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OVERVIEW

Of Programs in Croatia

United States Agency for Development

Mission Director: William Jeffers

Telephone: 385-1-661-2175

Fax: 385-1-661-2008

www.usembassy.hr/usaidd

Introduction

USAID's Support for U.S. National Interests

The USAID assistance program is aimed to help Croatia continue progress toward a prominent place within the community of democratic and market-oriented nations, and to become a force for stability, peace, cooperation and prosperity throughout Southeast Europe. Croatia's integration into regional and Euro-Atlantic institutions, developing positive relations with other states in Southeast Europe, and managing transnational threats are essential to achieving U.S. bilateral and regional foreign policy goals.

Over the last twelve years the USAID program has evolved from humanitarian assistance and reconstruction efforts to a program that is supporting Croatia's successful transition to a free market-oriented economy and democratic government. Croatia has achieved significant, yet still fragile, progress toward macroeconomic stability, growth, and strengthening of democratic institutions. Still, it lags behind the reform levels achieved by Northern Tier East European nations (Poland, Czech, Hungary, Slovakia) at their graduation from U.S. assistance. While accession may not come for several years, Croatia sees its future as a fully integrated member of the EU.

Croatia's economy, although robust in comparison to other East European countries, still it generates less than one-third of the average per capita incomes of EU states. It is plagued by high unemployment rate (14.9%) and low competitive capacity in international markets. In order to achieve sustainable economic growth and eventually lower unemployment, the government must accelerate privatization, reduce bureaucracy, and improve the investment climate. There is a need for increased effort against corruption through more effective application of the rule of law, particularly the improvement in the court system.

Croatia's democratic transition has been less impressive. It lags Northern Tier states on all major reform indicators especially in rule of law, public governance and corruption. There have been however significant improvements since 2000 in free and fair elections, civil society, and independent media.

USAID Croatia's program will end in 2008. The U.S. administration decided that bilateral funding for Croatia would extend through FY 2006, and these funds would provide adequate resources to successfully "graduate" Croatia. USAID's goal is to promote measurable levels of sustainable reform comparable to Northern Tier East European countries at their SEED graduation. Over the next few years we expect Croatia will achieve these targets, while our program will leave behind lasting results, and lay the groundwork for longer-term structural and institutional reform efforts of the European Union (EU), World Bank and other international financial institutions (IFIs) – all as part of the Graduation Plan.

USAID CROATIA

Over the last two years USAID has consolidated its portfolio from four Strategic Objectives to two corresponding to our interest in promoting a dynamic private sector and participatory democratic governance.

USAID assistance in the Private Sector supports programs in small and medium enterprise promotion and agribusiness. Stimulating and addressing demand for programs in the lesser-developed areas of Croatia, including the war-affected regions is a high priority.

Under the Democracy and Governance portfolio, USAID's activities include building grassroots demand for continuing democratic reform through civil society activism and transparent and enhanced local governance. This will ensure that we leave behind deeply-rooted and sustainable reforms by program graduation.

In addition, the USAID program will support cross-cutting initiatives that incorporate anti-corruption, participant training and environmental protection activities in all areas of the portfolio.

The USAID/Croatia staff includes four U.S. Direct Hire Foreign Service Officers, four U.S. Personal Services Contractors (USPSCs), and 27 Foreign Service Nationals (FSNs)

Strategic Objective 1.3

Growth of a Dynamic and Competitive Private Sector

Michael Greene, Team Leader

• Fiscal Reform

USAID is supporting the Ministry of Finance (MOF) in its efforts to restructure the fiscal operations of the GOC. Assistance has been provided on several integrated aspects of financial management including transactions processing, budget execution, budget preparation, cash management, debt management, financial & managerial reporting, and internal audit. The program has achieved notable successes. For example a new process was developed giving the MOF more control over and better information on the hundreds of separate bank accounts of line ministries. USAID-sponsored training of the Ministry's staff in modern approaches to cash management and has significantly improved its cash management system. The MOF's internal control and audit functions were designed and implemented with USAID technical assistance. Finally USAID coordinated the international community's cooperation to develop a long-term strategic plan and staffing arrangement which will modernize the MOF's Debt Management system. All the work is coordinated closely with that of a U.S. Treasury Advisor, also assigned to the MOF, who focuses on budget and tax questions.

Implementer: Bearing Point

• Privatization

In order to increase investment and improve the economic viability of Croatian enterprises and the overall economy, USAID assists the Croatian Privatization Fund (CPF). The CPF implements the GOC's aggressive privatization program to divest state ownership in companies and assets in a transparent and competitive manner. USAID-funded advisors assist the CPF with: monitoring and analyzing their asset portfolio; developing company profiles and divestiture strategies for the sale of enterprises; training CPF employees in valuation methodologies; improving tendering procedures for the sale of enterprises, including the introduction of bid evaluation criteria emphasizing investment and enhanced transparency; and developing pre-privatization strategies for enterprises including large vertically integrated agricultural conglomerates (Agrokombinati). As a result, the CPF's portfolio was reduced from a level of approximately 1,900 enterprises at the outset of USAID assistance to the present level of approximately 1,100 enterprises. The timeline for final divestiture of the CPF's portfolio is by the end of 2006. USAID advisors have also helped develop and implement a communication strategy to raise public understanding of privatization issues.

Implementer: IBM Business Consultants



• Croatia Enterprise Promotion (CEP)

Over 200 trainees representing more than 100 private sector firms have participated in CEP's training courses enabling them to deliver valuable business development services to a wide range of Croatian businesses. Recipients of the training have secured more than 300 paid contracts from interested local businesses representing more than 1 million Euros of revenue. The CEP program provides business development services (BDS) to enterprises of all sizes (with an emphasis on SMEs) through an independent network of trained and certified consultants that operate on a for-fee basis. It also addresses inefficiencies in the SME finance



markets and other constraints to enterprise growth. Through the CEP program, USAID supported the 5000-member Croatian Employer's Association (HUP) in establishing the Association for Management Consultants (AMC) in order to ensure quality standards for consultants. Further assistance was instrumental in the AMC's development of internationally accredited standardization programs for ISO and Hazard Analysis of critical Control Points (HAACP). As these standards are required by the EU, SMEs that receive accreditation in these programs will be better able to meet EU criteria for export purposes. The long-term goal is to stimulate economic growth, increased employment, and higher income levels through improved quality and export of products and services of small and medium sized enterprises (SMEs) in Croatia. The CEP program stimulates private enterprise productivity, competitiveness, and profitability in Croatia by providing best practices business tools, and access to international quality standards and certification to enterprises.

Implementers: Deloitte Touche Tohmatsu

• Energy Sector Restructuring



The Croatian Energy Regulatory Council and the New York State Public Service Commission signed a Memorandum of Understanding in November 2003, establishing an Energy Regulatory Partnership.

USAID's technical assistance has played a key role in Croatia's progress toward the restructuring of its power sector. The Agency's efforts were integral to the passage of four key laws that created a statutory regulatory framework for the energy sector. Croatia's geographic position and technical capability make it the leading actor in regional electricity interconnections and Croatia is pursuing the development of a Regional Electricity Market in Southeast Europe. The creation of an independent national power regulator to ensure fair and effective competition is the first step in this process, and technical assistance provided by USAID has enabled the Croatian Energy Regulatory Council to assert its strong role. A

recently signed partnership with the New York public utilities regulator is a good example of the know-how exchanges that the USG project has brokered. Additionally USAID technical assistance provided concrete advice to the Croatian National Power Utility (HEP) and resulted in a Memorandum of Understanding between the USG and HEP to provide further technical support in relation to tariff calculation, restructuring and eventual privatization.

Implementers (under Washington based regional contracts): Pierce-Atwood, CMS Energy, U.S. Energy Association, National Association of Regulatory Utility Commissioners, Alliance to Save Energy

• Raising Income in Economically Distressed Areas (RIEDA)



The RIEDA program has provided training and technical assistance to approximately 300 producers and has been instrumental in securing financing for 200 emerging or non commercial family farmers through a local micro-finance institution. The overall objective of the Raising Incomes in Economically Distressed Areas Project (RIEDA) is to increase employment and incomes in these areas through increased agricultural production, the development of farmer organizations, and the creation of market linkages for select products. Intended RIEDA results include: increased income among participants along the marketing chain; higher productivity (both in efficiency and overall

output); job creation; and ultimately a more vibrant Croatian economy. The REIDA project has successfully developed several drip irrigation projects with small local farmers in the Dalmatia region to compensate for the lack of rain during the hot and dry summer months. Additionally, pilot hydroponic systems for horticulture production in Dalmatia have been established.

Implementer: Development Alternatives International, Inc. (DAI)

• Agribusiness Competitiveness Enhancement (ACE)

The Agribusiness Competitiveness Enhancement (ACE) project supports Croatia's agribusiness sector, which consists mostly of SMEs. This activity strengthens overall sector competitiveness, expands domestic processor utilization of domestic inputs, and expands export markets. ACE is also helping to re-establish critical linkages among domestic producer organizations, processors and markets. ACE is a critical new activity for several reasons. The breakup of the large, vertically integrated agricultural producer/processor conglomerates and Croatia's potential EU accession on the horizon carry



serious implications for the competitiveness of Croatia’s agricultural products, which must be able to compete directly with heavily subsidized EU agriculture. In addition, agriculture is one of the few possible avenues for economic development and employment generation in the lesser developed areas of Croatia, especially the war-affected areas. The project assisted a major fresh produce supplier in meeting the strict quality standards of the U.S. Military. As a result of two successful test shipments, the distributor has recently received a standing order for weekly shipments of produce to support U.S. forces in Kosovo that is expected to bring in more than 600,000 Euros in revenues over the next year. Two pilot projects demonstrated improved fruit and vegetable production resulting in increased yields and higher quality products that led to a commitment of a major food processor to transfer this new technology to its growers in the area during the next year. This multi-year program will provide technical assistance to over 3,000 agriculture producers and approximately 100 agribusiness enterprises that will ultimately increase employment in the sector, softening the blow that will certainly accompany privatization in the agriculture sector.



Pilot hydroponic green house in Trogir.

Strategic Objective 2.1

More Effective Citizen Participation and Improved Governance

Chuck Howell, Team Leader

• Civil Society (Non-Governmental Organizations)

Over 123 new community projects reached every county of Croatia and mobilized more than 16,000 citizens, bringing long needed change and improvement to these communities through the USAID Croatia NGO (CroNGO) program. USAID launched the CroNGO program in December 2001, to further strengthen the NGO sector in areas critical for the development of civil society in Croatia. CroNGO helps create networks of strong national and community-based organizations throughout Croatia to effectively represent citizens' interests/concerns to local, regional and national level policy makers.



CroNGO assists well-developed NGOs, grassroots NGOs, small community building groups and unregistered citizens' initiatives from around the country through both large and small grants, training and technical assistance, networking and information sharing.

The program has two long-term goals: 1) to enhance the sustainability of a group of key organizations whose leadership is important to the long-term future of Croatia's NGO sector; and 2) to encourage the development of community-based civil society initiatives through an integrated program of small grants.



USG efforts to improve the legal environment for Croatia's non-profit sector achieved remarkable results to date. The USAID-funded International Center for Not-For-Profit Law (ICNL) provided a full range of legal, structural and organizational advice to the Government Office for Cooperation with NGO's that resulted in the enactment of new laws on Humanitarian Assistance and the National Foundation for Civil Society as well as a decree on the Distribution of the Lottery Proceeds to NGO's. USAID's NGO Support Program (CroNGO) has

engaged citizens around the country as well as made stronger, more professional organizations to take the leading role in advocating for delivering services to those disenfranchised sectors of society including HIV/AIDS and Trafficking victims, the elderly and the disabled.

Implementers: International Center for Not-for-Profit Law (ICNL); and Academy for Education and Development (AED)

Local Government Reform

In 1996, Croatia's local government sector increased five-fold to 567 municipalities. However, the Government's fiscal and decentralization plan places greater demands on county and municipal administrations, which are often ill-prepared to assume newly-devolved authorities. USAID's response, the pilot Local Government Reform Program (LGRP), has successfully



developed five management models in fundamental areas of public administration, including: strategic planning in local economic development; asset and financial management; citizen participation; management information systems, transparency in budgeting, and local governmental reform. Many of these activities are conducted under the auspices of the Croatian Association of Cities and Municipalities to strengthen the body as a future source of local government reform. Since 2003 more than 100 cities and municipalities have implemented one or more of the five LGRP management models.

USAID has expanded its LGRP program and initiated an LGRP II activity in late 2003. Over the next four years, the project will provide direct technical assistance and training to 65 partner local governments to address the needs of local governments in all of the management models developed under LGRP. Since April 2004, more than 40 local governments of various sizes – from small municipalities to large cities have signed Memorandums of Understanding with USAID expressing their willingness to cooperate on the implementation of one or more of the management models.

The most impressive result to date has been the adoption of the computerized financial management model by dozens of local governments, enabling them to develop transparent budgets and allow, for the first time, citizen participation and public debate on expenditures and the allocation of resources.

Implementer: The Urban Institute (Local Government Reform Project)

• Political Party Development Program

Maintaining political stability and conforming to EU accession standards will require the strengthening of Croatia's key political institutions - parliament and political parties - particularly in their roles as vehicles for citizen political representation and participation. U.S. assistance in political processes continues to be essential to further the consolidation of democratic reforms. Focus has shifted from work with political parties to work with institutions, particularly with the new parliament. U.S. assistance will also be directed toward the shortcomings identified in the OSCE assessment of the November 23 election: improving the legislative framework for elections, improving access to voting for refugees and increased transparency of campaign spending.



USAID also assists the Croatian Parliament in its endeavors to improve the legislative process, administrative operations, and the accountability of members of Parliament to their constituents.

Implementer: National Democratic Institute for International Affairs (NDI)

• Media

ProMedia II Program fosters the diversity, effectiveness and financial viability of independent media by strengthening business and management practices, and improving revenues for commercial media to remain solvent and self-sustaining. The program provides technical and material assistance for Croatia's first independent television network and the country's first independent radio network. As a result, 24 media outlets (13 radio, four print and seven television stations) are now generating self-sustaining revenue. Croatia's only independent television network is now financially and technically independent. This program assists independent



media outlets and journalists with training, strengthens media associations and facilitates the further development of an independent media. ProMedia II also provides advice on legal reforms that support independent media. For example, USAID assisted the GOC in developing legislation that enabled nationwide networking. The government also indicated that it will use the recommendations of the independent media working group in developing the new Media Law and to meet EU standards regarding independent media.

Implementer: International Research and Exchanges Board (IREX)

• Anti-Trafficking

Trafficking of human beings has been on the rise throughout Central and Southeast Europe over the past several years. Croatia is primarily a transit country and the GOC has developed a National Action Plan to help combat this growing problem. USAID is helping to raise awareness and to educate the public, media, law enforcement officials and policy-makers about the problems related to trafficking in persons through a series of targeted public awareness campaigns and trainings.

A recently USAID-sponsored workshop brought together members of the Croatian Government, Croatia's NGO sector and the international community to review the progress to date in combating trafficking in person in Croatia. The workshop resulted in a draft Action Plan and a set of public policy options for the government. The group developed specific recommendations for legislation, public outreach, prevention, victim detection and assistance, and law enforcement measures to reduce trafficking in persons.

Participant Training:

Clay Epperson, Team Leader

Participant training focuses on providing specific skills to individuals in order to strengthen the functioning of Croatian institutions in coping with the changing economic and political structures. USAID training activities occur across sectors and address issues such as developing free market economies, awareness of citizen's rights and responsibilities, environment, strengthening local government and social transition. Since 1993, nearly 1,900 Croatians have attended U.S. based and third country training. Participants come from diverse fields and areas of expertise in Croatia: Government and ministry officials, parliamentarians, judges, state attorneys, mayors, NGO representatives, media, local government officials, bankers, business managers, tourism sector representatives, leaders and experts from trade unions and employers, associations.

Implementer: World Learning

Participants Trained				
Year	In Country	Third Country	Training in U.S.	Total
1993	-	-	18	18
1994	-	-	34	34
1995	0	0	48	48
1996	0	0	70	70
1997	0	12	78	90
1998	0	8	63	71
1999	10	8	34	52
2000	16	55	68	139
2001	72	84	67	223
2002	283	150	27	460
2003	403	229	61	693
Total	784	546	568	1898