

Small Business Initiative

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# Blue Ribbon Croatia

## Small Business Impact Fund

1 January – 31 December 2018



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## 1 Description

<b>Title of the Programme</b>	Blue Ribbon Croatia
<b>Programme value</b>	EUR 299,500
<b>Funded by</b>	Small Business Impact Fund (SBIF)
<b>Start date and end date of the reporting period</b>	January 2018 – December 2018
<b>Target countries</b>	Croatia
<b>Final beneficiaries / target group</b>	SMEs

## 2 Executive Summary

Under the Small Business Impact Fund (SBIF), the Blue Ribbon initiative was launched as a pilot in Croatia in 2016. In essence, the Blue Ribbon offers a combination of the Bank's advisory, technical assistance and financing to a carefully identified and selected group of SMEs on a longer term basis in order to support their growth potential to the fullest.

Through the Blue Ribbon Croatia pilot, EUR 299,500 has been allocated from the SBIF to support two carefully selected and promising SMEs amongst eligible clients: Gumiimpex GRP, a producer of rubber products; and Rasco Ltd., a producer of road maintenance equipment. Gumiimpex GRP signed the Blue Ribbon Invitation letter and was formally accepted to the Programme on 15 March 2017, while Rasco Ltd. signed its Invitation letter on 22 December 2017.

The current report provides an update on the progress of Blue Ribbon Croatia for the reporting period covering 1 January 2018 - 31 December 2018, during which one local consultancy project was successfully completed, one international advisory project started and negotiations about the potential financing were active and frequent with both Blue ribbon clients.

## 3 Economic and business environment

SMEs form the backbone of the economy in Croatia, accounting for 99.7% of enterprises, 71.1% of employment, and for 59.2% value added. However, SMEs continue to operate in a business climate characterised by medium transition challenges with regards to accessing financing and business sophistication. Although Croatia's economy continued to expand in 2018, a prolonged recession following the financial crisis highlighted structural vulnerabilities and institutional deficiencies which hampered the competitiveness of the corporate sector, in particular SMEs—companies that often lack the right skills mix and modern technologies to compete in the wider EU market.

One of the strategic priorities of the EBRD's Strategy for Croatia 2017-2020 focuses on supporting private sector competitiveness through fostering innovation, operational and resource efficiency, as well as improvement of the business climate and economic inclusion. Moreover, the Croatian Strategy for Entrepreneurship Development 2013-2020 sets the following strategic goals: improving economic success of SMEs, increasing access to finance, entrepreneurship promotion, improving entrepreneurial skills and improving business environment. In this regard, the Blue Ribbon Croatia programme is providing targeted and dedicated support to leading SMEs to ensure their sustained success and wider demonstration impact for systemic strengthening of the SME sector.

## 4 Activities and results during the reporting period

During the reporting period, the EBRD continued deepening cooperation with both Blue Ribbon clients, Rasco Ltd and Gumiimpex GRP. Descriptions of the companies can be found below:

### ***Gumiimpex GRP (Invitation letter for Blue Ribbon Programme signed on 15 March 2017)***

Gumiimpex GRP was founded in 1970 as a small family run operation specialised in tire repair in Varazdin, north western Croatia. It expanded with additional activities in the production of rubber products and re-treaded tires for industrial vehicles. In 2005, Gumiimpex GRP expanded its business to the recycling of tires and invested in a new recycling industrial facility. Notably, 45% of the company's ownership is female.

The core business of the company is the production and sales of tires, which the company is keen to grow further. The sales segment of the company is mainly concentrated on the distribution of car tires, as well as the distribution of truck, tractor and large vehicles tires, where the company has 45% market share in the latter. Gumiimpex GRP has a Michelin and Goodyear license for tire retreading. Their current buyers are companies in metal, auto and other industries in the EU. During 2018 the company recycled 27,000 tons of old tires, of which they covered 100% of the Croatian market of old tires, 70% of Slovenian and 10% of Hungarian. In the same year Gumiimpex GRP sold 17,800 tons of rubber granulate which is result of recycling and around 3,000 tons were sold as final product such as flooring for stables and outdoor playgrounds).

### ***Rasco Ltd. (Invitation letter for Blue Ribbon Programme signed 22 December 2017)***

Rasco d.o.o. is one of the leading European manufacturers of professional road service and maintenance technology. Founded in 1990, the company manufactures and markets snow ploughs, salt spreaders, crane mowers and associated vehicle upgrades. 80% of revenues come from exports through both own companies and distribution partners across 30+ countries.

Rasco is a family run business owned jointly by two families. Since its establishment, the company has enjoyed considerable growth and remained family run, with one of the founders stepping down as CEO in 2015 and being replaced by his son, previously the Chief Operations Officer. Apart from the new CEO, new directors of key departments were named, thereby finishing the process of the leadership transition.

The company has been highly innovative, developing in 2012 so called MUVO program (multi use vehicle for the cleaning of roads), with sales starting in 2013. In 2015, Rasco launched a 50/50 joint venture as a step to accelerate the development of this program on international markets and increase vehicle numbers. To avoid the seasonality of sales, dependence on weather conditions, etc. Rasco set a strategy to diversify its product offer through the development of the summer program, as well as investments into a new production facility and capacities.

Rasco was selected for the EBRD Blue Ribbon programme due to its strong growth, leading market position in Europe (as well as in new markets such as North America and Central and North Asia) and competitive advantage, state of the art production, good management structure with capable personnel and goals for further expansion of the product programme and investments.

### 4.1 Small business investment

Throughout the reporting period, the EBRD has been working on developing investment opportunities for both Blue Ribbon clients, Gumiimpex and Rasco, which have been performing well financially.

Based on the latest available financial report for the complete year, in 2017, **Gumiimpex GRP** saw a marked growth in its revenues: turnover was EUR 52m or a 6.4% increase comparing to the previous year. The number of employees reached 363, showing a 5.8% increase from the previous year. Gumiimpex is expected to have a further 6% increase in revenues and 10% increase in number of employees, which will be confirmed once 2018 financial data is consolidated.

With this growth, the Gumiimpex reached a stage in its development (size, complexity of the business model) where the management felt the business was overgrowing its management capacity. As a result, the management decided to pursue the options of either selling the company or initiating a complete re-organisation including the introduction of more professional management. In the second half of 2018, they initiated the sale in order to test the interest on the market.

The EBRD had several follow-up meetings with Gumiimpex's management to discuss the progress of the sale and to consider areas of support. Two private equity funds approached Mr. Damir Kiric, CEO of Gumiimpex, expressing interest in the acquisition and submitting offers respectively. Discussions are currently in their final stages of negotiation. The CEO expects that the owners will make a decision on the company's future by the end of February 2019: if the proposed terms would not be considered favourable by Gumiimpex management and the company is not sold, the owners will initiate a reorganisation of the company. In such case, they would need substantial know-how support. The EBRD team agreed with the CEO to continue discussions on further advisory projects and financing in Q1 2019 in this regard.

As for **Rasco Ltd.**, its production is currently organised across several sites within a 1.5 km radius, as a consequence of the company's rapid expansion. In 2018, Rasco performed very well, with 18% increase in revenues and around 50% net profit. Direct investment through the EBRD's Direct Financing Framework (DFF) under the Blue Ribbon initiative is being planned in order to support a new production facility to replace the smaller buildings, and improve production processes and capacities, consolidating and streamlining the Company's overall production efficiency. Discussions regarding direct financing through the DFF will continue in Q1 2019 and a meeting with the EBRD team has been scheduled for March 2019.

## 4.2 Small business advice

### Advisory projects

During the reporting period, the first advisory project with a local consultant, initiated in the previous reporting period with **Gumiimpex GRP** was completed and disbursed. This advisory project covered the implementation of a specific automotive quality industry standard, International Automotive Task Force (IATF) 16949:2016. The standard was successfully introduced and in October, 2018, Gumiimpex GRP was certified for IATF 16949:2016 by the SGS certification body. It is expected that the implementation of this certification will help to increase the competitiveness of the company on the market. The project's evaluation is scheduled for June 2019 at which point all impact data associated with this local consultancy intervention will be gathered and analysed.

**Rasco Ltd.** started an international advisory project in December 2018. A specialised Sector Team Coordinator was assigned to the project and following his communication with Ivan Franicevic, Rasco's CEO, the first industry adviser was selected and engaged to support the company in the area of HR management (which the new CEO who took over in 2015 sees as an area that needs improvement). The first visit of the industry adviser is scheduled for March 2019. At that point, a detailed Project Work plan will be developed and all details defined.

### Cost share

All advisory projects have a cost share component in order to ensure the sustainability of the intervention and retain beneficiary companies' commitment to and ownership of the projects. The cost share is defined in the cost share matrix which is set in Operational Plan (OP) for Croatia for the current year.

The total project cost for the first local advisory project with Gumiimpex GRP was EUR 18,250 (VAT included) of which Gumiimpex GRP covered 55% of the cost.

The total project cost for the international advisory project for Rasco is EUR 40,000 and the client's cost-share participation defined by the OP 2018 is 18%.

Table 1: Base cost share matrix for 2018

Size	Business advice provided by local consultants	Industry expertise provided by international advisers
Micro (<10 employees and <€2m turnover)	40%	12%
Small (<50 employees and <€10m turnover)	55%	16%
Medium (<250/500* and <€20m turnover)	55%	18%
Medium+ (<250/500** and <€50m turnover)	55%	22%

## 5 Lessons learned

Concerning the two Blue Ribbon clients, project implementation started in 2017 and continued in 2018. The reason no new advisory projects were initiated with Gumiimpex GRP in 2018 was due to Gumiimpex management's focus shifting towards activities related to the possible sale of the company. Consequently, all other advisory and investment plans were put on hold.

Rasco's slower start with advisory projects occurred due to their internal capacity issues. In July, 2018 the company's CEO and the EBRD discussed next steps and ways to intensify cooperation. It was agreed to appoint the CFO, Ms. Ruzica Petricec Fabijanec, as a first point of contact and a coordinator for Blue Ribbon activities and cooperation with the EBRD. Following her appointment, she has helped facilitate the relationship between Rasco and the EBRD and as a result, the first international advisory project started in December 2018.

More findings and lessons learned will be reported following more intensive cooperation on advisory projects and financing needs discussions, which are scheduled with both clients for early 2019. Moreover, advisory project evaluations will begin to take place in 2019.

## 6 Communications and donor visibility

The Bank works to ensure maximum donor visibility is achieved, including through press releases and on social media. Every effort is made on the ground to ensure clients are fully aware of donor funded support from the SBIF. Across the entire Bank, the SBI team is particularly known for its attention to innovative visibility and outreach initiatives in relation to donor support.

In December 2018, the EBRD and European Investment Advisory Hub (EIAH) held a conference, launching a new advisory programme for SMEs in Croatia funded by the EIAH. Ivan Franicevic, CEO of Rasco participated in the panel discussion "Advisory – key for business development", sharing his positive advisory projects implementation experience and respective benefits for the business. He spoke highly about the know-how which Rasco received from a senior industry adviser during its international advisory projects implemented in 2015, prior to the creation of the Blue Ribbon programme. The project improved internal capacity of the manufacturing, assembly and customer support teams. He also talked about benefits of a local advisory project in 2011 which resulted with opening new foreign markets where they export even today. Mr.Franicevic highlighted the Blue Ribbon initiative as an innovative engagement with the Bank and mentioned that the new international advisory project concerning HR matters is important for the company's further development. The event had strong media coverage – business portals, daily newspapers and two national TV stations (HRT and Nova TV).



*Ivan Franicevic, CEO, Rasco presenting benefits of implementing advisory projects with support of ASB.*

## **7 Conclusion and next steps**

The implementation of the Blue Ribbon initiative in Croatia is progressing well and is on track with regards to planned number of clients accepted to the Programme. The EBRD will continue implementing the Programme as planned and will combine different advisory tools depending on the client's needs, aiming to develop capacity and investment capabilities of the both clients and get them to the CRM stage within a maximum of three years since formal acceptance to the Programme.

Following the meetings scheduled with Gumiimpex GRP in February 2019 and Rasco in March 2019, further progress related to advisory projects and financing will be discussed and work plans updated.

On visibility, Rasco Ltd. and Gumiimpex GRP became participants in a network of all Blue Ribbon companies across our countries of operations, for knowledge sharing and building on the demonstration effect of the Programme. Once the Programme is fully underway and projects mature, a spotlight will be put on the companies' progress, e.g. through case studies and other marketing materials, highlighting the impact of the Blue Ribbon Programme.

Together with other Blue Ribbon clients across all countries of operation, both Blue Ribbon clients will be invited to the EBRD Annual meeting held in Sarajevo in May 2019.

## 8 Annexes

### 8.1 Results framework – progress to date

Specific objective	Outputs	Target	Result (31 Dec 2018)
Strengthened role of SMEs in economy through enhancing their competitiveness and innovation	Number of SMEs supported	2	2
	Number of advisory projects conducted through Blue Ribbon programme	To be monitored	2
	Number of SMEs financed by EBRD directly or through co-financing arrangements	2	0
	Volume of SME financing by EBRD directly or through co-financing arrangements	x	to be determined
	<b>Outcomes</b>		
	% of enterprises receiving advice achieving increases in turnover one year after completion of advisory projects	100	to be determined at evaluation stage (2019)
	Number of jobs created in SMEs supported with EBRD business advice within 1 year of project completion	to be monitored	to be determined at evaluation stage (2019)
	EBITDA growth (absolute values and in %)	to be monitored	to be determined at evaluation stage (2019)
	Total contribution to project costs by assisted SMEs	to be monitored	EUR 18,880
	Evidence of innovation (in product, process, marketing and organisation) by SMEs supported through finance or business advice by EBRD	to be monitored	n/a
Evidence of enhanced corporate governance practices by SMEs supported through finance or business advice by EBRD	to be monitored	n/a	