

PN-ACID-183

4/2/97

**USAID/CROATIA
STRATEGIC PLAN
1996-2000**

JANUARY 1997

A

Introduction

Croatia is critical to peace and stability in the former republics of Yugoslavia. As Croatia was a principal party to the war, it has also been an essential partner in establishing peace. A stable, prosperous, and democratic Croatia can have a profound influence on long-term stability and reintegration in the region. The highest U.S. foreign policy priorities in Croatia are to consolidate peace and foster transition to a market economy and an open democratic society.

This document presents the USAID Program Strategy for Croatia for the four-year period 1996 through 1999. The strategy directly responds to U.S. foreign policy priorities in Croatia. To consolidate peace and promote stability, USAID will support peaceful reintegration of populations affected by the Basic Agreement on the Region of Eastern Slavonia, Baranja, and Western Sirmium ("the Erdut Agreement"). To foster the transition to a market-based democracy, USAID will support financial sector development, increased political pluralism, and improved local governance.

In each area of operation, the program emphasizes the importance of creating equal opportunities for all Croatians regardless of ethnic identity. A recurring theme throughout the strategy is the need to broaden and deepen citizens' participation in all aspects of life in Croatia -- in peace, in the economy, in politics, and in government. Broadening participation in the benefits of peace means ensuring that all affected populations in Croatia are treated with equal respect for human and civil rights and afforded equal opportunity to reconstruct their lives in the aftermath of war. Broadening participation in the economy means increased opportunity and increased competition to offset the concentration of wealth and share the benefits of restructuring more widely among the population. Broadening participation in politics and public decision making means establishing viable institutions to enable a more diverse set of viewpoints to engage in debate on issues of national significance. Broadening participation in local governance means support for decentralization and greater accountability and responsiveness.

In 1996, the USAID program in Croatia entered a period of transition, from war to peace, from humanitarian assistance to support for economic and democratic transition, and from Washington to field-based programming. We are confident that the strategy outlined provides a sound basis for managing transition and for utilizing all available resources to accomplish meaningful results in the prescribed program time frame.

The USAID program for Croatia began in 1993 and is currently in its fourth year of operation. In 1994 and 1995, USAID/Zagreb served as a regional office responsible for programs both in Croatia and in Bosnia-Herzegovina. Following execution of the Dayton Peace Agreement in November 1995, a new USAID/Bosnia office was opened in Sarajevo, and the USAID office in Zagreb was converted to a regular bilateral operation. The USAID/Zagreb staff currently comprises three direct hire Americans (the AID Rep and two General Development Officers), three US personal services contractors (Executive Program Humanitarian) and four FSN professional project staff. Previously approved annual operating year budgets for Croatia were \$14,544,000 in FY 95 and \$23,644,000 for Bosnia and Croatia in FY 94.

B

**USAID/Zagreb Country Strategy for Croatia
Table of Contents**

I	Summary Analysis of Assistance Environment and Program Rationale	1
II	Strategic Plan Elements	9
	Strategic Objective 1 Reintegration of Populations Affected by the Erdut Agreement	11
	Strategic Objective 2 More Competitive and Market Responsive Private Financial Sector	21
	Strategic Objective 3 More Effective, Responsible, and Accountable Local Government	33
	Strategic Objective 4 Increased, Better Informed Citizens' Participation in Political Decisions	45
III	Resource Requirements	56

USAID/Zagreb Country Strategy 1996 - 1999

I Summary Analysis of Assistance Environment and Program Rationale

A U S Foreign Policy Interests

The primary U S foreign policy objective in Croatia is to consolidate the end of the war among the former republics of Yugoslavia and bring sustainable peace and stability to the region. In 1996 this objective is embodied in efforts by the U S and others to implement the Dayton Peace Agreement and the Basic Agreement on the Region of Eastern Slavonia, Baranja, and Sirmium signed in Erdut in November 1995 ("the Erdut Agreement"). The Government of Croatia (GOC) was a signatory to both agreements and remains an essential partner both for implementing the peace plan and for promoting stability and economic reintegration in the region. Beyond the mandate of the Dayton accord, U S foreign policy objectives in Croatia as legislated under the Support to East European Democracy (SEED) Act are to foster transition to a market economy and an open democratic political system. The U S G supports Croatia's efforts as a newly independent nation to become a full member of the international community including a partner to European integration.

B Program Evolution

Since its inception in 1993, the USAID program in Croatia has been primarily focused on alleviating human suffering and fostering reconciliation among populations affected by the war in the former republics of Yugoslavia. USAID has provided support grants totalling over \$25 million to international and indigenous non-governmental and private voluntary organizations to provide humanitarian services to approximately 630,000 refugees, displaced persons, war victims, children, and other war-affected populations. During this period, USAID programs played a major role in assisting refugees and displaced persons in Bosnia and Croatia to cope with circumstances of extreme crisis and in many cases enabled them to return to their homes of origin in Croatia and Bosnia. USAID support through NGOs and local institutions was instrumental in enhancing Croatian national and local governments' capacity to deal with the enormous humanitarian burden resulting from the crisis. An important ancillary impact of USAID's humanitarian assistance was the development of a sustainable network of local NGOs which can continue to play a role in developing civil society in peacetime.

Warfare in the region, the constant shifting and disruptive impact of large numbers of refugees and displaced persons, and inter-ethnic distrust and hostility have been the principal impediments to resolving the humanitarian crisis in Croatia. At the end of 1995, up to 400,000 displaced persons and refugees remained in Croatia. USAID/Zagreb will continue to provide them assistance with the ultimate objective of seeing all war-affected populations resettled voluntarily in their homes of origin or other places of their choosing. Peaceful reintegration of Eastern Slavonia into Croatia under the terms of the Erdut Agreement is crucial for successful resolution.

of the humanitarian crisis in Croatia and Bosnia and for maintaining peace in the region. As the Erdut Agreement was an essential precursor to the Dayton accord, failure to implement the agreement effectively could lead directly to a new outbreak of war in the region or continued instability.

In 1994 and 1995, USAID initiated development of a portfolio of Croatia-specific activities in the areas of economic restructuring and democracy building. While the war has limited the capacity of USAID/Zagreb to focus financial and human resources in these areas, a solid foundation has been established for achieving meaningful results in both areas over the next three to five years. Under the proposed strategy, USAID/Zagreb will continue working in each of the three strategic assistance areas outlined in the Europe and New Independent (ENI) States Bureau's strategic framework. Ending the humanitarian crisis and supporting the peaceful reintegration of Eastern Slavonia constitute the highest program priorities. Economic and political transition are viewed as closely interrelated and mutually reinforcing and constitute co-equal program priorities.

C Summary of Macroeconomic and Sociopolitical Trends

1 Social Stabilization

Over the next two to four years, responding to humanitarian crises related to the war and its aftermath will remain a major component of the program. Support in this area corresponds to ENI Bureau Strategic Objective 3.1, "Human suffering and negative consequences of crises are reduced." With the advent of peace, the primary focus under this SO will be to support voluntary settlement and reintegration of war-affected populations with specific emphasis on populations affected by the Erdut Agreement.

Eastern Slavonia contains the last piece of Croatian territory still occupied by rebel Serbs at the end of 1995. The war resulted in catastrophic damage to buildings, homes, and infrastructure in the area and forced large-scale movements of displaced persons into and out of the area. Under the terms of the Erdut Agreement, the area will be returned to Croatia after a 12 to 24-month period of U.N. Transitional Administration for Eastern Slavonia (UNTAES) commencing in January 1996.

Peaceful reintegration of Eastern Slavonia is crucial to long-term stability in Croatia and the region for two major reasons. First, the area constitutes a dangerous flashpoint for a resumption of hostilities and continued instability. Second, Eastern Slavonia constitutes a bellwether of the GOC's commitment to uphold a high standard of human rights protection in support of multi-ethnicism in the region. Restoration and maintenance of the multiethnic fabric of prewar Yugoslavian society are among the USG's highest priority objectives in Croatia and the region.

On the issues of peace and stability in the months preceding the Dayton agreement, the GOC made clear its intention and ability to retake the area by force if necessary. Satisfactory resolution of the issue of Eastern Slavonia between Croatian and Serb representatives was an

essential pre-condition to the overall peace agreement negotiated at Dayton, Ohio. Failure to implement the Erdut agreement in a timely and satisfactory manner could lead directly to a resumption of hostilities in the region and spark a new de-stabilizing wave of refugees and displaced persons which in turn could trigger a total breakdown of the Dayton Agreement. Successful implementation of the agreement would establish a basis for normalizing relations among the formerly warring parties and establish a foundation for long term stability and regional integration.

On the issue of multi-ethnicism over the next two years, a large number of displaced Croats are expected to return to their homes in the UNTAES controlled area of Eastern Slavonia. The current population of the region is predominantly Serb, including substantial numbers of displaced from other parts of Croatia including Krajina and Western Slavonia. Many of the resident Serbs remain intent on incorporating the region into a greater Serbia; all of the current residents of the area fear reprisals by returning populations. The process of reintegration will be fraught with inter-ethnic distrust and animosity. In Croatia, support for the principal of a multiethnic society will entail strict adherence to the specific provisions of the Erdut agreement which safeguard the rights of all Croats, Serbs and other minorities with a legitimate claim to citizenship to remain in or return to areas of Croatia, including all of Slavonia and the Krajina. Of utmost concern is to prevent any recurrence of gross human rights violations among civilian populations in Eastern Slavonia of the sort which were recorded in Krajina and Western Slavonia in 1995 following Croatian military operations (Storm and Flash) to recapture the areas from rebel Serbs.

Under its mandate, UNTAES is responsible for demilitarizing the area and overseeing the process of transferring civil authority back to Croatia. The U.S. played a major role in brokering the Erdut Agreement and is providing substantial financial and human resources to support UNTAES operations. Additional support through USAID is needed to demonstrate to the GOC and populations in the region specific U.S. commitment to ensuring successful implementation of all aspects of the agreement (particularly protection of human rights) to fill gaps not covered under UNTAES' mandate (e.g., economic reintegration and revitalization of all of Slavonia) and to encourage the earliest involvement of other donors and development partners to mobilize resources needed to undertake a major reconstruction and recovery program for the region. USAID's program for Eastern Slavonia will be focused on settlement of populations and creation of conditions necessary for successful reintegration into productive society. Central to the process of reintegration will be the reactivation of the region's economy. Given the complexity of population shifts into and out of Eastern Slavonia, economic reintegration and revitalization activities will need to incorporate the whole of Slavonia and possibly parts of the Krajina.

2 Economic Restructuring

While consolidating peace remains the highest priority, the second principal challenge facing Croatia is to rebuild and restructure the economy to achieve sustainable private sector-led growth and improve living standards of average Croatians -- many of whose standard of living has declined precipitously over the past several years. Economic growth and recovery in Croatia will enable the country to continue to serve as an important stabilizing influence in the region. A prosperous, outward-looking Croatia can provide much needed stimulus for economic recovery in the region by promoting economic reintegration among the separate former Yugoslavian republics and neighboring states. The GOC places the highest priority on economic integration with the Western democracies. Justification for U.S. support for economic restructuring is based on Croatia's importance as a key partner in the Dayton Peace Agreement and the GOC's demonstrated commitment to developing a market-based economy. Support is particularly crucial at this time to enable Croatia to recover rapidly from the impact of the war.

Economic development in Croatia to date has been constrained by the combined impact of the war and structural vulnerabilities of the socialist economic system inherited from the former Republic of Yugoslavia. Estimates of damage from the war range from \$7.0 to \$12.0 billion. The war exacerbated the impact of economic decline that had begun throughout the region in the 1980's. In Croatia, the war took a heavy toll on the nation's infrastructure and economy and disrupted the process of transition to a market economy. National defense needs drew human and financial resources away from the productive sectors and paralyzed the economy. The dissolution of the Yugoslav federation and the imposition of sanctions disrupted trade both among the republics and with neighboring states and resulted in a loss of markets and the interruption of key supply flows. The war resulted in declines of approximately 30% of GDP and 50% of disposable household incomes between 1991 and 1993. Industrial production during the period declined by 50% from pre-war levels and tourist revenues fell to 10% of pre-war earnings. Unemployment is currently estimated at between 15 and 20 percent.

Over the past several years, Croatia has made substantial progress in establishing the essential underpinnings of a modern market economy. In 1993, the government successfully launched an economic stabilization program to extinguish hyperinflation, stabilize the exchange rate of the new currency (the Kuna) and rebuild foreign reserves. Over the next several years, the GOC will work with the World Bank and the IMF to maintain macroeconomic stability and create conditions conducive to sustainable growth. Of particular importance will be a resolution of foreign debt issues including agreement on apportionment among the former republics and debt servicing arrangements with the London Club. Croatia has also made substantial progress in privatizing state-owned enterprises and creating an enabling environment for private sector-led growth. A majority of Croatia's small and medium sized enterprises have been privatized, and the private sector accounts for over 50% of GDP. Major economic growth opportunities exist in tourism, industry, mining and agribusiness. If regional peace can be sustained, prospects for long term economic growth in Croatia are considered excellent.

While prospects for economic growth appear excellent, of particular importance to

USAID/Zagreb is to facilitate expansion of the base of the economy to allow a broader segment of the population to participate more fully in the benefits of economic restructuring and development. USAID/Zagreb is particularly conscious of the importance of creating more competitive conditions in the economy to counterbalance the ascendancy of a narrow political and economic oligarchy. Accelerated development of the small and medium scale enterprise sector and expansion of investment opportunities for small investors are essential to increased economic competition and more equitable participation.

USAID support for economic restructuring in Croatia will be focused on ENI Bureau Strategic Objective 1.4 "A competitive private financial sector that is more responsive to the needs of a market-oriented economy." This SO has been selected as a priority based on the status of economic restructuring in Croatia and opportunities for achieving significant results in support of broad-based growth. Broadening and deepening of the financial sector will increase the availability of investment resources needed to fuel economic growth and provide better access to financing for accelerated growth and development of private enterprises. Development of capital markets is aimed at providing increased opportunities for small and medium scale investors to participate more fully in the benefits of economic restructuring and particularly in the privatization process. In coordination with the World Bank, USAID/Zagreb has identified specific opportunities in areas where USAID and its implementation partners have substantial experience and technical knowledge and where limited investments in technical assistance and training can have substantial multiplier effects over a three to five year time frame. USAID involvement in the financial sector will also help to ensure that financial and other markets in Croatia remain open to U.S. investment and trade interests.

It is anticipated that the bulk of financing required to support infrastructure development, reconstruction, and economic recovery and growth will come from private investment and other development partners including the E.U., the EBRD, and the World Bank. USAID's primary contribution will be to support development of a solid financial foundation for attracting private investment and supporting a modern market-based economy.

3 Democratic Transition

Since independence in 1991, Croatia has established an acceptable framework for supporting open, multi-party democratic electoral processes. Opposition parties can and do compete for representation in local and national elections and have had success in both areas. At the national level, nine parties hold seats in Parliament. Several important city councils, including Zagreb, are controlled by the opposition. The constitution provides an adequate legal framework for protecting civil and human rights and for respecting basic individual freedoms essential to a functioning democracy, including freedom of speech, press, and organization. Despite the presence of these fundamental elements of a functioning democracy, the transition in Croatia to an open democratic society remains precariously incomplete. Problems related to monopolization of political power by one party and legal and other impediments to free and open debate of important political and economic issues among all segments of society constitute serious obstacles to successful democratic transition in Croatia.

Politics in Croatia since 1991 has been dominated by President Franjo Tudjman and the Croatian Democratic Union (HDZ). Tudjman won the nation's first direct presidential election in 1992 by a substantial margin and is widely expected to win re-election in 1997. Tudjman's party, the HDZ, holds solid majorities in both houses of the parliament. The President and his party wield considerable power through control of the Parliament, appointment of the judiciary, and regulation of the state-controlled electronic media. During the war, political life in Croatia was colored by strong nationalist sentiments. Tudjman and the HDZ played on these sentiments both to spur the independence struggle and to consolidate power. National security and external threat were frequently invoked by the Government to rationalize centralization of decision making and to suppress opposition to HDZ rule. War conditions also made citizens more tolerant of closed society and less apt to question the national leadership.

In the aftermath of the war, the populace's expectations of a more open society have been disappointed. Serious questions remain about the commitment of the government to encourage more open political processes, to allow full participation of all Croatian citizens in the political and economic development of the country, and to share power with the opposition. Specific areas of concern include legislative attempts to increase the level of control exercised by the central government over the press and other media, continued centralization of power at the national level, political interference in the judiciary, the propensity of the ruling party to alter election law to enhance its own political position, and fairness of election processes, including treatment of opposition candidates and access to electronic media. Centralization of power and one-party control is symbolized in the ongoing struggle between the President and the opposition-controlled Zagreb city council over appointment of the mayor. The President has several times refused to confirm the council's nominee, citing national security powers delimited in the Constitution. While technically legal, this action has been cited by the opposition as evidence of the ruling party's aims to stifle even duly elected opposition voices.

USAID/Zagreb believes that the next several years constitute a watershed in the nation's political development. Croatia's short experience with democracy has been constrained by circumstances of war. The well-financed, well-organized HDZ has taken advantage of the situation, including the relatively underdeveloped and unorganized state of the opposition, to secure and consolidate power. Priority action is needed to offset incipient tendencies to centralize power before one-party control becomes permanently entrenched. Equally important is to establish a permanent framework for increased debate among different segments of the society and to enable ordinary citizens to participate more openly in public decision making. While substantial obstacles exist in both areas, important opportunities also exist.

USAID support for democratic transition is aimed at eliminating the disconnect between an ostensibly democratic legal and political system and the disturbingly undemocratic reality on the ground. The program encompasses two ENI Bureau Strategic Objectives: S O 2.1 "Increased better informed citizens' participation in political and economic decision making" and S O 2.3 "More effective, responsive, and accountable local government." Under S O 2.1, a broad program of support to NGOs, political parties, and the media will be directed at improving public access to information on significant economic and political issues and at establishing

viable vehicles for expressing alternative viewpoints and encouraging more open debate. Under SO 2.3 USAID will pursue a targeted program to enable city governments to operate as more efficient and autonomous entities and to promote greater interaction between local governments and their constituencies.

Selection of these democracy and governance objectives was based on understanding of political trends and opportunities in Croatia. SO 2.1 was selected to offset disturbing tendencies to exclude whole segments of the society from access to information and to make meaningful input on important issues effecting the country's political and economic future. Our view is that opportunities exist to strengthen NGOs, political parties and the press. SO 2.3 was selected to counterbalance the tendency toward centralization. Under the Croatian political structure cities have latitude to manage their own affairs and can play an important role as political counterweights to the national government. Furthermore work with local governments will provide an opportunity to develop sustainable mechanisms for more participative democracy and may yield future political leaders to serve at the national level.

Currently other donor support in the area of democratic transition is very limited. The Soros Foundation is developing programs in support of independent media, NGO development and political party strengthening. In the near future it is possible that the Council of Europe and/or the European Union will develop other similar programs. USAID/Zagreb has identified democratic transition as a priority assistance area based on its assessment of the significance of the problem and the long term implications on democratic transition if problems are left unaddressed. The current absence of donors in the sector and the window of opportunity for the US and its development partners to exert influence on Croatia in the context of the Dayton and Erdut agreements and expanded European Integration are also important factors in the decision.

D Customer Focus

USAID/Zagreb's country strategy is the product of a collaborative process involving a broad spectrum of customers, development partners, and Croatian government representatives. The proposed program in social stabilization is based on information developed through a network of local and international NGOs with close and regular contacts with populations affected by the war. Regular monitoring by USAID/Zagreb staff and a recent comprehensive mid-term evaluation of these activities by an outside team have enhanced the mission's capacity to assess the impact of its ongoing humanitarian activities and to redirect emphasis to respond to changing circumstances. The proposed program for Eastern Slavonia has been developed through close dialogue with UNTAES, NGOs, other donor representatives, Croatian government officials and to the extent possible dialogue with local Serb officials and residents. The customer service plan in this area will entail ongoing monitoring of activities, dialogue with cooperating sponsors including NGO and international agencies, close collaboration with UNTAES, and regular interviews and informal surveys of affected populations.

USAID/Zagreb involvement of customers to develop economic restructuring activities includes

dialogue with government officials responsible for economic restructuring regular interaction with a range of public and private financial sector representatives consultations with the World Bank and others to ensure complementarity of activities The customer service plan calls for continued regular contacts with direct beneficiaries of USAID activities (i.e. the banks regulatory agencies the Ministry of Finance) and a broad range of potential investors Additionally USAID/Zagreb will develop more extensive contacts with the small and medium sized business community to assess the impact of ongoing financial sector reform and development on efforts to promote broad based sustainable growth

In the area of political transition, USAID/Zagreb's proposed program is based on information developed through close and regular contact with local NGOs political parties city representatives, journalists and other media representatives Additionally U.S. Embassy personnel maintain a broad range of contacts whose input has been used to identify priorities The customer service plan in this area calls for maintaining and expanding these contacts

E Transitional Issues

The proposed program strategy is based on the need to achieve sustainable meaningful results within a four year program implementation time frame Under each strategic objective USAID will seek to catalyze systemic sustainable change towards permanent establishment of an open democratic society and a competitive market-determined economy More specifically irreversible progress in resettling populations and reintegrating Eastern Slavonia will be indicated by successful transfer of sovereignty to Croatia, reactivation of the region's economy particularly re-establishment of markets for regional agricultural and industrial production and demographic evidence that the pre-war multiethnic composition of the region has been restored and/or maintained Sustainable, systemic change in the financial sector will be indicated by establishment of a fully functioning banking supervision capacity, establishment of the Croatian Securities Exchange Commission incremental improvement of the legal framework and successful resolution of specific public finance issues including establishment of a government securities market Sustainable, irreversible progress towards democratic transition will be more difficult to measure as activities aimed at increasing participation and improving governance are incremental in nature In the area of local governance five municipalities should show substantial improvement in the areas of financial management and provision of public services and have established a framework for soliciting regular participation of citizens in decision making processes Sustainable, systemic change will also entail establishment of regular mechanisms for sharing of "best practices" among municipalities so that successes within the core group can be replicated on a more national scale In the area of citizens' participation the ultimate indicator of sustainable systemic change will be the continued existence of a multi-party democracy in which more than one party plays a substantive role in leading the nation at both the local and national level

II Strategic Plan Elements

A Goal

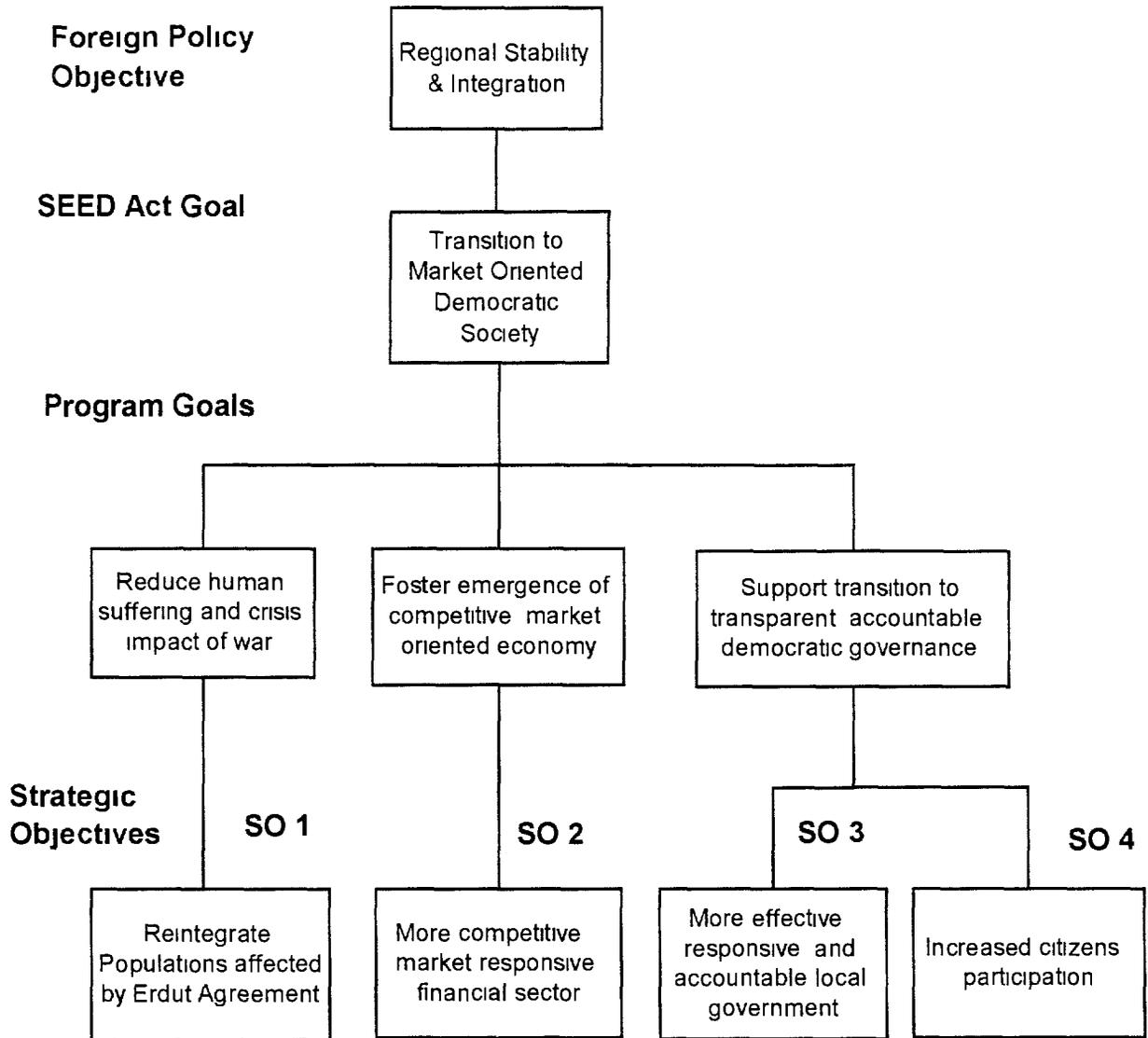
The USAID/Zagreb strategic plan is derived from the overall U S foreign policy goal of achieving regional peace and integration among the former republics of Yugoslavia. This objective is shared by the GOC and the international community. In addition to establishing peace in the region, the GOC is anxious to achieve economic integration with the western democracies and eventually become a full member of the European Union. The long term goal of the USAID program in Croatia is to foster the transition to a market economy and a democratic society. Achievement of this goal is dependent on the critical assumption that the peace negotiated first at Erdut and later at Dayton will hold. Failure of the Erdut and Dayton Agreements would necessitate wholesale review of the proposed strategy.

The ENI Bureau Strategic Framework identifies Economic Restructuring, Democratic Transition and Social Stabilization as the three priority assistance areas for support under the SEED Act. Our strategic framework adopts sub-goals in each of these areas. Progress in each strategic assistance area is essential for Croatia to complete the transition to a market oriented democratic society. Continued support to mitigate the effects of war and maximize the potential for lasting peace constitute our highest priorities. Simultaneous involvement in economic and political transition reflects our view that an open market economy and participative democratic governance are mutually reinforcing and supportive of peace. In both areas, the aim is to promote increased competition to offset emerging tendencies to centralize political power and concentrate wealth among a small segment of the population.

B Strategic Focus

USAID/Zagreb's strategy (see Figure 1) is formulated around four strategic objectives in the three assistance areas. Under social stabilization we propose to focus efforts on settling and reintegrating populations affected by the Erdut Agreement. Reintegration of Eastern Slavonia is the highest priority in the program. Other objectives under this assistance area (social services and reduced environmental risks) were rejected on the basis that they are low priorities in the Croatian context. Under economic restructuring we propose to focus on the financial sector only. Privatization of state-owned enterprises, fiscal policy reform, private sector development and restructuring of the energy sector are considered beyond our capacity to influence with the resources available. Under Democratic Transition we propose to focus on increasing popular participation in public decision making and promoting more effective responsive local government. Legal and judicial reform, while important, would require time and resources in excess of our country program.

Figure 1 Strategic Plan



C Core Strategic Objectives

Strategic Objective 1 - Reintegration of populations affected by the Erdut Agreement

This strategic objective narrows ENI Bureau objective 3.1 "Human suffering and negative consequences of crisis are reduced." The primary focus will be settlement and reintegration of populations affected by the war with particular emphasis on populations covered by the Basic Agreement on Eastern Slavonia, Baranja and Srijem (the Erdut Agreement)

Problem Analysis

Since 1991, the eastern part of Slavonia (former U N Sector East) has been occupied by rebel Serbs under the self-proclaimed Republic of Serbian Krajina (RSK). In November 1995 the U S played a major role in brokering the Erdut Agreement between Croatian and Serb representatives to return the area to Croatian sovereignty. The agreement averted almost certain military action by the Croatian armed forces to recapture the area and was an essential precursor to the regional peace accord negotiated at Dayton. Peaceful reintegration of Eastern Slavonia is the key to bringing a definitive end to the war for Croatia and for providing a basis for long term regional stability and reintegration.

The Erdut Agreement establishes a U N Transitional Administration for Eastern Slavonia (UNTAES) to oversee the process of reintegration over a period of 12 to 24 months beginning in January 1996. UNTAES' mandate includes demilitarizing the area, effecting the transfer of civil authority and municipal management, maintaining basic public services, and organizing local elections prior to departure. We are confident that UNTAES can and will fulfill its mandate and that the region will be reincorporated into Croatia. However, as UNTAES itself readily acknowledges, the problem of peacefully reintegrating affected populations to ensure the longer term stability of the region will require a major, well-coordinated effort on the part of all concerned parties. Failure to reintegrate populations could lead to serious human rights abuses, new and de-stabilizing waves of refugees and displaced persons in the region, and at worst a renewed outbreak of hostilities.

At the core of the problem are the war's effects on the demographics of large portions of Croatia, including the Krajina and all of Slavonia, and the devastating impact of violence on the pre-war multiethnic fabric of society. In Sector East, the prewar population was estimated at approximately 170,000 of which slightly less than half were ethnic Croats, between a quarter and a third ethnic Serbs, and the remainder from other ethnic groups. In the aftermath of the war, the current population is predominantly Serb. Nearly all of the pre-war Croat population fled from the area during or after hostilities. While it is difficult to guess the size of the current population in Eastern Slavonia, there has been a large influx of Serbs into the area from Krajina, Western Slavonia, other parts of Croatia and parts of ex-Yugoslavia. Many of the most recently arrived Serbs sought refuge in the area following Croatian military operations to recapture the Krajina and Western Slavonia in May and August 1995.

The process of reintegration will entail a complex shifting of more than 250 000 Croats Serbs and other ethnic groups into and out of Eastern Slavonia Western Slavonia the Krajina and other parts of Croatia Bosnia and Serbia Croats seeking to return to the region are likely to find their original homes damaged or destroyed from the war or occupied by Serbs Many of the displaced and refugee Serbs in the area are likely to find themselves in a quandary about where to go as returning to their homes of origin may be difficult or impossible and remaining in the area dangerous for fear of reprisal or impractical for want of shelter Some Serbs may make their departure conditional on being allowed to return to their former residences in other parts of Croatia or in Bosnia or Serbia Finding a satisfactory resolution to the problem of settling these displaced populations will be difficult in the extreme

Further adding to the complexity of the problem is the war's legacy of inter-ethnic hostility and animosity Eastern Slavonia was the scene of fierce fighting Physical damage from the war was severe particularly in the city of Vukovar Related conflicts in Western Slavonia and the Krajina were equally destructive Egregious violations of human rights among civilian populations occurred on both sides Many Serb residents in the area are intent on maintaining the area as part of the self-proclaimed RSK all of them greatly fear reprisals from returning populations and discrimination from Croatian authorities Many of the Croats returning to the region have lost family members and friends in the fighting and may seek to avenge their losses The consequences of the war are that despite hundreds of years of history in the region of peaceful coexistence of people of diverse ethnicities the viability of a multi-ethnic future in Croatia and the region has been severely challenged, and its fate may hang in the balance of how the situation in Eastern Slavonia is resolved

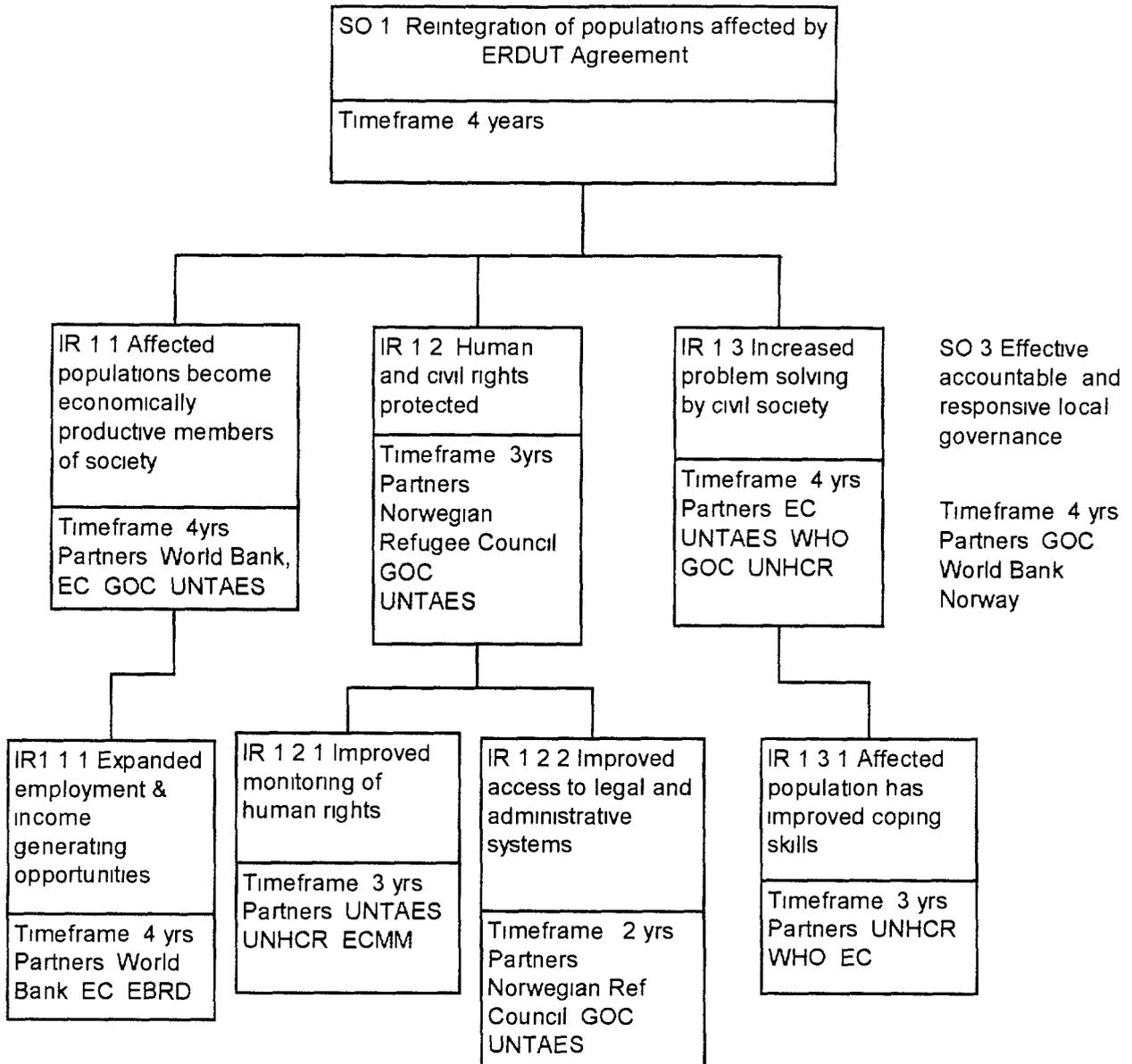
Results Framework Narrative

While ultimately it will be the responsibility of the affected populations and their leaders to choose between the high road of peace and tolerance and the low road of conflict and revenge there is a quite a bit that can and should be done by all parties to the peace process to mitigate the potential for violence and maximize the potential for a return to inter-ethnic tolerance and stability At a minimum this will entail strict adherence to the terms of the Erdut Agreement Of particular importance are those aspects safeguarding the human and civil rights of all displaced Croats Serbs and other minorities with a legal claim to Croatian citizenship to remain in or return to areas of Croatia including all of Slavonia and the Krajina More expansively, this will entail active coordinated engagement over a three to four year period to re-create the necessary social political and economic conditions for a peaceful multiethnic future

Strategic Results

- 1 Populations are resettled voluntarily and reintegrated into a multiethnic society**
 - 2 Civil and human rights are guaranteed to remaining and returning populations**
 - 3 Economic revitalization provides employment and income opportunities and promotes stability**
-

**Figure 2 SO 1 (ENI SO 3 1)
Eastern Slavonia**



- Critical assumptions
- 1 Regional peace is maintained
 - 2 De-mining program maintained
 - 3 UNTAES turns over authority to GOC for E Slavonia on schedule

The resources required to undertake the enormous tasks of assisting displaced and refugee populations to return, repairing and reconstructing war-damaged infrastructure and housing, and restructuring and revitalizing the region's economy are well beyond USAID's capacity to provide. Furthermore, much of the responsibility for undertaking these tasks lies more appropriately with the private sector, the Government of Croatia, and other development partners. Nonetheless, we can and must play a leadership role to catalyze rapid mobilization of resources and to demonstrate a high level of commitment to the success of the operation. The affected populations and their leaders are carefully scrutinizing the focus of USAID's planned assistance program and have indicated a high degree of interest in our being present throughout the process. Similarly, the EU, the World Bank, and other bilaterals including Norway, Sweden, and Belgium have expressed willingness and preparedness to get involved but are awaiting our lead before committing themselves.

Just as the U.S. took the lead in brokering the peace negotiated at Erdut to end the hostilities, we will lead in establishing a sustainable peace to bring an end to the cycle of violence and revenge. By demonstrating a staunch U.S. commitment to success of the operation, USAID will open the way for broad participation by a representative group of development partners.

USAID/Zagreb's program in Eastern Slavonia (Figure 2) is based on the hypothesis that resettling populations voluntarily, ensuring them viable opportunities to become economically productive, and improving their ability to cope will lead directly to peaceful reintegration of populations affected by the Erdut Agreement. Critical assumptions to this hypothesis are that UNTAES will fulfill its mandate (including demilitarization of the area and transfer of civil authority) and that capital will be available from a variety of sources to undertake the enormous task of physical reconstruction of infrastructure and revitalization of the economy. USAID/Zagreb will focus its efforts in three areas directly related to the affected populations:

To enable populations to become productive members of society, USAID will support creation of employment and income-generating opportunities and respect for human and civil rights. This is essential to ensure that returning and remaining populations can support themselves over the long term and for mitigating the potential for interethnic competition and animosity. USAID will provide technical assistance, training, and access to capital necessary to reactivate the economy in the region, reestablish markets, and develop small and medium-scale enterprises. Human and civil rights protection will result from access to legal and administrative services to enable affected populations to function within the established Croatian legal and regulatory framework and from human rights monitoring. Legal services for affected populations will also play a role in encouraging voluntary resettlement of affected populations by ensuring equal protection under the law. Human rights monitoring will not be undertaken as an end in itself but rather will be a part of activities carried out by USAID-financed NGOs and other implementing partners.

USAID will support voluntary settlement of affected populations through human and civil rights protection. Critical assumptions in this area are that programs in the areas of housing, reconstruction, medical services, and education will be supported by the Government of Croatia.

and others. USAID will improve coping skills of affected populations through interethnic reconciliation programs and community interventions to deal with an array of social and psychological problems resulting from war induced trauma. Our program will assist both at a community support group level and in improving the skills of care givers in the region as we have done in the past two years.

Additional support to Eastern Slavonia will be provided under the local governance strategic objective. Under the Local Governance SO technical assistance will be provided to Eastern Slavonia to develop feasibility studies and other plans for repairing, rehabilitating and upgrading infrastructure and for improving municipal management. These plans will enable local governments in the area to attract and coordinate public and private financing. Additionally cities in the area may be included in the regular local governance program. Under our citizen participation objective support for local elections and/or political party and civic NGO development may be available.

Judging Performance

Table 1 at the end of this section presents the performance data for this SO. More specific baseline data and targets for this strategic objective will become available after UNTAES has completed demilitarization of the area and has fully assumed its role as the transitional administration. Demilitarization was completed in July 1996. Many of the present indicators are based on percentages to capture the concept that raw numbers are less critical than whether the majority of the affected populations participate in the process. The indicators also try to capture the complexities of people moving in, moving out, and staying behind, all three of which are important data to follow for an accurate picture of the success of reintegration.

Development Partners

The key development partners in Eastern Slavonia are UNTAES, the Government of Croatia, local Serb authorities currently administering the region, the European Union, Norway, and Belgium. Relations between UNTAES and the USG are excellent and extend to the highest levels. Both the GOC and the Serb authorities in Eastern Slavonia have expressed strong support for USAID involvement in the area.

Other key development partners in the area of settling populations include the UNHCR and possibly the Federation of the Red Cross. The European Union, Sweden, Belgium, and Norway have all indicated their readiness to provide substantial resources for reconstruction and rehabilitation and expressed strong interest in coordinating their activities closely with USAID and UNTAES. In the area of human rights monitoring, the War Crimes Tribunal in the Hague, the Helsinki Committee, the UN Human Rights Committee, and the ICRC play significant roles in monitoring and redressing abuses.

Illustrative Approaches

Economic Revitalization	TA to identify promising private sector ventures to stimulate employment training and other support to re-establish production and improve marketing Small and Medium enterprise lending program Infrastructure repair from activities under local governance SO
Civil Rights Protection	TA and other support to establish legal assistance groups to advise affected populations on processes administrative procedures legal issues related to settlement
Inter-ethnic reconciliation	Technical assistance and grants to local NGOs for inter-ethnic dialogue and exploratory visits and return to original homes Grants to local NGO/Inst to facilitate discussion of inter-ethnic reconciliation at schools
Human rights protection	TA and grants to local NGOs to monitor and report on Human Rights situation and establish sustainable reporting system
Coping Skills	Support for Local community action groups and NGOs to establish community level interventions Technical Assistance and training for care givers to better sensitize them to the problems of war-caused traumas

Sustainability

Irreversible, sustainable progress under this objective will either be apparent by the end of the program period or will not be accomplished. As discussed above, the ultimate responsibility for success or failure will be the affected populations and their leaders. The real measure of success will be the percentage of the original population of the region who voluntarily return or remain after the transfer of sovereignty to Croatia and are subsequently able to re-establish themselves on a permanent basis. Most activities under this SO are short-term interventions that will be completed within the period of the strategic plan. The return of populations to the region will take place over the next two to four years. Employment and income generating activities to support returning and remaining populations will be established under market conditions. Long term sustainability will depend on how the regional economy evolves. Economic development in the region is an ongoing process and will be left primarily to the market and the private sector. While the reconciliation process will not be complete for many years to come, the processes which have been initiated by USAID should continue to encourage the generational change needed to reconcile the ethnic groups.

**TABLE 1 USAID/Zagreb SO 1 Reintegration of Populations Affected by the Erdut Agreement (ENI Bureau SO 3 1)
PERFORMANCE DATA TABLE BASELINE, TARGETS, AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		Strategic Objective #1 (ENI 3 1) Reintegration of populations affected by ERDUT Agreement						
1 Displaced persons in Croatia permanently resettled Source Office of Displaced Persons and Refugees (ODPR), UNHCR	Definition Displaced people throughout Croatia Unit Percent	1995	240,000	10%		30%	60%	90%
2 Current residents of Eastern Slavonia remain in Croatia Source GOC (ODPR), UNHCR	Definition Current residents of Eastern Slavonia with legal claim to citizenship Unit Percent	1995	130,000	90%		70%	65%	60%
Comments/Notes Current census data is unavailable for Eastern Slavonia Resident population is roughly estimated at 150 000								

TABLE 1 SO 1 PERFORMANCE DATA TABLE BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1 1 Affected population become economically productive members of society								
1 Level of economic output in affected areas	Definition Regional economic output and employment	1995	TBD	TBD				
Source Chamber of Economy	Unit Percentage of pre-war output							
2 Level of unemployment	Definition Persons considered employable without work	1995	37%	TBD				
Source Chamber of Economy	Unit Percentage							
Notes								
IR 1 1 1 Expanded employment & income generating opportunities								
1 New businesses in Slavonia to absorb affected populations	Definition Businesses registered and operating	1995	TBD					
Source Chamber of Economy	Unit Number							
Notes								

Table 1 SO 1, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		IR 1 2 Human and civil rights protected						
1 U S Embassy assessment of human rights situation Source U S Embassy	Definition Human Rights Report Unit worse/same/better than prior year + narrative	1995	NA	better		better	better	
IR 1 2 1 Human rights monitoring improved								
1 Effective human rights monitoring system is in place Source U S Embassy	Definition Human Rights Report Unit worse/same/better than prior year + narrative	1995	NA (qual)					
IR 1 2 2 Access to legal and administrative systems broadened								
1 Current residents of E Slavonia apply for Citizenship	Definition Residents in E S Unit Number	1995	0	25,000		60 000	25,000	
2 Requests for citizenship by E S residents approved	Definition Ratio citizenship (domovnica) granted to total applicants Unit Percent	1995	0	80%		80%	60%	
Notes								

Table 1 SO 1, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 1 3 Increased problem solving by civil society								
1 NGOs addressing civil society problems in E Slavonia Source USAID	Definition Croatian NGOs Unit Number	1995	0	10		20	25	30
2 Impact of NGO work Source USAID Survey	Definition Opinion survey of 25 - 30 key informants Unit Average rating on a 1 - 5 scale + analysis of NGOs	1996	TBD					
Comments/Notes								
IR 1 3 1 Affected population has improved coping skills								
1 Level of coping skills of affected population Source USAID Survey	Definition Expert perceptions of coping skills Unit Rating on 0 - 5 scale + analysis	TBD						
Comments/Notes								

Strategic Objective # 2 - More competitive, market-responsive financial sector

This strategic objective corresponds to ENI Bureau Objective 1.4

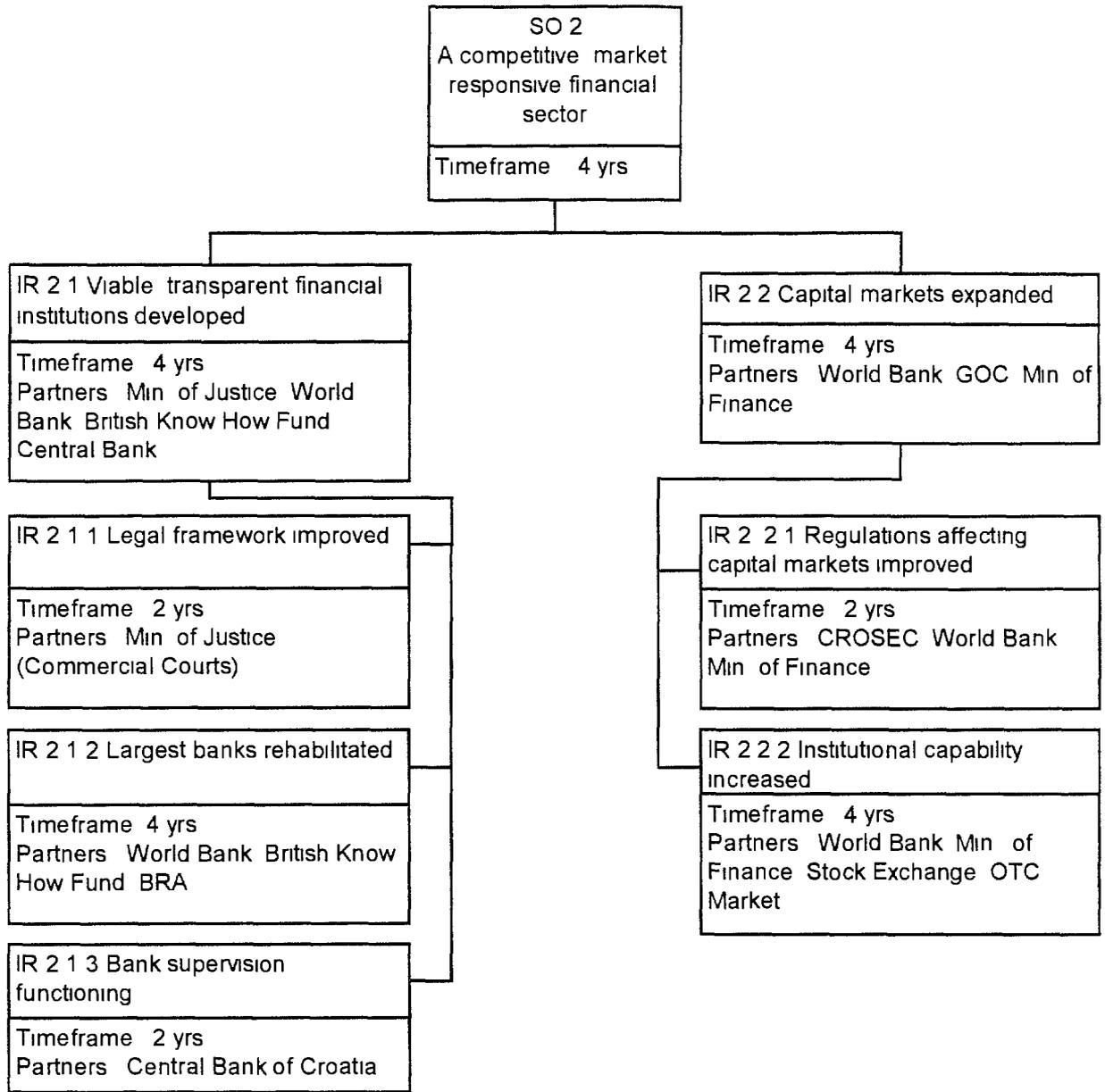
Problem Analysis

Economic growth is critical in Croatia to improve post war living standards and enhance Croatia's ability to serve as a stabilizing influence in the region. To achieve sustainable growth over the next five years, Croatia will need to attract private investment from both domestic and foreign sources, continue to restructure the economy to complete the process of transition to a market economy, establish a sustainable system of public finance that maintains macroeconomic stability, and foster the growth and development of private enterprises. Development and modernization of the domestic financial sector is necessary to establish a solid foundation for a modern market economy in Croatia.

Of equal importance to economic expansion is that growth take place under conditions that encourage and facilitate broad participation of the population in the benefits of development. Since independence in 1991, there have been growing concerns among many Croatians that a well-financed and politically well-connected elite have garnered a disproportionate share of the benefits of economic restructuring. The under-developed financial sector and particularly the lack of transparency and effective regulation in the financial markets has contributed to the concentration of wealth. Potential investors (including Croatians with capital outside of Croatia) not privy to the arcane and confusing workings of the domestic financial system have been reluctant to invest due to a lack of confidence in the system. At the same time, competition over the limited funds available for financing private investment has excluded the less well-connected and led to increased concentration of wealth.

The Croatian financial sector suffers from lack of investor confidence in the formal banking system, severe domestic illiquidity, and underdeveloped capital markets. Lack of confidence in the banking system is the result of inherent weaknesses in the state controlled system inherited from the former Yugoslavia: absence of a transparent legal and regulatory framework to govern operations, and lack of basic institutional infrastructure to regulate and supervise financial institutions to ensure sound management practices and protect investors. Domestic illiquidity is the result of unresolved public finance issues left over from the breakup of the former Yugoslavia. For example, the total nominal value of government paper issued to Croatian banks against liabilities resulting from the seizure of private foreign exchange assets by Belgrade and excessive losses accumulated by "socially owned" enterprises is currently estimated at \$2.1 billion. This constitutes more than 40% of total assets in the banking system. The inability of commercial banks to convert these non-marketable government securities to cash constitutes a huge drag on the economy and severely constrains banks' ability to make funds available to finance private sector-led growth. Domestic illiquidity has also been exacerbated by the general economic decline resulting from the war and the imposition of restrictive monetary policy.

**Figure 3 S 0 2 (ENI 1 4)
Financial Sector**



Critical assumption Macro-economic policy continues to support financial sector development

USAID has selected the financial sector as a priority assistance area based on the potential for influencing government and private sector investment to achieve a wide range of sustainable outcomes and a broad class of beneficiaries. Over the next three to five years, USAID will assist to (1) make the financial system more transparent and more accessible to a broader range of the Croatian population and (2) increase availability of financing through expanding capital markets.

Results Framework Narrative

The schematic of the USAID/Zagreb program in the financial sector is presented in Figure 3. The development hypothesis depicted is that viable, transparent financial institutions combined with expanded capital markets will lead directly to development of a competitive financial sector capable of attracting domestic and foreign private investment necessary to fuel economic growth. USAID will not attempt to influence macroeconomic policy (including resolution of external debt issues with the London Club). Sound macroeconomic management is a critical assumption to the hypothesis and will be monitored over the course of the program.

Our program will create conditions necessary for the emergence of viable, transparent financial institutions through development of effective regulatory agencies (e.g., the Croatian Securities Commission and the Bank Supervision Unit of the Central Bank of Croatia), establishment of an effective legal framework for financial markets development (e.g., bankruptcy and collateral laws) and rehabilitation of selected banks. USAID assistance to the Bank Rehabilitation Agency to clean up balance sheets and reorganize problem banks will pave the way for their rehabilitation and eventual privatization under the World Bank Financial Sector Adjustment Loan (FSAL) Program. Funds will be available from the World Bank and other sources to recapitalize the banks, and development of bank and non-bank financial institutions will be undertaken by the private sector and/or other donors.

USAID's support for capital markets development will improve the functioning of the private securities markets, develop a market for government securities, and improve management capability. USAID expects significant impact on overall liquidity in the Croatian financial markets through the work of technical advisors to eliminate constraints associated with the so-called big bonds (i.e., government bonds issued against socially owned enterprises' outstanding debts) and the frozen foreign exchange assets. While it is likely that these bonds will eventually trade at heavily discounted rates, resolution of these issues is essential to unblock the system.

Strategic Results

- 1 Transparency and improved legal/regulatory framework encourage broader participation in financial markets**
 - 2 Increased participation of small and medium investors strengthens private enterprise**
 - 3 Capital markets spur competition and private-led growth**
-

Judging Performance

Table 2 at the end of this section presents the performance data for this Strategic Objective. During FY 96 USAID/Zagreb will continue to collect baseline data and define appropriate targets for each of the indicators. We are confident that outstanding data required can be obtained from the identified data sources and that we will be able to utilize existing data sources to monitor impact under this strategic objective.

Development Partners

The principal development partners under this strategic objective are the IMF and the World Bank. Both are key players for ensuring sound macroeconomic policy formulation and implementation which are critical assumptions for the SO. The World Bank will also be a direct partner in financial sector development through its Capital Markets Development Project under which USAID assistance will be coordinated. Other important partners for development of financial institutions include the British Know How Fund, the Ministry of Justice (Commercial Courts), and the Central Bank of Croatia. In formulating a strategy for capital markets development, USAID consulted closely with the World Bank and it will be represented in the technical oversight committee for the Capital Markets project. In government securities marketing, the principal partners are the Ministry of Finance and the Central Bank. The private sector, represented through the brokerages and bank boards, will also be a major partner in the financial sector. Some European banks have already established branches in Croatia and will be consulted as appropriate.

Illustrative Approaches

Regulatory Agencies	Technical assistance and training to Central Bank Supervision Unit Technical Assistance and training to establish Croatian Securities Commission and train staff
Bank Rehabilitation	Technical Assistance and training to Bank Rehabilitation Agency on asset valuation management of banks, and asset liquidation
Stock Markets	Technical Assistance to set up the clearing house and central registry for the stock exchanges
Government Security Market	Technical Assistance from US Treasury Dept to Ministry of Finance to develop solution to "big-bonds" and Frozen Foreign Exchange assets and establish functioning debt management department
Legal Regulatory Framework	Technical Assistance to develop and implement Bankruptcy, Collateral Securities Laws TA/Training to judges on new bankruptcy law and other new legislation affecting the financial sector

Sustainability

The results anticipated in this strategic objective will be achieved by 1999. Regulatory agencies, rehabilitated banks, stock exchange registry and expanded capital markets will constitute irreversible progress and systemic change toward economic restructuring. USAID can terminate its involvement in the sector or proceed to other interventions in the sector in future years without prejudicing the accomplishments under this strategic plan.

TABLE 2 USAID/Zagreb SO 2 Competitive, Market-Oriented Financial Sector (ENI Bureau SO 1 4)
PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
Strategic Objective More competitive, market-responsive financial sector								
1 Interest rate spread between deposits and loans	Definition Average loan interest rate less 90 day kuna deposit rate	April 1996	19	15		14	12	10
Source Central Bank	Unit Percent							
2 Debt securities bought voluntarily on domestic market	Definition Share of total year end government and corporate debt securities issued to voluntary buyers	1995	0	4	4	15	30	50
Source Ministry of Finance	Unit Percent							
3 Assets held in private banks	Definition Share of total bank assets held in private banks	1995	48	48		51	55	60
Source Central Bank	Unit Percent							

TABLE 2 SO₂, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 2 1 Viable, transparent financial institutions developed								
1 Household deposits in the banking system increase Source Central Bank	Definition Ratio household deposits (less frozen foreign exchange deposits) to GDP Unit Percent	1996						
2 Outstanding loans Source Central Bank	Definition Ratio bank loans to GDP Unit Percent	1995						
3 Return on assets for bank industry Source Central Bank	Definition Ratio net operating income to net assets Unit Percent	1995	-0 3	-1 0		-1 5	0 15	0 3
4 Non-performing bank assets Source Central Bank	Definition Ratio of bank assets rated C,D, or E to total bank assets Unit Percent	1995	8	15		20	20	15
Notes Initial negative numbers for items 3 and 4 are result of more accurate reporting of problem loans and default by banks under restructuring and rehabilitation								

TABLE 2 SO 2, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		IR 2 1 1 Legal framework improved						
1 Bankruptcy law implemented Source Commercial Courts	Definition First case filed as per the law Unit Yes/No	1995	No	No		Yes	-	-
2 Bankruptcy cases processed Source Commercial Courts	Definition Ratio of cases processed to conclusion to cases filed Unit Percent	1996	0	0		1	5	10
IR 2 1 2 Largest banks rehabilitated								
1 Banks enrolled in rehabilitation program Source BRA	Definition Judgement based on various factors Unit Cumulative Number	1995	0	2		3	4	4
2 Non performing assets transferred to BRA Source BRA	Definition Cumulative, nominal value of assets transferred to BRA Unit Billion Kuna	1995	0	1-2		2-3	1-2	1 or less
3 Assets transferred to BRA resolved (restructured/liquidated) Source BRA	Definition Ratio assets resolved to total assets transferred to BRA Unit Percent	1995	0	0		25	50	75

TABLE 2 SO 2, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 2 1 2 (continued)								
4 Bank Rehabilitations completed	Definition Rehabilitated Banks Privatized Unit Number	1995	0	0		0	0	1
IR 2 1 3 Bank supervision functioning								
1 Off-site analysis performed Source Central Bank	Definition Banks meeting Central Bank reporting requirements Unit Percent	1995	0	0		25	75	100
2 Banks examined regularly according to examination schedule Source Central Bank	Definition Ratio banks examined annually according to examination plan to total number of banks Unit Percent	1995	10	40		60	80	100
Notes/comments								

120

TABLE 2 SO 2, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
IR 2 2 Capital markets expanded								
1 Companies with securities officially registered at the Stock Exchange Source CROSEC, Stock Exchange	Definition Companies which comply with all requirements of the Stock Exchange and apply for official public registration of securities Unit Cumulative number	1995	1	2		6	10	14
2 Government securities issued domestically Source Ministry of Finance	Definition Volume outstanding at the end of the year Unit Billions of Kuna	1995	0	0.5		1.0	1.5	2.5
3 Budget deficit financed domestically Source Ministry of Finance	Definition Ratio domestic to total government debt financing Unit Percent	1995	0	5		20	30	40
4 Medium-term kuna bonds issued Source Ministry of Finance	Definition Volume of 366+ day gov and corporate kuna bond issued to domestic investors Unit Billions of Kuna	1995	0	0.15		0.5	1.0	2.0

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		Notes/Comments						

TABLE 2 SO 2, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		IR 2 2 1 Legal Regulatory Framework for capital markets development improved						
1 Securities Law Source Min of Fin	Definition Law becomes effective Unit Yes/No	1995	No	Yes	Yes	-	-	-
2 Investment Funds Law Source Min of Fin	Definition Law becomes effective Unit Yes/No	1995	No	-	-	-	-	-
3 Public Debt Law Source Min of Finance	Definition Law is enacted Unit Yes/No	1995	No	No	No	No	Yes	-
4 CROSEC Regulations issued Source CROSEC	Definition Regulations written and made public Unit Yes/No	1995	No	No		Yes	-	

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1996		1997	1998	1999
				Target	Actual	Target	Target	Target
5 CROSEC processing applications for registration Source CROSEC	Definition Applications processed within 30 days in compliance with law Unit Yes/No	1995	No	No		Yes	-	-
Notes/Comments								

22

TABLE 2 SO 2, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 2 2 2 Capital Markets' Institutional capacity strengthened								
1 CROSEC established Source CROSEC	Definition Commisioners appointed Unit Yes/No	1995	No	Yes	Yes	-	-	-
2 Central Depository established Source CROSEC	Definiton Registry operational Unit Yes/No	1996	No	No	No	Yes	Yes	-
3 Key Capital Markets industry people trained Source World Learning, CROSEC, Stock Exchange OTC Market, Brokerage Association	Definition CROSEC Commissioners and Staff, Brokers, Central Depository officials Unit Cumulative number of people	1995	0	6	6	70	130	200
Notes/Comments								

226

Strategic Objective 3 More effective, responsive, and accountable local government

This strategic objective is the same as the ENI objective 2.3

Problem Analysis

Three major issues are at the core of USAID/Zagreb's local governance program (1) decentralization (2) economic transition and (3) reintegration of ethnic populations in the aftermath of war

Among the more troubling secondary effects of the war in Croatia were the concentration of power and the centralization of decision-making in the executive branch of the national government. During the war, the drift toward centralization and a concomitant intolerance of dissent were rationalized by the ruling party on the basis of national security concerns and the need to present a unified front in support of the struggle for independence. While many Croatians were willing in wartime to accept these conditions as necessary sacrifices for the good of the nation, the end of the war created expectations of a more open and participative society and general improvement of the quality of life. These expectations remain in large part unfulfilled and the transition to an open democratic society remains incomplete. USAID's view is that work with local governments offers an important opportunity both to regain momentum for democratic transition in Croatia and to provide tangible improvements in the quality of lives of ordinary citizens.

Selection of this SO is based on analysis of the constitutional framework under which local governments operate and assessment of political events and circumstances on the ground. The constitution provides for a national or federal government below which lies a layer of local government which in 1996 comprised 21 county and 70 city governments. While the counties function as extensions of the national government, city governments retain a relatively large measure of independence and autonomy inherited from the structure of government of former Yugoslavia. On the ground, while the national government is dominated by a single party, local governments are more pluralistic and subject to change. In 1996, 27 of the 70 cities had opposition mayors while another 12 cities were run by an opposition-dominated city councils with an HDZ mayor. At the county level, 4 of 21 county executive seats went to opposition candidates. Demand for decentralization and support for multi-party politics is symbolized in the extended duel (and strong public reaction) over the right to appoint the mayor of Zagreb. Throughout 1996, the seven-party opposition coalition which controls the Zagreb city council fought the national government to a stalemate on this issue. New municipal and county elections are scheduled nationwide for April 1997 and should lead to a resolution of the dispute over Zagreb. Nationally, it is anticipated that the trend towards increased pluralism at the local government level will continue.

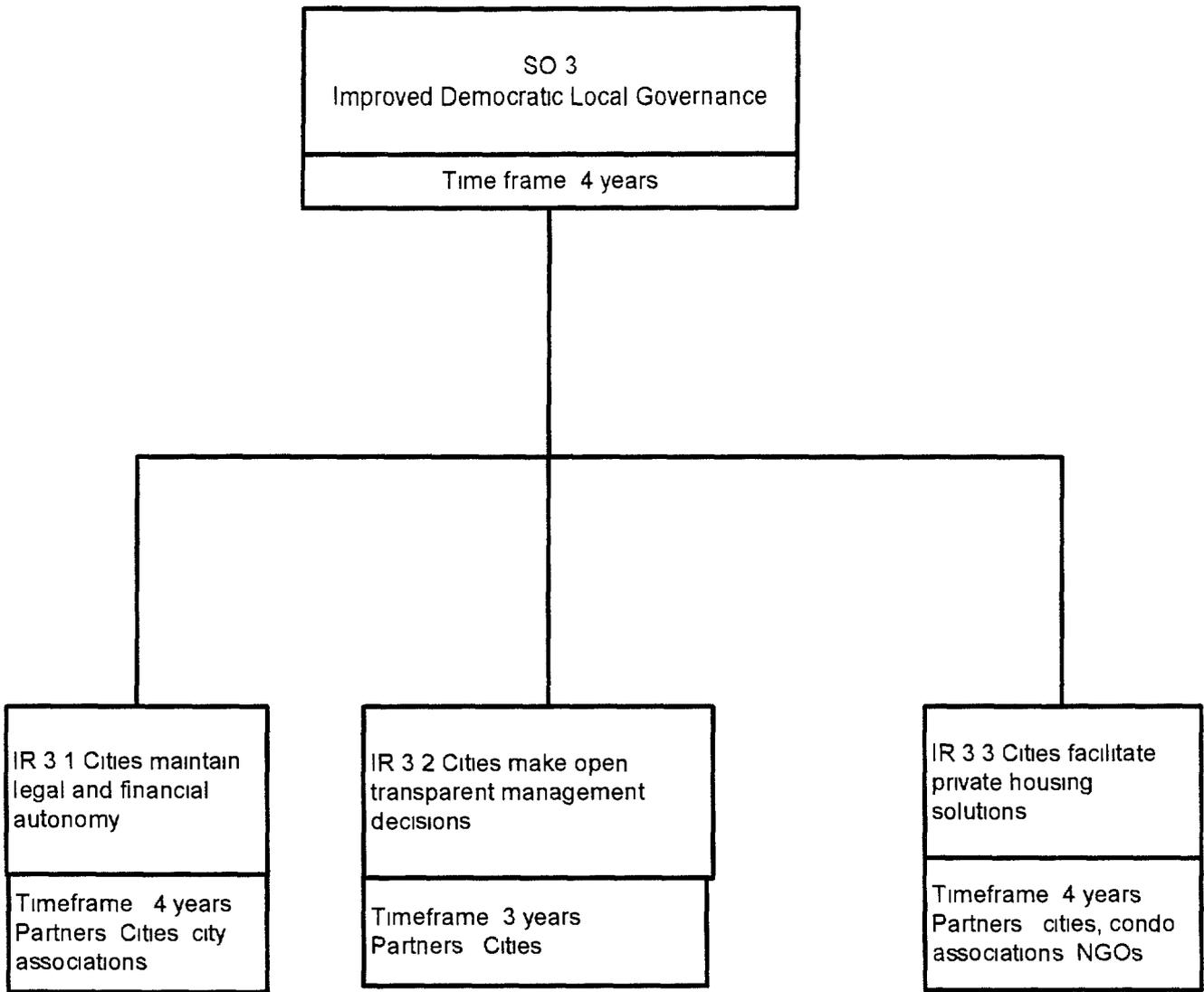
Initial USAID-sponsored analyses of city governments have indicated that city governments are receptive to new ideas and willing to make changes in favor of more participatory democracy that are not yet possible at the national level. At the same time, while the system of governance

in Croatia provides ample latitude for cities to act in their own interests few cities have taken full advantage of their autonomy primarily due to lack of an understanding of how to develop and implement a more active and responsive system of municipal government and management Training and technical assistance combined with development of an effective mechanism for regular information and sharing of "best practices" among cities will help build that capacity while at the same time developing a cadre of democratically oriented politicians and future national leaders

As is the case in other parts of the world Croatian cities have an important role to play in fostering growth of the national economy and improving the lives of ordinary citizens Although cities in the former Yugoslavia were advanced compared to their counterparts in the rest of Central and Eastern Europe the war for independence caused Croatian cities to lose several years' ground As a result, infrastructure maintenance and construction have been delayed or foregone and the quality of municipal services has suffered While innovative in some sectors few cities are managing their resources as effectively as required in a market economy Longer term capital markets have not been developed to support capital investments Cities are not using basic techniques that promote efficiency such as budget systems that separate costs by program capital investment planning cost recovery private sector participation in the delivery of services or restructuring of municipal enterprises Major improvements are needed to enable cities to provide an adequate base for attracting and supporting private investment and to foster long term expansion of the economy At the same time city governments do not routinely consult the public while considering policy options and are therefore less responsive to their constituents' real needs In many cities, the privatization of socially owned housing has not been accompanied by the institution of condominium associations to deal with the problems which arose after the buildings were turned over to the tenants

In Eastern Slavonia city governments will play a major role in the process of peaceful reintegration of affected populations Sector East is currently under the control of a U N transitional administration Beyond the period of the transition (scheduled to end in July 1997) it is anticipated that one or more cities in Eastern Slavonia (probably Vukovar) will "graduate" to the regular USAID municipal management program and be plugged into the network of participating cities

Figure 4 SO 3 (ENI 2 3)
Local Governance



Results Framework Narrative

The local governance Strategic Objective is a new initiative for USAID/Zagreb as is the municipal management project developed to address it. In 1996 a number of in-country assessments were undertaken for USAID to develop the structure of the results framework.

The schematic of USAID/Zagreb's proposed local governance program is presented in Figure 4. The development hypothesis depicted is that stronger, more accountable and effective local governments (i.e., local governments able to support alternative political bases, foster economic growth and promote multi-ethnic political democracy) will result from the combination of three intermediate results as discussed below:

(1) Cities maintain legal and financial autonomy

To achieve this result, USAID/Zagreb will assist cities in cooperation with the Association of Cities to frame and carry forward a legislative and policy dialogue. Croatian cities have not done well at representing their point of view to the national legislature or to the national policy boards such as the one that fixes certain utility rates. For example, cities were not consulted and did not actively comment on the drafting of the 1996 Co-ownership Law, which affects the privatization and management of housing, a major city responsibility. A second, less formal city association meets irregularly to discuss management issues. USAID will assist this group to share best management practices for budgeting and service provision. An important intermediate result of working with the cities and the two associations will be to maintain central revenue sharing from national government to the cities at or above the baseline level of 1996.

(2) Cities make open, transparent management decisions

To achieve this result, USAID/Zagreb will help develop citizen participation in city decisions beginning with the separation of the city operating budget from its capital improvement program. Participation will be increased over the course of 1997 through technical discussions leading to inclusion of interested citizens and citizens' groups at public hearings. City councils, the mayor's staff, and reporters will be invited to attend. As the operative step of the dialogue, targeted towards city budget formulation in autumn 1997, citizens' groups and academics will have the opportunity to present alternative proposals to segments of a city's budget for capital investment in water and sewer cost recovery for municipal services and improved housing conditions.

Strategic Results

- 1 Cities maintain legal and financial autonomy, helping them offset the dominance of central government**
 - 2 Cities make open transparent management decisions, making them more responsive and accountable to their citizens and facilitating the reintegration of eastern Slavonia**
 - 3 Cities facilitate private housing solutions**
-

USAID municipal management program will also assist cities to implement improved collection of utility fees with an eye to financing improvements in the utility delivery system. CEE regional experience has shown that city governments generally are willing to apply budget reforms as a means to obtain a major infrastructure maintenance or construction project. Croatian city utility companies are endowed with many of the aspects of a private firm with the additional benefit of receiving assistance from the city for capital construction and sometimes for operating expenses. These firms city-owned as opposed to the socially-owned firms held by the national government are in some cases quite profitable but neither profit nor controlling interest lies with the city government. An inventory of the activities, assets and cash flows of public utility companies which receive city funds will be carried out in the five cooperating cities.

Additionally, USAID will assist cities to develop, implement, and later replicate regional solutions to municipal management issues. Prior to the war, it was agreed that a new landfill was necessary for the Slavonia region, but the agreement was never implemented. The selection of a site, its subsequent development, and coordinated management of city refuse services will serve as a focal point for the cities of Osijek, Đakovo, and Vinkovci to manage as a joint activity. We anticipate that by late 1997, these cities will implement a regional solid waste management program. The plan will include Vukovar and Beli Manastir as the reintegration makes them available.

Croatian law provides for a role of city governments in the promotion of local economic development. Once cooperation has been achieved among the Slavonian cities, we will assist them to develop a regional approach to economic development to revitalize the Slavonian economy. The peaceful reintegration and economic development of Baranja and Srijem counties and their economic sphere depends on the cooperation of these cities in establishing a regional economic development strategy which will not only create new jobs but also sustain higher paying jobs and income for the growing population. Collaboration among reconstruction authorities will also be important as major rebuilding takes place in 1997 and 1998. As our initiatives prove themselves in Eastern Slavonia, they will be replicated in Western Slavonia.

Beginning in mid-1997, the cities will simplify municipal laws and regulations to enhance the conditions for doing business. USAID will promote the use of public participation techniques to help maintain an open and responsive city policy towards small and medium enterprise as well as to discuss incentives which the cities might use to attract light industry. The capacity of city utilities to support economic growth will be important; the cities might finance industrial site preparation or the construction of shell buildings. The cities will seek the necessary authorities, such as explicit city autonomy, to carry out joint activities and will coordinate central government support through their respective county offices. Major investment in infrastructure will initially require access to the national budget until cities are able to raise their own long term funds. As the regional plan evolves, USAID will assist the cities to plan approaches to multilateral banks for infrastructure projects and to target industries for future investment.

(3) Cities facilitate private housing solutions

In the larger cities socially owned multifamily housing was partially privatized converting tenants into owners of the living spaces which they occupied. City governments manage the common areas maintenance if performed is effectively a subsidy to the dwellers of the buildings. The general decline in maintenance at multifamily units leads to degradation of safety conditions and property value. As a real estate market emerges and new construction begins in earnest, we expect to see flight by wealthier tenants to better housing accelerating the descent of existing multifamily housing into slum conditions. City governments are aware of this situation but have not been able to fashion effective solutions. USAID will work for the creation of condominium associations to manage multifamily dwellings subject to the Co-Ownership Law. One private sector response to improved condominium management is expected to include emergence of maintenance companies and service vendors as cities divest their housing maintenance departments.

Croatia's housing stock was severely damaged in the 1991 war. The Croatian government has pledged resources to rebuild public utilities, but cannot financially support the rebuilding of the thousands of war-damaged houses. Questions of equitable distribution of housing assistance have arisen. USAID/Zagreb will assist cities to provide economically and fiscally sound incentives to new construction using the sale of city-owned land and access to other assets.

Judging Performance

Table 4 at the end of this section provides the performance data for monitoring progress and change. Monitoring at the SO level will be done through an expert opinion poll. Monitoring at the Intermediate Result (IR) will be done primarily through implementor reports on activities in each participating city. Implementors' reports and assessment of impact will be reviewed and confirmed through site visits by the technical management team of USAID (assisted by RHUDO/Warsaw). The indicators and targets for this SO have been reviewed with the contractor staff which arrived in October 1996. Baseline data will be developed in preparation for the FY1998 Results Review and Resources Request (R4) reporting cycle.

Development Partners

USAID's development partners under this SO are the cooperating local governments, the Ministry of Finance, the Ministry of Planning and Construction, Croatian consultants and research institutes recruited to help implement the program, public interest NGOs, financial institutions financing housing and municipal infrastructure including commercial banks, the Croatia Bank for Reconstruction, World Bank, EBRD, and the capital market support associations for cities and NGOs that may be identified. In Eastern Slavonia, other donors plus the UN are obviously also key partners.

Illustrative approaches

Technical assistance to city associations to develop an annual lobbying plan and share best management practices for budgeting and service provision

Technical assistance and training to develop transparent analytic and actively participatory budget processes leading to the separation of operating and investment budgets and the ways they are financed

Technical assistance to city councils and service departments to carry out annual performance reviews of service delivery against cost and citizen satisfaction criteria

Technical assistance and training to implement transparent budgets and service plans of their municipal service companies

Technical assistance and training to create a city-owned solid waste disposal authority in Slavonia Replication as appropriate

Technical assistance and training to create a city-owned economic development plan for Slavonia

Technical assistance and training to condominium associations to manage the buildings where they live and to use competitive practices for procurement of property management and maintenance

Technical assistance and training to assist cities to design incentives to new housing construction

Sustainability

During the program period, local government models in six cities will be developed proven and put in use By the end of the program, the networking aspects of this objective will have established a structure for disseminating best practices and sharing experiences to ensure that the positive aspects of the new local governance model can be transferred to the other 65 cities in Croatia without continued USAID guidance Pluralism has already been well established at the local level The reintegration of cities in Slavonia are short term results which will have their full impact before the end of the planning period Establishing a working level coalition between the current power structure and the future Croatian power structure to define development priorities and attract donor financing will be completed within the time frame of this strategic plan

**TABLE 3 USAID/Zagreb SO 3, Improved Democratic Local Governance (ENI BUREAU SO 2 3)
PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		Strategic Objective 3 Improved Democratic Local Governance						
1 Citizens perceive city government to be effective and responsive Source Urban Institute survey	Definition Expert opinion poll Unit % increase in positive perception	1997	TBD May 1997	na	na	na	base +5	base +10
2 Citizens perceive city service delivery to be efficient Source Urban Institute survey	Definition Expert opinion poll Unit % increase in positive perception	1997	TBD May 1997	na	na	na	base +5	base +10
3 City governments are successful advocates of legislative and policy reform Source Review of legislative agenda	Definition laws enacted, revenue sharing dialogue, GOC commitment to city autonomy Unit each action	1996	none	na	na	clear city autonomy	stable revenue sharing city finance law	annexation law

TABLE 3 SO 3 PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
3 1 Cities maintain legal and financial autonomy								
1 City associations carry forward a legislative and policy dialogue Source Implementor analysis	Definition city associations maintain a dialogue with the central executive and legislative branches Unit annual lobbying plan	1996	none	na	na	plan implemented	plan implemented	plan implemented
2 City associations share best management practices for budgeting and service provision Source Implementor analysis	Definition semiannual meetings to present practices Unit number of meetings	1996	none	na	na	1	2	2
3 Revenue sharing from central government controlled sources to the cities will not decrease Source National budget, 2 city budgets	Definition amount of centrally collected funds distributed to 2 bellwether cities Unit index of inflation-adjusted local currency units	1996	1 00	na	na	1 00	1 00	1 00

TABLE 3 SO 3 PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
				1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
3 2 Cities make open, transparent management decisions								
1 City governments use transparent, analytic, and actively participatory budget processes Source Implementor analysis	Definition Separate operating and investment budgets, with public hearings Unit Number of cities	1996	none	na	na	2	4	8
2 City service departments evaluate service delivery against cost and customer satisfaction criteria Source Implementor analysis	Definition annual performance review Unit Number of cities	1996	none	na	na	0	2	4
3 Cities have information necessary to take effective control over municipal service companies Source Implementor analysis	Definition transparent utility company budgets and service plans Unit number of cities	1996	none	na	na	2	4	8

TABLE 3 SO 3 PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		IR 3 2 Cities make open, transparent management decisions (continued)						
4 Model developed, implemented, and replicated for regional solution to municipal management issues	Definition City-owned authority spanning multiple city jurisdictions Unit Creation of solid waste disposal authority, implementation, replication	1996	none	na	na	Slavon auth ty created	1 Land fill opens in Slav 2 One replica-tion	Two replica-tions
5 Cities develop and implement a regional economic development plan for Slavonia Source Implementor analysis	Definition Regional economic development authority for five cities in Slavonia Unit Agreement on the plan, execution of plan	1996	none	na	na	Authorit y created	Infra-struct , incentiv es attract SMEs	SML support through city services

TABLE 3 SO 3 PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1996		1997	1998	1999
		YEAR	VALUE	Target	Actual	Target	Target	Target
		3.3 Cities facilitate private housing solutions						
1 Condominium association manage multifamily co-ownership housing Source Implementor analysis	Definition legally chartered associations Unit number of associations number of cities	1996	none	na	na	6 assocs in 2 cities	12 assocs in 4 cities	24 assocs in 6 cities
2 Registered private companies compete for maintenance work Source Implementor analysis	Definition private companies licensed to do maintenance work in multifamily housing Unit Companies responding to association tenders	1996	15	na	na	25	50	100
3 Cities provide incentives to new construction Source Implementor analysis	Definition Packages of city controlled financial or fiscal incentives for developers Unit Packages which result in new housing starts	1996	0	na	na	0	2	4

77

Strategic Objective 4 Increased, better informed citizens' participation in political process

This Strategic Objective corresponds to ENI Bureau SO 2 1

Problem Analysis

The primary problem in Croatia around which issues of democracy revolve is the concentration of power in the executive branch of the national government. Despite many of the ostensible trappings of a modern democracy (e.g. constitutional guarantees of freedom of speech, freedom of press, multi-party) the Croatian political structure must yet make the transition to one which relies on broad-based, open public debate and participation for the resolution of issues. Political life remains colored by the nationalist sentiments which were fanned during independence and the 1991-1995 war. The Croatian Democratic Union (HDZ) has been the best organized and financed political party since independence in 1991 and until the October 1995 elections was virtually unchecked in its dominance of Croatian political life.

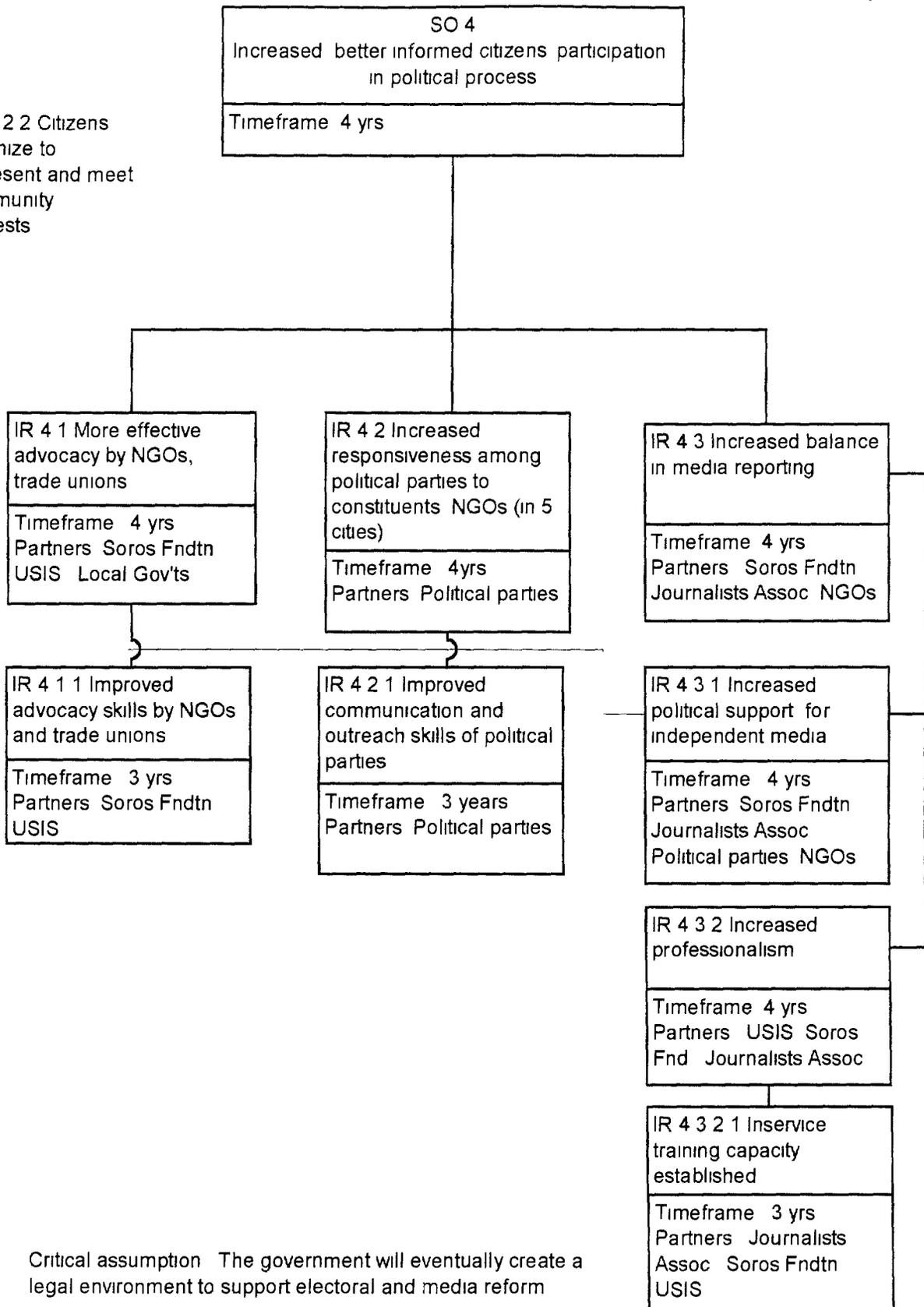
Notwithstanding HDZ's dominance, pluralism has increased since 1991. Croatia is moving away from its wartime footing, removing any practical justification for undue concentration of power in the executive. Croatians now feel that they can afford to criticize this concentration. Croatian society supports an active multiparty democracy and has increased its support for opposition parties. Although opposition parties have not yet attained enough strength to exert a moderating influence on legislation, they are able to prevent Constitutional changes by the HDZ. The inability of opposition parties to organize enduring coalitions and to offer meaningful platforms remain as continuing constraints to their viability as an alternative for national leadership. The 1995 parliamentary elections were a proving ground for the smaller parties, providing valuable lessons in preparation for the 1996 city and county elections, the 1997 presidential elections, and the 1998 parliamentary elections.

Opposing opinion is openly expressed but has little platform from which to be heard. There are insufficient independent media outlets to counter television and other state controlled media effectively. The easy flow of information typical of mature democracies does not yet exist in Croatia. We expect press freedom to remain precarious through 1998, when a new parliament will be seated. Until then, Croatian NGOs and newspapers must assume a defensive posture, preserving the space available to them and pushing the envelope where possible.

Croatian NGOs work at the national and grassroots levels to provide solutions to public problems, legal assistance, responsible critical analysis, and to promote special interests. Especially active groups include women's, human rights and peace groups, and veterans and displaced persons organizations. However, the NGO sector remains in a financially precarious position and cannot maintain sufficient permanent staff to carry programs forward without grants from external donors. The majority of Croatian NGOs are local in character and scope. The NGO community numbers 25,000 entities nationwide, of which fewer than 100 have annual budgets of \$50,000 or more. The legal climate for NGOs includes unfavorable tax and registration requirements, and NGOs are not seen by the GOC or by society in general as

Figure 5 SO 4 (ENI 2 1)
Citizens' Participation

IR 3 2 2 Citizens organize to represent and meet community interests



Critical assumption The government will eventually create a legal environment to support electoral and media reform

Media USAID/Zagreb will support monitoring and dissemination of information about the status of broadcast and print media. We will support Croatian efforts to reach compliance with Council of Europe standards for media independence. Until the parliament reforms media law, the only recourse in the face of centralized media control is an outspoken, non-partisan monitoring effort, supplemented by the provision (through the small independent press) of information which is omitted by state controlled media outlets. USAID/Zagreb will work with the European Union and Council of Europe to coordinate the dialogue on media independence. Using Croatian NGOs, we will assist in collecting and verifying information on the conduct of GOC regulatory agencies, the award of broadcast frequencies, the legal/commercial environment and use of government authority to influence the legal and commercial environment among other areas. The information will be published in Croatia and abroad for use by Croatians and international agencies.

We will also work with the media to increase their professionalism through the application of a standard code of ethics and improved investigative reporting. Journalists must achieve a high degree of professionalism to combat successfully the allegations of slander in their struggle for independence from the state.

Judging Performance

Table 4 at the end of this section presents the performance data for achieving increased citizens participation. USAID/Zagreb with strong support from ENI Technical Offices (ENI/DG) is in the process of developing and implementing two surveys, one with the University of Zagreb Political Science Department and the other with a local NGO Media Watch, to monitor and report on progress in this area. These surveys will be carried out annually beginning in 1996. Information developed through the surveys will be supplemented with information provided by project implementors including the National Democratic Institute (NDI), the Free Trade Union Institute and IREX. It should be noted that democracy initiatives rely on the measurement of perceptions and how they change over time. Such measurement is always open to interpretation regardless of the care with which any survey is constructed or the sample drawn. We believe inexpensive opinion polls of knowledgeable people in Croatia is a key mechanism for monitoring achievements under this strategic objective. Definite annual targets cannot be defined until baselines are established for some of the indicators. During FY 1996, we will submit a baseline and define the targets to be achieved after the two initial surveys have been conducted.

Development Partners

The most critical development partners for this strategic objective are the nascent Croatian public interest NGOs and labor unions that are beginning to sample involvement in the political process. We believe that these groups will continue to grow and will assume a larger role helping to moderate the political process. The main external policy dialogue in democracy is carried forward by the European Commission and the United States using the leverage of membership in the Council of Europe, partnership with the European Union, and restoration of PHARE assistance. The Nordics have been active in human rights promotion while the

Germans have provided assistance to labor unions and political parties. The principal NGO donor has been the Soros Foundation through the Open Society Institute. It has a \$6 million annual program of operating support to independent magazines and newspapers, publication of nonpartisan textbooks, increased professionalism in news reporting, a center for legal assistance, and a \$1 million NGO development program. The British Westminster Foundation also makes operating grants to Croatian NGOs.

Illustrative activities

Advocacy, outreach, political parties,	Training for political parties in constituent outreach techniques and constituency building methods for encouraging involvement
	Financing analysis by public interest groups to track political parties' records on key issues
	Advocacy training for trade unions and NGOs to allow them to become a cohesive force for change

Media	Baseline and annual surveys to assess and publish objective analysis of the amount of balanced reporting by top media outlets
	Training of journalists and editors to increase their objective reporting skills, observation tours outside of Croatia to expose the media leadership to other approaches to reporting
	Monitoring the status of the independent media to inform policy dialogue, technical assistance for analysis of legislation affecting the media
	Assistance to the Government to meet the requirements for an open media for membership in the Council of Europe

Sustainability

USAID/Zagreb will achieve its planned results but cannot ensure significant or sustained democratic reforms. Only Croatians can do that. We can assist them to advocate for an open political system through the development of active public interest groups and by keeping pressure on the GOC for more open broadcast and print media. The professional journalists involved in the USAID program will retain their individual skills and maintain the potential for balanced objective reporting. Lasting change in Croatian political life will come when pluralism increases to the point that enough political pressure exists so that no one political party can exercise control over the electronic media or of the openness of the political process.

**TABLE 4 USAID/Zagreb SO 4 Increased Citizens' Participation (ENI Bureau SO 2 1)
PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS**

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1997		1998	1999	2000
		YEAR	VALUE	Target	Actual	Target	Target	Target
		Strategic Objective Increased, better informed citizens' participation in political process						
1 Extent of citizen participation in civil society for political influence with a focus on 5 target cities Source University of Zagreb, PoliSci Faculty Survey	Definition Expert opinion poll of 50 interviews of representatives of political parties, trade unions, NGOs, local governments, religious leaders, journalists, U N , etc Unit -2/-1/0/+1/+2 (0 = no change) + analysis	1996	0	0,3		0,6	1,0	
IR 4 1 More effective advocacy by NGOs, trade unions								
1 The extent of change (of advocacy behavior) in participation Source University of Zagreb PoliSci Faculty Survey	Definition Qualitative analysis Unit -2/-1/0/+1/+2 (0 = No change) + analysis	1996	0	0,3		0,6	1 0	
Notes								

TABLE 4 SO 4, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1997		1998	1999	2000
				Target	Actual	Target	Target	Target
IR 4 1 More effective advocacy by NGOs, trade unions (cont)								
2 Extent of advocacy for each of 6 key issues Source University of Zagreb PoliSci Faculty Survey	Definition Qualitative analysis (as a subset of above poll) of advocacy behavior change on these issues independent media, reintegration, privatization, local democracy, women's rights and human rights 1 point per issue if advocacy increased Unit -2/-1/0/+1/+2 (0 = no change) + analysis	1996	0	0,3		0,6	1,0	
IR 4 1 1 Improved advocacy skills by NGOs and trade unions								
1 NGO development and advocacy skills Source University of Zagreb PoliSci Faculty Survey, USAID Grantees, USAID NGO questionnaire	Definition Qualitative analysis on ENI/DG scale of A,B,C to reflect increasing sophistication Unit Grade	1996	C	C/B		B	B/A	
Notes/Comments								

TABLE 4 SO 4, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
		YEAR	VALUE	1997		1998	1999	2000
				Target	Actual	Target	Target	Target
IR 4 2 Increased responsiveness among political parties to constituents, NGOs (in 5 cities)								
1 Extent to which parties reach out to constituents and NGOs Source NDI	Definition Number and kind of party activities directed at constituents Examples include membership development campaign, public meetings, platform development procedures, candidate recruitment activities Unit three levels low, average and high + analysis	1996	Low	Low/ Average		Average	Average /High	
IR 4 2 1 Improved communication and outreach skills								
1 Extent to which political parties increase and intensify their outreach and communication activities and habits soliciting constituent and NGO input Source NDI	Definition Number of parties meeting high average and low standards Standards defined by NDI and based on variety of techniques, depth of commitment, and frequency of use for each major party Unit 3 levels parties meeting low, average, high standards	1996	Low	Low/ Average		Average	Average /High	
Notes/comments								

52

TABLE 4 SO 4, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA						
				1997		1998	1999	2000
		YEAR	VALUE	Target	Actual	Target	Target	Target
IR 4 3 Increased balance in media reporting								
1 Frequency of presentation of 2 or more perspectives on issues in the media Source Civic Initiative for Freedom of Speech Zgb (NGO) and IREX (focus group)	Definition Assessment of all coverage of selected issues by 5 media outlets over 7 days 4 times per year Unit 3 levels media meeting low, average, high standards	1996	Low	Low/ Average		Average	Average /High	
2 Freedom House rating Source Freedom House	Definition Freedom House definitions Unit Not free (NF) 61-100, Partly free (PF) 31-60, Free (F) 0-30	1996	58 PF	PF		PF	PF/P	
IR 4 3 1 Increased political support for independent media								
1 Extent of change Source University of Zagreb PolSci Faculty, NDI	Definition Monitoring of statements, publications, actions of political parties in support of independent media Unit -2/-1/0/+1/+2 (0 = no change) + analysis	1996	0	0,3		0,6	1,0	
Notes/Comments								

TABLE 4 SO 4, PERFORMANCE DATA BASELINE, TARGETS, AND ACTUAL RESULTS (continued)

PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		1997		1998	1999	2000
		YEAR	VALUE	Target	Actual	Target	Target	Target
		IR 4 3 1 Increased political support for independent media (continued)						
2 Level of public awareness of the need for an independent media Source University of Zagreb PoliScie Faculty	Definition Priority of the issue in the rank order of citizens' concerns Unit -2/-1/0/+1/+2	1996	0	0,3		0,6	0,8	
IR 4 3 2 Increased media professionalism								
1 Use of professional standards for peer reviews by Journalist Association Source Croatian Journalists Association and IREX	Definition Code of professional standards used to address complaints as they arise Unit 3 levels low use of code average and high + analysis	1996	Low	Average		Average /High	High	
2 Evidence of investigative reporting in the media Source Civic Initiative for Freedom of Speech (Media Watch Report) and IREX	Definition Amount of material based on investigative research in samples of 5 issues per reporting period of 5 select outlets Standards defined by Media Watch Unit 5 media outlets meeting low medium and high standards for amount of investigative reporting	1996	Low	Low/ Medium		Medium	Medium /High	

D Special Initiatives and Cross Cutting Programs

Special initiatives and cross-cutting programs included under the strategic plan are the American International Health Alliance (AIHA) the Participant Training Project for Europe (PTPE) the Entrepreneurial Management and Executive Development (EMED) project, and the Audit Evaluation and Program Support (AEPS) Project. Planned obligations in support of AIHA activities are scheduled to end in FY 1997. PTPE activities are expected to continue through the life of the program; however, beginning in FY 1996, only those PTPE activities that directly support SOs outlined in this strategy will receive funding. Beginning in FY '97, each SO team will be requested to indicate how much of the overall SO financial resources will be set aside to support training. Earmarked training funds will then be transferred as appropriate to the participant training line item. For future accounting purposes, funding for participant training will remain under the cross cutting objectives category. The same methodology will be applied to EMED.

III Resource Requirements

Table 5 below presents USAID/Zagreb's resource requirements for FY 1996-1999. The table is based on the most recent guidance levels for FY 1997-1999. Allocations by strategic objective accurately reflect the mission's priorities as discussed in this strategy. In FYs 96 and 97, more than half of the total requested resources were directed to the Slavonia program which is the highest priority. This included all funds under SO #1 and additional funds under SOs 3 and 4 (i.e., for urban rehabilitation and development and democracy building in Slavonia). In making allocations, we have directed as much of the program resources to Slavonia as is possible without jeopardizing the potential for achieving meaningful results towards democratic and economic transition in the rest of the country. While Slavonia is the most important near-term issue, economic and democratic transition are essential for long term stability and broad-based growth in Croatia and for achieving the overall purpose of the SEED Act.

Table 5 Resource Requirements

USAID/Zagreb Resources Request Table				
OBJECTIVE	FY 1996	FY 1997	FY 1998	FY 1999
STRATEGIC OBJECTIVE #1 Reintegration of populations affected by Erdut Agreement				
Dev Assistance SEED	6 500	3 075	10 000	4 000
STRATEGIC OBJECTIVE #2 More competitive market responsive financial sector				
Dev Assistance/SEED	1 775	2 075	3 000	1 000
Other	0	0	0	0
STRATEGIC OBJECTIVE #3 More effective responsive accountable local government				
Dev Assistance SEED	3 000	1 750	3 500	1 500
Other	0	0	0	0
STRATEGIC OBJECTIVE #4 Increased better informed citizens participation in public decision making				
Dev Assistance/SEED	1 965	3 100	6 000	3 000
Other	0	0	0	0
SPECIAL OBJECTIVES				
Dev Assistance/SEED	2 053	2 000	1 500	500
Other				
TOTAL ALL SOURCES	14 975	12 000	24 000	10 000
DEV ASSISTANCE/SEED	14,975	12,000	24,000	10,000
Economic Support Funds	0	0	0	0
PL 480 Title II	0	0	0	0
Title III	0	0	0	0
Int Disaster Assistance	0	0	0	0
Other	0	0	0	0