

USAID/Croatia

Annual Report

FY 2005

June 16, 2005

Please Note:

The attached RESULTS INFORMATION is from the FY 2005 Annual Report and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

The Annual Report is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

Related document information can be obtained from:
USAID Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring, MD 20910
Telephone: (301) 562-0641
Fax: (301) 588-7787
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

Portions released on or after July 1, 2005

Croatia

Performance:

Croatia has made significant progress toward macroeconomic stability, growth, and strengthening of democratic institutions. However, it has yet to reach key reform targets achieved by Northern Tier East European nations (Poland, Czech, Hungary, Slovakia) that signaled their readiness to successfully graduate from U.S. assistance. As the SEED assistance graduation date approaches, Croatia will be intensifying its own efforts to complete its economic and social transition and to bring its systems in line with EU and NATO requirements. USAID's strategy provides Croatia with targeted assistance to enable it to become another successful graduate from the SEED program.

The current Croatian government came to power in January 2004, and is led by the HDZ, the same political party which voters rejected in elections in January 2000 for their corrupt and nationalist policies. The HDZ has demonstrated that the internal reform the party underwent during four years in opposition was genuine. During its first year in power, the HDZ has surprised critics with its unwavering pro-integration and pro-reform policies. The government achieved EU candidacy status in June 2004 and has been a leader in regional cooperation and reconciliation. Some hardliners, however, remain within HDZ leadership circles. While their views are becoming less relevant within the party, international engagement remains a key element in keeping this government on track.

Since 2000 Croatia has been one of the fastest growing economies in Central Europe with GDP growth averaging 4 per cent. Tight monetary policy and increased competition has helped keep inflation at below three percent for the last two years. Unemployment decreased to 13.8 percent (ILO methodology) for the first half of 2004, down from 14.1% for the first half of 2003, and 14.4% at the end of 2002. Economic growth has been driven by a recovery of the tourist sector from the travails of the 90s; strong government investment -- especially in roads -- and a boom in consumer spending. The latter was fueled by the injection of foreign capital into the almost completely privatized banking sector and low tariffs.

Progress was made in 2004 toward reintegrating the ethnic Serb minority displaced by the war. The signing of an agreement between the Government of Croatia (GoC) and Serb representatives in the Parliament to resolve refugee return issues including property reconstruction and repossession assistance symbolized a new era of interethnic cooperation and a move toward decreasing discrimination against minorities. Despite the slow implementation of that agreement, the GoC's success in encouraging local authorities to establish Minority Councils throughout Croatia at the local level demonstrated their commitment to ensuring that minorities have equitable representation.

Croatia's continued progress toward integration into regional and Euro-Atlantic security institutions and developing positive relations with other states in Southeast Europe is essential to achieving U.S. foreign policy goals of improving regional security in the Balkans and managing transnational threats. In 2004 Croatia made important progress in building stronger relationships with its neighbors in the region. Relations with Serbia and Montenegro are moving toward normalization as clearly demonstrated by President Mesic's and Prime Minister Sanader's symbolically important, first-ever official visits to Belgrade in 2004. Likewise Croatia's relations with Bosnia became more transparent as the Croatian Government continued to support international community efforts to build state institutions in Bosnia and Herzegovina.

U.S. Interests and Goals: USAID's assistance program continues to be an integral tool in achieving U.S. national interests. SEED assistance resources enable USAID to support and, in some cases, accelerate Croatia's successful transition to a fully democratic society and productive market-oriented economy that will serve as a cornerstone for peace and stability in Southeast Europe while promoting Croatia's aspirations for membership in NATO and the EU.

USAID Croatia's program will end in 2008. Funding for fiscal years 2005 and 2006 mark the final installments for the bilateral USAID program. These funds will be used to complete measurable and sustainable reforms comparable to other East European countries which have graduated from SEED assistance. In preparation for graduating the program, USAID has consolidated its portfolio from four Strategic Objectives to two; placing the highest priority on securing a dynamic private sector and participatory democratic governance. Economic programs will improve SME and agribusiness development; facilitate new investment, accelerate the privatization process; and develop a competitive energy sector. Democracy programs will strengthen local government; enhance the capacity and role of non-governmental organizations (NGOs); and improve Croatia's anti-trafficking in persons efforts. In addition, the USAID program will incorporate anti-corruption, participant training and support for legacy institutions across of the portfolio.

Donor Relations: As USG resources decline, EU and IFI programs are expanding significantly to support harmonization of Croatian with EU laws and policies. USAID is engaged with the European Commission (EC) and EU member state donors (as well as the IFIs) in ensuring our specific programs and long-term visions are complementary and reinforcing. USAID collaboration with the World Bank Program Assistance Loans and the EC's CARDS programs has been advantageous to Croatia and the donors. For example USAID's Local Government Project closely coordinates its program with the EC's regional economic development program. Recently, the GoC welcomed a competitive program using public administration "Best Practices" which was jointly designed by the EU, the Council of Europe and USAID. Likewise USAID experts led a collaborative World Bank/IMF/EU/Ministry of Finance review of GoC debt management practices which enabled the GoC to eliminate major management vulnerabilities and keep its standby arrangement with the IMF on track.

Challenges: Unemployment, now hovering between 13% and 15%, may be the most critical threat to Croatia's progress toward long-term political and economic stability and the country's successful integration into the EU. USAID's SME Development program will enhance the business performance of over 4,000 Croatian enterprises through improved market outreach, business practices and access to investment and financing. Approximately 20,000 new jobs will be created over the life of the project with 30% of those in the economically disadvantaged and war-affected regions.

The rapid decline in Croatia's agricultural production has resulted in dramatically higher food import bills and lower levels of rural incomes and employment. The USAID-funded Agribusiness Competitiveness Enhancement (ACE) and Raising Incomes in Economically Distressed Areas (RIEDA) projects support Croatia's agribusiness sector, which consists mostly of SMEs. These activities strengthen overall sector competitiveness, expand domestic processor utilization of domestic inputs, expand export markets and generate employment. ACE is also helping to re-establish critical linkages among domestic producer organizations, processors and markets. RIEDA's targeted assistance in the war-affected regions will improve on-farm efficiency that will increase the incomes of small agricultural producers and will help create an estimated 2,000 jobs.

Key Achievements: Increase Agricultural Productivity: The USAID-funded Agribusiness Competitiveness Enhancement (ACE) program is rebuilding agricultural market linkages from on-farm producers to final markets that had disintegrated in the break up of Yugoslavia. ACE has formed partnerships with some of the largest food processors in the country in the dairy, horticulture and swine sectors with the aim of assisting producers to improve their production practices deliver higher-quality and lower-cost outputs which meet the requirements of the processors. For example, a pilot project with a major regional tomato and food processor resulted in a 43% drop in water usage and a 21% increase in yields, resulting in a bottom line increase in revenue of 28% to the farmer. Replication of this model to an estimated 100 farmers next year is expected to generate approximately \$200,000 in additional annual revenue.

USAID in cooperation with the largest Croatian dairy, LURA, worked with two pilot groups of dairy farmers to increase the quantity and quality of milk they deliver to LURA. As a result, one of the pilot coop groups with 182 dairy farmers increased their production in 2004 by 1,416 metric tons and increased their EU-quality milk by 30%. The improved quality and increased quantity resulted in increased annual revenue

of over \$500,000 for the farmers in the cooperative.

USAID also expanded access to agricultural credit for investment, through a USAID-negotiated Development Credit Authority (DCA) guarantee with a local commercial bank. The results have been immediate. For less than a \$400,000 USAID grant, the bank is now offering \$10 million in credit to Croatian farmers. With much more reasonable collateral requirements for farmers, we expect that the program will assist 130 commercial farmers over the next two years.

Improve Economic Policy and Governance: USAID support to establish Croatia's National Competitiveness Council (NCC) recently received nationwide attention. Croatia's President, Prime Minister and other cabinet members publicly announced their commitment to implement 55 recommendations made by the NCC that will lead to economic and education reform to which will improve Croatia's national and international competitiveness. Seven working groups made up of senior government officials and representatives of the NCC are currently implementing the Council's recommendations.

Support for Democratic Local Government and Decentralization: USAID's Local Government Reform Program (LGRP) assisted 42 new local governments to improve their basic public administration management including financial and asset management, local economic development, improved and transparent procurement practices, performance monitoring, e-government and citizen participation in local affairs. As a result, 50% of these local governments have already initiated transparent practices such as publicizing annual budgets and procurement decisions that have expanded citizen participation. Additionally municipalities and cities have adopted asset management reforms which have markedly increased officially recorded assets that were previously not reported. Some of these are already providing new budget revenue. For example, the City Council of a large Croatian city, Karlovac, approved the adoption of the City's asset management plan that has identified the disposition of over 1,500 assets and stands to either save the city approximately 15% of its annual budget.

Strengthen Civil Society: The USAID-funded NGO Capacity Program (CroNGO) has strengthened local organizations that provide training and technical support to NGOs, developed individual NGO capacity and improved relations between grassroots organizations and local governments. Specifically CroNGO implemented 86 additional community development projects. Over the life of the program, a total of 221 projects were funded and mobilized more than 47,000 people to participate in project activities. The direct beneficiaries of these grass roots programs include 37,000 people-many of whom represent Croatia's most needy citizens. These projects included community building, economic development, environmental protection and social services. Participating NGOs have generated approximately \$1.3 million in community contributions. With a view to professionalize Croatia's NGOs, USAID helped 12 leading NGOs to deliver broader support services to grassroots groups and networks, through grants, training and technical assistance.

Gender: Because of both economic and equity issues, gender affects program performance the USAID program consciously promotes the need for increased gender balance in areas such as advocacy through the Mission's NGO capacity building, local government and SME development programs. During FY 2004 the Mission funded three large and nine small gender projects implemented by women NGOs throughout Croatia. The projects assisted elderly women, young mothers, and women in war affected regions, providing assistance in the areas of health, social services and economic empowerment. Through a USAID-funded grant program, 19 women leaders from NGOs, political parties, local governments and labor unions completed a Training-of-Trainer program which improved their leadership skills and provided them with necessary tools promote gender equity through training in each of their respective sectors.

Global Development Alliance: Investment promotion is a critical ingredient for sustained economic growth in Croatia. Unfortunately the government has made little progress towards the development of a national investment promotion agency. In response, USAID created a GDA to expand investor outreach in order to approach potential investors in a targeted way. A consortium of partners including USAID, private sector businesses, the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, and an

association of Croatian regional economic development agencies jointly established the “Croatia Investment Promotion Alliance”. The Alliance has opened an outreach office in Vienna, Austria targeting potential investors from the Western European business community. The Alliance’s primary goal is to increase investors' awareness of Croatia’s investment potential, to encourage investors to undertake site visits to explore possible investments projects, and ultimately to generate and support actual investment projects and create jobs in Croatia. USAID’s \$150,000 contribution to the Alliance has leveraged \$180,000 in contributions from the other Alliance partners.

Results Framework

160-0120 Fiscal Reform

160-0130 Growth of a Dynamic and Competitive Private Sector

SO Level Indicator(s):

- 1.3.1 Creation of a competitive power market
- 1.3.2 Strengthened capacity of SMEs to operate and compete
- 1.3.3 Increased employment and growth in lesser developed areas
- 1.3.4 Competitive, transparent privatization of state-owned enterprises
- 1.3.5 Improved investment climate
- 1.3.2.1 Adoption of improved enterprise management systems
- 1.3.2.2 Strengthened business associations
- 1.3.2.3 Increased utilization of domestic agribusiness products
- 1.3.3.1 Increased availability of micro-credit
- 1.3.3.2 Increased availability of appropriate business development services
- 1.3.5.1 Improved transparency in government fiscal operations

160-0210 More Effective Citizen Participation and Improved Governance

SO Level Indicator(s):

- 2.1.1 More effective citizen participation in political and economic decision-making.
- 2.1.2 Greater efficiency and responsiveness of local governance systems
- 2.1.1.1 Community based civic action programs expanded/implemented
- 2.1.1.2 Improved sustainability of NGO sector
- 2.1.1.3 Strengthened political parties to be open, inclusive and representative of citizens
- 2.1.2.1 Local Government capacity to manage resources improved

160-0310 Accelerated Return and Sustainable Reintegration of War-Affected Populations

160-0340 Mitigation of Adverse Social Conditions and Trends

160-0420 Cross-Cutting Programs