meeting April 2002
1.2 Support Advisory Group	Ongoing – three regular meetings to date – members also participated in promotional functions for CEP and AMC
2.1 Provide information on all industry-specific associations in Croatia	Association Inventory Report submitted March 2002
2.2 Determine three to five associations for consulting services market development work	Listed in Association Inventory Report
2.3 Implement tailored program to assist selected associations	HUP being assisted via AMC support work
2.4 Repeat same work for at least additional three industry associations	Working with tourism associations and will work with wood products association
2.5 Every six months present report on progress of each associations assistance activity	First report on cooperation with HUP submitted February 2003
3.1 Identify feasible option for establishment of an independent SRO	SRO Feasibility Study completed March 2002
3.2 Help execute incorporation of the SRO	Association of Management Consultants registered August 2002; AMC had 101 members as of December 31, 2003 (66 individuals and 35 firms)
3.3 Help the SRO to produce detailed sets of standards and corresponding requirements for business consultants	Code of professional ethics was adopted by AMC in September, 2003
3.4 Help SRO to complete the testing methodologies and certification procedures for business consultants in Croatia	Certification programs developed for ISO and HACCP in cooperation with international accrediting bodies; 21 provisional certifications have been awarded to date
4.1 Provide basic information on all	Consultant Inventory Report submitted

providers of business consulting services	January 2002
4.2 Design and initiate the implementation of market research for the SME sector	Survey of Enterprise Consulting Needs of 200 enterprises conducted April-May 2002; Survey of Training Needs of Tourism Sector conducted April-May 2003
4.3.Deliver relevant reports on the market research work with recommendations	Consulting Needs report submitted July 2002 – includes recommendations for focus of training materials development based on research findings; Tourism Survey report submitted August 2003
4.4 Develop consulting packages, transfer knowledge on the packages to the Croatian business consulting industry and facilitate the commercialization of the consulting techniques and practices	Nine courses developed or acquired
5.1 Determine initial list of special studies including detailed plan for carrying out the first two such studies	Three studies conducted –1) Basic Structure and Services of Small Business Promotion Agency (March 2002); 2) Mortgage Backed Securities (June 2002); and 3) Strategic Plan for Small Business Promotion Agency
5.2 Determine need for feasibility or other studies related to inefficiencies in SME finance markets including detailed plan for carrying out such studies	Ongoing

1.5 Issues and Constraints

No outstanding issues to date that impede our ability to accomplish the tasks specified in the Contract.

2. WORK PLAN FOR NEXT QUARTER

2.1 Interim Objectives and Plans for Achieving Them

During the next quarter, CEP will conduct activities in the five major work components identified in the Executive Summary section above. Major work items include:

Practicums

Training for the small hotels practicum program will be conducted February 9-20 for 12-14 consultants who will be assigned to business and tourism hotels in Dalmatia during the period February 23 - July 9. The consultants will be divided into three teams, one each located in Split, Sibenik, and Makarska. Each team will assist four to five hotels during the 20-week period. In preparation for this program, we have hired Croatian subcontractors to develop user-friendly implementation products in marketing, customer relationship management

(CRM), cost analysis, and finance. The teams will implement these products selectively at the small hotel sites, depending on the needs identified by enterprise management. The products will be revised and augmented based on our experience during these assignments. The ultimate objective is to have commercially viable products available to tourism consultants that will allow them to conduct assignments for small hotels within affordable budgets. Additional features of the small hotels practicum program will include: a) working with tourism boards and local governments to publicize the results of the program and availability of consulting services and products; b) establishing a small hotels consortium for the purpose of direct marketing to foreign tourists; and c) implementing a “quality circle” forum for hotel managers to share best management practices. We will also use the Quality Circle approach in this program.

Training for the wood processing practicum program in Slavonia will be conducted April 5-16 for up to 16 consultants. The site work will take place during the period April 19-July 30. In addition to CEP’s usual focus on marketing and productivity, this program will emphasize strengthening of existing supply relationships and other cooperative arrangements between Croatian wood processing enterprises, in order to increase the variety and competitiveness of Croatian value added wood products in foreign markets. Negotiations are in progress with four large wood processing enterprises and a newly formed cooperative of smaller enterprises.

Stimulation of Demand and Promotion of Consulting Opportunities for Training Course Participants

- Prepare and publicize results and success stories in media, promote through associations
- In cooperation with AMC, organize industry-specific promotional events for consultants
- Cooperate with other donors and donor projects to identify consulting opportunities for AMC members
- Coordinate with government ministries to inform them of capabilities and track record of consultants trained by CEP, and services of AMC.
- Plan additional food and tourism promotional events in cooperation with tourism enterprises and organizations in Dalmatia.

Assist AMC as needed with training workshop delivery. Current schedule for the winter-spring season includes 9 workshops.

Workshop Course	Date	Location
SME Finance	Feb 17,18	Zagreb
Marketing	Mar. 9,10	Rijeka
ISO Food Safety Mgt.	Mar 15 – April 2 (3 sessions)	Zagreb
Hazard Analysis	Mar 30,31	Zagreb
Human Resources	Apr 20,21	Zagreb
Consulting Excellence	May 3,4	Zagreb
Cost Reduction	June 1,2	Pula or Rijeka
Consulting Excellence	June 22,23	Vinkovci
ISO Food Safety Mgt.	Jul 12 – 16	Zagreb

The AMC Action Plan for 2004 is presented in Appendix A.

Assistance to HAMAG

In order to assure an acceptable level of SME development knowledge among all providers working under government funding, HAMAG is developing a certification system for government-funded SME advisors. CEP will provide short-term technical experts from the U.S. and Croatia to work with the HAMAG Resident Advisor in design and development of the new system. A principal objective of the assistance is to take maximum advantage of AMC's current capacity to train and test SME business advisors.

2.2 Potential Problems and Needs for Assistance

At this stage, we foresee no major or unusual impediments to our ability to achieve the objectives outlined above during the next quarter.

2.3 Expected Staffing Requirements

In order to accomplish these tasks, during the next quarter we have added a part-time Communications Specialist to our staff, with start date in January.

We will also use the following short-term assistance, which is currently planned:

Task	Consultant	Timing
Provide technical assistance to practicum teams working in the tourism industry in Dalmatia.	Pelagia Vincent - tourism industry volunteer expert with a background in hotel and resort management – 2 nd visit	January 23-February 13, 2004
Assist with HACCP plans in ongoing tourism practicums in Dalmatia	Jim Valentine - food industry volunteer expert	January 12-March 26, 2004
Assist with marketing activities in ongoing tourism practicums in Dalmatia	Michael Fox – tourism industry	February 23 – March 19, 2004

We anticipate that additional requirements for short-term consultants and volunteer experts will be identified during the next quarter.

3. BUDGET AND CONTRACT ADMINISTRATION

3.1 Project Expenditures and Remaining Budget

No major outstanding issues. Approximately 54 % of the three-year budget as modified had been expended through December 2003.

3.2 Project Staffing this Quarter

In addition to the core full-time CEP team, the following individuals contributed to the project this quarter:

Consultant	Approximate LOE This Quarter
Jeff Baldwin – Assistance to AMC	14 days
Barrie Evans – HACCP Instruction	21.5 days

3.3 Contract Administration

CEP’s subcontract with DTCE will need to be modified to provide additional funding for the Croatian staff positions that have been added during the last six months. The necessary additional funds were budgeted in CEP contract modification #2, and will not impact the overall CEP budget as modified. CEP plans to submit a subcontract modification request in February.

4. CONCLUSION

CEP expects to meet its targets in training, certification, and practicum assignments, as well as in establishing a sustainable legacy institution for business consultants in Croatia. In addition, we are taking advantage of the opportunities provided by the enterprise practicum assignments to develop and test commercializable consulting products, and models for industry-level initiatives in competitiveness enhancement.