

## **Annex I:**

### **SEED Impact Evaluation Case Studies: Linkages**

- 1. Tire and Rubber: Tigar, Serbia and Montenegro**
- 2. Auto Parts Industry: Prevent Auto, Bosnia and Herzegovina**
- 3. Agribusiness: Maxi, Serbia and Montenegro**
- 4. Agribusiness: Tikves Winery, FYR Macedonia**
- 5. Food Processing: Klas, Bosnia and Herzegovina**
- 6. Food and Beverage: Birra Malto, Albania**
- 7. General Manufacturing (metal cookware), Metalac, Serbia and Montenegro**
- 8. General Manufacturing (scrap metal), Makstil, FYR Macedonia**

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Albania, Bosnia and Herzegovina, FYR Macedonia, Serbia and Montenegro

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<b>Industry Area: Tire and Rubber</b>
<b>Project Name:</b> Tigar - Serbia and Montenegro
<b>Salient Feature:</b> Early SEED success and pre-cursor to development of linkages model.
<b>Results:</b> Large company restructuring, spin-off of non-core retail businesses
<b>Client description:</b> Company founded in 1935, privatized in 1991, has 4000 employees and manufactures tires and rubber products. In 2002, revenue was over \$70,000,000
<b>Outputs and Outcomes:</b> Based on experience gained from working with Tigar a.d., Serbia and the region's largest tire manufacturer in the town of Pirot where unemployment was nearing 30%, SEED developed its model for linkages interventions. SEED worked with management to restructure Tigar a.d., the large company formed as a result of a joint venture between the IFC and Michelin, and to spin off non-core business units, which were transformed into new SMEs. Out of the original 80 stores in the retail network, 19 were closed to streamlined operations. Through Tigar Trade, a new enterprise created when non-core businesses were spun off, SEED provided training to retail stores -- a mix of company and independently owned affiliates -- to increase sales, cut costs and grow market share. SEED continued to provide TA to the large company, assisting in implementation of production efficiencies, a staff-incentive plan, and a new management information system. In a community based effort, SEED helped redundant workers with new business ideas, including mini-cattle farms and an herbal initiative, which unfortunately had a low implementation rate due to a lack of funds despite reaching an agreement with USAID for ongoing TA and grant money. SEED also conducted feasibility studies and an assessment of non-core business units, including the footwear division; which despite benefiting from recommendations of a SEED identified industry expert, failed to implement needed measures to improve productivity, including lay-offs of over 200 redundant workers whose productivity is well below the European standards in the footwear industry.
<b>Impact:</b> The large company benefited the most from SEED's interventions. Results to the bottom line will be seen over time. However, stores in the retail chain need more assistance before a marked improvement in performance is possible, though SEED's trainings taught valuable new skills and introduced a new mindset to marketing and accounting and customer service etc. Impact was felt the least by non-core divisions (due to Tigar Trade's failure to change top management), redundant workers, and incipient SMEs who needed access to finance.
<b>Special Concerns:</b> <sup>1</sup> The restructuring of non-core business units recommended in the IEP will be hampered by lack of determination on the part of Tigar management to go through a "change management" process.
<b>Special Concerns:</b> The inability of staff to overcome top management resistance to change in implementing what they have learned in training sessions.
<b>Lessons Learned:</b> Top management should have gone through a "change management" process to appreciate the values of implementing management best practices.
<b>Lessons Learned:</b> Without the right management, projects do not really have a chance of successful implementation of recommendations and potential for future growth.

<sup>1</sup> Special concerns and lessons learned are direct quotes by SEED's BDO and linkages expert extracted from Project Completion Notes in 2002 and 2003.

<b>Industry: Auto Parts</b>
<b>Project Name:</b> Prevent Auto Cluster – Bosnia and Herzegovina
<b>Salient Feature:</b> Highly relevant industry structure for supply chain interventions, with the presence of other donors. Company management failed to commit after lengthy negotiations. SEED tried to partner with GTZ which had committed funds to help the BiH auto cluster.
<b>Results:</b> Direct SME interventions to two automobile parts companies (instead of 8 predicted in the IPD) resulting in one company restructuring and introduction of ISO 9001:2000 to another.
<b>Client description 1:</b> The Prevent Group, with worldwide sales of Euro 1.5 billion provides support to its local subsidiaries, including Prevent BiH, the number one market player comprised of an integrated chain of 10 SMEs, ranging from auto parts manufacturers, assemblers of VW group automobiles, logistics companies and car dealerships, has strong business links to OEM's.
<b>Client description 2:</b> Pobjeda, located in NW Bosnia, established in 1954 and formerly state-owned, has 309 employees. The company produces components for heavy goods vehicles, including water pumps, gear boxes and transmissions.
<b>Client description 3:</b> FAD, located in NW Bosnia, privately owned by Prevent, manufactures brake discs and steering gears for passenger cars. The company employs 123 people.
<b>Importance of Industry:</b> The Auto industry in BiH represents high export potential and plays an important role in the economic development of the country. Historically during the '80s, auto industry SMEs were primary suppliers to the VW auto factory TAS in Sarajevo (BiH) and the ZASTAVA company in Kragujevac (Serbia). As a result of the Balkans war, however, and a change in borders, traditional manufacturing links disappeared almost completely, leaving auto parts companies struggling to find markets. Estimated annual sales in the auto sector in BiH of approx. €250 M have significant potential to double within the next 5 years.
<b>Outputs and Outcomes:</b> Quality standards, operational restructuring, and a feasibility plan to introduce a new management information system were delivered to Pobjeda and FAD. The intervention with Pobjeda lasting from March 1, 2005 – April 30, 2005 was highly efficient.
<b>Impact:</b> Even if SMEs in the supply chain did not benefit directly from SEED's interventions, implementation of quality standards and a review of raw materials sourcing as part of company restructuring will eventually affect surrounding SMEs. There is an important demonstration affect as other automobile parts companies observe the benefits of these interventions. The local community where the two companies are located will benefit as well, once improved export earnings, expected in the near term, are achieved; though technologically driven solutions will initially lead to strategic layoffs as more efficient production processes are implemented.
<b>Additional Comments:</b> Sefket Turalic, the quality control manager, commented in the interview that the company had planned to implement quality standards; however, without SEED's input and recommended ISO consultant from Slovenia, the process would have gone much slower.

<p><b>BEE Issue:</b> The interview with the GM revealed that customs tariffs are an important obstacle to export and the overall strategy for the development of the Federation is a critical issue.</p>
<p><b>Future Opportunities:</b><sup>2</sup> The company is in the process of certification according to industry specific quality standards TS 16949. That will support company's competitiveness on markets. The company may require additional capacity building programs in various management areas.</p>
<p><b>Lessons Learned:</b> Highly technical and industry specific intervention is becoming more and more required in the market.</p>

<p><b>Industry: Agribusiness/Supermarkets</b></p>
<p><b>Project Name:</b> Maxi – Serbia and Montenegro</p>
<p><b>Salient Feature:</b> Agribusiness is an important sector with an integrated supply chain. This was a successful large company intervention which needed more time to access the SMEs directly.</p>
<p><b>Results:</b> Completion of the initial diagnostic phase, including large company recommendations.</p>
<p><b>Client description:</b> Maxi, a privately owned company by Delta Holding, in the supermarket industry was in the midst of rapid expansion beyond Belgrade to other major cities.</p>
<p><b>Outputs and Outcomes:</b> SEED's "Supply Chain Assessment: Fresh Products and Fruits and Vegetables", delivered in January 2005, offered meaningful suggestions for improving financial management, cold storage, stocking of fresh produce, supply chain management and various quality standard improvements such as the introduction of HACCP. The focus on the large company intervention resulted in rapid implementation of changes in warehouse and inventory management, in-stores displays of fresh fruits and vegetables, competitive pricing and adoption of best industry standards for food quality. Despite needing to decentralize its distribution centers and to provide for the transport of locally grown fresh goods, management's attention was on expanding retail coverage through buying up supermarkets.</p>
<p><b>Obstacles:</b> In order to broaden Maxi's network of agricultural suppliers SEED tried to link farmers involved in a USAID project in the south of the country, however, this effort has yet to bare fruit. Delivery of training and consulting services to agricultural suppliers was difficult to organize. The project ran out of time before interventions affecting agricultural SMEs in the supply chain could be pursued. Based on an earlier intervention with Sunce farmers, the lack of access to small credit (not addressed in SEED's linkages) was an obstacle to growers / suppliers.</p>
<p><b>Impact:</b> Maxi, the large company, benefited from this intervention and implementation of recommendations will be sustainable. However, there was no direct benefit to local SMEs – suppliers of fresh fruits and vegetables (34 individual farmers and 10 SMEs) and fresh meat precuts (10 SMEs) that participate in Maxi's supply chain, stated in project documents as intended beneficiaries, though many were interviewed to prepare the IEP.</p>

<sup>2</sup> Comments in the FO and LL sections were written by SEED's BDO in the Project Completion Note, June 2005

<p><b>Future Opportunities:</b><sup>3</sup> 1. Logistics Study, 2. Supply Base Improvement Study 3. Packaging and Handling 4. Development 5. Consumer research 6. Quality Assessment Procedures</p>
<p><b>Future Opportunities:</b> There are numerous opportunities for additional work as this industry (retail supermarket chains) is in one of the initial development phases. Also MAXI has proved to be an excellent counterpart in assisting their current fresh produce (fresh fruits and vegetables and fresh meat) suppliers.</p>
<p><b>Lessons Learned:</b> Finding an appropriate and genuinely interested key holder is of utmost importance for a successful linkages and any other program. As MAXI is a very professional organization that understands the importance of joining efforts to improve the entire supply chain operations and profitability of all stakeholders this engagement was an extremely satisfying experience.</p>

<p><b>Industry: Agribusiness</b></p>
<p><b>Project Name:</b> Tikves – FYR Macedonia</p>
<p><b>Salient Feature:</b> Potential to improve sector competitiveness and develop new SMEs.</p>
<p><b>Results:</b> Improvement in the logistics of delivery of grapes by farmers to the winery during harvest and assessment of new business ideas for redundant workers.</p>
<p><b>Client description:</b> Tikves, with an annual turnover of Euro 17 million in 2003 and potential for Euro 25 million in annual revenues if there is a good harvest, was recently privatized. The company has a productive capacity of 55 million liters of wine, the largest in Southeast Europe. Grapes used for producing wine originate in the Tikves area and are grown by local vintners. The company employs 400 people and has 20,000 dependent seasonal workers and grape growers.</p>
<p><b>Outputs and Outcomes:</b> The rationale for the linkages intervention was to help the company improve its competitiveness and efficiency in production by 1) providing technical assistance to individual grape growers to improve farming practices and 2) helping the large company with the logistics of the grape delivery process. Having met supply chain enhancement objectives, SEED provided assistance to Tikves in redundancy management; a priority for streamlining operations and improving profitability. Though SEED delivered a seminar on management and governance, improvements in capacity utilization and human resource management, management resisted SEED's recommendations. Training in entrepreneurship to redundant workers resulted in 50 new business ideas, 10 of which were selected for full feasibility study by local consultants.</p>
<p><b>Obstacles:</b> The project with Tikves fell short of objectives for two reasons: 1) company management's gradual implementation of administrative restructuring (i.e. undertaking necessary redundancies) reduced efficiency and 2) the second study commissioned by the company (for which a consultant recommended by Tikves had been employed) failed to arrive. Though SEED staff completed the report, valuable time was lost. Also, over the short life of this project, some 10 months, there were three SEED BDOs. The first left to join the IFC's Global Leadership Program; the second, who was quickly pulled in was already occupied with Makstil linkages; and the third, was a new hire just months before SEED closed.</p>

<sup>3</sup> Comments in the FO and LL sections were written by SEED's BDO in the Project Completion Note June 2005

<b>Special Comment:</b> Tikves' coordinator for the project, who had known SEED when he worked in FYRM's Ministry of Economy, was unaware when he first joined the company that they had already begun to implement HACCP with technical assistance from the EBRD, which also provided financing. SEED had begun to work on HACCP as well.
<b>Impact:</b> Improvements in the logistics of grape delivery for processing, as well as an appropriate pricing structure (grapes are now weighed both on weight and sugar content), lead to better practices which will improve the quality of the wine and increase sector competitiveness.
<b>Special Concerns:</b> <sup>4</sup> Lack of a commitment from the company to implement recommendations (re. redundancy management) by SEED
<b>Lessons Learned:</b> It (redundancy management) is a very sensitive issue, and should be addressed and thought of carefully.

<b>Industry: Food Processing</b>
<b>Project Name:</b> Klas – Bosnia and Herzegovina
<b>Salient Feature:</b> A food processing company wanting to create a retail store network.
<b>Results:</b> Delivery of company assessment, development of a retail store plan and trainings on best practices to management /employees may eventually lead to effective spin off of 150 stores.
<b>Client description:</b> Klas, among the largest food processing companies in the W Balkans (bakery, flour products, agriculture, trade), had turnover of more than US\$65 million.
<b>Outputs and Outcomes:</b> SEED's intervention aimed at 1) enhancing the retail operations and reorganizing the distribution system, and 2) integrating Klas' operations with its supply chain. SEED provided a strategic assessment "Klas Retail Division Development Plan" June 2004, which explained a retail store model. SEED delivered trainings to Klas' retail division management team, regional instructors and shopkeepers on how to open new stores in different geographic areas. There was a pilot to test a business model for selected retail outlets and a detailed analysis of financial performance and marketing of Klas' outlet stores was done.
<b>Obstacles:</b> The timing on this intervention was unfortunate. First, Klas' management had unwisely spent its capital in FY04 on opening retail stores without first creating a strategic plan. Only after their strategy had failed did Klas ask for SEED's assistance. Due to a lack of funding, it was not possible to introduce a new plan when the company was in the process of writing off losses from store closings. Second, Klas was undergoing a change in management due to a buy-out. Retail was not a core company function. Management was "old style" and resisted change.
<b>Impact:</b> Trainings and consulting intervention improved management mindset. However, since the specific linkages objective was not achieved; expected impact has yet to occur.
<b>Special Comments:</b> One of SEED's former employees, who became Klas' CFO and a Member of its Board, said that despite the fact Klas had not implemented SEED's plan for retail stores, he expected Klas to institute SEED's recommendation for the retail store network in the future. Klas "will use the knowledge gained from working with SEED in the process of new store openings". He also said that despite never having used

<sup>4</sup> Comments in the SC and LL sections were written by SEED's BDO in the Project Completion Note June 2005

consultancy services before, Klas would be more open to working with consultants in the future after SEED's intervention.
<b>Future Opportunities:</b> <sup>5</sup> KLAS' retail operation is a fast growing business unit with high investment needs. SEED can support retail unit growth by providing tailored technical services for retail operations and thru helping Klas to find the best investment options.
<b>Special Concerns:</b> KLAS has to perform change management process within the entire organization in order to support profitable growth for all its business units. However, the company is production oriented and with old style managers this proces can be very slow which can cause problems for retail operation development.
<b>Lessons Learned:</b> Projects related to big companies must be divided into several sub projects in order to improve project implementation. In current organizational structure SEED depends very much on "outside" consulting and outsourcing of specific technical expertise is becoming bottleneck for such a projects.
<b>Lessons Learned:</b> The entire program was scheduled in very short period of time due to some administrative problems that were present at the very beginning of the project. This kind of intervention should be caried out over a longer period of time so participants can try to implement tools in their day to day work.

<b>Industry:</b> <i>Food and Beverage</i>
<b>Project Name:</b> Birra Malto - Albania
<b>Salient Feature:</b> Supply chain intervention based on reorganization of distributors.
<b>Results:</b> BM reorganized its distributors thru implementing a system of urban pre-sellers.
<b>Client description:</b> Birra Malto is the largest brewery in Albania, with 30% market share. The company was privatized in the late 1990s by a consortium of 11 businessmen.
<b>Outputs and Outcomes:</b> The primary objective of this intervention was to improve the distribution operation; consisting of 71 private distributors. A large company assessment was conducted, followed by capacity building trainings in accounting and financial statements, customer service, marketing and distribution and logistics. Having determination that an urban pre-selling distribution system (designed by a SEED consultant) was optimal, SEED delivered training to 25 distributors, including BM's pre-sellers and independent distributors.
<b>Impact:</b> BM now has much better control over the sales and marketing of its product and is on better terms with its distributors. Both employment and sales have increased.
<b>Special Comment:</b> Success with Birra Malto demonstrates that a small discrete linkages intervention can be effective if it is essential to the core business. Both, the large company and the SME distributors benefited and the impact is sustainable. However, this activity had limited reach; affecting only a small number of SMEs, each of which employs a few people. There may be an important demonstration effect once other companies observe BM's results. If SEED continued to work with Birra Malto, corporate governance issues need to be addressed.
<b>Future Opportunities:</b> <sup>6</sup> Continue work on designing the pre-selling system in beer distribution, the main recommendation given during the first intervention. Possibilities in training distributors on different topics such as: Inventory Management, selling and

<sup>5</sup> Comments in the FO, SC and LL sections were from comments by SEED's BDO in the PCN June 2005

<sup>6</sup> Comments in the FO section by one of SEED's BDA's in the July 2004 PCN led to the main intervention.

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<b>Industry: General Manufacturing (metal cookware)</b>
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<b>Project Name:</b> Metalac – Serbia and Montenegro
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<b>Salient Feature:</b> Potential spin off of company-owned distributor network
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<b>Results:</b> IEP delivered focusing on a plan to develop the retail distribution network.
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<b>Client description:</b> Metalac, the largest cookware producer in S & M, established in the late 1950s as a state-owned enterprise, was privatized in the 1990s.
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<b>Outputs and Outcomes:</b> Due to lack of control over its distribution network (its own network of 35 outlets, 40 large wholesalers and 540 small wholesalers throughout S & M), the company wanted SEED to develop a plan for a company distribution network, including an assessment of the sustainability of the company-owned retail network, operations of the company's major customers. SEED delivered an IEP and provided a redundancy management seminar.
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<b>Impact:</b> The large company benefited from a retail consulting intervention.
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<b>Special Comment:</b> Metalac benefited from subsidized TA without introducing supply chain interventions.
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<b>Special Concerns:</b> <sup>7</sup> Metalac management is determined to implement a set of recommendations that would ensure future growth in the domestic market. However, unless the company transforms to a market-, customer-oriented business, it will be hard to sustain the leading position in the domestic market.
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<b>Industry: General Manufacturing (scrap metal)</b>
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<b>Project Name:</b> Makstil Linkages
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<b>Salient Feature:</b> SEED's most successful linkages projects to date.
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<b>Results:</b> Optimization of the supply chain led to a sustainable impact to the large company, SMEs in the supply chain and individual scrap metal collectors from a disadvantage social group. There was an economic, social and environmental impact. Coordinated TA to the Assoc. of Scrap Metal Recyclers led to the change in an environmental law. SEED's BDO also helped SMEs to gain access to finance for leasing of large scrap metal crushing equipment, and micro finance to individual collectors for buying mopeds or other small vehicles for transport of metal.
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<b>Client description:</b> Makstil is a steel company responsible for 3% of FYR Macedonia's GDP. The company, which utilizes 300,000 tons of scrap steel in its production, has an exceptionally broad stakeholder base. It relies on its SME suppliers - 10 recycling companies with a network of more than 50 small recyclers, and about 5,000 individual collectors to source raw material.
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<b>Outputs and Outcomes:</b> As a result of SEED's multiple integrated interventions including an industry assessment and recommendations on best practices, outcomes ranged from supply chain optimization to environmental conservation. To develop capacity of the value chain SEED provided training to the large company and to SME recyclers, who SEED also assisted with access to finance. Through extensive work with the Assoc. of Secondary Raw Materials, including the launch of a monthly newsletter and
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<sup>7</sup> Comments in the SC section were written by SEED's BDO's in September 2004 PMR.

a recycling awareness campaign, there was a new environmental law. Assistance in developing a membership database and website to share price and market information aided the association in becoming a member of the Bureau of International Recyclers. During the first three months of 2005, SEED helped to promote scrap yards and presented a Roma collectors' needs assessment report to the government and the media. Training on access to finance covering micro-credits, loans, leasing and factoring was delivered to association members; while Makstil management received training on Globalization and Industry Trends, Financial and Cost Management and Human Resource Management.

**Impact:** Benefits extended beyond the large company and SME scrap metal suppliers to small collectors and Roma whose standard of living was improved. Environmental protection resulted.

**Special Comment:** Makstil operated within an industry structure well suited to linkages.

**Follow on Activity:** Makstil linkages is replicable and has a strong demonstration effect. Under PEP SE, "Recycling Linkages" in SE Europe, a 3-year Austrian government supported linkages project will be undertaken in all four countries. The new "recycling project", which aims to address the needs of over 500 SMEs, about 32,000 individual collectors (mostly Roma) and 28 mills in the recycling value chain, will cover paper, plastic, glass, batteries and tires in addition to metal, with an annual turnover of \$156 mn. TA and access to finance will be provided to 400 SMEs and to over 15,000 Roma collectors through the SMEs. There are also plans for assistance in implementation of environmental laws regulating the industry through government assistance.

**Lessons Learned:**<sup>8</sup> 1) Having the large company as a dedicated partner and sponsor paved the way to work with a large SME pool and individual collectors. 2) The project would have a larger impact if it can combine economic, social and environmental issues. 3) The biggest challenge is in building trust and partnership with the client, the large company and the scrap businesses represented by their trade association. The critical issue is the capacity, skills and the mind set of management in the large company and the trade association.

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<sup>8</sup> LL comments by SEED's BDO in June 2005 PCN for Makstil SCN Linkages Assessment conducted June 2004