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ENHANCING SME PERFORMANCE

QUARTERLY REPORT, JANUARY - MARCH, 2006

April 2005

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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C. Abbreviations

ACE	Agribusiness Competitiveness Enhancement (Project)
AMC	Association of Management Consultants
B&B	Bed and Breakfast
CIPO	Croatian Investment Promotion Outreach (Alliance)
CSERP	Croatian Social and Economic Recovery Project
EBRD	European Bank for Reconstruction and Development
ESP	Enhancing SME Performance
EU	European Union
FDI	Foreign Direct Investment
FINA	Finance Agency
FSVC	Financial Services Volunteer Corps
GTZ	German Development Agency
HAMAG	Croatian SME Promotion Agency
HBOR	Croatian Bank for Reconstruction and Development
HPB	Hrvatska poštanska banka
IDA	Istrian Development Agency
IT	Information Technology
LAN	Local Area Network
LEDA	Local Economic Development Agency
OMH	National Association of Small and Family-run Hotels
M&E	Monitoring and Evaluation
MIGA	Multilateral International Guarantee Agency
MELE	Ministry of Economy
PBZ	Privredna Banka Zagreb
PRIMA	Entrepreneurship Center, Split
ROP	Regional Operating Programme
SME	Small and Medium Enterprise
TAPA	Technical Assistance Partnership Agreement
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
ZABA	Zagrebacka Banka

D. Executive Summary

This quarterly report for the period January 1 to March 30, 2006, covers the second quarter of ESP's second year of implementation. ESP is exceeding most of its performance indicators and managing a portfolio of activities with various degrees of risk and impact.

The project continues to meet almost all performance targets during this quarter, demonstrating bottom line improvements to 1,339 companies in terms of growth in sales, revenues, and jobs. Tangible improvements at the company level are critical to establish credibility for the project and to expand higher value training, consulting, financial and other services to SMEs through our partners. Financial services brokered by ESP continue to exceed targets: 1,070 SMEs received new credit through commercial bank partners, exceeding the target of 700 firms; 18 companies are using factoring and non-bank services against the year 2 target of 20.

ESP continued to provide a broad range of high quality training courses to 1,737 entrepreneurs across the country. The demand for training services continues to grow, even as ESP is charging higher fees through partners for these courses, which are delivered by practitioners. For the quarter, ESP did not estimate increases in jobs, sales, and exports because data was not available for this period.

ESP is building a solid foundation of achievements and partnerships to achieve higher impact in terms of reaching 4,000 SMEs and creating 20,000 jobs. The project is working with a network of partners to assist firms to reach new markets and respond to buyer requirements.

Work on industry and business specific activities is highlighting a number of policy issues that the project will address. For example, work in boatbuilding, metal and wood processing highlight the importance of assisting SMEs to comply with international standards. The initiative to support regional guarantee funds requires conversion of single city or country entities into regional development agencies, following EU accession guidelines supported by the Ministry of Economy. Local governments are risk averse and reluctant to join new regional groupings until they see success stories of cooperation. ESP is working with the Ministry of Economy to develop such success stories that result in new credit guarantees and partnerships with regional and national banks to extend services to SMEs in underserved areas of the country. At the same time, ESP is working with 17 Business Development Centers across the country to extend services in franchising, training, and consulting services.

1. CROSS-CUTTING RESULTS

Table 1: SUMMARY TABLE OF ESP RESULTS

No.	Performance Indicator	Target LOP	Target 2005	Actual Results as of September 30
1	Total number of SMEs assisted	4,000	600	1339
2	Number of jobs created among assisted SMEs	20,000	2,000	3012 (estimated)
3	Increase in total revenue of assisted SMEs	\$150 M	\$25 M	\$24.4 Mil (estimated)
4	Increase in export revenue of assisted SMEs	\$20 M	\$3.3 M	\$4.58 Mil (estimated)
5	Value of foreign direct investment (FDI)	\$80 M	\$ 6 M	\$54.1 M
6	Number of SMEs using new bank financing	2,200	200	1070
7	Number of SMEs using new non-bank financing	65	5	18
8	Number of people trained in enterprise growth areas	800	200	1737 (45% female)

2. SIGNIFICANT EVENTS

Within ESP's four thematic components, outreach and technical interventions occurred, which either generated key results or laid the foundation for notable developments later in the year. Key events and milestones are presented below by component.

2.1. MARKETING

Important developments include the following:

- "Fashion Wardrobe"**: Finalized arrangements with Ms. Nina Rezek, representative of the Faculty of Textile Technology, and a broader working group from the textile design industry to plan a B2B event for designers, manufacturers and suppliers which will be organized around "Fashion Wardrobe", a 3 day fashion show featuring the designs of graduates of several Croatian design faculties. The event is designed to help establish linkages between the different manufacturers, service firms, and suppliers in industry. Dates are confirmed as follows: May 22, 23, 24 for the fashion show to be held at the Zagreb puppet theatre, and venue to be determined for the B2B meetings, which are provisionally on the 19th and 20th of May. Suggested venue is Faculty of Textile Technology but this location may not have sufficient space. A number of sponsors have already been confirmed (e.g. Vecernji list, Z! local television station, Croata Kravata, Martimex, etc.)

- **Boat Building:** Held meetings with Jedinstvo dd in Krapina to discuss boat builder's requirements for assistance in the areas of sales and marketing. The team met with Josip Mihalic, Managing Director of Jedinstvo d.d. and Marijana Hršak assistant to MD, as well as with the MACK Group in Rijeka to discuss MACKs plans to open new production facilities for the building/repair of small river and ocean going boats at Slavonski Brod.
- In order to define assistance to the boat sector, the Team held a meeting with Mr. Ljubo Cubrilo, naval architect, as well as with the president of the Boat Builders association in Mali Lošinj about ESP support to the sector, and with the Hrvatski Brodarski Institut (Croatian Naval Institute) director and key members of their staff in order to discuss their potential role as partners in implementing ESP assistance.
- **OMH:** Had several meetings with Šime Klaric, of the Association of Small and Family Owned Hotels in order to define cooperation between PH and the association on a number of upcoming and/or ongoing initiatives, including Walt Schaw's consultancy on association development, legacy programs, and the conversion of unregistered privately owned accommodations to registered small or family owned hotels. Defined terms of collaboration and finalized an activity agreement which was presented to Šime Klaric on the conversion activity.
- Mario Bebek and Michelle Morgan, accompanied by translator Aleksandra Andrakovic, accompanied consultant Walt Schaw to meetings on association management with the Association of Small and Family Owned Hotels, and to visits of the association's members. The ESP staff also attended a meeting with the board members of Small and Family Hotels Association in Karlovac to discuss ESP's unregistered private accommodation conversion activity with the board, and to attend a presentation to the board from an IT company on a proposal for developing the association's web portal, internet, and online reservations system.
- Michelle Morgan and Miroslav Levanic had a meeting with World Learning, Fred Claps, and Jeffery Nedoroscik on USAID Legacy Funds in order to review the following items: Follow on work by World Learning on association capacity building with the association for small and family owned hotels, and by ESP on the conversion of unregistered private accommodations, and tour operator familiarization/training seminars in three regions for 90 participants. ESP staff also briefed the World Learning team on an upcoming study tour for public officials on setting up and maintaining standards, certification, and accreditation infrastructure and systems in Croatia.
- **Specialty food and ANUGA follow-up:** Held introduction meetings to follow-up activities for Anuga, specifically with Mr. Zoran Šimunic, Naše Klasje (Anuga Company), to discuss negotiations and information requests from the Sultan Centar, a Gulf States importer, and with Gordan Maslac of "Moj Džem" on the promotion of new products developed by Moj Džem, another Anuga participant.
- Attended a public meeting on food safety issues organized by the Croatian Chamber of Economy, in order to obtain updates on the status of food safety and inspection regulations. Regulations, procedures, and administrative items were not discussed by the agencies participating in the meeting, instead, the presentation was more focused on the establishment of the Croatian food safety agency, what they have done so far, and their plans for setting up microbiological risk assessment analysis systems, with the next step of setting up a website for consumers that will list unsafe food items, called Rapid Alert System for Food and Feed.

- **SDI and wood:** Sinisa Bronic coordinated with Slavonska Drvna Industrija and Snaidero Group to organize training of trainers for SDI workforce requalification training, including selection of Croatian trainers and arrangements for Snaidero Group to train the trainers at their factory in Italy. Michelle Morgan met with Fulvio Bianconi of ICE, to discuss the details of the planned wood products group consultancy.
- **Trainings:** Sinisa Bronic selected several trainers for new training programs to be offered by ESP partners: International standards and market research. He also assessed the pilot training program in Market Segmentation and Positioning held in Nova Gradiška and adjusted course materials and contents in order to refine the program.

2.2. BUSINESS DEVELOPMENT

Progress on national level activities is summarized below.

- **Croatian Exporters Association Capacity building:** Developed a SoW, that was also approved, for a set of training activities designed to build the association's capacity to educate its members on international marketing and compliance with EU requirements.
- **Croatian Employers Association Capacity building:** Work continued on the structure of an activity focused on building the association's capacity to assist members in tendering for EU funded projects. The association is especially keen to develop this expertise in-house. However, ESP believes there is a more effective approach that would require the association to outsource member assistance service to business advisory service providers who have developed the expertise in this area.
- **Association of Management Consultants:** Preparatory work continued on the design of a practical training activity, which would build upon the lessons learned from the CEP and would upgrade the association member's consulting skills through participation in supervised by expert team leaders. The Scope of Work for European Foundation of Management Excellence Assessor training has been approved and the association is currently working on setting up the first workshop. A number of candidates (in the region of 6) have expressed their interest in taking part in the training leading to certification as Excellence Assessors.
- **Boat-building sector:** Discussions took place with Brodarski Institut Naval Institute on inputs leading to the completion of a gap-analysis of the boat-building sector, which would be the initial phase of an activity focused on assistance to improve competitiveness. The intention is that, during the course of the benchmarking work that would be carried out as part of this phase, an industry partner or group thereof would emerge to become the leading partner for work on improving the competitiveness of this sector. The Scope of Work for the boat-building sector has been completed.
- **ICT-sector:** ESP is looking at opportunities for supporting the development of a network of domestic ICT companies that are looking for ways of achieving synergies through collaboration on training, R&D, product development and marketing. Discussions took place with Boris Krstanovic who established the first ICT-cluster in Croatia and is now working on facilitating nationwide cooperation. ESP visited the office of the first regional network, named GRIT that has been established at the offices of the PORIN development agency in Rijeka. Discussions are currently underway between Mr. Krstanovic and other ICT enterprises throughout the country on the creation of the nationwide network. One of the topics discussed with Mr. Krstanovic was about how the network would cooperate with the Microsoft Technology Centre and it was concluded that it could play an important support role as a center of excellence.

- **A survey of training needs**, targeted at AMC and ICT-sectors members of HUP, is underway to determine the scope of training that would be required to create a group of business systems analysts. These who would bridge the gap between ICT systems architects and software providers, and SME companies, by identifying ways of enabling the latter to apply IT solutions to enhance the performance of their companies. This work involves ESP, Microsoft, Microsoft-Training centre and HUP.
- **Business Navigator**: ESP set out the requirements for completion of the Business Navigator website and a meeting took place with MELE to discuss its launch. MELE informed the press about the upcoming launch that is scheduled to take place during the Sibenik SME Conference starting on the 1st June.

The following is a summary of notable activities carried out at the regional level:

Zagreb Office

- CNC training in Bjelovar started with 16 participants from 8 SMEs.
- Formalization of TAPA cooperation agreements with AZRA and Koprivnica Enterprise Center as well as with ZARA (Development Agency for Zagorje).
- Start-up of discussions with a new Zagreb regional partner, the Velika Gorica enterprise development center. This center is very active in supporting its clients and has developed a database of 900 local enterprises, which is regularly updated by business managers to help the centre in focusing its support activities. ESP is already discussing how to include enterprises from the Velika Gorica region, particularly metal processing companies and craftsmen, in a nationwide activity targeting this industry sector.

Split Office

- Needs analysis for Cheese producers on Pag island completed, which will lead to the preparation of the SoW for the technical assistance to these entrepreneurs.
- Prepared Prosciutto Fair in cooperation with the Entrepreneurship Centre Sinj. The fair is to be held on April 7-8 in Sinj. Preparatory work for the fair included: establishment and participation in exhibition organization board; identification of exhibitors and their engagement for participation in the fair; development of promotional materials; preparation of media plan; organizing lecturers and presenters for various topics of interest for prosciutto producers.
- Development of the project activities for the Export Guide, which will be done in cooperation with the Croatian Exporters Association and the Ministry of Agriculture. The latter are involved because food exports will be the initial focus of this activity.
- Follow-up support to ANUGA exhibitors. "Stella Croatica" delivered one pallet of fig salami to Germany.
- Assistance provided to Zadvarje & Muc Municipalities and Split County Office for tourism in preparing applications for funding under CARDS 2004 (Muc business zone, tourism project in Zadvarje municipality, and reconstruction of fortresses in Split hinterland).

Pula Office

- Designed TA for multi-sector analysis and industry re-training sector for IDA. These activities are being developed into a nationwide program that would focus on local industries analysis, strategic planning and support in the implementation of local economic development plans.

- Collaborated with ACE, Vinistra and IDA on developing USAID support for the development of the local quality brand Istrian Quality.
- Engaged Istrian Tourism Development Agency, IRTA, as a partner in the planning of ESP's tourism activities.

Osijek Office

- Formalization of cooperation with partners at Business Centre Donji Miholjac and Entrepreneurship Centre Osijek through signing of TAPAs.
- Planning work for upcoming Franchising consultants training. Supported the Osijek Franchising Centre in attending the Paris Franchising Expo, which resulted in the identification of potential niches for export of Croatian franchise concepts.

Trainings

- 345 SMEs, partners and institutions were trained in 23 business topics and 33 courses by ESP staff and partners.
 - Of these, 7 were pilot trainings on new topics, including: Employee-Employer Relationship, International Standards, Market Research, Protection and Payment Collection, Managerial Accounting, Basic Legal Issues and Tax Issues. Currently the trainings cover 16 subjects.
 - The number of people trained in these events is 464, out of which 51% were women.
- Trainings started to be organized by new training partners in two regions: by Puma, HUP's training institution, our new training partner for Zagreb region, and by Microgrupa, new Split region training partner.

2.3. FINANCIAL SERVICES

The most significant events and results of the ESP's financial services team include 358 SMEs assisted through partner financial institutions:

- HAMAG approved 30 guarantees during the quarter.
- VABA generated credit scored loans for 33 SMEs.
- 17 SMEs obtained financing through HBOR's credit scored loans. Continued a series of meetings with HBOR regarding development of a hybrid financing product. Assisted HBOR to develop a list of questions for KfW regarding its hybrid financing product and facilitated HBOR conference telephone call to KfW regarding its hybrid-financing product, which resolved a number of issues. Assisted HBOR staff in preparing proposal for its Board containing three hybrid financing alternatives
- 47 new loans were approved using HPB's new credit scorecards resulting from continued assistance to HPB. The four scorecards that the team worked on with the bank (for long and short term loans, and for small companies and craftsmen) were launched system wide in January, following pilot testing in the bank's Zagreb branch. The team continued assisting Hrvatska Poštanska Banka in various initiatives:
 - recalibrated 4 credit scorecards so that they can be used to evaluate loans of up to €100,000 each, rather than only for micro-loans (loans of up to €30,000);

- recommended new loan product to HPB: up to 36 months, “purpose” term loans to finance purchase of machinery and equipment without real estate collateral (only collateral will be promissory note and lien on equipment financed); and
- provided HPB with input on how to cope with the challenge of stale financial information when performing due diligence.
- Continued assisting Karlovacka Banka (KABA) with credit scoring. Made detailed presentation on 21 March to KABA’s Credit Group, introducing 4 different scorecards, and provided directions on how to evaluate and test them.
- Continued assisting Varaždin County and its Development Agency to draft regional guarantee fund statutes and policies, providing comments on draft regional guarantee fund statutes and policies. Accompanied county staff to Vienna for a briefing from that country’s 50 year old guarantee fund, AWS on March 3, to meetings with MELE Assistant Minister Bracic on 23 March and representatives of 9 commercial banks on 27 March. Also provided further comments on GARA’s draft statutes.
- Commenced assisting Bjelovar Business Park and City of Bjelovar in establishing its own regional loan guarantee fund. Attended 2 meetings of a task force organized for that purpose, presented ESP model for the fund and steps that should be followed to establish the fund.
- Provided Bjelovar and Varaždin County with a checklist of steps that should be carried out to obtain necessary government approvals. Made two presentations for Development Agency North (DAN) to seven local government entities (including cities of Varaždin, Bjelovar, Virovitica, Koprivnica, etc.) regarding establishment of a regional loan guarantee scheme. Advised DAN on various matters related to establishing such a scheme.
- Conducted a series of meetings with bank partners (HBOR, HPB, PBZ, ZABA) to determine which aspects of the Basel 2 accord they are most interested in learning more about, in preparation for arranging a 2 to 3 day workshop through Croatian Bankers Association, in collaboration with FSVC. Arranged dates for presentation (tentatively 12 – 13 June 2006); liaised with FSVC and Croatian Banking Association on arranging venue and transportation for presenter; got input from partner banks on what they want from the presentation.
- Prepared and implemented a series of on-the-job-trainings of ESP RDA, county and BDC partners on how to identify and assess SMEs that may be suitable and qualified for financing from banks and other financial institutions. The OTJ training was carried out for Osijek Center for Technological Development; presented company form & criteria for RDAs to partner institutions in Vodice and Šibenik on 2 March; training on 31 March for Split County staff on how to evaluate SME’s needs.
- Prepared for ESP Finance Team presentations during upcoming (11 – 13 April) Urban Institute and Šibenik College workshop on Development of Tourism and Entrepreneurship. Arranged for partners, Locat Leasing, ZABA and a venture capital firm, also to make presentations during the time allotted for the finance team.
- Commenced direct assistance to several SMEs. We will assist these companies to select the most appropriate investment financing and intercede with various financial institutions to bring the financing to fruition. The SMEs include Terrigena (Šibenik), a producer of systems for water distribution and water treatment; PZ Ergela Višnjica, a horse farm, hotel and restaurant in Slatina; Elcon Marine, a Rijeka based producer/assembler of public address systems for large ships (cruise liners); Marina Nerezine, a Lošinj boat yard; Hotel Villa Marija, Tucepi, which is seeking new investment financing and refinancing of existing loans; and Bohor Pilana, d.o.o., a sawmill in Velika Gorica seeking new investment financing, for which we will facilitate special HBOR financing.

2.4. Investment facilitation

Highlights include the following:

- Caristrap Inc., a Canadian investor in strapping systems, registered its business in Croatia as Caristrap Europe. FDI team held a meeting with Lidija Gruber, Director, regarding the next steps: setting up a production plant in the Free zone Jankomir. In addition, FDI Component Director introduced Lidija Gruber to Željko Kirincic, Head of the Agency for Investment Promotion in Croatia who already sent the letter to Caristrap HQs welcoming their decision to invest in Croatia. It is expected that CEO of Caristrap Inc. will visit Croatia in early April.
- FDI team participated in the signing of the agreement between the Slovenian investor into parquet production 'Euro Groupe' and the City of Donji Miholjac. The value of investment is estimated at \$2.5 million, the production is 90% export oriented and 40 new jobs will be generated. Apart from the Slovenian investor, an additional 10 investors (production, trade, services) are also setting up or expanding their businesses in the industrial zone Janjevci and 3 more have sent their letters of interest to invest in the Zone. Total value of investments in the industrial zone Janjevci is estimated at \$18 million with 400 new jobs to be created over the next 2 years.
- CEO of Soritz GmbH visited Dalmatia. CIPA representative participated in the trip in an effort to get CIPA involved directly in transactions. Results of the trip are: Soritz GmbH established a Croatian subsidiary „Dalmacija sunce“ and appointed a Croatian manager of the company. Two supply contracts are signed: one with the association of vegetable production in Neretva to supply 10,000 kilos of tomato per week and 5 to 25,000 kilos of cristal salad per week for the period of March, 15th to April 15th, 2006. A second contract was signed with the cooperative “Obnova“ Trogir regarding the supply of a minimum of 3,000 kilos of cristal salad per week starting in March 2006.
- FDI Component Director gave two presentations on the role of the local government in investment promotion and attraction at the seminar ' Local Democracy and E-Governance' (organized by LGRP/URBAN Institute) on February 15 and 24.
- Trained more than 300 participants in a number of events:
 - FDI Component Director trained more than 70 participants of the Project Manager Certification Program organized by the Ministry of Economy, Labor and Entrepreneurship in Zagreb from February 16 – 17. Participants included officials from local and regional development agencies, cities, municipalities and counties. The second round of training will take place in Zadar in April.
 - In cooperation with HBOR, FDI team and ESP Osijek office organized a one-day FDI workshop on investment promotion and attraction to the City of Vukovar and Vukovarsko-srijemska county, held in Vukovar on February 21. One of the key-note speakers was William Jeffers, USAID mission director in Croatia. FDI Director gave a presentation on FDI and served as a workshop moderator. More than 140 participants were trained, ranging from the city, municipality and county officials, local development agency managers to potential investors.
 - In cooperation with Osijek office, the FDI team participated in the workshop on the zone development initiatives in Osijek, held in Osijek on February 22. FDI Component director made a presentation to more than 40 participants ranging from the city and county officials, local state companies to private businesses.

- In cooperation with Osijek office FDI team held a workshop in Đurdenovac on February 23. More than 35 participants discussed the ways in which local government should efficiently work together with private sector and how to prepare for potential investors.
- FDI director gave a presentation on how to prepare for investments to the City of Zelinina officials. Around 20 officials participated in the training.
- Together with LGRP/URBAN Institute, ESP Finance and Marketing teams began preparing a workshop on local economic development (focused on tourism) for the local government in Dalmatia to take place in Šibenik on April 12-13.
- FDI team met with Željko Kuprešak, Assistant Minister at the Ministry of Foreign Affairs and European Integration to discuss possible cooperation in investment promotion. The ministry is very interested to jointly organize with FDI team a visit of foreign and domestic trade advisors to the business zone PODI in Šibenik that is ready to attract investors.
- FDI component director met with Torsten Pauly from the German foreign trade office who writes articles on Croatia and its investment and development potentials. Mr. Pauly participated in the visit to the Slavonia region that was organized for the foreign trade advisors by FDI team in September 2005. For the second time he is preparing an article that should raise the awareness of potential German investors about investment opportunities in Slavonia and Croatia.

2.5. Policy Reform

- **March 1, 2006 Workshop with World Economic Forum and NCC:** USAID sponsored a very successful workshop that included over 50 high level participants from government and the private sector who were invited to participate in two policy initiatives: regulatory guillotine and quality standards. Mr. Augusto Lopez-Claros, Chief Economist, the World Economic Forum, made a presentation on Croatia's competitive position in the world, and highlighted key policy issues, including USAID's priority issues. Two working groups facilitated by Ivan Vidakovic, CEO, IBM, on the Regulatory Guillotine, and Goran Radman, CEO, Microsoft, on quality standards, presented findings and recommendations. ESP will follow up on these recommendations with key decision-makers.
- **Regulatory Guillotine:** ESP provided additional information to Martina Dalic, State Secretary for National Development, on the Guillotine experiences in Moldova, Hungary, Italy, and Sweden. ESP also estimated the economic and business benefits of implementing the Guillotine in Croatia. The government is planning to include the Regulatory Guillotine in the new National Strategy. Miroslav Kovacic, State Secretary for e-Croatia, will take the proposal to the Prime Minister for final decision. ESP will also brief Mrs. Ana Lovrin, the new Minister of Justice, which is designated in government to lead the guillotine initiative.
- **Tax Simplification Study:** Mark Gallagher and Damir Kustrac, CEO of Medica and Chair of HUP's Steering Committee, presented the tax proposal at the March 6 Entrepreneur's Day Presentation. An estimated 600 people attended the event at the Westin Hotel, with keynote speeches by the President, Prime Minister and Bill Jeffers. ESP is finalizing the Croatian and English versions of the report and will work with HUP to print a handbook on the tax proposal. Mr. Ante Zigman, State Secretary, Ministry of Finance, met with the Small Business Association of HUP on March 24, 2006, at the regular HUP meeting with government officials. Mr. Zigman announced that the government plans to implement the tax proposal, and will study HUP's proposal in detail.

- **Quality Standards:** ESP staff followed up with the participants from the March 1 NCC-WEF workshop to discuss the recommendations for quality standards. A concept was developed for a Center for Promotion of Excellence and Quality Management which would promote excellence to industry and act as a Croatian industry platform for catalyzing change in MAS-Q in response to market needs. The concept was discussed with Mr. Begovic, Assistant Minister at MELE. ESP will continue discussions with other stakeholders before preparing a SOW for a feasibility study into a Center that could be developed into a sustainable service provider to Industry.

2.6. Project Management

ESP undertook a number of activities to improve project management:

- Moved into a new office at the same location on January 21, 2006.
- Finalized the ESP work plan and presented to CTO.
- In January, Business Services team has been strengthened by a new recruit, Gjorgji Miškovski, a former IFC enterprise development specialist, who joined the Zagreb office to take on the role of Business Development Manager.
- Held a staff meeting from January 24 – 27, 2006 in Vukovar. The retreat focused on prioritizing work plan activities for each partner and by region. The discussion focused on ESP relationship with partners and building their capacity to deliver services to SMEs.
- Continued work with Pardus on the database Management Information System to focus on ESP programs, activities, SMEs, and partners.
- Jeff Luebbe, hired as Director of Finance and Administration, began a visit to Bethesda on January 30, 2006, to meet with DAI and Nathan head office personnel on contracts, finance and administrative issues.

Project Coordination

ESP worked effectively with other USAID and donor projects during the quarter:

- ACE and ESP collaborating on participant training programs and food safety systems to expand exports.
- FSVC and ESP Finance team cooperating on organizing a 2-3 day Basel 2 workshop.
- LGRP and ESP collaborating on FDI benchmarking to enhance zone use and management for FDI and economic growth, as well as on a joint 5-day training for the local government on management in tourism, finances and investment promotion and attraction.
- CIPO Alliance, MIGA and ESP collaborating on investor site visits and investor information requirements to increase FDI.
- USAID/Croatian Privatization Project and ESP cooperating on one privatization project currently managed by the Croatian Privatisation Fund (ZRC Lipik-ASSC) and possible ESP assistance in finding potential strategic investor.

3. STATUS OF BUDGET EXPENDITURES

Table 3 presents project expenditures, as invoiced to-date. At the end of March 2006, ESP expenditures amounted to \$ 5,881,807.40 or 30.68 percent of the total contract value (\$19,170,704).

On September 29, 2005, USAID increased the total obligated amount by \$2,355,603 to \$12,501,627. Project expenditures amounted to 47.05 percent of the new obligated amount.

Table 2. ESP FINANCIAL RESULTS

<i>Category</i>	<i>Amount Budgeted</i>	<i>Cost Incurred as of the end of the Previous Quarter</i>	<i>Costs Incurred this Quarter</i>	<i>Total Costs Incurred To-date</i>	<i>Budget Balance</i>	<i>Percent Expended of Total Budget</i>
CLIN 1	\$ 16,942,142	\$ 4,812,364.73	\$ 745,902.24	\$ 5,558,266.99	\$ 11,383,875.01	32.81 %
CLIN 2	\$ 2,228,562	\$ 248,183.23	\$ 75,357.18	\$ 323,540.41	\$ 1,905,021.59	14.52 %
Total	\$ 19,170,704	\$ 5,060,547.96	\$ 821,259.42	\$ 5,881,807.40	\$ 13,288,896.60	30.68 %

4. LIST OF ACTIVITIES PLANNED FOR NEXT QUARTER

In addition to on-going activities, additional major activities planned under each area for next quarter are as follows, by component.

4.1. MARKETING

- Launch of group consultancy/train the trainers program which will result in increased effectiveness of BSP's serving the wood industry. To be launched as a pilot for Snaidero/Trokut investment in Q1/06.
- Deliver training in tourism product-development and marketing for up to 100 regional tourism bodies, inbound tourism operators, and SMEs to improve destination marketing.
- B2B fashion wardrobe event for textiles, footwear and accessories
- Agritourisms and FIT (independent traveler) tourism business pilot model developed, to include assistance to Baranja county tourism development strategy, and Istrian agritourism development strategy.
- Begin food processors handbook and toolkit development
- International market research toolkit development activity launched.
- Assist partner to organize Proscuitto Fair in Sinj in April 2006 to increase sales and branding of product in local market.

4.2. BUSINESS SERVICES

- Assist partner to organize Proscuitto Fair in Sinj in April 2006 to increase sales and branding of product in local market.
- Launch EFQM approach to building BAS capacity and improving SME competitiveness. Training of EFQM assessors planned for May 2006.
- Business Navigator will be launched at MELE's SME conference in Šibenik on June 1-3; USAID will also sponsor awards to most successful medium-size company.
- Franchising STTA and training to promote new business model and train trainers to support franchising with bank financing for franchises.
- Complete business environment analysis for county development departments/RDAs.
- Implement new training courses, Market Research, Basic legal issues, Employee-Employer Relationship, Managerial Accounting, Tax Issues, Franchising, Investor Services, updated Packaging and Labeling and Payment Collection; hold 50 workshops/trainings on old and new topics, and train at least 200 people.

4.3. FINANCIAL SERVICES

- Carry out the next phase of consultancy on hybrid financing for HBOR.
- Launch Basel 2 training for financial institutions on credit risk modality, in cooperation with FSVC and Croatian Bankers Association.
- STTA to augment factoring in Croatia through training with Bankers Association and several banks, including PBZ's factoring operation.
- Ongoing consultancy and support for HAMAG to improve its loan guarantee operations, particularly implementation of expedited guarantee approval process for the largest Croatian banks.
- Assist Šibenik County, as well as other counties or municipalities, in establishment of a regional loan guarantee fund with STTA to demonstrate successful model
- Assist Karlovačka Banka to establish credit scoring to increase small business lending; and ZABA in deposit mining exercise

4.4. INVESTMENT FACILITATION

The major activities under this component in the next quarter include:

- Continue working with the existing investors in the pipeline and pitching for new potential investors.
- Continue assisting CEIPA in FDI facilitation and provision of aftercare services and building of a network between ESP partners and CEIPA.
- Work on upgrading existing/developing new skills in zone development, promotion and investment facilitation. Benchmark the readiness of 5 new zones to attract investments.

- Organize 5-day STTA training on marketing planning for zone managers, CEIPA staff and AMC consultants. Provide STTA consultation to 3 zones to deliver quality marketing plans. Scheduled for June-July.
- Develop and deliver training on management and communication skills to HBOR middle management. Scheduled for early April
- Coordinate with LGRP on certification training in local economic development for local governments to take place in Šibenik in April

4.5. POLICY REFORM

- Assist HUP to finalize tax reform proposal printed in a booklet in Croatian and English; workshop to be held in early May before presenting proposal to Council for Social and Economic Affairs (GSV).
- Regulatory guillotine awaiting briefing with Minister of Justice to proceed.
- Business plan for a Center for Quality Management to be developed with key partners.

ANNEX A: LIST OF REPORTS & DELIVERABLES

ESP's cumulative list is presented in Table 3.

Table 3: ESP'S DELIVERABLES AND REPORTS

Title	Author	Date
Work Plans		
First Annual Work Plan (October 04- September 05)	Roger Manring (Nathan staff)	11/05/04
Second Annual Work Plan (October 05 – September 06) Revised March 2006	Jim Winkler and Staff	03/10/06
Quarterly Reports		
Quarterly Matrix/Report, October- December 04	Paola Lang, DAI staff	
Quarterly Matrix/Report, January – March 05	Paola Lang, DAI staff	
Quarterly Matrix/Report, April – June 05	Paola Lang, DAI staff	
Quarterly Matrix/Report, July - September 05	Jim Winkler, DAI staff and Aleksandra Andrakovic, ESP staff	
Quarterly Matrix/Report, October – December 05	Jim Winkler, DAI staff and Aleksandra Andrakovic, ESP staff	
Quarterly Matrix/Report, January – March 06	Jim Winkler, DAI staff and Aleksandra Andrakovic, ESP staff	
Monthly Reports		
October 04	Charles Conconi, Nathan staff	
November 04	Paola Lang, DAI staff	
December 04	Paola Lang, DAI staff	
January 05	Paola Lang, DAI staff	
February 05	Paola Lang, DAI staff	
March 05	Paola Lang, DAI staff	
April 05	Paola Lang, DAI staff	
June 05	Paola Lang, DAI staff	
July 05	Jim Winkler, DAI staff	
August 05	Jim Winkler, DAI staff	
September 05	Jim Winkler, DAI staff	
October 05	Jim Winkler, DAI staff	
November 05	Jim Winkler, DAI staff	
December 05	Jim Winkler, DAI staff	
January 06	Jim Winkler, DAI staff	
February 06	Jim Winkler, DAI staff	

March 06	Jim Winkler, DAI staff	
Consultant Reports		
M&E Plan and Operating Manual	William Millsap, Social Impact Consultant (later revised by Paola Lang)	12/29/05 (7/20/05)
IT Systems Manual	Sani	01/14/05
HAMAG Certified Consultant Program: Training Materials, Operating/procedural Manual and Final Report	Paul Moran, DAI consultant	12/25/05
Institutional Upgrade of HAMAG – Technical Assistance with Assumption of the UNDP/EU Guarantee Fund: Initial Report and Action Plan	Mary Miller, DAI staff (STTA)	05/12/05
Survey on Corporate Governance	Economic Institute (STTA)	06/20/95
Tourism Market Study	Alan Saffery, Nathan consultant	05/03/05
Institutional Upgrade of HAMAG – Technical Assistance with Assumption of the UNDP/EU Guarantee Fund: Interim Report	Mary Miller, DAI staff (STTA)	5/12/05
HAMAG Voucher Program: Operational Manual and Start-Up Materials	Regionalni centar za razvoj d.o.o.	March 2005
Benefits of Registering Informal Accommodations	Dalmaconsult d.o.o.	09/12/05
Hybrid Financing Product	Bryce Khadabux	Pending
FDI Benchmarking	P.J. Daly Paola Lang	Pending
MAS-Q Activities in Croatia	Edward Nemeroff	December 05
Tax Simplification Study Survey of the Croatian system Study Macro projections PPT presentations, draft papers, workshops	Mark Gallagher, Ante Babic	12/01/05 02/01/05
Regulatory Guillotine The Regulatory Guillotine Strategy Cleaning up rules with the Regulatory Guillotine	Scott Jacobs	October 2005/revised in December 2005
M & E Data base ESP CDM 1.0 Diagrams, CDM Report 1.0, ESP CDM Report	Pardus d.o.o.	22 Dec 05
ESP Work Products		
Credit Scoring Model (VABA)	Tocher Mitchell, DAI staff	1/25/05
Deposit Mining	Tocher Mitchell, DAI staff	1/25/05
Guidelines on Local Guarantee Schemes	Tocher Mitchell, DAI staff	1/31/05
List of Business Service Providers	Darije Josic, ESP staff	1/26/05
Strategy Paper: Loan Products	Tocher Mitchell, DAI staff	3/1/05
Strategy Paper: Credit Enhancements	Tocher Mitchell, DAI staff	3/1/05
Briefing to Companies Exhibiting at ANUGA	Michelle Morgan, Nathan staff	4/1/05

Spring 05 Training Program Guidelines	Marko Slunjski	4/1/05
Credit Scoring Model for SME Start-Ups	Tocher Mitchell, DAI staff	5/5/05
Credit Scoring Manual	Tocher Mitchell, DAI staff	5/27/05
Annual Report of the Association of Small and Family-Run Hotels	Tatjana Horvath, ESP intern	7/12/05
Product Offerings for ESP Partners	Paola Lang, DAI staff	7/12/05
<i>Cost-Shared Consultancies through the AMC: Final Reports</i>		
Gumi-Implex	Ružica Marušić	10/11/05
Požgaj d.o.o.		November 2005
Argus d.o.o.	Optimus d.o.o.	10/20/05
<i>Training Courses</i>		
AMC: EU Accession	AMC consultant	
ESP/Deloitte: Operations Management	Igor Šaravanja	4/1/05
ESP: Strategic Planning	Zdravko Kuzmic	4/1/05
ESP: Packing and Labeling	Michelle Morgan, Dean Vranic	4/1/05
ESP: EU Accession Grants	Nenad Kocmar, Karlo Culo	4/1/05
ESP: Buyer Agent Orientation Training	Robert Delemarre, Ron Wherry	4/1/05
ESP/MicroGrupa: Market Positioning	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	5/9/05
ESP/MicroGrupa: Market Segmentation	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	5/9/05
ESP/MicroGrupa: Cost Accounting	Marko Slunjski, ESP staff	April 2005
ESP/MicroGrupa: Employee Incentives	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	April 2005
ESP/PBZ: Foreign Exchange Risk Management	PBZ staff	April 2005
ESP: Company Diagnostics	Glenn Surabian, Nathan staff	August 2005
ESP: How to Interview a Client	Tocher Mitchell, Ivan Pilepic	June 2005
ESP: Credit Scoring	Tocher Mitchell, Ivan Pilepic	August 2005
International Standards and Accreditation	Edward Nemeroff	Nov. 05