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USAID/CROATIA'S ENHANCING SMALL AND MEDIUM ENTERPRISE PERFORMANCE (ESP) PROGRAM

FINAL REPORT

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Inside Cover Page

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We would like to thank our CTO, Fred Claps, for his hard work and dedication to the ESP project. We would also like to thank the staff of the ESP project, which worked hard to achieve the results laid out in this report.

ABBREVIATIONS

AMC	Association of Management Consultants
APIU	Trade and Investment Promotion Agency
AZ	Adriatic Zagreb (Factor)
AZRA	Regional Development Agency of Varaždin County
BCBN	British Croatian Business Network
BD	business development
BICRO	Business Information Center of Croatia
BIPM	Bureau International des Poids et Mesures (International Institute of Weights and Measures)
BS	business services
BSP	business service provider
CEO	chief executive officer
CEPOS	Entrepreneurial Center Split
CEPP	Center for Pre-Accession Fund Promotion
CIPO Alliance	Croatia Investment Promotion Outreach (partners–MIGA, APIU, RDAs)
CLIN	contract line item number
COP	Chief of Party
CTO	Cognizant Technical Officer
CTR	Technology Development Center of Slavonski Brod
CZP Šibenik	Entrepreneurial Center Šibenik
DAN	Development Agency North (based in Varaždin)
DCA	Development Credit Authority (USAID)
DI	domestic investment
DMC	destination management company
DUNEA	Regional Development Agency of Dubrovnik-Neretva County
EBRD	European Bank for Reconstruction and Development
EC	European Commission

EFQM	European Foundation for Quality Management
EI	Economic Institute, Zagreb
ESP	Enhancing Small and Medium Enterprise Performance in Croatia
EU	European Union
EUROMET	European Metrology Cooperation
Fam trip	familiarization trip (one that brings in international tour operators or journalists)
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service
FINA	Croatian Financial Agency
GARA	Guarantee Agency of Varaždin County
GDP	gross domestic product
GSV	Gospodarsko Socijalno Vijeće (Economic and Social Council)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HAA	Croatian Accreditation Agency
HAMAG	Croatian Agency for Small Business
HBOR	Croatian Development Bank
HGK	Croatian Chamber of Economy
HIBO	Croatian Institute for Banking and Insurance
HIZ	Croatian Exporters Association
HNB	Croatian National Bank
Horizonte	Horizonte Venture Management (a venture capital firm)
HPB	Hrvatska Poštanska Banka (Croatian Postal Bank)
HUB	Croatian Banking Association
HUP	Croatian Employers' Association
HROK	Croatian Credit Information Registry
HYPO	Hypo Alpe Adria Bank
HZN	Croatian Standards Institute
ICT	information and communications technology
ICPR	Investment Certification Program for Regions

IDA	Istrian Development Agency
IFC	International Finance Corporation
IPF	Institute for Public Finance
IPNG	Industrial Park Nova Gradiška
ISO	International Standards Organization
IMF	International Monetary Fund
IRTA	Istria Regional Tourism Association
J&A	Jacobs & Associates
JV	joint venture
KN	Kuna (official currency of Croatia)
KABA	Karlovačka Banka
Kfw	German Development Bank
LEDA	Local Economic Development Agency of Vukovar-Srijem County
LOE	level of effort
MAS-Q	metrology, accreditation, standards, and quality
MDP	management development program
MELE	Ministry of the Economy, Labor, and Entrepreneurship
MIGA	Multilateral Investment Guarantee Agency of the World Bank Group
MOF	Ministry of Finance
MPC	Business Center Donji Miholjac
NCC	National Competitiveness Council
OECD	Organization for Economic Co-operation and Development
OTP	OTP Banka
PBZ	Privredna Banka
PH	Poduzetna Hrvatska (Croatia ESP Project)
PIT	personal income tax
PORA	Regional Development Agency of Podravina
PPB	Business Park Bjelovar (local development agency of city of Bjelovar)
PORIN	Regional Development Agency of Rijeka

PPP	public-private partnership
RDA	Regional Development Agency
REDEA	Regional Development Agency, Međimurje County
RIA	regulatory impact assessment
RLGS	regional loan guarantee scheme
RRA	Regional Development Agency of Bjelovar-Bilogora County
RURALIS	Rural Tourism Association Istria
SAFIR	Finance, Investment, and Development Fair
SFHA	Association of Small and Family-Owned Hotels
SIMORA	Regional Development Agency of Sisak and Moslavina County
SME	small and medium-sized enterprises
TAPA	Technical Assistance Partnership Agreement
TNTL	International Cooperation Office–Municipalities of Tovarnik, Nijemci, Tompojevci and Lovas
UHPA	The Association of Croatian Travel Agencies
UPS (or AMC)	Association of Management Consultants
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VABA	Vaba Banka (Vaba Bank), Varaždin
VAT	value-added tax
WEF	World Economic Forum
WTO	World Trade Organization
ZABA	Zagrebačka Banka
ZADRA	Zadar County Development Agency
ZARA	Zagorje Development Agency
ZŠKZ	Savings and Credit Coop of Zagreb Crafts Association

EXECUTIVE SUMMARY

Enhancing Small and Medium Enterprise Performance in Croatia (ESP) was a \$19,170,704 project which started on August 15, 2004, and ends with the close of the USAID mission on June 15, 2008. The project was designed to improve the performance of small and medium-sized enterprises in Croatia, increasing employment in the process, and in this it was highly successful. Over the course of the project, we tracked an increase of more than 17,499 new jobs¹ among more than 6,000 project beneficiaries; \$244 million in new investment; \$260.7 million in increased sales; and \$83.95 million in new exports.

ESP was a challenging project. It required strategically coordinated implementation across a wide spectrum of industries, markets, institutions and agencies. The project required a highly skilled and experienced team of experts capable of working efficiently and effectively with project partners, counterparts, and each other. The ESP team met these challenges and delivered a very successful project.

The project's overall success is due to ESP team's ability to investigate and understand markets and link firms in similar and related industries, providing them with access to new, targeted financial services products, better understanding of industry standards, and access to new sources of business and information support. Major project initiatives were adopted by Croatian organizations and institutions and will continue to contribute to economic growth in the SME sector well into the future.

The results speak for themselves. ESP met or exceeded every major life-of-project target indicator. This achievement was only possible through the dedicated efforts of the project team, working in close cooperation with USAID.

We are very proud of the team's accomplishments and I am honored to have had the privilege of working with them on ESP.

Joe Welsh
Chief of Party
May 8, 2008

¹ Due to close-down of the project and mission, DAI was unable to obtain information about key indicators from the legacy organizations. DAI estimates a conservative growth rate of 15 percent on jobs created during the final quarter, suggesting a life-of-project final count of 20,124 jobs created, based on 17,499 x 1.15.

ESP BACKGROUND AND RESULTS

BACKGROUND

In August 2004, the U.S. Agency for International Development (USAID)/Croatia signed a contract with DAI/Nathan Group–Croatia LLC (comprising DAI and Nathan Associates, Inc.) to implement the Enhancing Small and Medium Enterprise Project (ESP) in Croatia. The purpose of the contract was to remove impediments to the business activities of small and medium-sized enterprises (SMEs) and strengthen the SME sector throughout Croatia.

The cost-plus-fixed-fee contract, valued at \$19,170,704, delineated project activities and budgets in two areas:

- CLIN 1: activities targeted at private sector development, with a ceiling amount of \$17,931,652.
- CLIN 2: activities targeted at addressing policy issues at the government level, with a ceiling amount of \$1,239,052.

As a basis for the design of the ESP project, USAID/Croatia conducted a Croatia SME and Competitiveness Assessment which identified four impediments to SME growth in the country. These included:

- **The policy and regulatory environment.** Although judged to be satisfactory and in line with the European Union legislation, this fell short in creating a supportive environment for SME growth in terms of practical implementation.
- **Enterprise development services.** Although readily available to medium-scale enterprises, these were not being accessed by Croatia's SME community due to their perceived high cost and low value.
- **Business information.** This was fragmented and difficult to access from among the maze of government ministries and agencies. Furthermore, information critical to accessing finance was not well coordinated and accessible to SMEs.
- **Access to finance.** Lack of access to finance was still considered a major impediment to growth by the SME community. The most serious part of the gap was the absence of financial intermediaries possessing the business orientation, tools, and systems needed to effectively service the capital needs of this growing segment of the economy.

Given that the SME sector provided an estimated 60 percent of the country's total workforce, as well as the Government of Croatia's desire to support the sector, USAID designed the ESP project to address these constraints. ESP had several objectives, namely:

- To increase registered employment of Croatian citizens. In this regard, 20,000 new jobs were to be created by the end of the project, with 30 percent of new employment generated in economically distressed areas.

- To provide services to 4,000 SMEs, of which 25 percent were to be located in economically distressed areas, to help these firms compete in the domestic, regional, and global markets and to reach the target for increased employment. In addition, as part of life-of-project (LOP) planning, targets for increases in export revenue (\$20 million) and total revenue (\$150 million) were established for assisted enterprises.
- In order to create new sustainable jobs, the contract permitted allocating resources to activities which would lead to increased foreign direct investment (FDI) and local investment in Croatia. Early in the project, a life-of-project target of \$38 million in increased FDI was established.
- Qualitative objectives were established to assist SMEs to build stronger value chain relationships between firms within the same industry and with related support industries, and to assist Croatian enterprises and agricultural producers to access more financing.
- Quantitative targets were established for increased access to finance by enterprises (2,200 enterprises) and increased access to alternative, non-debt financing mechanisms (65 enterprises).
- The target for SME owners and employees trained was set at 800 for the life of the project.
- USAID also directed DAI/Nathan Group to provide rapid-response short-term technical assistance for policy analyses and interventions that have a positive impact on the business climate and regulatory environment for SME growth.

The ESP contract highlighted the importance of implementation working through and/or in coordination with USAID legacy organizations and institutions in Croatia. USAID's intent in this regard was both to leverage resources and to ensure that USAID's investment has a lasting positive effect.

Gender integration was also an important aspect of the program. This effort focused on including both men and women in all aspects of CLIN 1 and CLIN 2 activities.

The following are summaries of quantitative and qualitative results related to building stronger SMEs in tourism and hospitality, increasing local and foreign direct investment, creating mechanisms to increase SME access to financing, improving business development services, and improving the business environment.

BUILDING STRONGER SMES IN TOURISM AND HOSPITALITY

As a result of USAID's investment in strengthening the tourism and hospitality sector, ESP activities achieved the following:

- An expanded line of Croatian high-value tourism products are now being offered by value chain participants. Several firms assisted by ESP have expanded product offerings reflecting global trends in adventure, cuisine, and multi-activity tours by linking with partner SMEs.
- An extended tourism season resulted from activity-based tourism. Compared to the previous year, the Ministry of Tourism's report on the 2007 season shows a 20 percent increase in March arrivals, a 13 percent increase in April arrivals, and a 10 percent increase in May arrivals.

Key Results in Tourism and Hospitality

ESP's partners in this component reported a total of 1,388 jobs created since the beginning of the project as a result of ESP assistance. The Association of Small and Family-Owned Hotels also reported that within the coming five to seven years, USAID will see a further sustainable legacy of approximately 500 new small hotels opened and an estimated 7,500 new jobs created.

- New and improved products that meet demands of international tour operators were introduced. This is demonstrated by the increase in high-value international operators coming to Croatia and partnering with local companies.
- Local partners have acquired new industry skills and improved their capacity for sustainable skills development. ESP provided them with educational manuals and materials and encouraged them to use these materials to assist association members and interested SMEs in the future, which several partners have already successfully begun to do.
- Key partner associations were strengthened and are now ready to assist their members in future development. ESP helped create and build the capacity of Croatian destination management companies (DMCs) and assisted in creating the first Croatian online database of educational materials for DMCs, tour operators, and tourism service providers.
- Marketing channels have been improved, including the new online booking system implemented by the Istrian Rural Agricultural Tourism Association (RURALIS).

As a result, Croatia has become increasingly recognized as a destination in world tourism markets. For example, USTOA (an association of U.S. travel agencies) identified Croatia as an up-and-coming destination in 2007, and Croatia’s regional and global coverage has increased.

INCREASING FOREIGN AND LOCAL DIRECT INVESTMENT

As a result of ESP activities to promote increased foreign and local investment, the following has been achieved:

- Business zones and industrial parks in key geographic areas were strengthened through technical assistance in the areas of potential users, ownership, workforce, parceling, infrastructure, and local incentives.
- The first FDI conference in Croatia—“Foreign Investment for the Growth of the Croatian Economy”—was initiated and organized in collaboration with the Croatian Development Bank (HBOR) in October 2005. In 2006 ESP assisted in organizing the second FDI conference.
- A total of 1,850 regional and national economic development officials have been trained in foreign and direct investment through 46 trainings, workshops, study tours, conferences, and promotion events organized by the ESP team across Croatia.
- With ESP assistance, the Investment Certification Program for Regions (ICPR) provided intensive training in property, marketing, and information standards to counties in three regions of Croatia. As a result, all three were certified as “Croatian Investor-Friendly Regions” in April 2008.

Key Results in Foreign and Local Direct Investment

ESP’s investment facilitation activities resulted in \$205 million in FDI. This led to the creation of 1,309 new jobs and the generation of \$135.5 million in local investment by 65 SMEs, resulting in 1,388 more new jobs. In all, this component generated 2,697 new jobs.

CREATING MECHANISMS TO INCREASE SME ACCESS TO FINANCING

Over the course of the project, ESP introduced a variety of new credit tools and mechanisms that resulted in a substantial increase in SME access to financing. ESP achieved the following in this area:

- The credit-scoring method of processing small loans faster while maintaining good credit quality was introduced to four banks. All four banks implemented the process and will continue to expand SME lending in the future.
- Detailed guidelines for establishment of regional loan guarantee schemes (RLGSs) were developed, and five were operational by the end of 2007. Eight more are currently being formed. These RLGs are enabling hundreds of smaller SMEs to access bank financing for the first time.
- Croatian Development Bank (HBOR) was assisted in developing two new products: mezzanine financing and an equipment term loan (a loan secured only by equipment rather than real estate). These products gave SMEs new financing options.
- Training programs were conducted in collaboration with Croatian leasing firms and venture capital funds in the use of leasing and venture capital as additional finance options for SMEs. As a result, SMEs now have a better understanding of these options and how to take advantage of them to expand their operations.

Key Results in Increasing SME Access to Financing

ESP partners reported that a total of 1,836 SMEs received credit-scored loans; 171 SMEs received guaranteed loans through government agencies; and 4,971 new jobs were created in consequence.

IMPROVING BUSINESS DEVELOPMENT SERVICES

ESP provided technical assistance to targeted industry sectors, including information and communications technology (ICT), boatbuilding, secondary wood processing, and metal processing. Support was also provided for local business service delivery and, during the last year of the project, rural development. Since the project inception, business development services (BDS) activities achieved the following:

Key Results in Improving Business Development Services

A survey of assisted SMEs and reports from ESP partners recorded a total of 1,374 jobs created since the beginning of the project as a result of ESP assistance provided under this component.

- Project technical assistance led to the formation and incorporation of CRO.ICT—a national ICT clusters association made up of eight regionally based ICT SME clusters. This new association is cooperating closely with local stakeholders, including Regional Development Agencies (RDAs) and academia.
- ESP actively supported the establishment of a national boatbuilding cluster led by the Brodarski Institut (Naval Institute), working in close cooperation with the Croatian Chamber of Economy’s small-ship section. In January 2008 members of this cluster participated in a major international boat show in Düsseldorf.
- 38 SMEs nationwide were trained in market research and received guidelines on assessing market demand, both locally and regionally. This assistance will help safeguard jobs in the financial sector employing more than 10,000 Croatians.
- ESP helped improve market linkages between large enterprises and small metal processors in Croatia. As an example, Limes Donji Miholjac has new suppliers, including BMW Metal and Medex, and Deutz Farh Kombajni has several new small-parts suppliers in Slavonia.

- Support for rural development, built upon the close cooperation between the ESP, Agribusiness Competitive Enhancement (ACE), and Raising Incomes in Economically Disadvantaged Areas (RIEDA) projects (all DAI/USAID efforts), has strengthened both public and private rural development organizations. These organizations will continue to increase employment in economically disadvantaged rural areas of Croatia well beyond the end of the three projects.

IMPROVING THE BUSINESS ENVIRONMENT

Under CLIN 2, Croatia ESP provided analysis and technical assistance in four areas of policy: taxation; regulations; infrastructure, affecting metrology, accreditation, and standards requirements necessary for European Union (EU) accession; and the quality of education and training, affecting the country's ICT sector. The associated initiatives were (1) a tax simplification study and tax reform proposal; (2) a regulatory reform program; (3) promotion of infrastructure quality to meet EU requirements; and (4) a gap analysis of ICT training.

Croatia ESP is a broad-ranging project oriented largely toward firm-level assistance, which requires showing quick and quantifiable change. The four policy interventions were at a natural disadvantage in a project measured by those standards. Projects combining policy and implementation need to measure policy impact by standards appropriate for it. Three out of four initiatives had no measurable impact: tax reform did not occur, the Government of Croatia did not completely adopt metrology, accreditation, standards, and quality (MAS-Q) reform, the ICT gap analysis study did not produce recommendations for action in a timely manner, and the impact of Hitrorez's regulatory reform work will likely not be felt for quite some time. However, in all four areas, project counterparts felt that project activities contributed to a furthering of political dialogue and an important consolidation of reform efforts around critical themes. The benefits of these results are clear, though difficult to measure and impossible to quantify.

Finally, it cannot be overemphasized that Croatia ESP delivered high-quality technical assistance and deliverables. As with all projects, in hindsight we can identify improvements in management that might have improved implementation. Nevertheless, stakeholders and counterparts were all very appreciative of the work USAID provided through Croatia ESP. Certainly, the CLIN 2-funded activities and the ideas promoted thereby have helped to change the climate for reform, in part by heightening awareness of and appreciation for reform.

SUMMARY OF KEY RESULTS

The following table provides a summary of key indicators and results:

TABLE 1: SUMMARY OF KEY INDICATORS AND RESULTS

ESP Life-of Project-Indicators	Life-of-Project Target	Total Achieved Dec. 31, 2007 Verified ²	Total Achieved March 31— <i>Estimated</i> ³	Comments
New jobs created	20,000	14,411	17,499	DAI estimates a conservative growth rate of 15 percent for jobs created during the final quarter, suggesting a life-of-project final count of 20,124 jobs created (based on 17,499 x 1.15).
Enterprises directly/indirectly assisted	4,000	5,921	6,268	
Increase in export revenue	\$20 million	\$81.1 million	\$83.95 million	
Increase in total revenue	\$150 million	\$247.4 million	\$260.7 million	
Increase in foreign direct Investment	\$38 million	\$170.11 million	\$170.11 million	Expanded Croatian Investment Friendly Regions will insure continued growth in FDI.
Increase in local direct Investments	No target	\$74.01 million	\$74.01 million	
Number of enterprises accessing new credit	2,200	5,190	7,040	RLGS and credit scoring will continue to increase SMEs' access to new credit.
Number of enterprises using non-debt financing	65	18	18	Options for non-debt financing were too limited in Croatia.
Number of SME owners/employees trained	800	5,233	5,233	

² See ESP's Quarterly Activity Report through 12.31.2007—Annex B

³ See ESP's Quarterly Activity Report through 03.31.2008—Annex C

ESP ACTIVITIES AND RESULTS

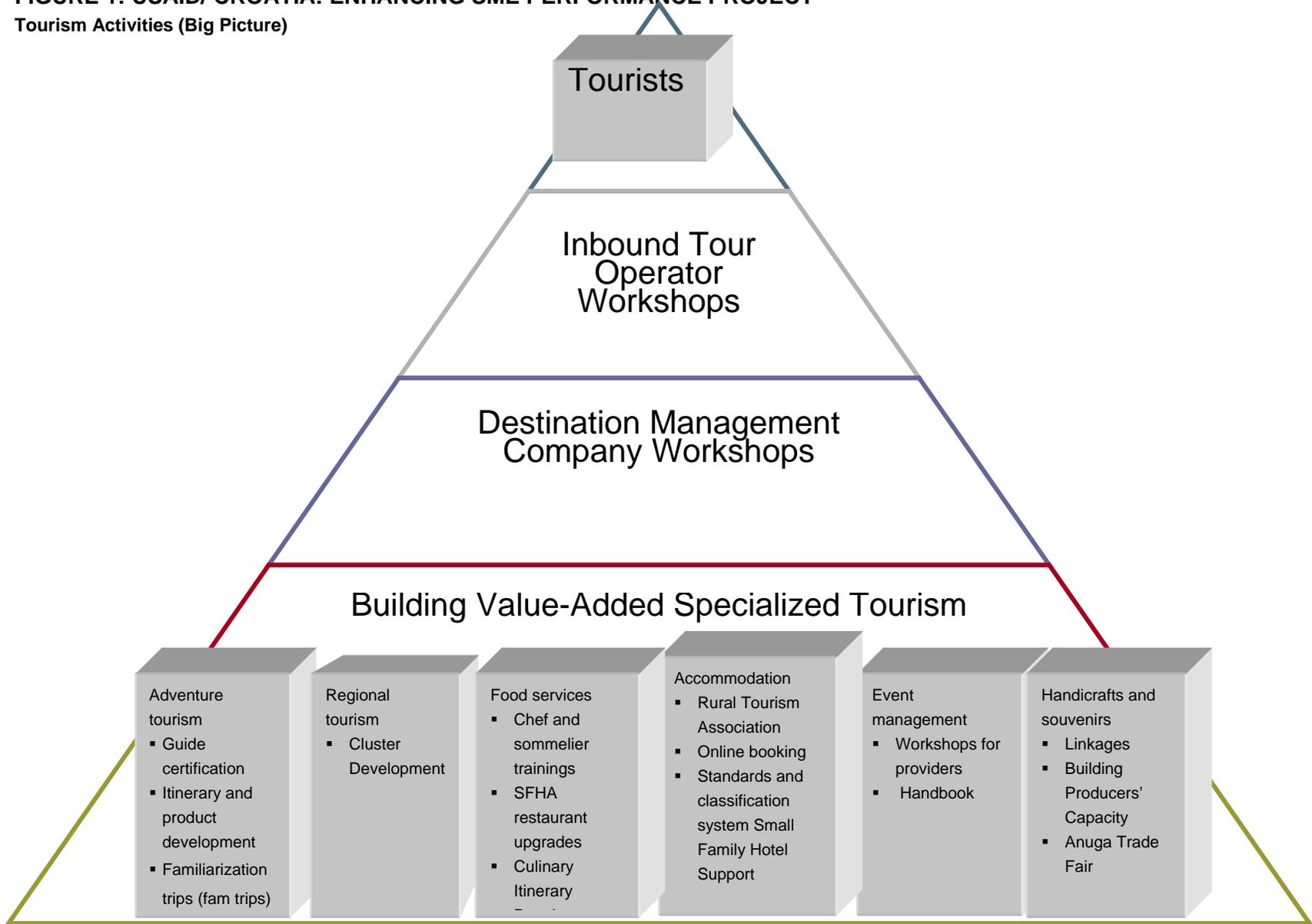
CLIN 1 ACTIVITIES 1: BUILDING STRONGER VALUE CHAINS— TOURISM AND HOSPITALITY

COMPONENT GOALS AND OBJECTIVES

The ESP tourism and hospitality activities aimed to expand and extend the season, bring tourism inland, and create jobs in small enterprises working in the tourism industry. ESP stimulated industrywide changes, and developed specialized types of tourism as well. When the project started, there was a lack of inbound tour operators meeting international standards and an absence of destination management companies (DMCs) and organizations (DMOs) working on the regional level—both key partners for outbound tour operators in wealthy foreign countries. As can be seen in the diagram on the following page, the project aimed to address such systemic weaknesses as well as to promote specialized tourism initiatives (such as adventure tourism and wine and culinary tourism, which fill in the bottom line of the tourism pyramid).

The ESP project carried out a series of workshops with existing and potential providers to address these two systemic weaknesses, which hinder the introduction and growth of higher-value specialized tours in Croatia. Next, the project worked with tourism providers to increase their capacity to offer specialized higher value-added tourism products and services. Industry support staff, such as waiters, sommeliers, and kayak tour guides, received training through workshops, study tours, and certification courses. By developing the capacity of SMEs, their staff, and tour operators, new tour itineraries have been developed such as culinary tours, high-end adventure tourism tours (biking, hiking, sea kayaking), and wine and truffle tours. To increase Croatians' understanding of international specialized tourism requirements, and exposure of international tour operators to what Croatia has to offer, the ESP project organized and carried out a familiarization trip (“fam trip”). The project invited and brought to Croatia five of the most well-known specialized high-end tour operators from the United States and the United Kingdom and took them around Croatia, introducing them to service providers. Since then, four out of the five outbound tour operators have begun offering high-value tours in Croatia, with tour prices ranging from \$3,595 to \$5,595 and up for customized tours.

FIGURE 1: USAID/ CROATIA: ENHANCING SME PERFORMANCE PROJECT
Tourism Activities (Big Picture)



SPECIFIC ACTIVITIES

Building systemic capacity: ESP worked with Croatian tour operators, destination management companies, and tour operators to build their capacity to successfully run their businesses incorporating high-value specialized tourism. Through a series of workshops, providers have learned how to package tourism activities, services, and facilities in Croatia and market this to Western high-value tourists.

Adventure tourism: ESP has offered workshops for adventure tourism providers focused on developing itineraries and building company capacity, as well as an internationally recognized sea kayak skills certification for guides.

Regional tourism development: ESP has been working with select regions (Baranja/ Vukovar, Varaždin, Čakovec, Koprivnica, Virovitica) to raise standards and increase marketing capacity to offer localized tourism packages.

High-value food services and wine tourism: ESP helped Croatian specialty food producers attend the Anuga food fair in Germany and begin exporting. ESP has also offered workshops for bartenders, waiters, and sommeliers. Last, ESP helped providers put together culinary tour itineraries and develop menus and capacity for hotel restaurants and other eateries.

High-value SME accommodation: ESP has supported the Association of Small and Family-Owned Hotels with strategy and development of offerings such as high-quality food services. ESP has also assisted the Istrian Rural Agrotourism Association (Ruralis) in creating a standards and classification system.

Event management: ESP provided a workshop and handbook for event management companies in December.

Rural tourism: ESP supported Ruralis in launching an online booking system in English. This will result in great increases in guests in the coming tourist season and will also set an example for other rural providers across Croatia.

Handicrafts and souvenirs: ESP has held a series of roundtables and workshops to help handicraft and souvenir producers be better able to sell to the tourist market. It also has been helping market-ready producers link into tourist-rich coastal distribution channels.

RESULTS ACHIEVED

ESP's tourism and hospitality partners have reported a total of 1,388 jobs created by their member companies and within the organizations themselves since the project began, as a result of ESP's assistance. The Association of Small and Family-Owned Hotels has also reported that within the coming five to seven years, USAID will see a further sustainable legacy of approximately 500 new small hotels opened and 7,500 new jobs created. In February–March 2008, tourism and hospitality team members met with ESP's main implementing partners to discuss the results and achievements of ESP-supported activities. Team members had meetings with the Dalmatian Chefs Association, the Istrian Regional Tourism Agency, Q-lab, Gastronomadi, the Association of Specialty Food Producers, the Association of Small and Family-Owned Hotels, and Ruralis. The partners reported that ESP greatly helped their member businesses and their organizations.

One measure of results achieved is detailed by signed partner reports, a new tool designed in 2007 and filled out by project partners who have co-organized ESP workshops. These partners (generally associations) track attendance and then any resulting changes in the businesses of their members who participated. For the tourism and hospitality team, the partner reports have been collected from UHPA and IRTA and, therefore, only paint a picture of a subsection of activities in cooperation with these two partners related to specific workshops co-implemented. UHPA reported on results of workshops addressing inbound tour operators sales and distribution channels, destination management companies, event management, and adventure tourism. IRTA reported on results related to workshops on skills upgrading and the support of tourism specialty occupations (chefs and waiters).

The reports state that in the last six months after workshops were successfully carried out:

- 131 people gained employment.
- The tourism team assisted 347 SMEs.
- Export revenue rose \$2,850,000 for assisted SMEs.
- Total revenue rose \$3,330,000 for assisted SMEs.

913 Croatians participated in the tourism and hospitality team's intensive learning workshops. These workshops were designed to address critical gaps and needs in the Croatian specialty tourism job market.

KEY ACHIEVEMENTS

Since the project's inception, the tourism and hospitality team achieved the following:

New high-value Croatian tourism products are now being offered:

- ESP-assisted companies such as Secret Dalmatia and Dalmatian Cooking are offering new tours, including custom-tailored itineraries for high-end travelers, special romantic tours for honeymooners, sailing holidays on fully skippered yachts, photography tours, hiking, trekking, and gastronomy tours.
- Hvar Adventures, which participated in the ESP's adventure tourism training, improved services offered to higher-paying customers, including sailing trips, wine tastings, and multi-activity itineraries.
- Huck Finn, which participated in fam trip exposure and in event management, DMC, and adventure tourism workshops, began multi-activity programs for U.S. operators REI Adventures and Mountain Travel Sobek. They hired two new full-time employees to assist in this work.
- Meridian Ten, assisted by a fam trip and by fam trip preparation, began running adventure trips in Croatia, such as cycling, trekking, and hiking trips. They are working with such internationally recognized operators as ExperiencePlus!
- Danubium Tours attended several ESP workshops and activities, participating in the inbound tour operators sales and distribution channels workshop, the DMC workshop, the event management workshop, and the tourism training of trainers, as well as in the regional tourism development project. They began working as a DMC, providing tours of Vukovar and the Slavonia region, and have begun offering high-value cycling tours, river cruises, and culture tours and publicizing them at regional trade fairs and on their website.

- Croatian tour operator MTTS, which participated in the DMC and adventure tourism workshops, opened a new office in Split, expanding their geographic coverage and entering new markets. They hired two new full-time employees.

An extended tourism season resulted from activity-based tourism: Statistics from the Ministry of Tourism show a significant increase in spring tourism. Compared to the previous year, the ministry's report on the 2007 season shows a 20 percent increase in March arrivals, a 13 percent increase in April arrivals, and a 10 percent increase in May arrivals. This demonstrates better results in shoulder and low seasons and indicates that new products can attract niche-market guests, aside from traditional sun and sand vacationers. Fall arrivals have also increased, although by less. Furthermore, as evidence of higher value-added tourism, the increase in revenue in the shoulder season compared to the previous year is 39 percent for January–March, 13 percent for March–June, and 7 percent for September–December.

Sustainable industry skills have been developed: Local partners have been provided with workshop and educational manuals and materials and encouraged to use them to assist association members and interested SMEs in the future. As one example, the Association of Croatian Travel Agencies (UHPA) will continue the DMC workshops, with support from the Croatian tourism board. They have nine workshops planned around Croatia for this March and April.⁴

ESP helped create and build the capacity of Croatian DMCs. At the beginning of the project, ESP staff identified only one fully operational DMC in Croatia (in Istria). Now, there are several DMCs across the country. As one example, before the DMC workshop there was no DMC in the region of Hrvatsko Zagorje. Potepuh travel agency, which is in Hrvatsko Zagorje, received the DMC manual at an ESP workshop it attended and then became a successful example of a new DMC offering cultural and soft-adventure programs in that area. Danubium (above) is another example of a successful new DMC in Slavonia.

As a result, Croatia's recognition as a tourist destination in world tourism markets has been improved. The United States Tour Operators Association, or USTOA (an association of American travel agencies), pronounced Croatia the hottest up-and-coming destination in 2005 and 2007 and the second hottest up-and-coming destination in 2006.⁵ *National Geographic* named Croatia the top adventure nation for 2006 and destination of the year for sea-kayaking in 2006.⁶ In addition, many articles about Croatia have appeared in various magazines, specialized magazines, and internet sites, such as Telegraph.co.uk. These discuss special-interest trips to Croatia, such as cultural and adventure vacations. Finally, as high-end group travel most often sets trends, it is particularly important that the leading special-interest operators have been including Croatia in their tours (such as Mountain Travel Sobek, ExperiencePlus! and Epiculinary).

SUSTAINABILITY AND USAID LEGACY RELATED TO KEY PARTNERS

Over the course of the project, ESP has strengthened and contributed to the sustainability of several key USAID legacy organizations:

⁴ Opatija March 11, Porec March 12, Dubrovnik March 17, Split March 18, Biograd na Moru March 19, Otocac March 31, Križevci April 1, Zagreb April 2, and Vinkovci April 3.

⁵ Link: <http://ustoa.com/pressroom/trends.html>

⁶ http://www.nationalgeographic.com/adventure/adventure_travel.html

The Association of Croatian Travel Agencies (UHPA) gained several benefits from the ESP project. With ESP inputs, UHPA became an educational center for Croatian tour operators, enabling easy and cost-effective access to new knowledge and skills. UHPA continued with workshops which were started by USAID/ESP, using ESP- prepared educational materials. The same material is also available on UHPA's website, within their educational database, created upon ESP's suggestion. Furthermore, UHPA has begun to develop and post their own educational materials for members (for example, materials on taxes, including the value-added tax or VAT; how to work with low-cost air carriers; and managing business operations; as well as various templates). Thanks to an introduction made at an ESP workshop, UHPA is getting financial assistance from the Croatian Tourism Board, which is providing funding to continue rolling out educational workshops with materials developed by ESP. Due to the new association activities outlined above, UHPA has been able to attract new members and expand its overall membership base.

The Dalmatian Chefs Association, one ESP partner, successfully launched a number of gastronomy events and started its own culinary academy as a base for gastronomic tourism development in Croatia. Using its new academy, the association managed to raise awareness about the potential of wine and culinary tourism as a means of extending the tourism season and attracting high-end customers from all over the world. The direct result of their expanded capacity is the greatly increased number of foreign tourists attending Croatian wine and culinary events.

The Association of Small and Family-Owned Hotels has professionalized its association management. The group now employs a number of individuals in charge of all activities organized or assisted by the association. Members of the association have recognized the benefits of membership in professional associations and, thanks to ESP activities and inputs, the association and its members have improved service quality. Furthermore, association members have begun offering authentic Croatian products (food, souvenirs, and the like) that can be presented to tourists with a story, thereby increasing the value of the experience had by guests and the profits earned by SMEs. After ESP leaves Croatia, the association will continue working on quality improvement projects and will open a "stock exchange" (a web portal offering authentic Croatian products).

One sustainable legacy of the ESP **handicraft activities** is that ESP's local handicraft consultant, a market-ready producer with a workshop, shop, and display cases, has agreed with Croatian producers to put their samples from the ESP market-ready handicraft producers group on display in her workshop. If there are noticeable inquiries about those handicrafts, she will arrange for a commercial relationship with producers and act as a new distribution channel for them in Split. In the meantime, the display will give them valuable exposure to Split and tourist consumers. Furthermore, she has plans to act as an agent for producers and has received requests for future producer workshops using ESP training materials.

2. FOREIGN DIRECT INVESTMENT

COMPONENT GOALS AND OBJECTIVES

The primary goals of ESP's investment facilitation team were to help increase foreign direct investment (FDI) and domestic investment (DI) in Croatia and create new sustainable jobs. Since competition for investment is intense, activities for this team were twofold. First, the team worked with potential investors to increase their awareness of Croatia's investment potential, to encourage them to undertake site visits, and to help them generate their investment projects in Croatia. In general, the team supported investment

projects that were geared towards technology transfers and the generation of jobs, revenue, and exports. The pipeline of projects consisted of 30 small to medium-sized projects by investors from Western European countries, Canada, and the United States. The team's second group of activities was to build the capacity to attract FDI and DI among national, regional, and local partners involved in different facets of investment facilitation. The team benchmarked FDI facilities and operations of Regional Development Agencies (RDAs) and business/industrial zones against European and international standards, organized numerous trainings in investor services and workshops in investment promotion and attraction.

From May 2007 to April 2008, the team worked with the Ministry of Economy, Labor, and Entrepreneurship (MELE) on the implementation of the Investment Certification Program for Regions (ICPR) designed to help Croatian counties sell and facilitate FDI, and create an efficient and effective investment process. The ICPR was successfully implemented in six Croatian counties, grouped into three marketing regions: Istria Region (Istarska County), the Green Croatia Region (a partnership of Koprivničko-Križevačka County, Krapinsko-Zagorska County, and Bjelovarsko-Bilogorska County), and the South Dalmatia Region (a partnership of the Splitsko-Dalmatinska County and Dubrovačko-Neretvanska County). To become certified as a "Croatian Investor-Friendly Region," each region was rated on its ability to successfully meet standards in three areas: information, property, and marketing. These standards are based on research carried out on the needs of major international investors and best practices among successful investment attraction agencies.

Lastly, the team worked with Croatian ministries, Croatian and foreign chambers of commerce, Croatia's Trade and Investment Promotion Agency (APIU), the Croatian National Bank (HNB), and the Croatian Development Bank (HBOR) on recommendations for improving the Croatian investment climate. For example, during the period when a new Investment Promotion Law was being drafted, the team advised MELE and APIU on the best practices in investment promotion and related services in EU countries. In addition, the team served as a member of the national working group on FDI, spearheaded by the State Office for Development Strategy, that developed a FDI perception survey to gauge investor understanding of and attitudes toward Croatia's climate for FDI.

SPECIFIC ACTIVITIES

Increasing foreign direct and domestic investment: To increase FDI and domestic investment, the team drafted an investor inquiry form to test the initial interest and readiness of potential investors to invest in Croatia; disseminated information on investment opportunities in Croatia using customized research, including competitive and comparative analyses of site location factors; linked potential investors to other investors already operating in Croatia; searched for appropriate sites; organized and supported investor on-site visits, follow-up requirements, and aftercare services; provided matchmaking services for strategic partnerships or joint ventures between local and foreign companies; and facilitated access to finance for new investment projects. Together with the ESP finance team and HBOR, the investment facilitation team worked on a new financial product for investors called mezzanine financing.

Strengthening partner organizations: In 2005, the team conducted a benchmarking exercise to evaluate the

The efforts of the investment facilitation team's director to bring FDI to Croatia were also recognized by the Italian-owned multinational company Snaidero, whose "decision to invest 17 million Euro and employ 150 new people in a new cabinetry factory was directly the result of Zrinski Pelajić's personal efforts." The CEO of the company reported this to the USAID Mission Director at the official opening of the factory in Croatia.

effectiveness and capacity of the six RDAs to market their individual locations to potential investors and successfully generate FDI. The overarching finding was that all the RDAs faced the same problems of limited or nonexistent resources for effective FDI promotion, in terms of knowledge, finance, staff, and organizational efficiency. Each RDA surveyed was strongly focused on providing services to investors, such as finding them sites, local incentives, and local government contacts, and facilitating reductions in local taxes and charges for them. On the other hand, the RDAs have been relatively weak in image-making and investment generation activities, such as facilitating investor missions from outside Croatia, organizing direct contact campaigns, working with foreign trade representative offices in Croatia, and so on. To bridge those gaps and foster the regional, national, and international network of partners, the team designed, organized, and delivered the following capacity-building trainings across Croatia, at conferences, workshops, and promotional events:

- **Capacity-building training was designed for APIU, RDAs, cities, municipalities, and business/industrial zone managers.** This training included the following:

In October 2005, after the Government of Croatia reorganized Croatian investment promotion, ESP organized in-house training for APIU and its staff. This training consisted of the following modules: Global FDI Trends, Competitiveness and the Investment Promotion Function, How Firms Make Location Decisions, Image Building and Media Relations, Development of Investment Promotion Materials and Modalities for Investment Promotion, Investment Promotion Techniques, and Development of Investor Targeting Strategy (ITS), Investor Facilitation and Aftercare Services, Project Monitoring and Evaluation, FDI Glossary, Tips for Investor Inquiry Handling, and APIU Competency Ranking.

Training was designed and provided to RDAs, cities, and municipalities in FDI promotion. Topics included how to prepare for investors; how to best promote and communicate with potential investors (a presentation organized in cooperation with the European Investment Outreach Program); how to realize investment projects through public-private partnerships (PPPs); and how to conduct marketing planning in investment promotion. This was followed by the drafting of regional marketing plans for three local development agencies: the Business Center Donji Miholjac (MPC), the Industrial Park Nova Gradiška (IPNG), and the Business Park Bjelovar (PPB).

Organization of several major conferences: The first international FDI conference, jointly organized by the investment facilitation team and HBOR in October 2005; the second international FDI conference, jointly organized by the investment facilitation team and APIU in October 2006; the FDI conference in Bjelovar, jointly organized by the investment facilitation team and HBOR in April 2005; the FDI conference in Vukovar, jointly organized by the investment facilitation team and HBOR in February 2006; the first international Croatian Agency for Small Business (HAMAG) round table, jointly organized by the investment facilitation team, HAMAG, the Istrian Development Agency (IDA), and Austria Wirtschaftservice in May 2007; the first national PPP conference, organized by APIU and supported by the investment facilitation team; and the first Finance, Investment and Development Fair (SAFIR), jointly organized by the investment facilitation team, the access to finance team, and SASO fair in October 2006.

- **Study tours and promotional events were organized.** Intended to increase the awareness and capacity of project partners to attract and manage FDI opportunities, these events included an investment promotion study tour to Slovakia, designed and organized for RDAs, city and town representatives, and APIU staff in November 2006; presentations on Croatia's investment potential

provided to the diplomatic community in Croatia, such as the Fifth Diplomat Club of the Ministry of Foreign Affairs; a visit by foreign representatives to the Slavonia region and the Business Zone Janjevci in Donji Miholjac in September 2005; and a presentation on FDI trends and Croatia's investment potential to members of the British-Croatian Business Network (BCBN) and at the Nordic Days Fair in Zagreb in November 2005.

Creation of the Investment Certification Program for Croatian Regions: The Investment Certification Program for Regions (ICPR) created three standards that can be used to certify regions. The Information Standard certifies that the region can meet the informational needs of a typical investor and knows how to use this information in sales. The Property Standard confirms that the region is able to offer a range of sites and buildings that meet international standards and that are ready for development or occupation by a new investor, with appropriate infrastructure and services. Finally, the Marketing Standard certifies that the region has developed a territorial marketing strategy and has produced marketing materials and an action plan to present its products in a professional and attractive way. To achieve those standards, each county representative had to participate in four trainings (Information, Property, Marketing, and Investment Attraction and Negotiating Advice). Furthermore, they needed to work with international and local consultants to meet the requirements of each standard, which included completing the detailed informational checklist, developing a local supplier database, drafting sectoral growth potential reports, conducting a survey of existing investors, demonstrating the availability of 12-month and 60-month investment sites, and creating a marketing strategy and action plan with a confirmed budget, marketing materials, and a website. All three ESP-assisted regions successfully achieved these ICPR standards and were certified as "Croatian Investor-Friendly Regions" in April 2008.

RESULTS ACHIEVED

As a result of the above activities, a total of 1,850 people were trained through 46 trainings, workshops, study tours, conferences, and promotional events organized by the team across Croatia. This enabled the investment facilitation team to contribute to ESP's targets with \$205 million in FDI generating 1,309 new jobs (far exceeding the project target of \$80 million), and \$135.5 million in DI generated by 65 SMEs and creating 1,388 new jobs. As demonstrated in the chart, the results achieved by the investment facilitation team far outstripped the workplan expectations. Altogether, the team saw 2,697 jobs created in project-assisted enterprises.

**TABLE 2: SPECIFIC RESULTS MET BY THE INVESTMENT FACILITATION COMPONENT
(ORIGINAL WORKPLAN TARGETS IN PARENTHESES; VALUES LISTED IN MILLIONS OF DOLLARS)**

No.	Indicator	Oct 1 04–Sept 30 05 (Y1)	Oct 1 05–Sept 30 06 (Y2)	Oct 1 06–Sept 30 07 (Y3)	Oct 1 07–Apr 30 08 (Y4)
1.	FDI in regions increased	(6) 58.6	(16) 14.5	(25) 115	(33) 17.3
		Jobs: 682	100	417	110
2.	DI in regions increased	Value: –	(21) 46.7	(30) 72.2	(16) 16.6
		Jobs: –	671	512	205
		SMEs: –	22	35	8
3.	Local, regional and national partners	Trainings: (2) 4	(5) 10	(6) 13	(2) 2
		Conferences: (1) 1	(2) 2	(2) 4	(0) 0
		Promotional events:(1) 2	(1) 3	(2) 1	(0) 0

No.	Indicator	Oct 1 04–Sept 30 05 (Y1)	Oct 1 05–Sept 30 06 (Y2)	Oct 1 06–Sept 30 07 (Y3)	Oct 1 07–Apr 30 08 (Y4)
	strengthened	People educated (training, conference or promotional event): 225	715	725	49
4.	ICPR			Trainings: 2 (Information and Property Standards) People trained: 71	Trainings: 2 (Marketing Standard, Negotiation Skills) People trained: 65 Marketing regions certified as Croatian Investor-Friendly Regions: 3 (Istria, Green Croatia, and South Dalmatia)

KEY ACHIEVEMENTS

Over the life of the project, the investment facilitation team achieved the following:

The Business Zone Janjevci (MPC) has been launched in Donji Miholjac: With the support of the investment facilitation team, the local government created a comprehensive investment promotion program and undertook other major steps to attract new DI and FDI in the Donji Miholjac region, which was struggling with high unemployment and a poor business climate for many years. To support this initiative, the Business Zone Janjevci pilot project was launched in June 2005 with the aim of boosting new investments and generating new employment by offering 17 hectares of serviced land for investment under very attractive conditions in the first phase. Within a single year, 13 investors signed contracts with the city valued at \$39 million, with the potential to create 450 new jobs. The ESP team advised the business zone and investors on issues such as potential users, ownership, workforce, parceling, infrastructure, and local incentives. In addition, the MPC staff, who manage the zone, participated in all trainings delivered by the team. Furthermore, the ESP team organized promotion of the zone to the

The Investment Facilitation team played a major role in bringing a Canadian investor, Caristrap, into Croatia. The team's efforts were highly appreciated by the CEO of the company, Mrs. Audrey Karass:

"With admirable professionalism, the team presented the Croatian investment climate to us and assured us of Croatia being a good and reasonable choice for Caristrap investment. During March, April, May, 2005, Poduzetna Hrvatska provided a lot of information regarding available facilities, conditions, economical features and policy in Croatia, which were valuable to us in our period of investigation. Based on research made at that time, Caristrap International established the Logistic Center for Europe in Zagreb to support ongoing European sales network development. . . . [It was the team's help] that enabled us to consider Croatia as the chosen country to establish our factory in as regional center of our international strapping business."

The Company Manager in Croatia, Mrs. Lidija Gruber, expressed her gratitude as well:

"Mr. Zrinski Pelajić and Ms. Danijela Tepšić were informed of the project in its initial phase early in the year 2005. Since then, they continually diligently and professionally helped us to bring the project to its finalization, to establish Caristrap International Inc. factory in Croatia...Especially we would like to thank them for all their incredible effort to bring us where we are today."

At the official opening of the factory in Croatia in May 2007, the ESP Project received an "official governmental thank-you note" (*zahvalnice*) for the contribution of the team to the successful Caristrap project implementation in Croatia.

representatives of the U.S. Chamber of Commerce, the German-Croatian Industrial and Trade Chamber, and the Austrian Trade Office in Croatia. As a result, today, 12 domestic and two foreign companies have invested \$48 million and employ 571 people in this zone. The third phase of expansion is currently planned, which will lead to new investments and employment. The City of Donji Miholjac twice officially recognized ESP staff for their special contribution to the promotion of the city and the economic development of the city and the region.

New investment has been facilitated by Caristrap International Inc.: With the support of the Investment Facilitation team, the Canadian company Caristrap International Inc. established a logistics center for Europe in Zagreb in May 2005 to support ongoing European sales network development. The Investment Facilitation team assisted and continued working with the Caristrap, which decided to establish a factory in Croatia as the regional center of its international strapping business (manufacturing woven and nonwoven straps for all types of applications, including buckles, tools, and accessories). The company invested €2,000,000 in a production plant in Mihovljani (Krapinsko-Zagorska County) and hired 23 Croatians from a local district with high unemployment. Furthermore, their production uses new machines and equipment that were produced and assembled by Croatian companies.

The first international FDI Conference, “Foreign Investments for the Growth of the Croatian Economy,” was organized in Cavtat in October 2005: The organization of this conference was initiated by the investment facilitation team and organized in cooperation with HBOR. The USAID Mission Director, William Jeffers, spoke at the conference, which was attended by Croatian Prime Minister Ivo Sanader and over 150 representatives from the Government of Croatia, HBOR, APIU, RDAs, cities, municipalities, commercial banks, and foreign investors. The conference was a success in achieving its aim: to raise awareness of Croatia’s investment potential and to help attract more FDI into the country.

The first conference to promote new investment was organized in the Vukovar region in February 2006: This conference was organized by the investment facilitation team and HBOR, with the aim of increasing potential investors’ awareness of opportunities in this region and to explore ways to create a more favorable business environment. USAID Mission Director William Jeffers spoke at the conference, which drew more than 150 participants, including representatives from Government of Croatia, APIU, RDAs, and local governments, as well as entrepreneurs, potential investors, and commercial banks. It succeeded in raising awareness and contributed to some of the regional successes listed above and below.

SUSTAINABILITY AND USAID LEGACY RELATED TO KEY PARTNERS

In addition to strengthening the capacity of key partner organizations and success stories outlined above, the investment facilitation team has built the capacity of the following key partners:

The Industrial Park Nova Gradiška (IPNG): IPNG management participated in all trainings and in the study tour delivered by the team. Significant direct assistance was provided during IPNG’s start-up phase, including advice on potential users, ownership issues, workforce, parceling, infrastructure, and local incentives. Today, the 80-hectare zone has nine beneficiary companies that have invested \$7,700,000 and employ 150 people. With EU support, the much-needed new Computer Numerical Control (CNC) Programming training center has been built within the Park. Further Park expansion is planned in the near future.

The Business Zone Podi Šibenik: Zone management participated in all trainings delivered by the team. Together with the Ministry of Foreign Affairs, the team organized targeted promotion of the zone to the

diplomatic community in Croatia. In addition, significant direct assistance was provided by the team in the first phase of the zone development, including advice on potential users, ownership issues, workforce, parceling, infrastructure, and local incentives. Thirty-eight companies will occupy the first 53 hectares, with the potential of hiring up to 1,000 people. Twenty-nine companies have already signed contracts valued at \$58 million, and the majority have started building factories, creating 357 new jobs. An additional 47-hectare expansion is planned in the near future, meaning new investments and employment.

RDAs, Counties, and Croatian Chambers of Economy (HGKs) participating in the ICPR: Staff from these bodies were trained in identifying and promoting investment opportunities in their respective regions, negotiating with potential investors, identifying what properties are locally available for business users, and drafting a relevant and focused marketing strategy and supporting materials. By obtaining those skills, these professionals will react more promptly to an initial inquiry, provide standardized services, and ensure an efficient and effective investment process in the future.

Trade and Investment Promotion Agency (APIU): Starting in October 2005, the team worked with APIU on building the APIU's capacity in investment promotion, attraction, and facilitation and on the implementation of transparent procedures and measurement indicators. Thus, the team played a major role in linking the APIU staff to the ESP regional partners and helping to change the perception of the regions about APIU, thus reducing their resistance to working with a formerly inefficient institution. Apart from the in-house training, the APIU staff also participated in promotional events and trainings designed for the regional partners. After the team's successful organization of the First International FDI Conference in October 2005, APIU and the team together organized the Second Conference in October 2006. The increased APIU capacity can be seen in the fact that APIU is now recognized as a focal point for foreign investors, provides better-quality services, and is using every opportunity to enhance the image of Croatia as an investor-friendly location. Those promotional activities have increased the number of investor inquiries over last two years and led to more site visits, which have resulted in new investment projects. APIU has also developed new promotional materials and a newsletter, as well as increasing its cooperation with the regions on various investment projects.

ICPR: the Ministry of Economy has recognized the importance of this program and is planning to use Instrument for Pre-accession Assistance funds from the EU to extend this program to Croatia's remaining non-certified counties (the Slavonia region, Ličko-Senjska County, and Sisačko-Moslavačka County). For regions already certified, some more advanced activities have been planned using the same funds.

3. ACCESS TO FINANCE

COMPONENT GOALS AND OBJECTIVES

The goal of this component was to improve access to finance for Croatian SMEs and microenterprises. ESP activities were designed to improve the availability and cost-effectiveness of financing for SMEs by creating new products in short- and long-term financing, or refining existing ones; streamlining the finance evaluation processes of financial institutions without sacrificing the quality of those evaluations; improving credit enhancements (loan guarantees); creating non-debt financing instruments; and upgrading the institutional environment for SME finance.

SPECIFIC ACTIVITIES

Assisting commercial banks with developing credit scoring: Credit scoring substantially shortens and standardizes the credit-granting process, allowing SMEs to receive an answer on their loan applications much faster while allowing the banks to maintain good loan portfolio quality. To streamline the finance evaluation processes, the ESP finance team extended technical assistance in credit scoring to several Croatian banks—HBOR, the Croatian Postal Bank (HPB), Zagrebačka Banka (ZABA), Vaba Banka (VABA), and Karlovačka Banka (KABA).

Improving credit enhancements (loan guarantees): ESP worked with the Croatian Agency for Small Business (HAMAG) to streamline its loan guarantee approval process, and more important, worked with about a dozen local government agencies and other entities to help them establish Regional Loan Guarantee Schemes (RLGSs). The loan guarantees they now provide have made it possible to extend credit to smaller SMEs in rural areas, helping them get the investment financing they need.

Creating new financing products: Examples of new financing products created with ESP assistance include the mezzanine financing product the team helped HBOR to create and the equipment term loan (a loan secured only by the equipment financed, rather than real estate) product that was developed for HPB.

RESULTS ACHIEVED

The connection between ESP assistance to financial institutions and achievement of the project's key indicators is relatively straightforward. If a financial institution partner (a bank, guarantee scheme, leasing company, factor, or venture capital fund) provided financing to an SME using financing technology (such as credit scoring) introduced/developed by ESP, or if a financial institution provided financing to an SME as a result of a referral or facilitation on the part of ESP, the team counted that as one SME assisted. Successful financing usually helps an SME's operations and sales grow, which in turn, more often than not, prompts the SME to hire more workers. ESP's finance team collected the actual SME employment data from VABA and HBOR for several hundred borrowers over two- to three-year period. The vast majority of borrowers added employees after they received loans. Analysis of the data quarter by quarter indicated that consistently, it took an average of about KN 450,000 (approximately US\$100) to create one new job. Studies of loan amounts per job created in other countries have produced similar results. The team then extrapolated the VABA and HBOR data to the financing amounts generated by ESP's other financial institution partners in order to calculate jobs created for them as well. Table 3 below shows the results achieved by ESP's Access to Finance component:

TABLE 3: ACCESS TO FINANCE COMPONENT WORKPLAN TARGETS (ACTUAL RESULTS IN PARENTHESES)

Workplan Year	Oct 1 04– Sept 30 05 (Y1)	Oct 1 05– Sept 30 06 (Y2)	Oct 1 06– Sep 30 07 (Y3) and Oct 1 07– Jun 15 08 (Y4)
Performance targets			
Establish technical assistance partnership agreements (TAPAs) with banks	5 (7)	(2)	
Establish TAPAs with leasing companies	1 (0)	1 (1)	
Establish TAPAs with non-debt financiers	2 (5)		
New or refined financing products	2 (2)	2 (2)	
Strategy memos (covering the ESP Access to Finance	4 (4)		

Workplan Year	Oct 1 04– Sept 30 05 (Y1)	Oct 1 05– Sept 30 06 (Y2)	Oct 1 06– Sep 30 07 (Y3) and Oct 1 07– Jun 15 08 (Y4)
component's approach to bank products, guarantee funds, non-debt financing products, mezzanine finance).			
Number of SMEs receiving guaranteed loans (HAMAG or RLGs)	25 (60)	150 (171)	See below
Non-debt financing product, such as factoring	1 (0)		
Number of SMEs assisted with mezzanine financing		2 (0)	
Number of SMEs assisted with factoring		50 (20)	
Number of SMEs receiving credit-scored loans		100 (359)	832 ⁷ (1,836)
Number of SMEs receiving loans through deposit-mining techniques		100	
Number of SMEs assisted with leases		25	
Number of newly established RLGs		1 (1)	5 (3)
Number of BDC, RDA, county, or municipality partners trained in project analysis		25 (30)	
Number of bank loan officers receiving training in credit and other subjects		50 (150 ⁸)	
Number of jobs created by SMEs receiving loans or guaranteed loans from banks/RLGs that were given technical assistance by the ESP finance team			2,496 (4,971 ⁹)
Amount of loans/guaranteed loans awarded by banks/RLGs that were given technical assistance by the ESP finance team			\$79 million (\$170 million)

KEY ACHIEVEMENTS

The Access to Finance team's work included the following key achievements:

Four commercial banks were assisted in developing credit scoring: With the ESP's input and guidance, VABA, ZABA, HBOR, and HPB developed credit scorecards. These enabled the banks to greatly increase their lending to SMEs, most of which had never received bank credit before. VABA, a relatively small bank, in particular augmented its lending operations and increased SME lending with the credit scorecards. The VABA member of the management board has written, "I feel confident in stating that the credit scoring system was crucial in enabling VABA to increase its SME lending, and subsequently total assets. Considering that VABA was the fastest-growing bank on the Croatian market in both 2005 and 2006, with growth of total assets averaging more than 100 percent per annum, I am very thankful to USAID ... for providing us with CSM [the credit scoring model]." ESP also helped ZABA develop its use of credit scorecards, specifically for craft SMEs, which produced the greatest number of loans of any bank that the project assisted. Through December 31, 2007, 2,809 craft SMEs were assisted with loans.

⁷ Includes SMEs receiving loans guaranteed by HAMAG or an RLGs.

⁸ Estimate—includes formal training sessions and workshops.

⁹ Estimated total jobs created from January 1, 2004, to December 31, 2007.

Approximately a dozen regional development agencies and other entities were assisted in the establishment of RLGs: Loan guarantees can play an important role in inducing banks to make loans, particularly in Croatia, where SMEs often don't have the collateral that banks typically demand for investment loans. HAMAG, the Croatian government SME agency whose main activity is to provide partial guarantees for bank loans to SMEs, had been in existence for several years when the ESP project began. However, its regional coverage and ability to reach smaller SMEs were very limited. Therefore, one of ESP's essential strategies was to help establish RLGs to address these shortcomings. The team drafted detailed guidelines for establishing RLGs, held workshops on that topic, drafted RLG statutes and regulations, and made staffing and organizational suggestions. ESP staff members called on RDAs, municipalities, and counties throughout the country to provide this information and advice. By the end of 2007, five RLGs were up and running and another eight were under formation or already established and about to commence operations. Judging from the initial success of the first five, these RLGs will enable hundreds of smaller SMEs in rural areas to access bank financing for the first time. Through December 2007, two of the RLGs assisted (GARA and ZARA) have issued 30 guarantees for commercial bank loans to SMEs which have never before received bank investment financing.

In 2007 USAID Croatia and ESP underwrote a Development Credit Authority (DCA) co-guarantee facility to help augment the capital of the RLGs and give them with more credibility with the commercial banks. Under the facility, DCA and the RLGs will each guarantee 25 percent of qualified SME loans for participating banks.

SUSTAINABILITY AND USAID LEGACY RELATED TO KEY PARTNERS

VABA Banka has been one of ESP's key bank partners. Based in Varaždin, it is small, but rapidly growing and universal (offering all standard bank products and services). The main owner of VABA, FIMA, a financial conglomerate, contacted ESP soon after the project began and asked for assistance to develop credit scoring. The bank was targeting the SME market segment and had not developed any lending methodologies. Over a period of about six months ESP worked with VABA to develop a microloan scorecard designed to evaluate investment loans equivalent to €30,000 or less. Subsequently, ESP worked with the bank to develop variations on the initial scorecard that the bank could use to evaluate short-term loans as well as somewhat larger loans. Development activities included meetings to present and discuss the scorecards and testing the scorecards against loans previously approved using other credit processes. When the cooperation between ESP and VABA began, it was essentially a new bank. In the first two years it used the credit scorecards developed with ESP help, VABA made 575 SME credit scored loans amounting to \$176 million equivalent. These contributed significantly toward the bank's doubling its assets two years in a row while still maintaining satisfactory loan portfolio quality.

HPB has been another of ESP's primary bank partners. State-owned, like VABA, it has been growing rapidly during the last several years, after undergoing a major reorganization and restructuring. ESP developed credit scorecards with HPB much as it did with VABA. However, with HPB there were even more variations: scorecards for SME companies and crafts firms; scorecards for investment loans vs. short-term loans; and scorecards for loans of €30,000 or less vs. loans of €30,000 up to €130,000. Through the end of 2007, HPB had made 388 loans to SMEs using the credit scorecards it had developed with ESP.

GARA and ZARA were the two RLGs that ESP worked particularly closely with. ESP was instrumental in helping establish those RLGs. The respective development agencies in the two counties,

Krapinsko-Zagorska and Varaždinska, attended the ESP workshop on RLGS best practices in November 2005. The ESP team met with both agencies several times over the next several months to provide advice and draft statutes, and has facilitated their negotiations with the banks concerning the execution of operating agreements. GARA started its loan guarantee operations in July 2006 and ZARA—one year later. Through December 2007 together they have enabled 30 SMEs to obtain investment financing amounting to around \$2.5 million equivalent. Both RLGSs are now able to conduct their operations successfully with minimal input from ESP. In fact, at two further workshops held by ESP on the establishment of RLGSs in November 2007 and January 2008, GARA and ZARA staff participated as trainers for the RDAs who were still forming their RLGSs.

4. BUSINESS DEVELOPMENT SERVICES AND INDUSTRY ACTIVITIES

COMPONENT GOALS AND OBJECTIVES

The business services team's goal was to stimulate improvement and growth in the SME sectors by identifying opportunities that could be tackled more effectively through business development support provided by partners, such as local business support centers, development agencies, and commercial vendors of services to business. ESP focused on a number of manufacturing industries (mainly wood, metal, and boatbuilding) and ICT services, selected in consideration of factors such as tradition, scale of industry (including numbers employed), and potential for innovation and creation of value-added products with good export potential. The business services team provided support in two main areas:

- **Enterprise support service providers such as local enterprise development agents and management consultants.** The team supported these people in acquiring skills and developing quality business services for enterprises that would lead to industrial improvement and growth.
- **Industry partners such as industry associations, clusters, enterprises working in supply chains.** The team helped them identify improvement and business growth opportunities and facilitated linkages between industry partners and enterprise support service providers.

The approach was to identify improvement and business development opportunities by exploring ideas with the industry partners such as industry representative groups (for example, metal, wood and ICT clusters, as well as industry-specific groups such as the HGK small-ship section) and by designing technical assistance activities in cooperation with business support/enterprise support service providers such as the Association of Management Consultants (AMC); RDAs and Local Enterprise Development Agencies (LEDAs); and know-how transfer agents, such Brodarski Institut, for the boat-building sector. In adopting this approach, the Business Services team aimed not only to enhance performance of SMEs in selected industries but to develop the skills and know-how of the business services/enterprise support partners. In addition to working with the selected industries, the business services team also combined forces with ESP business services/enterprise support partners to tackle cross-industry issues such as training of exporters and compliance with international product standards.

SPECIFIC ACTIVITIES

ICT SECTOR ACTIVITIES, RESULTS, AND KEY ACHIEVEMENTS

ESP cooperated closely with the Microsoft Technology Centre (established in May 2005, based on an agreement between USAID, Microsoft and City of Varazdin), and the DAN RDA in implementing

training programs designed to address local industry needs for ICT specialists. ESP assistance to the ICT sector (in conjunction with CLIN 2 ICT activities, detailed under the CLIN 2 Policy Initiatives section below) resulted in the following achievements:

Eight regionally based ICT SME clusters were formed with ESP support and established cooperative activities with local stakeholders, including RDAs and academia. The clusters are a major step forward in building Croatian SME competitiveness in the ICT sector, and are characterized by a regional approach in which Croatian RDAs and Academia have partnered with local clusters to work on competitiveness-building initiatives.

A national ICT clusters association, CRO.ICT, was established and incorporated as a result of ESP support, uniting under one banner the regional ICT clusters composed of knowledge-based, product-focused SMEs. The association currently consists of seven regional clusters, including more than 50 companies employing over 500 information technology specialists. Ultimately the association will cover all regions in Croatia. Cluster activities provided to members include training in software engineering and software development standards, strategic action planning, training and product development in collaboration with local educational establishments, joint promotion, and marketing.

One of the main areas of cluster support activities involves improving the supply of ICT specialists to the industry through collaboration with academia and training organization; another involves promoting promote quality awareness. The promotion and implementation of the IT Mark software development standards, developed by the South Europe branch of the European Software Institute, will be a major activity area over coming years. Most ICT SMEs have the potential to hire more people, but cannot find suitably qualified candidates. With time and increased dialogue between ICT clusters and supporting educational institutions, this will change. It is estimated that the current CRO.ICT members have the potential to generate in excess of about 300 jobs over the next two to three years.

One good example of active, sustainable Cro.ICT Cluster activities is the GRIT cluster in Rijeka, which:

- Recently signed an agreement with the local polytechnic under which GRIT cluster companies will provide practical training to students.
- Set up a project with the University of Rijeka in partnership with Cisco Systems to develop ICT infrastructure at the university campus, making it the most advanced in the region in this regard.
- Is currently establishing a new ICT school at the University of Rijeka, with the curriculum being modeled on that of one of Germany's top universities. Enrollment of the first 40 students will take place in the fall of 2008.
- Will undertake a cluster marketing event in May, in which the cluster will demonstrate and promote its products to local businesses.
- Has commenced a cluster project in which members loan HR specialists to one another to solve internal company problems.

MANUFACTURING SECTOR ACTIVITIES, RESULTS AND KEY ACHIEVEMENTS

Boat-Building Sector

Croatia has a strong shipbuilding tradition and is still a major producer of large product carriers and other commercial vessels. It is true that its output of cargo ships will likely decline due to intense competition

from shipbuilders located in the Far East. However, the country's long coastline, high demand for nautical tourism, and shipbuilding expertise all contribute to its great potential for building leisure boats for a growing worldwide market in which a luxury yacht sells for millions of dollars. This industry currently employs approximately 1,000 workers and could multiply many times over with increased competitiveness. This provided the rationale for working with the sector.

As in the case of the ICT sector, in boat-building ESP began to work with a fragmented SME sector which could achieve improved competitiveness only through inter-firm collaboration. As a direct result of ESP assistance, Croatian boat-building enterprises have achieved the following:

Numbering 25 enterprises, **the national boatbuilding cluster was established with government support.** Key cluster leadership roles were played by ESP Partners Brodarski Institut and HGK small-ship section. Nina Subasic, the first interim National Boatbuilding Cluster's manager, stated that "USAID's ESP Project has played a crucial role in facilitating cooperation among Croatian boat-builders and in helping them understand that the Naval Institute is their key partner in transferring engineering and design know-how to the sector."

With ESP support to the boatbuilding cluster, Croatian builders of leisure boats participated for the first time in a major international boat show: The Dusseldorf Boat Show took place in January 2008 and is one of Europe's most prestigious events. Murtic, a cluster member specializing in racing yachts, sold a boat at this show.

With increased competitiveness Croatia's SME boat-building industry has the potential of doubling or even tripling its employment numbers by the time Croatia joins the EU.

Secondary Wood-Processing Sector

Starting in Year 3 of the project, ESP assisted wood sector enterprises and processing clusters in identifying domestic market opportunities as the basis for building competitiveness. ESP worked closely with the HGK's wood sector section and with wood clusters in northwestern Croatia, Slavonia, and Split to develop their competence in market evaluation and in assessing the local market for supplying hoteliers with furniture. Although still far from completion, ESP's work has supplied important technical assistance that will enable the wood sector to identify opportunities for expanding sales of domestically manufactured furniture. This will help to safeguard jobs of an industry currently employing in excess of 10,000 people. As a result of ESP assistance, 38 wood sector SMEs nationwide were trained in conducting market research and provided with a guide on assessing and marketing to local demand.

Metal-Processing Sector

In Years 2 and 3 of the project, ESP's work in the metal processing sector focused on facilitating linkages between large enterprises and SME suppliers and on enhancing skills and know-how in marketing and sales. Working closely with local enterprise support service providers such as CTR Slavonski Brod, ESP facilitated the formation of linkages between enterprises, resulting in new business relationships. For example, Limes Donji Miholjac now has new suppliers, including BMW Metal and Medex, and Deutz Farh Kombajni has several new small-parts suppliers in Slavonia.

BUSINESS SERVICE DELIVERY SUPPORT ACTIVITIES, RESULTS, AND KEY ACHIEVEMENTS

ESP's technical programs targeted organizations and institutions that provide support services to enterprises, including national organizations such as the MAS-Q institutions, business and industry associations such as the Croatian Employers' Association (HUP) and Croatian Exporters Association (HIZ), professional bodies such as AMC, and a host of municipal and regional enterprise support partners. ESP programs enhanced partners' capacity to tackle industry problems, developed their skills, and improved member services. The Ministry of Economy, Labor, and Employment's information services to investors and industry were supported through the development of a website portal, Poslovni Navigator (Business Navigator), that helps establish linkages between financial and business service providers and Croatian enterprises. Our key partner in management consulting, AMC, has among other things developed new capabilities in service delivery as a result of an ESP supported training program leading to the formation of a group of 13 assessors trained in the use of the European Foundation of Quality Management Model of Excellence for benchmarking and evaluating companies. HIZ members have acquired knowledge in a range of export topics and the association has developed a new approach to long-term education. ESP's municipal and regional partners have assisted local SMEs by providing ESP supported trainings and have been trained in supporting local industries in strategic planning. As a result of ESP achievements in strengthening access to and quality of business services were:

The capacity of HUP's center for EU pre-accession funds has been strengthened. In addition, training on the use of EU programs has been conducted, and a number of enterprises applied successfully for co-financing of their project proposals under the EU Instrument for Pre-accession Assistance program.

The capacity of HIZ, with a membership of 500 exporting companies, has been increased: In early 2005 ESP formulated a program of trainings for HIZ members in a number of specific areas which HIZ had identified as being essential for the development of exporting capabilities. ESP subsequently trained 203 HIZ members in strategic alliance building, export marketing and sales, international standards, and customs procedures. Trainees commended the local and expatriate trainers on both content and delivery. Following HIZ's request for support in developing a long-term education program focusing on industry-specific aspects of exporting, ESP engaged an international exporting and education expert to support HIZ in developing a long-term educational strategy that would lead to job creation in exporting companies. After carrying out a survey of members' training needs, ESP elaborated a multifaceted approach combining e-learning methods, inter-member networking, and formal, classroom-based training.

Business information has been disseminated through a DVD series and entrepreneurial show in Slavonia: To bridge the information gap about the legal registration of businesses, as well as poor knowledge of best practices for operating already-existing businesses, ESP partner BIOS (Business Incubator Osijek) requested assistance and partial funding to broadcast a television series, "From Idea to Success," throughout Slavonia. The series, designed by BIOS in partnership with the Government of Croatia, was composed of 10 15-minute shows consisting of Slavonia-specific and informative dialogue on select topics of interest to entrepreneurs and small business managers or owners. After the shows were broadcast, BIOS produced 1,000 DVD sets that were distributed throughout the region.

Thirteen AMC member companies were certified as European Foundation of Quality Management (EFQM) assessors: In 2005 AMC numbered 180 members. Support for AMC's development commenced in Fall 2005 with assistance provided by an international association management expert, who identified a number of areas that needed strengthening to improve AMC's professional status,

sustainability, and involvement. These recommendations acted as a point of reference in ESP's continued cooperation with AMC. Technical assistance in enhancing skills focused on training selected AMC members to use the EFQM Excellence model in evaluating enterprises. This model was selected due to its recognition in the EU and as a way for Croatian SMEs to gauge themselves against European competitors and counterparts.

Members were selected on the basis of their willingness to share in the costs of the training, which was only partly funded by ESP. The training led to certification of assessors qualified to support enterprises in the EFQM assessment method. ESP's longer-term objective was to introduce the assessors to SMEs nationwide, and to expand the number of certified assessors by coaching the early qualifiers in training skills. In addition to earning fees from work performed, EFQM assessors benefited by becoming authorized distributors of EFQM assessment handbooks and materials, and by ultimately becoming official trainers in EFQM methodology.

Human resources management (HRM) practicum training has been implemented in cooperation

with AMC: In late fall 2006, the AMC Practicum initiative began with the selection of a number of candidates for training in HRM consulting, a gap in the local market. ESP identified an expert trainer, Selectio HR consultants (part of the Moj Posao Group specialized in recruitment), and formulated a program consisting of classroom training and practical training within host enterprises. Selectio had introduced an HRM certification system in Croatia based on best practices and was interested in identifying talented specialists for freelance assignments. AMC's role in the above process was to work with ESP in identifying trainees and in finding suitable host enterprises to provide trainees with assignments. The HR Practicum was completed resulting in six trainees successfully finishing their training and becoming certified experts in HRM.

Local enterprise support service providers, including enterprise and technology centers, incubators and regional development agencies, have been strengthened: ESP's achievements in bolstering the above local enterprise support services include the following:

- Delivery of a business training program in close cooperation with ESP regional project partners nationwide starting in summer 2005. This training program and materials were later transferred to PUMA-AMC to be implemented on a commercial basis.
- Conducting pilot assistance activities for individual local partners, including Sisak RDA SIMORA, to evaluate and improve services to SOEs; Osijek Franchising Center, to develop advisory skills for franchises; and CTR Slavonski Brod, develop consulting skills to the metal sector; as well as assistance to several RDAs nationwide in strategic planning skills for enterprises.

The first Business Incubator Conference in Croatia was organized with ESP support: In September 2007, ESP partner BIOS held the first annual international conference addressing sustainable development of business incubators and technology parks in Croatia. Managers from 26 business incubators throughout Croatia attended, in addition to key economic ministry officials and other interested parties. International consultants shared best practices of incubator management within the EU and across other countries globally. In addition, leading Croatian incubators from Rijeka, Zagreb, and Osijek presented and shared their experiences with successful ventures.

Benefits from participation in this two-day event in Osijek included knowledge transfer, networking, and promotional opportunities, which will lead to the replication of best practices within incubators.

Participation in the conference spurred development of a network of high-quality incubators that can work together and share experiences in the future.

RURAL DEVELOPMENT SUPPORT ACTIVITIES, RESULTS, AND KEY ACHIEVEMENTS

Background

KonAgra d.o.o. is a private Croatian limited-liability company first established in 2000. Starting in November 2002, KonAgra was a subcontractor to DAI on the ACE and RIEDA projects funded by USAID, providing local personnel to identify market linkages between buyers and sellers and helping to develop the business service provider and cooperatives sectors. Since DAI/Nathan Group was awarded the contract for the ESP project, a number of programs and activities have been conducted jointly with the ACE and RIEDA projects, with all local technical support provided through KonAgra d.o.o. Examples include joint identification and support for trade fairs; technical assistance to food processors; joint support to rural producers of specialty foods and handicrafts; joint support for rural tourism development; and collaboration to increase food safety and improve the competitiveness required for Croatia to enter the European Union.

USAID wanted to expand ESP's support for SME development and job creation in the rural areas of Croatia, with a specific focus on rural development for agriculture, agribusiness, and agrotourism. Given KonAgra's excellent performance under the ACE and RIEDA projects and its well-established record of cooperation with ESP, DAI/Nathan Group subcontracted KonAgra d.o.o. in July 2007.

Goals and Objectives

KonAgra technical staff was tasked with enhancing the performance of SMEs in economically disadvantaged areas of Croatia involved in the production, processing, distribution, and marketing of specialty food products, one of ESP's original areas of focus.

KonAgra d.o.o. technical staff worked with existing ESP technical teams working in the areas of tourism and hospitality, financial services, and investment to maximize SME growth and job creation in the economically disadvantaged rural areas of Croatia, especially through agriculture, agribusiness, and agrotourism.

Specific Activities

Supporting rural development: In addition to continuing activities begun under RIEDA, the team organized a study tour for rural development with a special focus on agrotourism. The study tour was conducted in cooperation with World Learning, and 20 participants were able to visit the Tuscan region of Italy. The group met with "practitioners" and supporting government agencies to see rural development in action. The lessons learned will be applied to the Croatian situation and are expected to improve agrotourism's contribution to economic growth in rural areas.

Meeting EU standards: The first Croatian agricultural product to receive EurepGAP (now (GlobalGAP) certification was mandarin oranges from Neretva Valley. RIEDA worked with Konzum DAD to certify 28 producers. This effort continued under ESP, with another 38 producers certified and export sales increased by 15 percent in 2007. This activity has benefited agricultural producers in Dalmatia by securing new export markets for their products that will expand in coming years.

Protecting Croatian specialty food products: Work continued toward certification of products under the Protected Designation of Origin (PDO) and Geographic Indication of Origin (GIO) designations. These designations are important, as they protect unique specialty food products from unfair competition in the market. The project provided assistance for the first PDO audits for Istrian Prsut and Pag Cheese. GIO audits for Ogulin cabbage were also conducted with assistance from the project.

Improving food producer and processor competitiveness: The team continued providing training and workshops for producers and processors of dairy, pork, fruit, and vegetables. Technical assistance was provided through 109 organizations to more than 7,700 dairy farmers, about 4300 fruit and vegetable growers, and 450 small-scale swine producers. Today these producers are more competitive and better positioned for EU accession.

Developing new markets for small family farmers: Staff continued work originating under the ACE and RIEDA projects to create new market opportunities for small family farmers that created Certified Farmers Markets in four Croatian cities. This work was carried out in close collaboration with the Association of Croatian City Markets and the Alliance of Croatian Vegetable Growers Associations. By the end of the project, 37 farmers selling at the Slavonski Brod city market received Certified Farmers Market certificates and two new county-level associations of vegetable producers were established in Sisak-Moslavina and Osijek-Baranja counties. Both associations are going to implement the Certified Farmers Market scheme.

Results Achieved

During the subcontract period (July 2007 through February 2008), 745 jobs and sustainable farmers were created. The monitoring and evaluation system estimates that 400 more will be created as a result of these activities before the end date of the project.

CLIN 2: POLICY INITIATIVES

CLIN 2 GOALS AND OBJECTIVES

ESP's CLIN 2 (policy reform) was designed to improve the business environment for SMEs. The project was a vehicle for USAID to provide rapid-response, short-term assistance for policy analysis and technical assistance interventions related to macroeconomic and microeconomic issues as they arose. Most work was expected to take the form of targeted interventions that would improve the environment for enterprise start-up and growth, establishing a framework for better SME performance countrywide. USAID's design of CLIN2 was based on the expectation that opportunities to address policy-level issues and to provide technical assistance interventions would emerge from the Government of Croatia.

Technical assistance included, among other things, designing and conducting policy studies or technical assistance interventions, workshops, interventions carried out with business support organizations, and implementation and dissemination of policy studies incorporating the assistance of Croatian technical experts. Approximately \$900,000 of ESP program funds money was allocated to CLIN 2 activities, with four main initiatives undertaken: (1) a tax simplification study and tax reform proposal; (2) a regulatory reform program; (3) promotion of quality infrastructure to meet EU requirements; and (4) a gap analysis of ICT training.

SPECIFIC ACTIVITIES

TAX SIMPLIFICATION AND TAX POLICY REFORM

The Croatian Employers' Association (HUP) approached ESP in summer 2005 seeking technical assistance to work with business associations and employers on popular issues, with tax reform being one of the top issues. HUP wanted discussion of tax simplification to focus not only on tax cuts, but also on rebalancing taxes to reduce the weight on labor and increase the weight on capital, encouraging growth and job creation. These goals aligned closely with those of USAID and ESP. A Technical Assistance Partnership Agreement (TAPA) was signed between the DAI/Nathan Group and HUP in August 2005. In the fall of 2005, a team of expatriate and local experts prepared and submitted a tax simplification study to HUP for review, dissemination, and release to the Government of Croatia. ESP also provided consulting services, technical assistance, and training to HUP and its members, but these activities largely took place in partnership with development agencies and other SME activities funded through CLIN 1.

HUP scheduled a formal presentation of its tax reform proposal to the Government of Croatia on March 6, 2006, which allowed nearly 12 weeks to circulate the study to decision makers and promote the study's proposals. The Government of Croatia "accepted" the proposal for implementation in the spring of 2006, but did not take action on the proposal for the rest of the year.

ESP proposed specific activities to keep HUP's tax reform proposal alive in 2006, including publishing the proposal as a handbook and presenting the proposal inside and outside of Croatia.¹⁰ However, at the beginning of 2007 project's overall assistance to HUP ended. USAID reallocated the balance of CLIN 2's level of effort to maintain support of regulatory reform and the Hitrorez ("swift cut") unit, described below. While HUP was not able to convince the Government of Croatia of the need to implement tax reforms in 2005/2006, Croatia ESP helped HUP keep the issue of tax reform on its agenda. HUP kept it an open issue in the recent election campaign as well. As a legacy of USAID's support, HUP remains the champion for tax reform in Croatia and is committed to using its lessons learned to heighten public awareness in support of the proposal. On March 24, 2008, HUP put its tax recommendations forward to the new Government of Croatia, in a renewed call for public administration and tax reform.

MARKETING AND IMPLEMENTING REGULATORY REFORMS

European Union accession is driving much of the policy reform work now being undertaken in Croatia, and the EU's accession requirements tend, quite naturally, to get the most attention. Broad, guillotine-style regulatory reform is not mandated by the *aquis*. Thus, in its November 2006 report, the EU accession team expressed satisfaction with Croatia's efforts at regulatory reform, although only a few business regulations have been changed. The drive to implement broad, comprehensive regulatory reform of the kind adopted by the project and Hitrorez would thus need to come largely from within the Government of Croatia and society. While there seems to be some will to reform, it is hard to gauge its strength and even harder to know what the effect of the recent election will be on reform efforts.

Under CLIN 2, USAID supported overarching regulatory reform in Croatia, with ESP undertaking the following activities:

¹⁰ Separate from the project, DAI's Dr. Mark Gallagher—one of the proposal's authors—presented the study and findings to senior USAID economists in Washington, D.C., in the summer of 2006 and received overwhelming support, with a full endorsement of the analysis and report and a further endorsement of the authors' job creation estimates in the proposal.

- Retaining an international subcontractor, Jacobs & Associates (J&A), to help the project market and sell the regulatory reforms—specifically, to present the OECD’s concept of the “guillotine system” of regulatory reform to the Government of Croatia, and to build support for rapid, deep cuts in business regulation using the “guillotine.” J&A was retained in fall 2005 and the bulk of its work was completed by spring 2006, with the exception of some training in late 2006.
- Providing local staff consultants to the Hitrorez—the government’s special unit on regulatory reform—funding some of the Hitrorez staff, and providing technical support to the Hitrorez effort. The Hitrorez special unit was created by government decree on September 28, 2006, and the memorandum of understanding between DAI/Nathan Group and Hitrorez was signed shortly thereafter.

J&A helped define tasks, set up the program, provide a framework for a first-cut regulatory review process, and build local political consensus to engage in a process with the potential of effecting major reform. J&A provided a high-level, kick-start catalyst for change, and the process they started is still underway. The Hitrorez team then followed the initial effort to establish a reform strategy by digging deeply into the technical detail of actual regulations over a period of nine months. Hitrorez was funded by the Government of Croatia, USAID, the United Nations Development Programme (UNDP), the Foreign Investment Advisory Service (FIAS), and members of the Business Advisory Council, and was run entirely by local experts.

So far, five regulations have been changed, largely in response to World Bank pressure to revise the Construction Law. However, regulatory changes have been ordered by Government of Croatia decree. Also by decree, beginning January 1, 2008, Hitrorez has been established as a formal Department for Analyzing and Monitoring the Implementation of Hitrorez in the new Office for the Coordination of the Regulatory Impact Assessment System (RIA). It is not yet clear how these events will play out under the new government. In the meantime, ESP’s involvement helped put deregulation firmly on the government’s agenda. The Government of Croatia created a team to act as a central red-tape cutting squad. Although more results have not been seen to date, it seems very likely that cuts and improvements of business regulations will soon start emerging from a new review process for the existing body of regulation. Potential for sustainable results is also demonstrated by USAID’s funding being joined with funding from the Government of Croatia, FIAS, and UNDP for regulatory reform. Additionally, the EU may help fund a Regulatory Impact Office as part of the accession effort.

IMPLEMENTATION OF REGULATORY REFORM STRATEGY THROUGH HITROREZ

With strong backing of the Prime Minister, the “swift cut” team of Hitrorez was able to accomplish some major tasks during its nine-month history. Hitrorez was formed by government decree on September 28, 2006, and its team of 14 experts involved over 235 other specialists from business and government in collecting forms, reviewing regulations, and recommending changes. After setting up the Hitrorez special unit, Prime Minister Sanader gathered 67 ministries and independent agencies and ordered them to respond to Hitrorez information requests. A business advisory council was set up that included representatives of many major Croatian business groups.

The strong top-level support for Hitrorez was underscored by the fact that 100 percent of these ministries and agencies completed the Form 1 and Form 2 reports, providing the Hitrorez special unit with 5,809 Forms 1 and 5,264 Forms 2, covering 7,598 regulations. This compliance provided a timely documentary basis for the rest of Hitrorez’ work. The Hitrorez team recommended that the Government of Croatia eliminate 796 individual regulations, covering 406 regulatory areas, and simplify 865 regulations,

covering 388 regulatory areas. The group thus recommended changes in 55 percent of Croatian federal business regulations, eliminating 28 percent and simplifying 27 percent. For each regulation to be changed, the team provided specific guidance, tied to specific clauses, on how the regulation should be amended and why.

Although it was not possible to implement a definitive e-registry as contemplated initially, the Hitrorez team has done an excellent job getting laws, regulations, and their Forms 1, 2, and 3 online in a simple and attractive format (see www.hitrorez.hr). Its portal provides a widely accessible means for anyone with a computer to obtain a quick review of nearly 2,000 regulations and laws applicable to business-oriented normative acts. It also provides well-informed opinions about their utility from the responsible public agency, business commentators, and from Hitrorez experts. Where regulations were not available electronically, the team scanned them and posted them online. Documents can be searched in a number of different ways, including by responsible agency and by topic. The portal provides a coherent, comprehensive, easily searchable database of regulation, which could serve as a useful encyclopedia for public discussion about regulation for years to come. While it is not an e-registry, this site is still a very valuable resource, one that should last well beyond the end of the ESP project. Developed with public funds, this resource is a real public asset and should remain so.

The Government of Croatia provided the Hitrorez project with a solid and sophisticated public relations support. High-quality graphics and branding were developed, a clever advertising campaign aired on national television, and the program and its progress were announced at press conferences.¹¹ On July 28, 2007, the Government adopted the recommendations of the Hitrorez team by decree in their entirety. Although this represents commendable progress, it should be noted that Hitrorez now has virtually no staff: unless and until it is reconstituted and fully funded by the Government of Croatia in 2008, it will have little capacity to track and implement its recommendations.

METROLOGY, ACCREDITATION, STANDARDS, AND QUALITY

ESP approached the adoption of quality standards as a means to improve the competitive environment for all firms. The project took a two-pronged approach: (1) providing training in quality standards directly to firms, and (2) improving the infrastructure for quality standards in Croatia, including entities for accreditation, metrology, laboratories, and information dissemination. CLIN 1 funding covered firm training, while CLIN 2 funding supported improved infrastructure for quality. Croatia ESP provided expert technical assistance, organized a study tour for public and private sector participants on building quality institutions, and supported a broad government task force in its strategy to improve quality infrastructure. Government of Croatia counterparts indicated that, as a result of the project's activities in metrology, accreditation, standards, and quality (MAS-Q), the government reached consensus on the importance of building a modern quality infrastructure, including adopting international standards, developing internationally recognized laboratories and metrology institutes, and educating businesses about why and how to improve compliance with international standards.

MAS-Q activities began in October 2005 and lasted of the next 20 months, with technical assistance provided primarily by an international short-term subject matter expert who traveled to Croatia six times. The consultant's work was complemented by other short-term consultants and by ESP long-term project staff. The timeline of MAS-Q activities included the following initiatives undertaken by ESP:

¹¹ See http://www.youtube.com/watch?v=_V7XdP2P330 for the advertising campaign, and http://www.youtube.com/watch?v=TzdlGjICj_Y for a news report about program progress.

Assistance began with the delivery of a **training-of-trainers session** to business service providers and to project staff on introducing SMEs to the concepts of quality and standards. The course focused on building understanding of the various applications of different quality systems and certifications. As a result of this consultancy, the project developed and recommended a package of assistance that would help eliminate approximately 12,000 outdated Yugoslav standards, support the creation and the publication of new technical regulations meeting EU requirements, help organize an international MAS-Q conference focused on EU accession to start dialogue between stakeholders (i.e., the Government of Croatia, MAS-Q public institutions, and the private sector), and establish a “Center for Excellence” as a resource for businesses.

The concept of the **center for excellence** was discussed with representatives from the Ministry of the Economy, Labor, and Entrepreneurship (MELE); the EC delegation in Zagreb; the general manager of IBM (also a member of the National Competitiveness Council, or NCC); executive staff of the Croatian Employers’ Association (HUP); the secretary general of the Croatian Exports Association, and others.

In March 2006, Croatia ESP organized a **working session** as part of a high-profile workshop with the World Economic Forum (WEF) and the NCC on quality standards, with representatives from the Government of Croatia agencies and ministries, as well as the private sector. The purpose was to develop consensus on actions to raise awareness of quality standards and define action steps for services and improved institutional capacity. More than 50 individuals from government and the private sector participated. A working group on quality standards, facilitated by Goran Radman, CEO of Microsoft Southeast Europe, presented findings and recommendations to the attendees.

Croatia ESP staff followed up with workshop participants to discuss recommendations for quality standards. **A concept for a Center for Promotion of Excellence and Quality Management was developed.** The center would promote excellence to industry and act as a Croatian industry platform for catalyzing changes in MAS-Q in response to market needs. The center concept was discussed with the Assistant Minister at MELE.

In June 2006, the project brought back the MAS-Q consultant, along with another international advisor, to **ascertain the Government of Croatia’s progress in complying with international MAS-Q requirements** since the initial assessment of the fall of 2005 and to evaluate options for setting up a center. The team found a number of positive developments:

- The State Office of Standardization and Metrology had been dissolved, and a new agency, the State Office for Metrology, had been created as a government body under the Ministry of Science. It had a new director and became an associate member of the International Institute of Weights and Measures (BIPM) and the European Metrology Cooperation (EUROMET).
- The Croatian National Standards Institute and the Croatian Accreditation Agency were created as separate, autonomous, nonprofit public institutions (international MAS-Q rules require independence).
- Three thousand of the approximately 12,000 documentary standards remaining from the Yugoslav Government era were made obsolete.
- The Croatian Accreditation Agency was granted full membership in the European Accreditation Cooperation (EA), a major step to achieving mutual recognition of accreditation and certification activities. This essentially eliminates retesting and recertification, reduces cost, and eliminates non-tariff barriers to trade and market access delays for products being exported and imported.

- The National Standardization Body (HZN) developed the Standards Awareness Program promoting benefits of standardization in trade facilitation.

According to project staff, Croatia ESP concluded that in June 2006, the key constraint was businesses' lack of information about quality requirements. The project proposed that its revised role would be to **raise private sector awareness of requirements**. This was to be done by improving backward supply chain integration, giving quality-related technical assistance (primarily through ongoing CLIN 1-funded activities), and providing firms with access to information on market entry requirements by developing an information center, preferably hosted at the National Standards Institute. Encouraged by progress to date, Croatia ESP began facilitating cooperation between the Standards Institute and HUP, the Croatian Exporters Association, and the Chamber of the Economy around these issues.

Dissemination of information about international quality standards led to HZN's hosting a **meeting of industry and public sector MAS-Q stakeholders** to open communication between the two. Most meeting participants took part in the World Learning tour of international MAS-Q institutions in November 2006. That tour included visits to the Slovenian Metrology Institute, BIPM in Paris, and the National Physical Laboratory in London. After the study tour, participants formed a MAS-Q Task Force to accelerate reform. The task force marked a major achievement in establishing a focused stakeholder group. After meeting with USAID, Ms. Marina Livazović, Head of the Export Division in the APIU, agreed to coordinate MAS-Q activities as head of the Task Force. Among other things, Croatia ESP worked with Ms. Livazović on dedicating the June 2007 issue of *Lider*, a well-circulated business magazine, to MAS-Q issues. According to Ms. Livazović, this type of publicity helped to promote the need for reforms and pressured the Government of Croatia to improve quality infrastructure.

ICT GAP ANALYSIS STUDY

CLIN 2 activities for the support of the ICT sector were limited to the ICT gap analysis study conducted in 2006. ESP produced a comprehensive analysis of "gaps" in the capacity of Croatia's universities and technical schools to train students and employees in the ICT skills that meets the needs of foreign and domestic investors. In addition, ESP also supported the regional ICT clusters (funded under CLIN 1) that independently created the National Association of Regional ICT Clusters in late 2007 to stimulate ICT growth and advocate for a business environment conducive to growth. ESP's efforts in this area were successful to the extent that the study led to the creation of a national association that will continue to lobby for investment in the ICT sector. Each regional cluster includes academia, and there has been some success in changing ICT curricula at regional levels. For example, one cluster has secured free use of Microsoft software for students and professors at the University of Rijeka, and is establishing Cisco as the platform for a new technical university.

The gap analysis began in the first quarter of 2006 with a survey of training needs, targeting the Association of Management Consultants and ICT-sectors members of HUP. Data were gathered through a series of meetings with e-Croatia; the Financial Agency of Croatia; HUP; the Statistics Office; Ministry of Education, Science and Technology; and NGOs. In the final quarter of ESP's 2006 project fiscal year, the team finalized the gap analysis and presented findings to the NCC National Working Group and the study was referred to in the national press. NCC asked ESP to provide recommendations, which were then later paired with conclusions drawn by NCC and incorporated into the NCC's *Recommendations on Improving Information and Communications Technology Competitiveness in Croatia* (June 2007).

The NCC accepted ESP's proposal to establish a working group on skill needs and linkages between the ICT industry and higher education. The group was led by Mr. Ivan Vidaković, CEO of IBM/Croatia; Dr. Slavko Krajcar, former Dean of the Faculty of Electrical Engineering in Zagreb; and the assistant minister of the Ministry of Science, Technology and Education.

The National Association of Regional Clusters, launched in September 2007, became the project's partner in ICT sector work, as well as delivery of value-added IT services to a wide range of industries. In the same month DAI/Nathan Group signed a Technical Assistance Partnership Agreement with the association, detailing a six-month commitment to provide training in marketing and branding, IT certifications, and skill development in human resources and software engineering.

ANNEX A: SUCCESS STORIES



USAID | CROATIA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

New employees and new guest arrivals

With new employees in the hotel and new services offered, number of arriving guests increased by 30%



The owner of Hotel Dunav in Ilok recognized the importance of ESP workshops and according to ESP suggestions they've decided to improve their services offered.

USAID/ESP activity for wine and dine tourism products resulted in new jobs created, higher quality services offered, and a 30% increase in number of tourist arrivals.

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Due to war, Srijem is one of the most economically distressed area of Croatia. Since the war, Srijem still continues to face a lot of problems reviving the business sector.

Although Srijem lies on the Danube River and has very fertile ground for growing grapes and has a rich cultural history, it is still a part of the country that is neglected from the tourism point of view. All international tourists, arriving with river cruising boats from Vienna and Budapest were visiting only Slavonia and Baranja region, but, now with new services offered, tourists are showing up in Srijem as well.

In the middle of 2007, USAID/Croatia's ESP project organized several workshops for service quality improvement in tourism business, the activity was recognized by local service providers and all wine cellars and restaurants decided to participate in this activity.

One of the best examples, is Hotel "Dunav" from Ilok. The owner of the hotel, Ms. Željka Kovčalića, decided to send one of her waiters to attend an ESP training and also she decided to educate young students, which were about to finish their secondary school for tourism. As soon as the school ended, Ms. Kovčalića employed these 3 young professionals in order to improve the quality of services she was offering. By the autumn 2007, the hotel's menus were changed according to suggestions of ESP consultants. Additionally, the quality of services offered, in their restaurant and in the hotel itself, was raised to a new professional level. Since then, Ilok and surrounding Srijem, have been included as a tourist destination in river cruise itineraries as a stopping point not to be missed.

According to Ms. Kovčalića, the owner of today's most popular place to eat and sleep in Srijem, the number of overnights is higher than ever and number of restaurant guests rose by 30%.

With time and with changes in the region, more people will come, will spend more money, there will be a need for new employees, and the region will no longer be part of economically distressed areas. In all these details lies a sustainable legacy of the USAID/Croatia ESP Project.



SUCCESS STORY

Culinary Service Skills program leads to job

After only 4 months of education in culinary tourism, 30 out of 40 attendees found a new, year-round job.



Attendees learning how to use modern kitchen appliances in Italy.

30 young people got an opportunity to work immediately after school, to earn a salary, and to live without worries for their future.

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This autumn, after having finished high school and the tourism high season, 30 young professionals in tourism services are putting their uniforms on and are starting their first full time jobs, instead of going to the unemployment service office.

Istria, in the western part of Croatia, is Croatia's leading tourism destination, capturing 40% of total Croatian overnight stays and almost 30% of Croatia's total tourism income. But in 2006, restaurateurs complained that Istria lacked food service professionals who could satisfy the most demanding needs of international high-end tourists.

In spring 2007, with support from USAID/Croatia's Enhancing Small and Medium Enterprise Performance (ESP) project, ESP's regional partner IRTA launched an activity called "Skills Upgrading and Support of Tourism Specialty Occupations." Forty young aspiring waiters and chefs enrolled in the program and went through 4 phases of additional education related to providing professional services in tourism businesses. By the end of September, Istria was richer 40 young, enthusiastic, professionals with the capacity to work in high end tourism businesses in Croatia.

By the end of 2007, 30 out of 40 young people trained were hired by Istrian Tourism service providers. Some have been hired by high quality restaurants, which are included in most European gourmet guides, and some have been hired by hotels. Unlike other youths, with their specialized skills, all of these young people hired don't need to worry if they will have a job after the tourism season in Croatia ends, as they have full-time employment and will receive their monthly salary throughout the year.

Upon completion, the skills upgrading activity was recognized by local government and big hotel chains as a success. Therefore, they decided to finance and replicate it again next year. The success of this activity is not only measured in the number of jobs created, it is also measured by this sustainable legacy created by USAID. With service providers who will be able to satisfy tourist's most demanding needs, the tourism season will last for the entire calendar year, as will the benefits to skilled Istrian employees.



FIRST PERSON New Job for New Future

230 new employees hired after USAID ESP Project organized worker re-qualification.



Photo: USAID/Siniša Brenić

Ivan Tisaj evaluating a semi-finished kitchen door.

“Now my wife and I can finally make our dreams come true. We can finally have children,” proudly says Ivan Tisaj, a newly employed worker of ESP-assisted SDI wood company.

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With the first rays of the morning sun, Ivan gets up, gets ready for work and starts toward the new SDI factory. He does not mind the early start – he finally has a job.

In 2005 Italian kitchen producer Snaidero was looking for a partner for production of parts for their kitchens, while at the same time, Croatian company Trokut Novska was trying to locate a foreign buyer or an investor. Through facilitation and technical assistance of the USAID Enhancing SME Performance Project (ESP) the two companies were linked and a \$16 Million investment contract was signed, and a new company, SDI, was formed.

ESP continued providing technical assistance to SDI and organized retraining for SDI workers, thus increasing employment in this economically distressed area and creating several hundred new jobs. At the beginning of 2006, the company had already had 117 employees, and in the course of the year, additional 51 workers were employed. Through ESP’s assistance and re-qualification program, all SDI workers and management acquired new skills necessary for new mode of operations. SDI plans to hire further workers, resulting in over 230 employees.

One of the newly trained employees is the 30 year old Ivan Tisaj. 2 years ago, Ivan was unemployed after being laid off by a big local company, with little prospect of finding a good job that would permit him to support his new family.

He worked as part time worker in several small companies before starting to work in SDI, also part time. Being a machinist, he needed re-qualification in order to continue working in wood industry.

After finishing the ESP designed and implemented training program, Ivan was hired by SDI as a permanent employee. The company saw the value of the newly trained worker and promoted him, thus increasing his salary, too. A couple of months after him, his wife and his brother were also hired by SDI. Ivan bought a new car and started developing his little farm at home. Now he finally sees a bright future ahead of him. “Now my wife and I can finally make our dreams come true and start a big and happy family. We can finally have children,” says Ivan proudly.



USAID
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CROATIA

SUCCESS STORY

Usluga LLC is Building an Empire



Usluga equipment (2006)

Usluga LLC has become the leading Croatian producer of playground equipment. After participating in training on strategic action planning, the company defined its development strategy and started rapid expansion.

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USLUGA LLC, a company specializing in the manufacturing of communal playground equipment and other products, was established in 1995. Usluga's products are intended for playgrounds, outdoor spaces, camping grounds, and beaches.

Entrepreneurs Marijan Turk and Antun Iric had technical carpentry experience, and were fully capable and qualified with design, manufacturing, assembly and maintenance services associated with Usluga LLC upon inception of company operations.

Through 2003, the company experienced growth and demand for its products; however, Usluga operations and sales/profitability began to falter as existing markets reached saturation point. Usluga needed a plan, or strategy, to overcome stagnancy of its current product mix and limited markets. In 2005, Usluga LLC looked to assistance in determining strategy for its existing operations with the locally-based Pakrac Business Center and USAID project Poduzetna Hrvatska.

The Pakrac Business Center, an implementing partner of Poduzetna Hrvatska since April 2004, included Usluga LLC in an ESP-led Strategic Planning workshop in 2005. Within the given workshop, companies were educated on the basic tenets of strategic action planning, including definitive strategies associated with manufacturing operations, financial management, marketing methodologies and human resource management. Local businesses also had the opportunity to develop Strategic Action Plans which would govern company activities in the coming future. Usluga operations have significantly improved since drafting of the Action Plan. Usluga partially attributes this success to ESP:

- Total company revenues have increased 28%: sales have been realized in new markets Croatia-wide as well as export markets of Bosnia and other European nations;
- Continuous reinvestment in new technologies and processes, product development, and upgrading of employee skills and human resources has led Usluga to become the leading domestic producer of playground and communal equipment. Usluga holds ISO 9001 certification.
- With increased production capacities, Usluga has hired five new workers to date. By end of 2007, the firm anticipates hiring another five personnel.



SUCCESS STORY

New Credit Process Increases Bank Lending to SMEs

3,938 Croatian SMEs Receive Bank Loans for the First Time Through "Credit Scoring"



Srećko Vukina, Kristijan Mađarić and Maja Krištofić work in the IN BOX office in Čakovec

The Croatia Enhancing Small Business Performance Project (ESP) has worked with four banks to introduce credit scoring, a semi-automated and yet prudent method of evaluating small loan applications. By using credit scorecards, the banks have been able to increase their lending significantly to SMEs.

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Croatian SMEs generally have had a hard time in getting the financing they need to expand their operations. One of the main reasons for this difficulty is that it is too expensive for banks to evaluate SME loan applications. It cost the banks as much to assess small loans as it did for large loans, so not surprisingly they focused on large loans. The USAID Enhancing Small Business Performance Project (ESP) has helped four Croatian commercial banks to employ "credit scoring" to evaluate small loans. SME loan applicants are scored on various criteria (for example, the borrower's annual revenues, net profit, cash flow, contribution to project cost, average deposit balances, character, business plan, etc.). Credit scoring semi-automates the loan approval process and also makes it more consistent. Equally important, if credit scoring is used the SME loan applicant can get an answer from the bank on his or her completed loan application much faster than is normally the case.

ESP helped developed credit scoring at four banks: HBOR (the Croatian Bank for Reconstruction and Development), VABA Banka, Hrvatska Poštanska Banka and Zagrebačka Banka. The banks and ESP worked together to develop credit scorecards suitable to those banks' lending philosophies and local markets. Generally the banks are using scoring to make loans of € 100,000 or less. Through 2007, 3,938 SMEs received loans that were assessed through credit scoring introduced by ESP. The vast majority of those SMEs were receiving bank loans for the first time.

One of the SMEs assessing bank financing for the first time was IN BOX, d.o.o., a client of VABA Banka. Situated in Čakovec, Medimurje, IN BOX is a successful start up company registered in November 2004. Its main activity is commercial interior design and installation of furniture. Mr Srećko Vukina, In Box's director, says his main goal is to design and supply with furniture Croatia's big companies. His clients presently include Inter Europa and some INA group companies. In Box has 3 employees and is running its business in rented office space. In August 2005, In Box was presented with an opportunity to reduce its occupancy expenses by buying 100 m2 of new office space. VABA Banka processed a €80,000, 7 year term loan to finance part of the purchase price in a very short time, by using the credit scoring techniques introduced by ESP. The interest rate on the loan was a bit higher than In Box could have gotten from other banks, but the speed with which the loan request was approved made the difference for In Box. Mr. Vukina speaks of VABA very highly: "If it wasn't for VABA Banka I wouldn't have been able to buy the office space I really needed for expanding my business!" Shortly, the company will move into the new office space, and the result will be the hiring of two additional workers and a 60% increase in revenue expected for this year.

SUCCESS STORY

ESP Helps Establish New Guarantee Fund

“GARA” helps SMEs to obtain financing by providing partial guarantees for bank loans.



Peter Pan Kindergarten

Young children playing at Peter Pan Kindergarten, a new, privately owned small enterprise in Mađarevo, Varaždin County, Croatia.

GARA is one of several regional loan guarantee schemes that the ESP Project has helped to establish. The Peter Pan Kindergarten in Mađarevo is one of the enterprises that has been able to obtain the investment financing they needed through a GARA guarantee for a bank loan. Five new jobs and high quality child care have been generated from the opening of Peter Pan.

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First ESP assisted Regional Loan Guarantee Scheme (RLGS) in Croatia starts operations – One of the USAID Enhancing Small Business Performance (ESP) project’s major activities has been to provide technical assistance in the establishment of regional loan guarantee schemes (RLGSs). Loan guarantees enable more SMEs to gain access to financing from banks, whose collateral requirements are often difficult to meet. ESP advises counties, municipalities and other entities establishing RLGSs on best practices and guidelines. The Project also developed a template for RLGS by laws and regulations.

One of the RLGSs ESP has assisted, Garancijska Agencija (GARA), started operating in July 2006. Based in Varaždin, northern Croatia, GARA already has issued several partial bank loan guarantees. One of the small businesses benefiting from a GARA loan guarantee is the Peter Pan Kindergarten, located in Mađarevo, a village 20 kilometers south of Varaždin. Peter Pan is a privately owned, start up enterprise employing five workers. The director, Anita Benko, was able to borrow € 10,000 from VABA Banka with a 45% guarantee for the loan from GARA. “Without GARA’s guarantee, we would not have gotten the loan”, says Anita. The three year loan financed the purchase of furniture and equipment for the kindergarten, without which it could not have opened.

Peter Pan started its operations in October 2006. Working parents living in Mađarevo now will be able to take advantage of high quality child care in their own village. The kindergarten presently is open only from early morning until mid afternoon. However, it plans to run another, afternoon/evening shift as soon as it hires more child care providers.

All of GARA’s loan guarantees thus far have benefited similarly small businesses located in rural areas. The guarantees made it possible for them to obtain the investment financing they needed.



SUCCESS STORY

Croatian war veteran secures financing

MMM Vukelić, a small Croatian wood processing firm, receives financial advice from USAID, securing a loan for a new investment that will employ 60 new workers and boost exports



MMM Vukelić, a Croatian manufacturer, operates computerized production lines for parquet floors exported to Italy, Austria and other countries.

With the help of USAID experts from Poduzetna Hrvatska, a Croatian war veteran turned entrepreneur secures a favorable two-percent loan for an investment in a new veneer processing plant. Total savings on the new loan and refinancing was estimated at \$740,000. Croatia needs a dynamic private sector to compete in global markets and generate jobs for unemployed workers.

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In late 2004, Marijan Vukelić – the owner of a small wood processing plant in central Croatia – saw an opportunity to expand his company and create more jobs in this war-ravaged zone, 60 miles east of the capital Zagreb. As a former Croatian war veteran, he employed many of his fellow combatants, people who often have difficulty finding a job.

Mr. Vukelić learned that there is strong demand in the market for more complex products than the parquet floor material he was supplying to his Italian business partners. The market needed veneer, so he made a plan to invest some \$4 million in the new plant for veneer production. The investment would create 60 new jobs, in addition to 90 existing employees, and would add \$2 million in total sales.

But Mr. Vukelić had a problem. With interest rates on commercial loans running at 8 to 9.5 percent, he was looking at a tough road ahead for his investment to pay off and bring dividends.

Poduzetna Hrvatska, a USAID funded project aimed at empowering the Croatian SME sector, introduced a new financing solution. The project's finance experts Ivan Pilepić and Tocher Mitchell realized that Mr. Vukelić was eligible for a number of government programs subsidizing interest rates for small businesses. As a result, he was approved for a \$2 million loan at a favorable two percent rate from the Croatian Bank for Reconstruction and Development (HBOR).

With the refinancing of old loans, the overall savings would exceed \$740,000, or 10% of annual sales.

"Poduzetna Hrvatska helped me a lot with making this investment possible," said Mr. Vukelić. *"We have the vision, the will and the product, but our problem is always the money. You can get the money, but not cheaply, and Ivan [Pilepić] helped us by opening the channel of fast and cheap money."*

The new plant is under construction and Mr. Vukelić expects to start production by the end of October. Small companies like this one will help Croatia compete in global markets and generate jobs for unemployed workers.



SUCCESS STORY

Foreign Investment—Croatia's Future

USAID Mission Director, William Jeffers with Prime Minister Dr. Ivo Sanader and HBOR President of the Management Board, Anton Kovacev at the "Foreign Investments for the Growth of the Croatian Economy" conference in Cavtat.



Photo by HBOR

Prime Minister Ivo Sanader pointed out that Croatia could be a good country for foreign investment and that the Government will create a favorable investment climate. He said that bureaucracy and corruption are among the impediments and "we are making every effort to eliminate them".

Croatia is in the race for global foreign investment but is not running fast enough.

An international conference was organized by USAID and the Croatian Bank for Reconstruction and Development (HBOR) in October to support Croatia's efforts to attract more foreign direct investment (FDI) and help Croatia to position itself as a safe and attractive destination for foreign investors. USAID supports foreign direct investment efforts in Croatia through the "Poduzetna Hrvatska" project to increase the value of foreign direct investment, to generate new jobs and export revenues. In the past year, USAID supported two major greenfield investments, valued at \$51.6 million. This created 582 jobs with 98 percent of production aimed at foreign markets. Currently there are nine investment projects in process, valued at \$32 million that will help create 530 new jobs in export-oriented industries.

The conference was attended by Prime Minister Dr. Ivo Sanader and over 100 representatives from the Government, development agencies, commercial banks and foreign investors. Discussions included some of the key reasons why investors do not invest in Croatia such as the inefficient government bureaucracy, corruption, property and rights and the need to eliminate these barriers. Speaking at the conference, USAID Mission Director, William Jeffers stated that foreign direct investment (FDI) has great potential to transform the economic environment in Croatia. FDI can rapidly provide finance and market access for new production. More importantly, it transfers new technologies and best practices to Croatian firms. For example, recently, I visited Varaždin where I saw the transforming effects of FDI. In an area where textile production was considered a dying industry, an Italian investment of \$36 million refocused and revitalized the sector. The Italian company imported state-of-the-art technology, hired and trained nearly 300 people and are now producing - and exporting high value-added textiles. As a result of that investment the area around Varaždin is benefiting from sustainable job creation, enhanced tax revenues and economic growth".



SUCCESS STORY

Promoting New Investment in the Vukovar Region

SPECIAL EVENT



Above: USAID Mission Director to Croatia, William Jeffers addresses workshop participants.

Speaking at the workshop, USAID Mission Director, William Jeffers encouraged Entrepreneurs and local officials to work together to strengthen the business climate that will create needed jobs and economic growth in the region. He invited them to look at the example of Janica Kostelic, "who in Torino best demonstrated how hard work, dedication and persistence can bring world-class results.

Photo by HBOR

USAID and the Croatian Bank for Reconstruction and Development (HBOR) organized an investment promotion workshop focused on the City of Vukovar and the Vukovar Srijem County in February 2006. This agriculturally rich region, that has good trade opportunities with neighboring Hungary, Bosnia and Herzegovina, and Serbia and Montenegro, shows great potential for economic revitalization.

Over 150 professionals explored ways of creating a more favorable business and of increasing potential investors' awareness of investment opportunities in this region. Workshop participants included representatives from the Government of Croatia, local governments, experts in entrepreneur development, and development agencies.

The Vukovar-Srijem County, situated in eastern Croatia along the Danube river, is favorably positioned on the main European motor and railway corridors that connect Western Europe with Southeast Europe.

Tomislav Sota, Mayor of Vukovar, highlighted that one free zone is operational in Vukovar and another three business zones are in the works. Workshop participants had the opportunity of visiting the 8,000 m² Podunavska free zone that houses four companies employing a total of 325 employees.

Speaking at the workshop, HBOR President of the Board, Anton Kovacev stated that HBOR approved approximately 1 billion kuna in credit to small and medium enterprises in the Vukovar-Srijem county to date.

USAID supports direct investment efforts in Croatia through the \$20 million "Poduzetna Hrvatska" project to increase the value of direct investment that will generate new jobs and export revenues.



SUCCESS STORY

Donji Miholjac Experiences Economic Revival

Mr. Josip Šelej, owner and general manager of Limex d.o.o. receives a city award from Donji Miholjac Mayor Eduard Šrajer



Photo Credit: Zrinski Pelajic, DAI

In Donji Miholjac, a mid-sized town located along the Hungarian border in eastern Croatia, high unemployment and a poor business climate depressed incomes for many years.

Today, thanks to USAID-supported local government efforts, Donji Miholjac is a busy economic center. The Janjevci Business Zone pilot project was jointly launched by the Donji Miholjac local government and USAID in 2005 to boost new investment and generate 1000 new jobs over the subsequent five years, and has attracted new investors through local incentive packages, benefits and assistance.

Within the first year, 13 investors had enlisted, with a cumulative total investment valued at \$39 million. Six of these investors have begun operations, creating 250 new jobs—marking the first decrease in local unemployment in five years. The profiles of those investing in the Business Zone are impressive. Limex, a well-established company with \$40 million in annual sales and 700 employees exports 80% of its production to more than 35 countries worldwide, but has now also invested \$6 million in a brand new 3600 m² production facility at the Janjevci Business Zone.

According to Limex General Manager, Mr. Šelej, “The book-to-bill ratio is excellent and the company is considering further expansion of production capacities and additional employment here. This never would have happened without the local government’s support to create a such a business-friendly environment that we were able to finish construction and start production in just three months.”



SUCCESS STORY

Successful ESP Support For Job Generating And Export-Oriented FDI Project in Croatia

CARISTRAP, the World Leader in Quality Strapping, opened its new and most advanced production factory, including on site testing laboratory in Mihovljan, Croatia to cater to the EU, Russia and Middle East markets.



The ongoing assistance that Caristrap has been receiving from the ESP project started in early 2005 when Caristrap opened the logistic center for Europe in Zagreb. Within one year Caristrap Europe developed the market, comprising 13 countries, and with the support of the ESP project Caristrap HQs in Laval selected Croatia (among Hungary, Slovenia, Austria and Slovakia) to mirror its Canadian HQs and act as a regional production and distribution center. In particular, the ESP provided all the requested information on the Croatian economy, investment related laws and regulations provided comparative analyses of site location factors. Through the extensive and customized research, the ESP listed more than 20 sites (premises to lease, purchase or build) and facilitated the investor's on-site visits and provided support for the follow-up requirements. One of the proposed locations was finally selected. In addition, the ESP provided information on labor force and helped recruit the first two employees. The investor was linked to APIU, MELE and the Canadian Embassy as well as it has been promoted among other companies and institutions in Croatia and abroad.

In November 2006, Caristrap started the 2 mil EUR investment into a production plant, new machinery and equipment. The machinery was produced and assembled in Croatia. As of May 2007, Caristrap Europe employs 23 people and exports 99% of its production. It is expected that Caristrap Europe will employ 50-60 people in total and in full operation make sales of app.7 mil EUR/year.

Founded in Laval, Canada in 1954, Caristrap International Inc. specializes in developing, manufacturing, marketing and sales of synthetic strapping for packaging, transport and storage of goods, as well as handling of specialized applications. The company employs 147 people, produces 500 mil meters of strapping per year and has over 300 distributors around the world. By setting up the standard of entirely new industry and investing over 8% of the total annual turnover into new developments, Caristrap today has 840 patents that protect the company's inventions in products, tools and accessories. The high quality and safety of its products have also been recognized and approved by the Association of American Railroads (AAR) and NATO.

ANNEX B: USAID CROATIA QUARTERLY ACTIVITY REPORT THROUGH 12/31/07

USAID CROATIA QUARTERLY ACTIVITY REPORT			
ACTIVITY NAME: Enhancing SME Performance	STRATEGIC OBJECTIVE: 1.3	QUARTER ENDING: 12/31/07	
<p>ACTIVITY MANAGER: Frederick Claps CONTRACTOR/GRANTEE: Nathan/DAI Group AGREEMENT START DATE: 8/23/04 END DATE: 6/15/08 Croatian PARTNER(S): Private Sector CONTRACT/GRANT AMOUNT: \$19,170,704 AMOUNT OBLIGATED: \$ 18,811,869 MORTGAGE: \$358,835 NEXT PLANNED OBLIGATION:12/07 \$358,835 Legend: (1)across components; (1)marketing; (2)BDS; (3)access to finance; (4) investment facilitation</p>		<p>ACTIVITY PURPOSE: Strengthened Capacity of SMEs to operate and compete, Improved investment Climate, Increased employment and economic growth in Croatia. To promote job creation and sustainable economic growth through increases in business sales and exports and through the promotion of strategic investments. Working primarily through partner organizations, service providers and directly with enterprises to help enterprises improve performance, increase production, access new foreign and domestic markets, increase exports and attract foreign direct investment.</p>	
<p>ACTIVITY RESULTS</p> <ul style="list-style-type: none"> 2 regional loan guarantee programs launched. (Milestone—Q3/07) EFQM and HRM Practicum in cooperation with AMC completed. (Milestone—Q4/07) Model for training chefs and waiters demonstrated in Istria and rolled out to other areas in Dalmatia: (Milestone—Q3/2007) 50 hotels of the SFHA improve their culinary offer. (Milestone—Q2/2007-Q1/2008) HBOR Supervisory Board launches new mezzanine finance product. (Milestone—Q4/07).' HPB establishes factoring. (Milestone—Q3/07) 20 companies improve adventure tourism offer through sea kayak guide certification. (Milestone—Q3—4/07) 200 tour operators improve operations and offer due to TA and training in special product development, sales and distribution channels and marketing. (Milestone—Q3/2007-Q4/2007) Over 20 boatbuilding SMEs received TA to be prepared for cluster representation at Dusseldorf Boat Show. Credit and Sales training provided to 14 loan officers and 	<p>MAJOR MILESTONES</p> <ul style="list-style-type: none"> National Association of REDA formed and active. (Q3/07). HAMAG launches expedited guarantee approval process. (Q3/07) Investment Certification Program for Regions (ICPR) expanded to 6 new counties. (Q1/08) 100 Small Family Hotels complete conversion to registered operations (Q1/08) 	<p>ARE PERFORMANCE INDICATORS ON TRACK? (LOP) Life of Project, (T) target, (A)actual</p> <p>20,000 new jobs created LOP Year 3 (T) 12000; Progress to date: 14,411</p> <p>4,000 enterprises assisted LOP Year 4 (T): 4000; Progress to date: 5921 (Note: Number includes the aggregate total of indirect assists and direct assists; does not include SMEs participating in ESP's trainings)</p> <p>Increase in export revenue LOP \$20 Mil Year 4 (T): \$20 Mil; Progress as of end of June 06: \$81.1 Mil</p>	<p>HOW ACTIVITY SUPPORTS OTHER PROGRAMS</p> <ul style="list-style-type: none"> ESP and GTZ planned cooperation in relation to cluster development in ICT and other SME sectors. ESP and ACE collaborating on Culinary Tourism product development in improving co-operation between food producers and tourism service providers EC and Europeaid and ESP discussed cooperation on support to ESP regional partners on conducting a business environment and sector survey. ACE and ESP collaborating on Agribusiness Strategy and participant training programs to expand sales, as well as on assisting specialty food producers to develop PDO/PGI product/process specifications and to meet EU requirements. CIPO Alliance, MIGA, APIU and ESP collaborating on investor site visits and investor information requirements to increase

USAID CROATIA QUARTERLY ACTIVITY REPORT

ACTIVITY NAME: Enhancing SME Performance	STRATEGIC OBJECTIVE: 1.3	QUARTER ENDING: 12/31/07	
<p>mangers of the Zagreb Crafts Savings and Loan Co-op (soon to be Craftsmen Savings Bank).</p> <ul style="list-style-type: none"> Assisted 1932 SMEs through partner financial institutions: HBOR credit scorecards generated loans for 8 SMEs; HPB's credit scorecards resulted in 31 new loans; ZABA makes 1,742 loans using credit scorecard for craftsmen; VABA's credit scorecards resulted in 52 new loans HAMAG issued another 52 loan guarantees; GARA and ZARA RLGSs issued another 8 and 6 loan guarantees, respectively. (3) 4 regional loan guarantee schemes launched: Krapina (ZARA), Slavonski Brod (CTR), Zagreb County and Zadar (3) <p>\$1.1 Mil investment in construction lot by Oberndorfer. \$10.3 Mil to be invested in 2008 in a factory to produce concrete moulds in Sisak (4)</p>		<p>Increase in total revenue LOP \$150 Mil Year 4 (T): \$150 Mil; Progress as of end of June 06: \$257.4 Mil</p> <p>Increase in FDI LOP \$38 Mil Year 4 (T): \$38 Mil; Progress to date: \$170.11 Mil (Y1: Ytres at \$35.6 Mil; Snaidero at \$16 Mil from Italy; Y2: Euro Group from Slovenia at \$2.5 Mil; Y3: Caristrap Europe at \$3.9 Mil., Transcom WorldWide (Osijek) at \$1.11 Mil., Cormo from Italy at \$4.9 Mil., Rockwool Adriatic from Denmark at \$105 Mil., Y4: Oberndorfer from Austria at \$1.1 Mil.)</p> <p>Increase in local DI Year 3: Progress to date: \$ 74.01 Mil (\$ 21.5 Mil 11 firms in Donji Miholjac, \$ 5.75 Mil 7 firms in Nova Gradiška, \$ 14.2 Mil 6 firms in Otok, \$ 3.9 Mil 2 firms in Vukovar, \$ 28.66 mil 11 firms in Podi Šibenik)</p> <p># enterprises using new credit LOP 2,200 Year 4 (T): 2200; Progress to date: 5190</p> <p># enterprises using non-debt financing LOP 65 Year 4 (T): 65; Progress to date: 18</p> <p># of people trained LOP 800 Year 4 (T): 600; Progress to date: 5233 (54 percent male and 46 percent female)</p>	<p>FDI; MIGA, USAID, EU, GTZ, World Bank cooperating on APIU assistance</p> <ul style="list-style-type: none"> WB and EU: ESP screening and referring SMEs for donor loans/grants and training. Identifying high-potential projects in areas of special state concern for WB and EU funds. FIAS, UNDP and USAID are coordinating on regulatory guillotine initiative. ESP and MELE cooperate on the Investment Certification Program for Regions (ICPR) ESP referred Adriatic Zagreb (AZ) to EBRD, which approved a line of credit and is considering equity investment financing for AZ.

USAID CROATIA QUARTERLY ACTIVITY REPORT

ACTIVITY NAME: Enhancing SME Performance	STRATEGIC OBJECTIVE: 1.3	QUARTER ENDING: 12/31/07																																																	
<p>EXTERNAL FACTORS AFFECTING IMPLEMENTATION</p> <ul style="list-style-type: none"> Government of Croatia commitment and APIU's ability to provide effective investment promotion services limits investment MAS-Q support activities delayed due to lack of response from MAS-Q Task Force leadership. Boat-building support activities channeled into nationwide cluster support after demo-boat pilot group's difficulties in convincing prospective demo-boat customer of ability to deliver quality. Metal sector assistance activities in setting up skills center delayed as focus shifts from assisting tool-making cluster to metal sector in general. HBOR's lack of dynamism and slowness in implementing new products and seeking potential clients TA to tool-making cluster cancelled since partner decided to proceed with work unassisted. 	<p>NEXT QUARTER PLANNED ACTIVITIES</p> <ul style="list-style-type: none"> Registration of new ICT cluster members bringing CRO.ICT membership to a total of 9 representing about 80 SMEs. (2) Strategic planning assistance, and Project Management training to 7 ICT clusters. (2) ICT-Industry networking events supported by ESP in up to 8 regions. (2) ESP support to CRO.ICT in applications for donor support from TAM BAS, HGK and UNDP.(2) Dusseldorf Boat Show (Jan 08) and presentation of results of market to cluster members.(2) Presentation of hotel sector market survey to furniture manufacturers in wood clusters. (2) Finalization of HIZ training strategy and implementation of first training in new action plan. (2) Strategic action planning training to Eastern Counties RDAs. (2) Provide TA to start-up of at least five more regional loan guarantee schemes, including RLGs workshop for Central Croatia RLGs in formation. (3) STTA for HBOR to help it underwrite its first mezzanine finance deal.(3) Work with HPB to further refine its scorecard for loans to craftsmen. (3) Work on upgrading existing/developing new skills in zone development, promotion and investment facilitation. Hold FDI workshops across Croatia (4) Organize and deliver 2 ICPR trainings on communication, presentation and negotiation skills and work with selected counties on the implementation of information, property and marketing standards. (4) Organize and coordinate the ICPR certification activities and award ceremony to take place at the Ministry of Economy in April 08 (4) Continue building awareness of national, regional and local partners on public-private partnership projects (PPPs). (4) Ongoing support for APIU initiative to build strong network of regional partners in support of investment 	<p>ADMINISTRATIVE ACTIONS REQUIRED</p> <p>ANY ASSESSMENTS/ EVALUATIONS?</p> <p>NEW SUBCONTRACTS/ AMENDMENTS?</p>	<p>ARE INPUTS ON SCHEDULE?</p> <p>Technical Assistance:</p> <table border="1"> <thead> <tr> <th colspan="4">CLIN 1</th> </tr> <tr> <th>LOP (P/M)</th> <th>This Qtr:</th> <th colspan="2">Cumulative:</th> </tr> </thead> <tbody> <tr> <td>LT: 186.1</td> <td>LT: 17.1</td> <td colspan="2">LT: 164.0</td> </tr> <tr> <td>ST 53.3</td> <td>ST: 13.0</td> <td colspan="2">ST: 53.2</td> </tr> <tr> <td>Local: 540.6</td> <td>Local: 61.9</td> <td colspan="2">Local: 535.6</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th colspan="4">CLIN 2</th> </tr> <tr> <th>LOP (P/M)</th> <th>This Qtr:</th> <th colspan="2">Cumulative:</th> </tr> </thead> <tbody> <tr> <td>LT: 5.5</td> <td>LT: 0.0</td> <td colspan="2">LT: 5.2</td> </tr> <tr> <td>ST: 14.6</td> <td>ST: 0.0</td> <td colspan="2">ST: 14.6</td> </tr> <tr> <td>Local: 51.0</td> <td>Local: 3.0</td> <td colspan="2">Local: 47.1</td> </tr> </tbody> </table> <p>Training (number of people/yr):</p> <p>LOP</p> <p>Yr 1: 200 Yr 2: 200 Yr 3: 200 (current year) Yr 4: 200</p> <table border="1"> <thead> <tr> <th colspan="2">This Qtr: 315</th> <th colspan="2">Cumulative: 4796</th> </tr> </thead> <tbody> <tr> <td>M: 152 (52 percent)</td> <td>F:163 (48 percent)</td> <td>M: 2641 (55 percent)</td> <td>F: 255 (45 percent)</td> </tr> </tbody> </table> <p>Commodities (\$):</p> <p>LOP: N/A</p> <p>This Qtr: N/A Cumulative: N/A</p> <p>Subgrants (S):</p> <p>LOP: N/A</p> <p>This Qtr: N/A Cumulative: N/A</p>	CLIN 1				LOP (P/M)	This Qtr:	Cumulative:		LT: 186.1	LT: 17.1	LT: 164.0		ST 53.3	ST: 13.0	ST: 53.2		Local: 540.6	Local: 61.9	Local: 535.6		CLIN 2				LOP (P/M)	This Qtr:	Cumulative:		LT: 5.5	LT: 0.0	LT: 5.2		ST: 14.6	ST: 0.0	ST: 14.6		Local: 51.0	Local: 3.0	Local: 47.1		This Qtr: 315		Cumulative: 4796		M: 152 (52 percent)	F:163 (48 percent)	M: 2641 (55 percent)	F: 255 (45 percent)
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USAID CROATIA QUARTERLY ACTIVITY REPORT

ACTIVITY NAME: Enhancing SME Performance	STRATEGIC OBJECTIVE: 1.3	QUARTER ENDING: 12/31/07	
	projects (4) <ul style="list-style-type: none">▪ Continued assistance to APIU Management on efficient communication with investors (4)		

ANNEX C: USAID CROATIA QUARTERLY ACTIVITY REPORT THROUGH 03/31/08

USAID CROATIA QUARTERLY ACTIVITY REPORT			
ACTIVITY NAME: Enhancing SME Performance		STRATEGIC OBJECTIVE: 1.3	
		QUARTER ENDING: 3/31/08	
<p>ACTIVITY MANAGER: Frederick Claps CONTRACTOR/GRANTEE: Nathan/DAI Group AGREEMENT START DATE: 8/23/04 END DATE: 6/15/08 Croatian PARTNER(S): Private Sector CONTRACT/GRANT AMOUNT: \$19,170,704 AMOUNT OBLIGATED: \$19,170,704</p> <p>Legend: (1) across components; (1)marketing; (2)BDS; (3)access to finance; (4) investment facilitation</p>		<p>ACTIVITY PURPOSE: Strengthened Capacity of SMEs to operate and compete, Improved investment Climate, Increased employment and economic growth in Croatia. To promote job creation and sustainable economic growth through increases in business sales and exports and through the promotion of strategic investments. Working primarily through partner organizations, service providers and directly with enterprises to help enterprises improve performance, increase production, access new foreign and domestic markets, increase exports and attract foreign direct investment.</p>	
<p>ACTIVITY RESULTS</p> <ul style="list-style-type: none"> ▪ Investment Certification Program for Regions (ICPR) expanded to 6 new counties. (Milestone Q1/08) ▪ 100 Small Family Hotels complete conversion to registered operations (Milestone—Q1/08) ▪ Boatbuilding SMEs successfully participated in the Dusseldorf Boat Show. (2) ▪ Finalized HIZ training strategy and assisted implementation of first training. (2) ▪ Strategic planning workshops conducted and project management training provided to 7 ICT 	<p>MAJOR MILESTONES</p> <ul style="list-style-type: none"> ▪ Project closedown and final report (Q2/08) 	<p>ARE PERFORMANCE INDICATORS ON TRACK? (LOP) Life of Project, (T) target, (A)actual 20,000 new jobs created LOP Year 3 (T) 12000; Progress to date: Estimated 17,499</p> <p>4,000 enterprises assisted LOP Year 4 (T): 4000; Progress to date: 6268 (Note: Number includes the aggregate total of indirect assists and direct assists; does not include SMEs participating in ESP's trainings)</p> <p>Increase in export revenue LOP \$20 Mil Year 4 (T): \$20 Mil; Progress to date: \$83.95 Mil</p> <p>Increase in total revenue LOP \$150 Mil Year 4 (T): \$150 Mil; Progress to date: \$260.7 Mil</p> <p>Increase in FDI LOP \$38 Mil Year 4 (T): \$38 Mil; Progress to date: \$170.11 Mil</p> <p>Increase in local DI Year 3: Progress to date: \$ 74.01 Mil</p>	<p>HOW ACTIVITY SUPPORTS OTHER PROGRAMS</p> <ul style="list-style-type: none"> ▪ ESP and GTZ planned cooperation in relation to cluster development in ICT and other SME sectors. ▪ ESP and ACE collaborating on Culinary Tourism product development in improving co-operation between food producers and tourism service providers ▪ EC and Europeaid and ESP discussed cooperation on support to ESP regional partners on conducting a business environment and sector survey. ▪ ACE and ESP collaborating on Agribusiness Strategy and participant training programs to expand sales, as well as on assisting specialty food producers to develop PDO/PGI product/process specifications and to meet EU requirements. ▪ CIPO Alliance, MIGA, APIU and ESP collaborating on investor site visits and investor information requirements to increase FDI; MIGA, USAID, EU, GTZ, World Bank cooperating on APIU assistance ▪ WB and EU: ESP screening and referring SMEs for donor loans/grants and training. Identifying high-potential projects in areas of special state concern for WB and EU funds. ▪ FIAS, UNDP and USAID are coordinating on regulatory guillotine initiative. ▪ ESP and MELE cooperate on the Investment Certification Program for

USAID CROATIA QUARTERLY ACTIVITY REPORT						
ACTIVITY NAME: Enhancing SME Performance		STRATEGIC OBJECTIVE: 1.3				
		QUARTER ENDING: 3/31/08				
clusters. (2) <ul style="list-style-type: none"> 2 additional FDI workshops conducted in the regions (4) 		# enterprises using new credit LOP 2,200 Year 4 (T): 2200; Progress to date: 7040 # enterprises using non-debt financing LOP 65 Year 4 (T): 65; Progress to date: 18 # of people trained LOP 800 Year 4 (T): 600; Progress to date: 5233 (54 percent male and 46 percent female)	Regions (ICPR)			
EXTERNAL FACTORS AFFECTING IMPLEMENTATION	NEXT QUARTER PLANNED ACTIVITIES <ul style="list-style-type: none"> Organize and coordinate the ICPR certification activities and award ceremony to take place at the Ministry of Economy in April 09 (4) Complete project close down and submit final report to USAID 	ADMINISTRATIVE ACTIONS REQUIRED ANY ASSESSMENTS/EVALUATIONS? NEW SUBCONTRACTS/AMENDMENTS?	ARE INPUTS ON SCHEDULE? <i>Technical Assistance:</i>			
			CLIN 1			
			LOP (P/M) LT: 182.4 ST: 53.8 Local: 603.2	This Qtr: LT: 16.9 ST: 0.4 Local: 63.6	Cumulative: LT: 180.9 ST: 53.6 Local: 599.2	
			CLIN 2			
			LOP (P/M) LT: 5.5 ST: 14.6 Local: 51.3	This Qtr: LT: 0.0 ST: 0.0 Local: 2.8	Cumulative: LT: 5.2 ST: 14.6 Local: 49.9	
			Training (number of people/yr): LOP Yr 1: 200 Yr 2: 200 Yr 3: 200 (current year) Yr 4: 200			
			This Qtr: 315		Cumulative: 4796	
			M: 152 <i>(52 percent)</i>	F: 163 <i>(48 percent)</i>	M: 2641 <i>(55 percent)</i>	F: 1255 <i>(45 percent)</i>
			Commodities (\$): LOP: N/A This Qtr: N/A Cumulative: N/A			

USAID CROATIA QUARTERLY ACTIVITY REPORT

**ACTIVITY NAME: Enhancing SME
Performance**

STRATEGIC OBJECTIVE: 1.3

QUARTER ENDING: 3/31/08

Subgrants (S):

LOP: N/A

This Qtr: N/A Cumulative: N/A

ANNEX D: ESP BUDGET AND RESOURCE UTILIZATION SUMMARY

The total ESP budget ceiling was \$19,170,704 with \$17,931,435 allocated to CLIN 1 (Completion) and \$1,239,052 allocated to CLIN 2 (Term) activities. Resource allocation for LTTA and STTA by CLIN is summarized in the table below:

Level of Effort (LOE)		
	Person months	Person Days
CLIN 01		
LTTA	182.4	3952.6
STTA	53.8	1165.4
LOCAL	603.2	13071.3
CLIN 02		
LTTA	5.2	111.7
STTA	14.6	315.9
LOCAL	51.3	1112.4

ANNEX E: ESP REPORTS AND DELIVERABLES

Title	Author	Date
Work Plans		
First Annual Work Plan (October 2004–September 2005)	Roger Manring, Nathan staff	November 2004
Second Annual Work Plan (October 2005–September 2006), revised March 2006	Jim Winkler and staff	March 2006
Third Annual Work Plan (October 1, 2006–September 30, 2007)	Joe Welsh and staff	September 2006
Fourth Annual Work Plan (October 1, 2007–June 15, 2008)	Joe Welsh and staff	April 2008
Quarterly Reports		
Quarterly Matrix/Report, October–December 2004	Paola Lang, DAI staff	
Quarterly Matrix/Report, January–March 2005	Paola Lang, DAI staff	
Quarterly Matrix/Report, April–June 2005	Paola Lang, DAI staff	
Quarterly Matrix/Report, July–September 2005	Jim Winkler, DAI staff, and Aleksandra Andraković, ESP staff	
Quarterly Matrix/Report, October–December 2005	Jim Winkler, DAI staff, and Aleksandra Andraković, ESP staff	
Quarterly Matrix/Report, January–March 2006	Jim Winkler, DAI staff, and Aleksandra Andraković, ESP staff	
Quarterly Matrix/Report, March–June 2006	Jim Winkler, DAI staff, and Aleksandra Andraković, ESP staff	
Quarterly Matrix/Report, July–September 2006	Aleksandra Andraković, ESP staff and Joe Welsh, DAI staff	
Quarterly Matrix/Report, October–December 2006	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Quarterly Matrix/Report, January–March 2007	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Quarterly Matrix/Report, April–June 2007	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Quarterly Matrix/Report, July–September 2007	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Quarterly Matrix/Report, October–December 2007	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Quarterly Matrix/Report, January–September 2007	Aleksandra Andraković, ESP staff, and Joe Welsh, DAI staff	
Monthly Reports		
October 2004	Charles Conconi, Nathan staff	
November 2004	Paola Lang, DAI staff	
December 2004	Paola Lang, DAI staff	
January 2005	Paola Lang, DAI staff	
February 2005	Paola Lang, DAI staff	
March 2005	Paola Lang, DAI staff	
April 2005	Paola Lang, DAI staff	
June 2005	Paola Lang, DAI staff	
July 2005	Jim Winkler, DAI staff	

Title	Author	Date
August 2005	Jim Winkler, DAI staff	
September 2005	Jim Winkler, DAI staff	
October 2005	Jim Winkler, DAI staff	
November 2005	Jim Winkler, DAI staff	
December 2005	Jim Winkler, DAI staff	
January 2006	Jim Winkler, DAI staff	
February 2006	Jim Winkler, DAI staff	
March 2006	Jim Winkler, DAI staff	
April 2006	Jim Winkler, DAI staff	
May 2006	Jim Winkler, DAI staff	
June 2006	Jim Winkler, DAI staff	
July 2006	Jim Winkler, DAI staff	
August 2006	Jim Winkler, DAI staff	
September 2006	Joe Welsh, DAI staff	
October 2006	Joe Welsh, DAI staff	
November 2006	Joe Welsh, DAI staff	
December 2006	Joe Welsh, DAI staff	
January 2007	Joe Welsh, DAI staff	
February 2007	Joe Welsh, DAI staff	
March 2007	Aleksandra Andraković, ESP staff	
April 2007	Aleksandra Andraković, ESP staff	
May 2007	Aleksandra Andraković, ESP staff	
June 2007	Aleksandra Andraković, ESP staff	
July 2007	Aleksandra Andraković, ESP staff	
August 2007	Aleksandra Andraković, ESP staff	
September 2007	Aleksandra Andraković, ESP staff	
October 2007	Aleksandra Andraković, ESP staff	
November 2007	Aleksandra Andraković, ESP staff	
December 2007	Aleksandra Andraković, ESP staff	
January 08	Aleksandra Andraković, ESP staff	
Consultant Deliverables		
Project Performance and Training Indicator Targets Forms	William Millsap, Social Impact consultant (later revised by Paola Lang)	December 2005 (June 2005)
HAMAG Certified Consultant Program: Training Materials, Operating/procedural Manual and Final Report	Paul Moran	December 2005
Considerations for Transfer of the UNDP/EU Guarantee Programs	Mary Miller	January 2005
Institutional Upgrade of HAMAG: Technical Assistance with Assumption of the UNDP/EU Guarantee Fund	Mary Miller	May 2005
Tourism Market Study	Alan Saffery	May 2005
Establishing a HBOR Hybrid Financing Product Inception Report	Bryce Khadabux	June 2006
Metrology, Accreditation, Standardization, and Quality Activities in Croatia	Edward Nemeroff	December 2005
Tax Simplification for Jobs and Growth	Mark Gallagher, Ante Babic	March 2006

Title	Author	Date
Boat-Building Industry	Mario Bebek	July 2005
The Regulatory Guillotine Strategy	Scott Jacobs	December 2005
Hitrorez—Revising Business Regulation: Status Report	Renata Šeperić Petak	June 2006
Association Evaluation: Association of Management Consultants	Dr. Walter A. Shaw	February 2006
Exporters Association Evaluation Report	Dr. Walter A. Shaw	February 2006
Catalysts for Progress: An Assessment of Four Associations in Croatia	Dr. Walter A. Shaw	June 2006
Association Evaluation: Association of Family and Small Hotels in Croatia	Dr. Walter A. Shaw	February 2006
Post Familiarization Trip Report	Ann Wood, Mountain Travel Sobek	October 2006
HBOR Mezzanine Financing Program Phase 2 Report	Lionel Knight	July 2006
HBOR Mezzanine/Hybrid Financing Program Phase 3 Report	Lionel Knight	November 2006
Venture Capital, PPT presentation	Interfokus d.o.o. Dino Bendeković	July 2006
Establishing a HBOR Financing Product Report	Bryce Khadabux	July 2006
Recommendation for the Establishment of a Factoring Product at Hrvatska Postanska Banka	Edward A. McNally	July 2006
Regional Loan Guarantee Schemes (RLGS)	Mary Miller	July 2006
Setting up Regional Loan Guarantee Scheme in Sibenik-Knin County: Inception Report	Danilo Krapac, Vesna Vitez Gomboši, Franc Gonc	April 2007
Change Management for workers from SDI/Trokat d.o.o. (Upravljanje promjenama—SDI), presentation	Zdravko Kuzmić	December 2006
Upravljanje proizvodnjom—SDI, presentation	Zvonimir Repač	December 2006
Uvodno predavanje—SDI, presentation	Zvonimir Repač	December 2006
Što je kvaliteta—SDI, presentation	Zvonimir Repač	December 2006
Interni kupac, presentation	Zvonimir Repač	December 2006
Svijest o promjenama, presentation	Zvonimir Repač	December 2006
Metal Industry Sector Analysis	Goran Ilić	December 2006
Market Segmentation and Positioning of SME Training	Goran Ilić	March, 2006
What is Franchising?	Ilan Alon	March 2007
The Franchise Manual	Ilan Alon	March 2007
Final Report on Training Session for Croatian Exporters' Association Members in International Market Research	Christopher O'Neill	March 2007
Export Sale Strategies presentation	Christopher O'Neill	May 2007
Identifying Foreign Strategic Partners	Christopher O'Neill	June 2007
Report on Marketing Plan Training for Zone Management (Phase I), Tuhelj	Matt Connolly	January 2007
Report on Marketing Plan Training for Zone Management, Phase II—Marketing Plans for Three Agencies: Industrial Park Nova Gradiska, Business Centre Donji Miholjac,	Matt Connolly	February 2007

Title	Author	Date
Business Park Bjelovar		
Final Report on Drafting the Revised SME Incentives Law	Abel and Grenac	October 2006
Tour Operator Handbook	Michelle Morgan, Allan Saffery	April 2007
Completion of PD Analysis	Zhivko Alexiev	December 2007
Reports on Craftspeople Needs, Lists of Market Outlets	Vendi Borovic	March 2008
Regulatory Impact Assessment Implementation: Legal and Institutional Framework Assessment and Proposals	Danijela Bozic	June 2007
Enhancing Trade Facilitation and Export Competitiveness through International MAS-Q Recognition	Sani Daher	December 2006
CLIN 2: Results, Lessons Learned, and Best Practices for Tax Reform, Regulatory Reform Guillotine, Quality Standards, and ICT Gap Analysis	Paul Dodds	November 2007
CLIN 2: Assessment of Human Resources for the ICT Industry—Improving Linkages Between Higher Education and Industry	Brendan Gannon	October 2006
Final Report on Handicraft Product Development and Design Workshops	Jane Griffiths	March 2008
Assessment of CLIN 1 Programs and Activities; Report of Improvement of Each Program and Activity	Edward Grosso	March 2007
Report on Skill Development Needs for Tool-Making and Other Metalworking Industries	Edward Grosso	February 2008
Final Report on CEA/Customs Procedure Trainings	Tom Hughman	October 2007
Executive Brief on Regulatory Guillotine	Alan James	November 2006
Report of International Market Research and Market Information Tools (CD-ROM)	Anthony Karzen	June 2006
Adventure Tourism Product Development—Sea Kayak Certification	Anthony Karzen	April 2007
Tourism—Event Management Implementation	William Knight	November 2007
Report and Presentation to USAID on Wood Sector	Milko Krmpotic	September 2007
CLIN 2: Results, Lessons Learned, and Best Practices for Tax Reform, Regulatory Reform Guillotine, Quality Standards, and ICT Gap Analysis	Gary Lazor/Paige Snider/Mary Miller	November 2007
Tourism—Business Development	Matthew Lutkenhouse	September 2005
Final Report on Provision of Compliance Assistance	Salvatore Marranta	August 2007
Destination Management Company Development: Training Manual	Gerald Mitchell	October 2007
Final Report on Croatian Handicrafts; Producer Assessment Forms	Siiri Morley	May 2007
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