STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1. Désirée Number: 2002/000-282.04.09

1.2. Title: Continuation of Supplier Linkage and Upgrading programme

1.3. Sector: Internal Market and Economic Criteria

1.4. Location: Czech Republic

2. Objectives

2.1. Overall objective

- Ability to take on the obligations of membership including adherence to the aims of political economic and monetary union.
- To approach ECS criteria in line with the national Pre-Accession plan.

2.2. Project purpose

To improve the competitiveness of the Czech Republic by rolling out to key economic sectors and geographical groupings of companies the skills and techniques developed in local sourcing by the pilot programme (Phase 1) undertaken in the electronics sector. It will secure a strong supplier base for Multi National companies (MNCs) established in the country by ensuring within local suppliers the standards required by foreign investors and deepen the relationship between CzechInvest and those MNCs. The project will also act as a bridge to structural funding by continuing to sustain those companies assisted under the pilot to the point where their own programmes of self-improvement carry their own momentum and by developing a core team of Czech mentors to support local suppliers to foreign companies.

2.3. Accession Partnership and NPAA priority

This twinning and technical assistance project addresses an AP priority and aims to boost the capacity of Czech Small-and Medium-sized Enterprises (SMEs) to produce to standards required by foreign manufacturers.

AP 2001:
2.3.1. To promote the competitiveness of the private sector and particularly SMEs

2.3.2. Economic and social cohesion
- To help reduce the GDP per capita gap with EU member states

NPAA 2001:
The NPAA cites the need to complete key structural changes to industry stemming from the transformation process including the need to substantially increase work productivity in industry and the quality and efficiency of production in order to bring performance indicators closer to the EU average.

Clearly this goal would be effectively enhanced by increasing the ability of local firms to meet the world class standards demanded by MNC and thereby becoming their suppliers thus decreasing imports and increasing the competitiveness of the Czech Republic.

2.4. Contribution to National Development Plan

The national priorities under the NDP specifically target the increase in industrial investment particularly direct foreign investment. The plan also promotes initiatives to develop the transfer of technologies and processes in the industrial production base including improvements in quality systems to increases competitiveness. The plan equally supports the development and stability of small and especially medium sized enterprises focusing on support for advisory services.

The role of Supply Development programmes is critical for the achievement of the above by increasing the overall competitiveness of the firms involved in the programme who are in the main the medium sized firms with growth potential that provide the power house for sustained employment in the economy.

2.5. Cross Border Impact: N/A
3. Description

3.1 Background and justification

The Czech Republic has had great success in attracting foreign direct investment (FDI), which is also critical to increase the competitiveness of Czech firms. CzechInvest (The Inward Investment Agency of the Czech Republic) started a pilot (Phase 1) supplier linkage and upgrading programme in 1999 specifically designed to elevate Czech suppliers to the standards required by foreign manufacturers. The electronics sector was chosen for this pilot because it is an area that has been very successfully targeted by the Czech Republic for FDI and also for the diversity of suppliers contained within the industry. This project will build directly on this work.

The methods chosen for the pilot and to be rolled out in phase II of this programme are based on the application of the European Foundation for Quality Management (EFQM) model of company assessment and to a timetable advocated in a report by the Foreign Investment Advisory Service (a joint service by the International Finance Corporation and the World Bank) a copy of which will be made available on request to those interested in receiving further background information.

The approach advocated in the pilot has worked well and has also been well received by those companies taking part in the programme. Whilst the electronics sector was readily identified for the pilot those sectors to be targeted by phase II will be identified with the assistance of a feasibility study to identify competitive regional or industry groupings in North Moravia and to define the manner in which they can best be supported. This is because companies established in the electronics sector were predominantly located in Moravia and East Bohemia, notably Zlín-Rožnov pod Radhoštěm and Lanškroun, which are not generally areas considered to have been significantly affected by Industrail re-structuring. Greater efforts will therefore be made in the second phase to identify firms from within priority areas of industrial restructurung.

This will be particularly relevant to the identification of industrial groupings of suppliers i.e groups of companies who's inter-relationships both actual and potential enhance their competitiveness, which will be developed under this programme.

It is also essential in following the EFQM model that foreign manufacturers established in the Czech Republic also take an active part in the development of the programme. To date this has mainly been achieved through the establishment of a forum where top management within the FDI's facilities in the Czech Republic hold regular discussions with CzechInvest and senior Ministry of Industry and Trade officials to ensure their buy in to the programme and the creation of a network of sophisticated component suppliers to in the Czech Republic. In addition work has commenced on establishing an aftercare sense a rapport between CzechInvest and MNCs. It is planned that these activities will continue and develop as the project progresses.

The pilot programme has predominantly used EU experts to train companies. Each company has also been assigned an EU mentor who's role is to ensure that the Czech company receives the appropriate training and support relevant to its needs and that the advice and guidance provided is implemented. Above all these mentors act as an independent source of advice for companies using their rounded business skills to guide the company forward. Under phase II of the programme CzechInvest will be seeking to transfer theses mentoring skills to a core team of Czech mentors who will be identified and trained under the programme.

The pilot has also supported the upgrading of the supplier department within CzechInvest and the development of an authenticated database of suppliers in electrotechnical sector for the organisation. This work will also be taken forward under phase II with the additional firms now entering the programme being added to the database whilst the information stored on existing firms in the pilot programme is reviewed and updated.

The more focused approach to business support demonstrated by this project will be communicated to other Czech Business Support agencies through a series of workshops or road shows. This is to ensure that there is the widest possible understanding by business support facilitators operating in the Czech Republic of the standards required by companies achieving world-class standards.

3.2 Linked activities

The project builds on the outputs of pilot project CZ9902, by applying the lessons learned and experience gained for the electronics sector in this regard to five additional sectors of Czech manufacturing industry, using European Foundation for Quality Management (EFQM) methodology. The five additional sectors should be selected by means of a separate project funded under the Phare CZ9916 Project Preparation Facility.
Phase I of the supplier development programme to develop companies in the electronics sector was supported through a twinning contract CZ 99 OT 03 and a service contract to carry out the related business reviews CZ9902. 01. 02/001.
A proposal for the development of Industrial groupings in North Moravia has been accepted for EU Phare funding. Groupings identified from this study will be considered for assistance under this programme.

3.3 Results

Part 1 - Upgrading of Suppliers
Measurable increase in the use and value of domestically produced components by multi-national companies established in the Czech Republic
Increased use and value of domestically produced components by MNCs established in the CR by rolling out to the major targeted sectors for inward investment the skills and techniques developed under the pilot programme for domestic suppliers in the electronic sector.
Increased number of Czech companies successfully competing for global contracts from foreign manufacturers.

Part 2 - Selection of Suppliers
The selection of companies to benefit from this project, the establishment (upgrading of a verifiable supplier database, the provision of initial business reviews, the design of short-term low cost improvement plans and second business reviews, self-help training and development plans for the sectors concerned, a core body of trained mentor supervisors) monitors so as to allow the outputs to be sustainable, and the establishment of a comprehensive after-care programme.

3.4 Activities

Part 1 - Twinning (1.5 M €) - Upgrading of Suppliers
- Roll out of the supplier development programme to other industrial sectors using overall methodology (recommended in the FIAS Report) and pioneered in the electronics sector pilot programme (Phase 1).
- Roll out of the verifiable supplier database
- Training of mentor supervisors/monitors within CzechInvest staff
- Creation of a network of Czech mentors to take on the role currently carried out by EU experts under the pilot phase I.
- Guidance to sustain the development of companies currently in the Phase I to ensure their programmes of continuous improvement will become self-sustainable.
- Work with identified industrial groupings of Czech companies that can act as MNC suppliers, i.e. groups of industries and companies whose inter-relationship actual or potential enhances their competitiveness, to develop self-help and economic co-operation networks.
- Roll out of an aftercare programme by CzechInvest for MNCs operating in the CR.

Twinning Covenant will include: minimum of 2 long-term PAAs for 21 m/m plus up to 300 m/d of short term expertise

Key experience requirements of PAAs and STEs are:
- Dealing with the senior management of MNCs, both in respect of local sourcing requirements, and the broader dialogue and support necessary for implementing “aftercare” programmes
- Working with SMEs on a broad business development basis, carrying out initial business reviews, and providing advice and consultancy to such companies, on a group or individual basis

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1 Whilst the twinning and service contracts are separate elements of the project both are interdependent. The consultants carrying out the service contract will therefore have to ensure a close working arrangement with CzechInvest the two PAAs and their short term experts with a seamless transfer between the business review and training and development phases of the twinning contract,
2 Mentors can also be described as Business Counsellors or independent advisors to companies who use their well rounded business experience to identify and facilitate the provision of the most suitable targeted support for companies; check the suitability of the service provided and then assist/advice the firm to ensure appropriate implementation
- A broadly based understanding of business, ideally with some direct business experience (with the latter being a key requirement amongst the team of STEs to ensure credibility with the SMEs participating in the programme)
- Knowledge of MNC supplier assessment procedures, and of methodologies for consistently evaluating and benchmarking companies, such as and in particular EFQM
- Understanding of EU Structural Funds, both generally and in relation to business support measure
- Knowledge of cluster development approach, and wider economic policies required to effectively develop strong indigenous sectors alongside MNC inward investment. Experience of working with various agencies to deliver such policies.
- And additionally for PAAs, experience of running similar programmes in inward investment or regional development agencies, or from Government Departments

Part 2 – Technical Assistance (0.5 M €) - Selection of Suppliers
- Implementation of a service contract to include 2 sets of business reviews, preparation of low cost short-term improvement plans and the design of self-help training and development plan

3.5 Lessons learned
Account has taken of the lessons learned from undertaking the pilot (Phase I) programme in the electronics sector, which followed the methodology set out in the FIAS report. In general the methodology used in this process has worked well and no major changes are envisaged in delivery, for phase II. This will also ensure a consistent treatment for all companies in the programme.

4. Institutional Framework
The Ministry of Industry and Trade together with CzechInvest will monitor and coordinate the work of the project through the mechanism established under Phase 1 of the programme namely a steering committee whose membership is drawn from senior officials of CzechInvest, the project contractors and twinning partners. Overarching the Steering Committee there is a high level group chaired by a Deputy Minister from The Ministry of Industry and Trade. Group membership includes the Chief Executive of CzechInvest and the managing directors of the major MNCs that have established a manufacturing plant in the Czech Republic.

5. Detailed Budget (mil.€)

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Phare Support</th>
<th>National Cofinancing</th>
<th>TOTAL</th>
</tr>
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<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>(=1+IB)</td>
</tr>
<tr>
<td>(1) Twinning Covenant</td>
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<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>(2) Technical Assistance</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Total</td>
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<td>2.0</td>
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6. Implementation Arrangements

6.1 Implementing Agency
The CFCU will be the implementing agency responsible for tendering contracting and accounting. Responsibility for technical aspects related to preparation implementation and control will rest with the Ministry of Industry and Trade (working closely with CzechInvest)

6.2 Twinning
Twinning contact point:
Mr Vít Švajcr, Director of Sourcing Dept., CzechInvest, Štěpánská 15, 120 00 Prague 2, tel.: +420-2-963 42 570; fax: +420-2-963 42 572; e-mail: Svajcr@czechinvest.org

6.3 Non-standard aspects: N/A

6.4 Contracts
(1) Twinning Covenant 1,5 M€
(2) Service Contract - TA 0,5 M€
7. Implementation Schedule
   a) twinning
   b) technical assistance

7.1 Start of tendering/call for proposals 2Q/2002 1Q/2003
7.2 Start of project activity 1Q/2003 3Q/2003
7.3 Project Completion 4Q/2004 4Q/2004

8. Equal Opportunity
   Equal opportunities principles and practices in ensuring gender participation in the project will be
guaranteed.

9. Environment
   n.a.

10. Rates of Return
    n.a.

11. Investment Criteria
    n.a.

12. Conditionality and Sequencing
    The project is conditional on the successful outcome of the pilot programme of supplier linkage in the
electronics sector and on going support from the Czech Government for the creation of Czech world class
suppliers to MNCs.

Annexes to project Fiche

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme
# LOGFRAME PLANNING MATRIX

**Project title:** Continuation of Supplier Linkage and Upgrading Programme

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of a functioning market economy</td>
<td>Accession to the EU by the Czech Republic</td>
<td>EC Regular Report</td>
<td>The success of the current supplier development pilot</td>
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<tr>
<td>Preparation of the Czech Republic for using SF</td>
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</table>

**Project purpose:** To increase the capacity of Czech suppliers to meet EU standards.

<table>
<thead>
<tr>
<th>Objective indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roll out of the pilot to additional key economic sectors</td>
<td>CzechInvest Annual FDI Survey</td>
<td>The success of the current supplier development pilot</td>
</tr>
<tr>
<td>Increasing percentage and added value of domestically produced inputs by foreign manufacturers in the Czech Republic</td>
<td>National Statistics</td>
<td>Continued commitment from leading foreign manufacturers to work for the development of local sourcing</td>
</tr>
<tr>
<td>Decreasing percentage of foreign manufacturers sourcing outside of the Czech Republic</td>
<td>Foreign manufacturers statistic</td>
<td>Continuing support for developing suppliers to MNCs by the Czech Authorities</td>
</tr>
</tbody>
</table>

**Results**

<table>
<thead>
<tr>
<th>Part 1 - Upgrading of Suppliers - Twinning</th>
<th>Twinning</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased use and value of domestically produced components by MNCs established in the CR by rolling out to the major targeted sectors for inward investment the skills and techniques developed under the pilot programme for domestic suppliers in the electronic sector.</td>
<td>20 Czech owned companies become long-term suppliers to MNCs by the end of 2004</td>
<td>CzechInvest Annual FDI Survey - Benchmarking exercises on each company undergoing the upgrading process Twinning and consultants report</td>
<td></td>
</tr>
<tr>
<td>Increased number of world-class Czech suppliers competing for global contracts from foreign manufacturers.</td>
<td>Increase in local content of products by 10% between 01/2002 and 12/2005</td>
<td>Sufficient new potential suppliers exist</td>
<td></td>
</tr>
<tr>
<td>Pilot programme (Phase 1) broadened by the addition of 50 Czech companies with growth potential in up to 5 key sectors by the end of 2004</td>
<td>Pilot programme (Phase 1) broadened by the addition of 50 Czech companies with growth potential in up to 5 key sectors by the end of 2004</td>
<td>Enough suitable candidates to become mentors</td>
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<tr>
<td>2 trained mentor supervisors/monitors within CzechInvest by the end of 2004</td>
<td>2 trained mentor supervisors/monitors within CzechInvest by the end of 2004</td>
<td>Inward Investment continues to be a major growth element in Czech Economies</td>
<td></td>
</tr>
<tr>
<td>Network of 20 Czech mentors established by the end of 2004</td>
<td>Network of 20 Czech mentors established by the end of 2004</td>
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**Part 2 - Selection of Suppliers - Service Contract**

<table>
<thead>
<tr>
<th>Objective indicators</th>
<th>Twinning</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection of companies for Phase II of the supplier development programme.</td>
<td>50 companies selected for the business review by 02/2003</td>
<td>On going support in the Czech Republic for the development of world class local suppliers.</td>
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<tr>
<td>Provision of initial business reviews</td>
<td>Initial business review completed by 05/2003</td>
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<tr>
<td>Design of short-term low cost improvement plan</td>
<td>Improvement plan designed by 05/2003</td>
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<td>Provision of second business reviews</td>
<td>2nd business review completed by 01/2004</td>
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<tr>
<td>Provision of intensive support to selected companies</td>
<td>Intensive support provided between 01-09/2004</td>
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<tr>
<td>Design of self help agenda and low cost training package to companies not selected</td>
<td>Self help agenda delivered by 09/2004</td>
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</table>

**Activities**

<table>
<thead>
<tr>
<th>Means</th>
<th>Assumptions</th>
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**Programme number:** CZ02 000-282.0409

Contracting period expires: 31/10/2004

Disbursement period expires: 31/10/2005

Total budget: 2,0 mil.€

Phare budget: 2,0 mil.€
Part 1 - Upgrading of Suppliers

Twinning
- Roll out of the supplier development programme to other industrial sectors using overall methodology (recommended in the FIAS Report) and pioneered in the electronics sector pilot programme (Phase I).
- Roll out of the verifiable supplier database
- Training of mentor supervisors/monitors within CzechInvest staff
- Creation of a network of Czech mentors to take on the role currently carried out by EU experts under the pilot phase I.
- Guidance to sustain the development of companies currently in Phase I to ensure their programmes of continuous improvement will become self-sustainable.
- Work with identified industrial groupings of Czech companies that can act as MNC suppliers, i.e. groups of industries and companies whose inter-relationship actual or potential enhances their competitiveness, to develop self-help and economic co-operation networks.
- Roll out of an aftercare programme by CzechInvest for MNCs operating in the CR.

Part 2 – Selection of Suppliers

Service Contract
- Implementation of a service contract to include 2 sets of business reviews, preparation of low cost short-term improvement plans and the design of self-help training and development plan

Part 1 – Twinning (1.5 M) Upgrading of Suppliers

Technical Assistance by means of a twinning covenant (1.5 MEUR) Project management to include Two PAAs to be provided for 21 months to manage project to oversee the selection and review of companies newly selected into the programme, sustaining the commitment of phase I firms, to arrange study visits and advise on the roll out of the aftercare programme.

STE training to be delivered by experts provided through National governments or mandated Bodies

Part 2 – Technical Assistance (0.5 M €) - SC

The Private sector Technical Assistance to be provided by means of a service contract (0.5 MEUR) undertaking of business reviews estimated as 5m/m of work (restricted Tender after pre-qualification announced on internet) for the review of new businesses to be selected for working on the programme.

Key experience of PAAs and STEs are:
Dealing with the senior management of MNCs, both in respect of local sourcing requirements, and the broader dialogue and support necessary for implementing “aftercare” programmes.
Working with SMEs on a broad business development basis, carrying out initial business reviews, and providing advice and consultancy to such companies, on a group or individual basis.
A broadly based understanding of business, ideally with some direct business experience (with the latter being a key requirement amongst the team of STEs to ensure credibility with the SMEs participating in the programme).
Knowledge of MNC supplier assessment procedures, and of methodologies for consistently evaluating and benchmarking companies, such as and in particular EFQM.
Understanding of EU Structural Funds, both generally and in relation to business support.
Knowledge of cluster development approach, and wider economic policies required to effectively develop strong indigenous sectors alongside MNC inward investment.
Experience of working with various agencies to deliver such policies.
Develop strong indigenous sectors alongside MNC inward investment. Experience of working with various agencies to deliver such policies.
- And additionally for PAAs, experience of running similar programmes in inward investment or regional development agencies, or from Government Departm
Preconditions

Successful implementation of the procedures employed in the supplier linkage pilot (Phase 1). Preparatory work on the identification of companies and the letting of the business review contract can commence in parallel to the pilot but the project should not commence in operational terms until the pilot's completion.
### DETAILED IMPLEMENTATION CHART

<table>
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<tr>
<th>Action</th>
<th>Year</th>
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### ANNEX 3

**CONTRACTING AND DISBURSEMENT SCHEDULE BY QUARTER FOR FULL DURATION OF PROGRAMME**

#### Cumulative Quarterly Contracting Schedule (mil.€)

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#### Cumulative Quarterly Disbursement Schedule (mil.€)

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