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**Local economic development in the war-torn  
areas of Croatia:  
Supporting the transition towards a  
participatory and decentralized market  
economy**



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## Abstract

Five years after the return to peace, Croatia is now faced with a number of critical challenges: creating new employment opportunities in local communities, towns and cities for school leavers, young adults, returned refugees and displaced persons; achieving the framework conditions for eventual integration into the European Union and, finally, the challenge of competing and establishing a niche for Croatian products in the global market place.

Given the country's recent history, the International Labour Organization (ILO) recognizes that Croatia's long-term success in meeting these challenges will ultimately depend on nurturing models of enterprise and economic decision-making that are conducive to socially sustainable development. In line with the European Union's stated goals of economic and social cohesion, existing resources and assets must be managed by, and made to work in favour of, local stakeholders in ways that not only generate wealth, but also preserve a good living environment and foster harmony within local communities.

The promotion of a Local Economic Development (LED) Process in Croatia has been a positive step in this direction. The ILO is providing support to forums through which local stakeholders are not only expected to articulate their interests, but also contribute to rebuilding the wider physical, institutional, social and economic infrastructure of their communities. This study highlights some of the successes encountered in the implementation of LED initiatives against the backdrop of Croatia's national development goals and targets. It is hoped that the issues presented will provide inspiration to any governments thinking about, or having already established, similar structures in their own countries.



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## Foreword

More than a decade after independence, Croatia is still grappling with three types of transition: political, diplomatic and economic. Significant progress has been made recently in two out of the three. Since the death of Franjo Tudjman in December 1999 important strides have been taken in the realm of political transition towards democracy. Croatia now not only enjoys a bustling political life, but serious efforts have been made to increase and improve the accountability and transparency of government institutions and to guarantee the enforcement of the rule of law.

Diplomatic transition has come hand in hand with political transition. Recent political changes in Croatia have been well received by the international community and have contributed to the gradual emergence of the country from its former international isolation. Although EU and NATO membership are still a relatively distant prospect, such issues are now firmly on the table and Croatia is becoming an increasingly respected member of the international community.

Economic transition is proving more problematic however. With a GDP per capita, which is slightly higher than a quarter of the European Union's average, Croatia is still recovering from the massive destruction of wealth, which characterized the first three years after independence. The country's weak economic performance during the final years of the 1990s has only served to further underline the difficulties Croatia is facing in its efforts to catch up with the rest of Europe. Slow economic recovery is also bringing to light and enhancing already existing internal disparities. Whereas there are evident signs of economic dynamism in urban areas – and especially in Split, Rijeka and, above all, Zagreb – decades of rural migration and years of war have left many areas of the country in a dire economic situation. This is particularly evident in the regions that were either affected by war or that have suffered the brunt of the impact of the conflict in neighbouring Bosnia and Herzegovina and Yugoslavia: the whole belt surrounding Bosnia and Herzegovina and the region of Slavonia, in Eastern Croatia.

What are the economic prospects for these areas? So far, the greater part of the national and international assistance available for Croatia has been targeted at resolving countrywide macroeconomic issues and supporting reconstruction efforts. While beneficial for the country as a whole, these endeavours are likely to lead to a further concentration of economic activity in the main urban agglomerations, leaving many territories isolated from national and global economic developments and the whole country with looming social problems. Some international agencies have however recognized the need for alternative policies that promote sustainable development in, and mobilize the society of, less dynamic regions.

The ILO has been one of the most active agencies focused on addressing these problems. This working paper, written by Carmela Salzano in collaboration with the members of the Local Economic Development Programme at the ILO, presents how bottom-up local economic development strategies are being implemented in the relatively remote and war-ravaged districts of Sibenik-Knin County and Western Slavonia. In these areas, the ILO, in collaboration with UNDP and UNOPS and local public and private partners, has contributed to the creation of a territorial development strategy. The main purpose of such a strategy is to identify, through local participation and social dialogue, the economic potential of each locality and to mobilize existing social resources in order to fulfil that potential and engender sustainable economic development.

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The creation of the Local Economic Development Agencies (LEDAs) has been a key step in a policy process which may well prove to be the only feasible medium-term alternative for regenerating and revitalizing the economic and social tissue in regions of Croatia where the economic prospects would have otherwise been dire.

Andrés Rodríguez-Pose,  
Founder and Director of the MSc in Local Economic Development  
at the London School of Economics.

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## Structure of the study

**Part I** provides an overview of the environment and framework for local economic development in Croatia in terms of the politico-economic reforms of recent years, as well as developments in the nature of assistance provided by the international community in the post war period. The section ends with a brief assessment of current development challenges.

**Part II** outlines the rationale for introducing the Local Economic Development (LED) approach in Croatia before examining LED principles, as implemented by the International Labour Organization (ILO) in many countries around the world over the past decade. The section also highlights the comparative advantages of Local Economic Development Agencies (LEDAs), which act as the vehicle through which LED principles become rooted in local economic contexts.

**Part III** draws attention to the achievements of the Local Economic Development Agencies that have been established. It will focus especially (but not exclusively) on the first two LEDAs created in Croatia, namely in Sibenik-Knin County and Western Slavonia, and looks ahead to the future role of both the ILO and the LEDAs within the changing economic and social development context in Croatia.





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## List of acronyms

ASB	Arbeiter Samariter Bund
CRS	Catholic Relief Services
DFID	United Kingdom Department for International Development
EBRD	European Bank for Reconstruction and Development
EU	European Union
EUPOP	EU Reconstruction Programme for Return
GDP	Gross domestic product
GTZ	German technical cooperation
HBOR	Croatian Bank for Reconstruction and Development
IFI	International financial institution
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	Institute for International Relations
IOM	International Organization for Migration
IRS	International Relief Service
JNA	Yugoslav Peoples Army
LED	Local economic development
LEDA	Local Economic Development Agency
MAF	Ministry of Agriculture and Forestry
NATO	North Atlantic Treaty Organization
NGO	Non governmental organization
SAP	Stabilization and association process
SAR	Serb autonomous regions
SEE	South-east European countries
SME	Small and medium-sized enterprise
SSAD	Strategy for sustainable agricultural development
UN	United Nations
UNDP	United Nations Development Agency
UNHCR	United Nations High Commissioner for Refugees
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization



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## Introduction

With each passing year, the economies of the world are being woven more closely together. Capital moves quickly across national borders seeking the highest return, while companies look for locations with the cheapest operating costs and fewest restrictions. Many population groups themselves are moving to follow employment opportunities or simply going in search of those locations that offer the most affordable or desired quality of life.

The insertion of local economies into globalized networks of production and consumption is reshaping economic contexts and as the pace of socio-economic change quickens, some regions and the citizens within them have proved more adept at repositioning themselves within national and global markets than others. Unlike in the past however, local economies that appear to be lagging will no longer be able to look to the State for the financing of their social and economic policies. In fact in most developed nations, top down regional development policies are being abandoned in favour of more decentralized forms of “bottom-up” decision-making that allow, and even force, regions to take a greater role in shaping their economic fortunes.

In transition countries such as Croatia, the “bottom-up” approach to economic development is very recent. The initial response to the challenges of globalization following independence from Yugoslavia in 1991 was to embark on a massive programme of economic and political restructuring, involving the privatization of state-owned enterprises and the decentralization of the public administration. However the programme of structural adjustment was delayed in the early stages by the war from 1992-95 and has been complicated since then by the need for heavy public expenditure and investments in post-conflict reconstruction.

With a degree of normalcy now returned to the political and economic scenes, both government and external technical assistance partners are beginning to explore the potential for long-term economic and social stability through promoting endogenous growth at the local level. The dynamism of local politico-administrative institutions in this process will be critical as such institutions are expected to take a more proactive or entrepreneurial role in formulating new visions for local economic development. With declining resources available for investments in regional infrastructures, strategies should focus on helping local populations to transform existing resources into assets for endogenous development and to use them as leverage for guiding new investments into the locality.

Over the past five years, the International Labour Organization (ILO), the United Nations Office for Project Services (UNOPS) and the United Nations Development Programme (UNDP) have been building a comprehensive programme of support for the process of economic development at the local level in Croatia. The European Union has generously provided funding for this programme, in particular for the creation of Guarantee Funds, institution building and reinforcement of local capacities. The LED Process extends the range of tools available for local development policies in the short, medium and long terms.

This report is intended to help the reader in achieving a better understanding of the rationale behind activities and initiatives implemented within the framework of the LED Process in Croatia. The basic guidelines and elements as described here, have also been employed by the ILO in a wide range of initiatives in Latin America, Africa, Europe and Asia during the past decade. They are not intended as a blueprint for all LED interventions throughout the world, but seek to provide some basic insights to decision-makers (within both private and public sectors) who are in the process of designing their own tools for reactivating local markets or overcoming the problems of instability and social exclusion.

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# I. Territorial analysis

## I.1. Background

The Republic of Croatia is a geographically and culturally heterogeneous country with a population of approximately 4.8 million people. Covering an area of over 56,600 square kilometres, the country is nearly one-and-a-half times the size of the Netherlands and is composed of three geographic and climatic zones: the lowland zone in the north of the country, influenced by the continental climate; the coastal zone in the south, influenced by the Mediterranean climate; and the mountainous zone stretching across the continental interior.

In terms of population density, north-western Croatia with 33.7 per cent of the total surface area and 46.7 per cent of the population is the most densely populated. Dalmatia, situated further down on the Adriatic coast has 21.3 per cent of total land surface and 20.1 per cent of the population. The third most populous region is Slavonia-Baranja with 20.7 per cent of the land surface and 19.6 per cent of the country's population.

In the course of time, differences in regional topographies and climates, as well as historical exposure to different economic, cultural, political and external influences have resulted in the evolution of distinctive regional economic structures and traditions. For example, the economic strength of the Dalmatia region, which is largely inhospitable to agricultural activities or heavy industry in the interior, rests on coastal tourism, the fishing industry and the sale of traditional Croatian products such as wine, cheeses and hams. In Western Slavonia, on the other hand, where the land is more fertile, the regional economy was built on small-scale agriculture and productive activities such food processing and furniture making.

The general composition of regional economies in Croatia has been changing over the past 30 years. Rural areas throughout the country have been losing their populations since the 1960s as the contribution of the agricultural sector to the national economy declines in importance. This trend accelerated considerably in the 1990s due to the "Homelands" war, which forced thousands of families to leave their homes and migrate towards the urban areas of Zagreb, Split and Rijeka. With few employment opportunities available upon their return, many families and young people have stayed away, exerting pressure on cities to cushion these blows.

Sibenik-Knin County, located in the south west of Croatia along the Adriatic coast, and extending inland to the Bosnia and Herzegovina border, was one of the most badly affected areas during the conflict. The war damages recorded by the Government as of November 1995 totaled over US\$740 million. The counties of Pozesko-Slavonska and Brodsko-Posavska in Western Slavonia<sup>1</sup> also suffered considerably. As a result of the fighting, shelling, acts of vandalism and ethnic cleansing, the region was devastated. This is especially true of the 30-km-wide strip parallel to the Bosnian border that constituted the main front line.

In Okučani municipality, in the extreme west of Brodsko Posavska County, the majority of the resident 5,000 Serbs fled the area and only 20 per cent have returned since the fighting ceased. Returnees have found their houses and land occupied by Croats, as

<sup>1</sup> Western Slavonia was the object of two major military campaigns during a period of four years (1991-95).



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well as refugees from Bosnia and Herzegovina. Ninety-five per cent of the population in the municipality is engaged in (very) small-scale agriculture, from which they generate just enough income to survive.

Unsurprisingly, the “Homelands” war, followed by the Bosnian and Kosovo crises, and, most recently, the unrest in Macedonia, have severely affected the tourism sector in Croatia, which is a key source of foreign exchange. Industrial and agricultural output also suffered since a considerable part of the production area was occupied until mid-1995 and “internal” (Yugoslavian) and external markets were lost.

Regional investment remains constrained by public expenditure commitments to the financing of politico-administrative reforms and reconstruction efforts in war-affected areas, particularly the areas of special state concern. But six years after the war ended, many regions have been unable to regain the economic advantages enjoyed at the beginning of the 1990s. The principal factories, which are state owned – electric power, petrol, chemicals and metals – are in crisis. The situation with services, especially in the commercial exchanges and in catering, is a little better. Inter- and intra-regional imbalances are widening and there is a danger that some regions will lag further and further behind.

Nevertheless, there are significant opportunities for economic development at the local level if the right combination of strategies and targeted economic instruments can be found.

## **I.2. Political situation**

### ***Croatia in war: A brief background to the conflict***

Croatia and Slovenia announced their independence from Yugoslavia on 25 June 1991. In response, Yugoslavia dispatched its army (JNA) in a show of force designed to make Slovenia back down. The ten-day war that followed was brought to an end through a deal mediated by the European Commission between Yugoslavia and Slovenia. However while the JNA withdrew from Slovenia, it began to concentrate its efforts in Croatia, where open conflict began soon thereafter.

As the war continued, Croatia’s Serbian “autonomous regions” united in December 1991 to form the “Republic of Serbian Krajina” (“RSK”). In January 1992, the American mediator Cyrus Vance brokered a deal to dispatch a UN Protection Force (UNPROFOR) to the region and hostilities between Yugoslavia and Croatia came to an end. However, the situation over the “RSK”, which Croatia considered an illegal Serb occupation, remained unresolved.

In the meantime, war was also raging in neighbouring Bosnia. A clash erupted between Muslims, Croats and Serbs and in 1992 Croatia began supporting Bosnian Croats, who had established a “Croatian Union of Herzeg-Bosna” on Bosnian territory. As a result of the Bosnian war, Croatia received 182,000 Bosnian Croat refugees, mostly from the northern, Serb-controlled regions (Banja Luka).

The first parliamentary (Lower House) and Presidential elections (under the revised Croatian Constitution of 1990) were held in August 1992. Franjo Tudjman was elected as President. At the same time, negotiations over the “RSK” continued between Zagreb and Croatian Serb leaders within the framework of the International Conference on former Yugoslavia, established at the August 1992 London Conference. But there was no progress. A surprise attack by Croatian troops in January 1993 resulted in the recovery of the strategically important Straits of Maslenica.

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In early 1993, Croatian forces took back some key strategic positions in a military action against the Serbs. The Vance-Owen peace plan was replaced by other negotiations, leading to a bilateral accord between Croatia and Serbia in January 1994, pledging to restore communication and transportation links between the two Republics. By that time, Serbs were still occupying 25 per cent of the present Croatian territory. In March 1994, the Bosnian government and Bosnian Croats signed a charter for a new federation in Washington, linking the remaining territory of Bosnia controlled by the two groups. At the same time, the new federation signed an agreement with Croatia to facilitate economic cooperation.

Throughout 1994, relations between Croatia and the “RSK” improved, but the latter’s leadership continued to resist any form of political reintegration into Croatia. Frustrated at the lack of progress on the diplomatic track, Croatia launched a sudden military offensive (“Flash”) in May 1995, which rapidly recaptured Western Slavonia. In August 1995, a second Croatian military action (“Storm”) in the Krajina left Eastern Slavonia as the only remaining Serb-controlled area within Croatia’s territory. The Krajina Serb population was encouraged to leave by the “RSK” leadership and the vast majority (over 150,000) did so. Widespread reports of human rights violations during and after the military operations led the EU to suspend its assistance programme (PHARE) and negotiations on an EU/Croatian Economic and Trade Agreement.

Parliamentary elections were held in October 1995, resulting in the HDZ political party winning 75 of 127 available seats. This was less than expected given the euphoria generated by the Government’s decisive military actions, coupled with changes to the electoral law designed to favour the ruling party. The HDZ (the governing party) lost control of Zagreb city council but Tudjman refused to accept an opposition mayor, proposing instead a coalition authority. In December 1995, President Tudjman signed the GFAP, known as the Dayton Peace Agreement in Paris, passing responsibility to the United Nations for the peaceful reintegration of Eastern Slavonia to Croatia at the end of 1996 and in 1997.

### ***Recent political developments***

As the defender of Croatian independence and territorial integrity, the HDZ enjoyed unchallenged power from 1990 until President Tudjman’s death on 10 December 1999. But the HDZ’s nationalist policies combined with a failure to meet international commitments on the protection of human rights and commitment to democratic standards, effectively isolated Croatia from the European mainstream. Since the death of President Tudjman, the Croatian political landscape has changed beyond recognition. Croatia’s centre-left coalition of six parties – led by Prime Minister Racan of the Social Democrats (SDP) – came to office in January 2000. Stjepan Mesic won the second round of the presidential elections on 7 February 2000 and was inaugurated as President on 18 February 2000.

The incoming administration broke with President Tudjman’s inward-looking orientation and strong state controls. Both the Prime Minister and President Mesic have tried to get a grip on Croatia’s public finances and initiated a comprehensive economic reform programme. Other reforms include the restructuring of the Croatian armed forces and civil service; working towards the establishment of an independent, public broadcasting service and liberalization of the media; a new approach to Croatia’s ethnic minorities, including removal of some legislative provisions which discriminated against ethnic Serb refugees; and constitutional reform.

### Milestones in Croatia's relationships with the international community <sup>1</sup>

June 1991	Croatia declares independence from Yugoslavia
January 1992	Croatia is recognized by the European Committee
May 1992	Croatia joins the United Nations system. In the same year, the Republic of Croatia became a member State of the International Labour Organization
February 1993	Croatia joined the World Bank
June 1999	Croatia signs the Stability Pact for South-eastern Europe. Stability Pact partners are countries of the region and their neighbours, including: Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Hungary, FYR Macedonia, Moldova, Poland, Romania, Slovakia, Slovenia, Turkey and the Federal Republic of Yugoslavia
January 2000	The election of a new Government and President in Croatia at the start of 2000, following the death of President Franjo Tudjman. The new Government is headed by Prime Minister Ivica Racan, and President Stipe Mesic
September 2000	Extension of the duty-free access to EU market for products from Croatia
November 2000	Opening of negotiations with the European Union for a Stabilization and Association Agreement (SAA) <sup>2</sup> in the margins of the Zagreb Summit
March 2001	Croatia signs IMF Standby Agreement
May 2001	Further elaboration of dialogue on the SAA
29 October 2001	Signing of the SAA with the European Union taking Croatia a step further towards potential EU membership. Parties to the Agreement also passed a joint declaration on political dialogue, which aims to reinforce democratic principles and institutions and strengthen respect for human rights and the rights of national minorities

<sup>1</sup> Adapted from *Milestones in the EU's relations with Croatia*. [http://europa.eu.int/comm/external\\_relations/see/croatia/](http://europa.eu.int/comm/external_relations/see/croatia/)

<sup>2</sup> The SAA will provide for a wide-ranging cooperation and will guide a gradual approach of Croatia to the EU structures. The SAA includes the establishment of a framework for political dialogue and the promotion of economic and trade relations with the perspective of establishing a free trade area after a transitional period of six years. The agreement will also provide a basis for cooperation in the field of justice and home affairs, and identify the "acquis communautaire" which Croatia will have to adopt in order to be able to effectively participate in the European integration process.

## I.3. Development framework

The following section highlights the main national bodies and external development partners responsible for contributing towards Croatia's economic and social development goals.

### ***Politico-administrative structure***

The centralized public administration of Croatia was inherited from the Yugoslav system. The current programme of decentralization has resulted in the administrative division of the Croatian territory into counties, towns and municipalities, leading to the creation of 21 counties, 123 towns and 420 municipalities.

Apart from administrative aspect of the reform process, substantial changes have taken place in the system of local governments and territorial administration with the principal aim of strengthening the lowest levels of local governments, i.e. the principle of subsidiarity. Functions and responsibilities, particularly relating to public administration in the fields of regional economic development, social welfare, health and education are slowly being devolved to the local municipality and County level (Zupanijas).

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By approving the *Law on local self-government and administration* in April 2001, the Croatian Government recognized that effective local development starts from the “bottom-up”. However, within the Law there is not much reference to the structure, organization and management of a regional development policy. In fact, municipalities and towns continue to develop their own individual development plans on an annual basis based on local budgets. These budgets, coming from the Ministry of Finance or the Directorate for Regional Development, are very often just enough to pay for the minimum running costs, leaving the financing of development projects depending largely on the state budget or assistance provided by the UN agencies, bilateral organizations and international NGOs.

### ***National policies and responsible bodies***

Over the past two years, the reforms to support the programme of structural adjustment have got back on track and the government has elaborated a number of policies in favour of the new social and economic development targets. The main national bodies and their policies are profiled in Annex I.

Microenterprise activities are now viewed as entry points to the creation of self-reliant communities in Croatia. In order to provide continuous support to small businesses, as well as facilitate the creation of new SMEs, the Government of Croatia created the Ministry of SMEs in 2000 and adopted the “small business development programme” as a starting point for defining long-term support at the county, city and municipality level.

### ***Assistance from the international donor community***

Since the conflict came to an end in 1995, aid from the international community has concentrated on the former war-affected areas in Croatia, namely western and Eastern Slavonia, Banovina, Lika and Dalmatia, roughly the “belt” around Bosnia and Herzegovina. The main implementation partners include the European Union, the United Nations (specifically the UNDP, UNOPS and UNHCR), bilateral agencies such as USAID, Canadian and British technical cooperation, and international NGOs such as Arbeiter-Samariter-Bund e.V. (ASB), the International Relief Council, Catholic Relief Services and Caritas International.

In order to ensure the sustainability of the return process, the European Commission promoted an integrated approach, attaching equal importance to both the reconstruction of housing and infrastructure as well as economic sustainability. From 1996 onwards, funds provided by the European Union were therefore not only directed at meeting some of the beneficiaries’ immediate recovery needs, including the reconstruction of houses, schools and health centres, de-mining and rehabilitation of a basic infrastructure (local roads, power and water supplies), but longer term assistance for income-generation activities.

The UNDP began to address the issue of longer-term development by establishing two Guarantee Funds (one for Western Slavonia and one for Lika Dalmatia) through the *Programme for rehabilitation and sustainable development in war-torn areas of Croatia*. Funding for the Guarantee Funds was secured from the EU, while implementation arrangements were worked out by UNOPS, with the ILO providing technical backstopping support. After 1997, the Guarantee Funds began to offer microcredits for family-based businesses towards the extension of the LED component.

The United Nations agencies and the EU have recently begun to shift their emphasis more directly to the long-term approach. In this framework, the ILO has been a key player by assisting the establishment of Local Economic Development Agencies in Western and Eastern Slavonia, Sibenik-Knin County, as well as in Sisak County. The LEDAs are

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assuming responsibilities for identifying long-term, socially sustainable strategies for employment creation and economic development in these war-affected territories.

Bilateral agencies and international NGOs are slowly following suit and the last two years have witnessed a proliferation of interventions to promote economically and socially sustainable development practices, particularly through the creation of credit programmes for small and medium-sized enterprises. The EBRD provides funds to ten programmes for SMEs in agriculture, crafts, and industry generally implemented through the HBOR/Croatian Bank for Reconstruction and Development. Development agencies have also designed and are implementing programmes to assist the Croatian Government in dealing with reforms towards fiscal decentralization and ensuring democratic governance.

## **I.4. The environment for business**

### ***The macroeconomy***

After a very difficult year in 1999, the Croatian economy expanded modestly in 2000 with real GDP growth of 3.7 per cent, compared with -0.4 per cent a year earlier. Industrial production, retail trade and a healthy recovery in the tourism sector all contributed to GDP growth in 2000.

Retail price inflation increased from 4.2 per cent in 1999 to 6.2 per cent in 2000, influenced by the rise in world oil prices. The Government's fiscal deficit continued to be a major concern at 7 per cent of GDP, but the Government made significant commitments to reduce public expenditure in 2001 and succeeded in negotiating a \$255 million IMF standby agreement on the strength of this commitment.

Although the Government's stated intention is not to draw down the IMF credit line, the standby agreement should significantly boost investor confidence and the country's overall financial standing. A \$200 million World Bank structural adjustment loan is also in negotiation, with a number of preconditions having been met during 2001.

Economic output in Croatia is now similar to that of any industrial market economy with manufacturing accounting for about 30 per cent of GDP, agriculture accounting for about 10 per cent and services accounting for 60 per cent. Imports and exports of goods and services are approximately 80 per cent of GDP.

Foreign direct investment continues to lag, with delays in the privatization of strategic industries and virtually no significant green field investment. However the current account deficit dropped from 6.9 per cent of GDP in 1999, to 2.1 per cent in 2000, diminishing the country's external vulnerability. Conversely, Croatia has always had high trade links with western European countries and in 1998, approximately half of foreign trade was with the EU. Exports went principally to Germany, Italy and Slovenia.

There is also a free and stable exchange rate for the Kuna. Foreign currencies (particularly the Deutschmark<sup>2</sup> until January 2001) were in wide circulation and price controls have been abolished. At the beginning of 1997, international financial institutions evaluated Croatia's credit rating as satisfying. In the last 20 months interest rates have decreased significantly. Stronger confidence in the banking system led to growing deposits. Consumer credit has expanded and profitability on the banking system increased

<sup>2</sup> Now replaced by the euro.

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further, although lending to enterprises remained weak in 2000 in part because privatized banks are assessing risks more cautiously.

All of these advances indicate that the economy has started to come out of recession and the Croatian government forecast a 4 per cent GDP growth for 2001. But further reforms are necessary. Priority areas include pension reform, health service reform and the provisions of subsidies to state-owned enterprises, if the economy is to prosper.

### ***The legal system***

In the light of the above reforms, the legislative framework has been adapted towards the new economic goals. No distinction is now made between foreign and domestic investors, meaning that the position of all taxpayers – foreign and domestic, natural and legal persons – is now the same. A series of incentive measures and exemptions for investment has been foreseen, such as free trade zones in regions in the areas of special state concern (particularly Vukovar) for larger investments and the creation of new jobs. Reforms of commercial law and business regulations are also planned to reduce some of the bureaucratic hurdles to the creation of small businesses. The system is still highly cumbersome however.

### ***The financial sector***

There are 61 banks in Croatia. Sixteen banks (26 per cent) are wholly or majority-owned by the Government. Forty other banks (66 per cent) are wholly or predominantly under private ownership. Five banks are majority owned by foreign banks. The two largest banks, Privedna Bank Zagreb and Zagrebacka Bank, own 50 per cent of assets in the banking sector. Commercial banks are free to fix their own interest rates, which vary from 8 to 20 per cent. Short-term credit rates average about 19 per cent. Loan periods are from three months to five years. The Croatian Bank for Reconstruction and Development (HBOR) was established on 12 June 1992 by the Law on Croatian Credit Bank for Reconstruction (HKBO).

Despite the ongoing reform of the formal banking sector and the presence of private and foreign banks, in general Croatia is still suffering from serious liquidity problems. Government programmes such as subsidized credit through the Croatian Bank for Reconstruction and Development and the National Guaranty Programme tend to add to the unwieldiness of the commercial banking sector.

## **1.5. Development challenges**

### ***Linking the macro to the micro***

It is now generally agreed among the major international finance institutions that Croatia can look forward to long-term growth prospects. But the country's recent history places increased importance on the need for equitable and sustainable growth strategies. However, there is strong evidence at the local level that promising macroeconomic indicators will have little impact on the number of new jobs created annually, or small business growth, unless closer linkages are made between the macro level and economic growth prospects in concrete social settings. At the present time, the unemployment rate in Croatia is running at above 20 per cent and living and working conditions, especially outside of the main urban areas, are deteriorating rapidly.

One of the main difficulties is that integrated regional development policies or plans have not been elaborated. At the present time, there is no harmonization between the

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objectives of enterprise policy, which emphasizes small firm growth, and existing policies related to the spatial development of municipalities and counties. In fact, there is little coordination between the municipalities and the surrounding territory of which they are a part. Policies on land use, transport and communication infrastructure and local business regulations or systems of subsidies for inward investment remain under separate policy streams. The hierarchical system of central planning may have been abolished, but the relationships between decisions made by different ministries at different levels of decision-making are not clearly defined.

At the same time, government staff within the politico-administrative institutions of towns and municipalities is often not equipped with the basic managerial and technical skills for them to become more effectively involved in this decentralization process. Many staff lack the expertise to coordinate and oversee social and market reforms, or to promote entrepreneurship within their local economies. As a result, they are unable to provide informed guidance to local entrepreneurs or to benefit from much of the available development financing for investment programmes.

Bureaucratic hurdles are not the only obstacles to making enterprise growth within regions. Another obstacle is the rather conservative attitude of the banking system and its traditional risk-averting policies. In Croatia as elsewhere, one of the major constraint on small and medium-sized enterprises is the limited resources available for entrepreneurs to expand their businesses. Exposure to commercial credits was limited even before the war and the weakening of national, regional and international capital markets during the 1990s made commercial banks even more hesitant to disburse credits to the private sector.

Over the past six years, few banks have made the effort to gain an in-depth knowledge and understanding of the workings of private capital markets. Bank staff are also inexperienced in working with local entrepreneurs, especially small-scale farmers and craftsmen employing traditional methods and tend to see credit applications in isolation from the wider business environment. In many areas, these craftsmen will be the key to growth and employment generation, making it imperative that the banks adjust their policies on risk management to local market conditions.

From the perspective of the private sector, although credit schemes exist, their accessibility is limited by over-demanding conditions, which are hard to fulfil by start-ups and small businesses.<sup>3</sup> The stringent conditions required by banks may be due to the fact that some businesses developed bad credit histories in recent years. The grant culture which emerged in the immediate post war period to finance reconstruction activities has frequently translated into a tendency not to take reimbursement of loans and credits too seriously in other business areas.

Nevertheless, the blame for the barrier to enterprise growth at the local level in Croatia does not only lie in the absence of appropriate financial services. The lack of (non-financial) business support services, and a lack of an entrepreneurial culture, further blocks the effective development of SMEs in the country. Croatian entrepreneurs and businesses require assistance in accessing new markets, introducing modern technologies and new products, as well as forming joint ventures and strategic partnerships with foreign industries. Equally, they require intermediaries to help them in accessing the opportunities available within national financial markets and navigating around new business regulation.

<sup>3</sup> There is an urgent need to reform the mechanisms for handling and appraising credit requests for SMEs and a programme of assistance is foreseen in the new UNDP/UNOPS programme for 2002.

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Cultural attitudes are changing very slowly and while the number of SME support programmes is rising rapidly, there is still a dramatic need for both local institutions or NGOs that can understand the priorities of public, financial and private sectors and facilitate a rapprochement between all three.

### ***Post-conflict rehabilitation and reconstruction***

In view of the recent political changes in Belgrade and Sarajevo, the return of refugees living abroad will pose a massive challenge to local administrations over the next few years. At the same time, tensions remain between Croats, Serb returnees and refugees from Bosnia and Herzegovina within counties and municipalities. Most Serbs left their houses during the war and few have returned. In the meantime, Croat refugees from Bosnia have been given houses or grants to resettle in the areas of special state concern. This is causing some hostility between ethnic groups at the local level.

The biggest challenge, however, is to generate jobs at a rate that will absorb workers made redundant by restructuring and privatization, as well as new labour force entrants and returning refugees. Employment creation will also play a key role in stemming the brain drain of educated and skilled young people from rural war-damaged areas to urban centres and further afield.

### ***Integration into the European Union***

The economic and social health of Croatia (and ultimately that of the European Union) is undoubtedly tied to stability in south-eastern Europe, particularly in Yugoslavia, Bosnia and Herzegovina (BiH) and FYR Macedonia. Regional integration and the rebuilding of cross-border exchange and economic ties with Yugoslavia will have immediate benefits for trade and economic growth. The signing of the Stability Pact for South-Eastern Europe and the Stabilization and Association Agreement with the European Union take Croatia a step further towards regional and European integration.

The preparation for accession to the EU has already had an impact on the spatial development of Croatia. Transport and telecommunication networks are being upgraded to facilitate fast, frequent and bureaucracy-free movement of people, goods and information along them. The impact will be even more greatly felt when the regulations and instruments of common agricultural policy and structural and cohesion policy are applied. Integration into the EU in the long term implies that Croatia will become enmeshed in a dense network of contacts, interactions and partnerships between cities and regions.

The inhabitants and businesses of many regions will not be accustomed to foreign trade agreements, tariffs, travel and work regulations and the nature of the impact on the overall regional economy will largely depend on its dynamism and competitiveness. At the institutional level, counties and municipalities will require assistance in harmonizing local business regulations, planning policies and instruments to European standards and to make regions more attractive and hospitable to potential investors.

### ***Socio-cultural transition***

Aside from the financial costs of the war, Croatian citizens are also dealing with its psychological impact. It is possible that the collective memories of war will only fade in the next few generations. In the immediate future, Croatians are getting used to a new system of economic management and the withdrawal of the State from its traditional role in ensuring full employment and providing social safety nets. Croatians have proved themselves to be entrepreneurial and adept at creating income-generating opportunities under difficult conditions. A large informal sector emerged during the war as individuals



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and households learned to adapt to the loss of their livelihoods. In many semi-rural areas, it is quite common for households to mobilize a multiplicity of resources, with an increased reliance on two or three different income-generating activities.

The challenge now is to persuade people to move beyond subsistence or small-scale activities for local or regional markets into the formal economy with an emphasis on profitability and market expansion. Ultimately, this will require changes in attitudes at all levels towards the business community and the creation of supportive market-oriented institutions and a competent administrative and regulatory environment. As yet, such frameworks are still evolving.

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## II. The Local Economic Development Process in Croatia

### II.1. What is local economic development?

Local economic development is a participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory. The final objective is to create decent jobs and stimulate economic activity. The LED Process enables the joint design and implementation of a common development strategy, by making use of local resources and competitive advantage in a global context.

LOCAL refers to a process of valuing the endogenous potential, making optimal use of the already existing local capacities.

ECONOMIC is directed towards the identification of investment opportunities, supporting entrepreneurial activities and facilitating the access to (new) markets.

DEVELOPMENT is the process that is aimed at promoting an improvement in the living and working conditions of the target group through the creation of (new) jobs and generation of income.

### II.2. The International Labour Organization (ILO) and local economic development <sup>4</sup>

The commitment of the ILO to local economic development finds its particular expression in Recommendation No. 169 <sup>5</sup> concerning employment policy, which stresses the importance and recognition of local employment-creation initiatives. These can take diverse forms, such as small cooperatives and associations, and offer employment opportunities, especially for potentially marginalized groups such as women, young people. At the same time, the ILO seeks to promote complementary relationships between governments, employers' and workers' organizations.

During the World Summit for Social Development held in Copenhagen, Denmark (6-12 March 1995) it was stressed that the involvement of actors at the local level has come to be seen as one of the most important elements in development strategies to redress inequality. The participating countries committed themselves (Commitment 1) to "[creating] ... an economic, political, social, cultural and legal environment that will enable people to achieve social development".

It was also acknowledged that national level measures are needed that:

- (c) Reinforce, as appropriate, the means and capacities for people to participate in the formulation and implementation of social and economic policies and programmes through decentralization, open management of public institutions and strengthening the abilities and opportunities of civil society and local communities to develop their own organizations, resources and activities, and ...

<sup>4</sup> Parts of this section have been taken from the discussion "Local economic development, a tool for supporting locally owned and managed development processes that foster the global promotion of decent work", by Simon White and Martin Gasser, see bibliography.

<sup>5</sup> Recommendation No. 169 (1984), 30-34.

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- (j) Strengthen the ability of local communities and groups with common concerns to develop their own organizations and resources and to propose policies relating to social development, including through the activities of non-governmental organizations.

The Summit also encouraged (paragraph 50) the promotion of economic growth that maximizes employment creation by ...

encouraging, as appropriate, labour-intensive investments in economic and social infrastructure that use local resources and create, maintain and rehabilitate community assets in both rural and urban areas;

and ...

- (g) encouraging community economic development strategies that build on partnerships among Governments and members of civil society to create jobs and address the social circumstances of individuals, families and communities.

In his report entitled: *Reducing the decent work deficit – A global challenge* (89th Session, Geneva, June 2001), the Director-General of the ILO, Mr. Juan Somavia, noted the need for the ILO to work with its constituents in a more integrated fashion. But he also presented a series of challenges to national and local policy-makers, calling firstly for a re-assessment of the ways in which employment and enterprise targets can be achieved through both the formal and informal economies. This could mean removing barriers to, and providing start-up assistance for, the creation of micro and small enterprises, as well as encouraging the formation of social enterprises. Mr. Somavia further remarked that assistance should be provided to enable small companies to grow and improve working conditions. This might involve the creation of “strong linkages with local authorities and their organizations around the goal of decent work in the life of communities”. “We must be open to new ideas at all levels”, said Mr. Somavia.

In the ILO Director-General’s Report to the 87th Session of the International Labour Conference, *Decent work*, Mr. Somavia also noted the ILO’s response to local needs whereby

... a number of experimental schemes have evolved, sometimes with the backing of local governments, sometimes through the initiative of private groups, sometimes through public-private partnerships. While some of these institutions may be culture-specific, others may be replicable in other parts of the world. The ILO should identify these schemes, evaluate their design and effectiveness in ameliorating the conditions of the poor, and consider their sustainability and potential for replication, as well as their role in national and sub-national systems of social protection.

Later in his report, Mr. Somavia refers to the opportunities to extend social security to the most needy by delegating responsibility to local communities. This, he says, “would also help widen participation, particularly among the groups most at risk of exclusion, especially women, the disabled and others with special needs”.

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In 2001, the International Labour Organization (ILO) has launched a top-level Commission comprising Presidents, politicians, academics, social experts and a Nobel economics laureate which, for the first time, will address the social dimension of globalization.

Juan Somavia said that:

“Globalization has to deliver what working people and their families everywhere aspire to – a decent job, security and a voice in the decision-making process. People want a better shot at the gains that globalization is meant to deliver. This means access to much better opportunities for decent work, and promoting development with social justice in the context of open economies and open societies.”

### II.3. Building the foundations for local economic development

The design and implementation of a LED Process responds to the need to find the most suitable and sustainable solutions to local needs by addressing simultaneously the different dimensions of the development process. This is achieved by integrating economic strategies into their social, cultural and institutional contexts. At the same time, attempts are made to connect local, regional and national development policies into one comprehensive framework of action.

Consequently, LED is a process that will provide different solutions according to place, culture, and economic potential, political circumstances, social and institutional environment. It enhances the local ownership of the development process and fosters innovation by using local knowledge and capacities.

Although the fluidity of the LED Process makes it impossible to describe a strict set of policies and actions, a typical LED intervention is led by a certain number of basic steps, which include:

**Territorial diagnosis and institutional mapping (TD & IM):** The objective of this phase is to acquire knowledge about the local economy and its resources. It comprises a preliminary analysis of the major socio-economic and political data of the territory through statistics and surveys. In particular the institutional mapping process focuses on the existence, objectives and activities of the different local stakeholders and the dynamics among them. The collection of data is ongoing and has to be updated during the whole LED Process.

**Sensitizing:** The major objective of this phase is to assign development ownership to the local stakeholders. The sensitizing process consists of workshops, presentations, study tours etc., with the local stakeholders on the one hand and the design and implementation of quick impact interventions on the other hand. All these activities help to stimulate the stakeholders' involvement and commitment in the LED Process. In particular, the design and implementation of the quick impact measures represents a dress rehearsal for knowledge sharing, social dialogue, common decision-making and day-to-day cooperation among the local stakeholders. At the same time periodical meetings and discussions represent a first step towards the creation of a local forum.

**Creation of a local forum:** The creation of a local forum is the continuation of the consensus-building process initiated during the sensitizing phase. At the end of this phase the local forum is composed of the most important local stakeholders that meet regularly and exchange information and views on development solutions. The major immediate objective of the local forum will be the formulation of the LED strategy that will include the revision of the quick impact measures carried out so far.

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**Design of a LED strategy:** In this fundamental phase, the local forum carries out an analysis that will focus on the strengths, weaknesses, opportunities and threats (SWOT) that characterize the territory. This SWOT analysis is based on the results of the “territorial diagnosis and institutional mapping” phase and will reveal the competitive advantage of the territory. The outcomes of the SWOT analysis will then generate the LED strategy that is composed of the long-term vision, the objectives and an action plan for the long, medium and short term. At the same time the forum will assign the responsibilities for the different development activities to each of the stakeholders and foresee mechanisms for their implementation. The action plan provides concrete suggestions regarding the specific LED policies, LED projects and LED products through which the local stakeholders consider to reach their common development objectives.

**Coordination/creation of implementation structures:** Before introducing the LED strategy, there is a need of deciding “who is doing what”. It is absolutely necessary to determine one or more responsible bodies for each action foreseen in the LED strategy. At the same time the actions of each stakeholder involved in the implementation have to be coordinated by the local forum. This will guarantee coherence and prevent from overlapping development activities. In the case of lacking implementing structures, the LED strategy might foresee the creation of an implementing body that takes over certain tasks. There is evidence that the institutionalized form of the forum (often called Local Economic Development Agency or LEDA) promises one of the most viable solutions for such an implementing structure as it enjoys a wide legitimacy among the local stakeholders. However, according to the local circumstances other structures than LEDAs might be preferred in order to coordinate the implementation of the LED strategy.

**Implementation of the LED strategy:** The local stakeholders, according to their competences, resources and capacities, implement the bottom-up development strategy through the LED action plan. The forum will coordinate their actions and revise and adjust the strategy according to the needs of the local/regional stakeholders.

#### **II.4. The need for new local institutions in Croatia**

As previously mentioned, the Government of the Republic of Croatia has been decentralizing the public administration, as well as adapting the goals, methods and instruments of traditional regional policy<sup>6</sup> to the new economic context. Previously, the institutional environment for economic development at County level existed only in the form of County and Municipal departments for Economy and Social Welfare, Chambers of Economy, Chambers of Handicrafts County Agricultural Extension Services, County Employment Offices, etc.

More recently, the relevance of complementary enterprise creation and support initiatives has been widely discussed. Certain initiatives are currently being strengthened, such as the centres for SME development (a public initiative), industrial zones and business incubators, etc.

As part of the UNDP/UNOPS programme activities (mentioned earlier), two Local Economic Development Agencies were created in the year 2000 in Dalmatia (LERA Krka) and Western Slavonia (LEDA Western Slavonia). A third LEDA in Sisak County (LEDA Sisak) began its activities in July 2001. Very recently in December 2001, a fourth LEDA

<sup>6</sup> For example: full employment, sectoral planning targets, allocation of big state industrial investments, large amounts of subsidies and price distortions, budgetary wage supports in preferred regions, etc.

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was opened covering the region of Vukovarska-Srijemska County (Entrepreneurship Centre Vukovar-Srijemska County). This last LEDA became operational as of 1 January 2002<sup>7</sup> and is a joint initiative between the UNDP, UNOPS, the ILO and GTZ (German technical cooperation). All four LEDAs are registered as non-for-profit institutions according to the Croatian law.

Yet in spite of the (mainly public) efforts in the 1990s to foster a bottom-up approach to economic development based on public-private partnerships, the idea of creating Local Economic Development Agencies was still a new concept when first introduced to key local actors and stakeholders in the programme areas.

## **II.5. Comparative advantages of Local Economic Development Process**

### ***Holistic approach***

By looking at regions as a whole, both spatially and in terms of assets, resources, productive and market absorption capacities, Local Economic Development Agencies in Croatia are establishing linkages across conventional policy areas and between levels of policy-making, including the micro, macro and international economic policy levels. The promotion of a holistic approach through the Local Economic Development Agencies should lead to the development of an integrated framework for local development that will help to channel and maximize the use of scarce resources, particularly by identifying existing local institutions, programmes or initiatives through which LED principles can be implemented.

### ***Development from the bottom up***

The involvement of local stakeholders in the process of developing their own territory is a prerequisite for sustainable growth. Local actors not only possess a superior knowledge of their needs and resources, but their geographical and cultural proximity creates the ideal conditions for innovation, growth and social dialogue. The LEDAs are playing a critical role in bringing together and sensitizing a broad range of local stakeholders who will then identify opportunities as well as strategies to overcome common problems.

### ***The importance of working within a partnership framework***

The partnership between private, public and non-profit actors at local level is also vital to a territory's development prospects. In the past, different ministries, UN agencies, bilateral agencies, NGOs and local authorities have designed separate assistance programmes to stimulate market activity, leading to ineffective "go-it-alone" approaches.

The LEDAs offer the opportunity to promote greater strategic coherence in investment programming between the activities pursued, while providing the means and structures to represent local opinion in national and international policy arenas.

<sup>7</sup> The LEDA Western Slavonia (WS) opened in May 2000, and is based in the municipality of Okucani, covering the western part of two heavily war-affected counties in Slavonia. In Sibenik-Knin County the LEDA officially started to operate in June 2000.

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The relationships between potential partners will need to be rebuilt on trust, but they must also be built on an understanding of rules and responsibilities within the new economic context. The LEDAs act as the intermediary, bringing the partners together within a forum for dialogue to discuss these issues.

### ***Linking local economic development to social cohesion***

Economic development and social cohesion have often been dealt with as separate issues, resulting in missed opportunities for each to reinforce each other. For example, economic growth strategies have sometimes excluded those on the margins of society, while many physical and social regeneration programmes have neglected the need to foster the conditions in which business can flourish.

In all the LEDA catchment areas, the relationships between stakeholders are still fragile. The lack of forums for dialogue, where individuals and businesses can express their needs, sometimes has led to a neglect of social problems particularly in outlying rural areas where, even though they are less visible, social problems are just as important.

The LED Process in Croatia is attempting to weave the economic and social dimensions of development more closely together, while at the same time exploring business models, such as the cooperative movement, that are conducive to economic and stability within communities.

## **II.6. Steps taken to launch the LEDAs in Croatia**

The introduction of the LED Process started off in Sibenik-Knin County with a series of round-table discussions and seminars during which the local stakeholders were familiarized with the main aims of a bottom-up approach, LED experiences in other countries in Europe (EU and CEE) and the potential role and main functions of LEDAs. Public and private sector representatives expressed their interest in being involved in the formulation of a LED strategy for their area and the design of sectoral development programmes (rural tourism and organic food).

But at the same time, some actors expressed reluctance regarding the establishment of a LEDA in their own area, seeing its responsibilities in competition with the functions of the existing public economic support institutions. Some additional discussion sessions were therefore organized by the Institute for International Relations (IMO) with these particular stakeholders in order to address these concerns and to explain the how the LEDA would be complementary to existing services and public-private partnerships.



The same type of consultations were initiated soon after in Western Slavonia. Here the pre-launch stage went more smoothly, even though three counties were involved.<sup>8</sup>

Once the LEDAs had been launched, a strategic vision workshop was organized in both Drnis and Okucani with the following objectives:

- to reach consensus on the vision and priorities of the economic development in LEDA's territory;
- to develop concrete indications (strategy, objective, outputs) for the first regional development projects to be submitted to the EU in June-August 2000;
- to share experiences and know-how with relevant institutions from the region, Croatia and the Central Bosnian Development Agency (CeBEDA);
- to launch LEDA's activities towards the promotion of the economic development in Western Slavonia.

Through SWOT and policy exercises methodology (facilitated by IMO), the participants identified the main development goals of their region. These exercises then helped to prioritize the sectors for which regional development programmes would be offered. Later, the LERA-Krka also organized a workshop focused on tourism development. This workshop provided an interesting debate regarding the vision, i.e., the "type" of tourism the local actors wished to see in the long-term period. The workshop was expertly guided by a recognized Croatian expert on the development of tourism.

<sup>8</sup> Several factors explain this. First of all, the institutional and policy environment was different. Ideas on the creation of new types of business support infrastructure, such as a business incubator and an industrial zone, were discussed, illustrating a keen interest in developing the SME sector. Secondly, the private Centre for Technology Development (CTR) in the town of Slavonksi Brod shared the LED objectives and recognized the need for partnership, cooperation and ensuring the complementarity of services. CTR became a key player in the preparatory process. A third reason why the preparation process was relatively smooth here was that the LED Process had already been adopted as an appropriate development approach in Sibenik-Knin County. Consequently, the team of facilitators could refer to this process and were already aware of the difficulties that could be faced by local stakeholders in adapting the approach to their specific context.



In each area, a working group was also established and divided into three working commissions. Commission I dealt with the legal aspects of the establishment (legal status of the LEDAs, the organizational chart, working rules and regulations, etc). The second commission covered the territorial management issues, including the geographical area to be covered, available resources and physical settlement of the LEDA. The third commission considered the type of services the LEDAs should provide and how they would work with future members in providing these services. On the basis of the work of these commissions, the LEDA profile document was prepared and submitted together with the legal documents for the official registration.

Further to the round table and working group meetings, the main local actors from both regions were invited to take part in one of the four study tours, organized to highlight relevant LED experiences in Bulgaria, Germany, Italy and Portugal. Based on the new insights gained in these study tours, the local stakeholders were more committed to the establishment of the Local Economic Development Agencies in their respective areas.

#### **Study tours: An essential step for the establishment of the LEDA**

With the aim of increasing the understanding of the LED Process among local stakeholders in Sibenik-Knin County and Western Slavonia, a study tour was organized for LEDA staff with visits to the following local economic development institutions.

##### **Bulgaria**

The main organizations visited in Bulgaria were: the Agency for Regional Development and the business centre in Vidin; the Centre for Entrepreneurship Promotion in Devin; the LEDA and Business centre "Mesta" in Razlog; and, the SME business support centre in Rousse. These institutions were created within the framework of an UNDP/ILO project in the early 1990s. There were certain similarities between the regions visited in Bulgaria and the programme areas in Croatia, specifically with regards to the impact of massive redundancies in state-owned enterprises at local level, the promotion of self-employment and the economic integration of minority groups.

##### **Germany**

Because of the historic and economic linkages with Germany, visits were made to the Economic Promotion Agency Rhein Erft in Frechen, the technology Centre in Aachen and the Association for the Promotion of Economic Development in Dusseldorf (State of Nord-Rhein Westphalen). Over the past decade, the region has been heavily hit by the decline in the chemical and energy industry. Through a large cooperation network between the above organizations, universities, local administration and high tech business, new economic opportunities have been created, especially in the service sector.

##### **Italy**

In Italy, a visit was made to the Development Agency for Parma "SOPRIP", a business innovation centre. Visits were also made to social welfare services as well as some small and medium-sized enterprises in the famous wood and furniture design clusters of Emilia Romagna.

##### **Portugal**

In relation to the Croatian context, the visit to the regional development Agencies ADR in Amarante and ADRAL in Evora turned out to be the most relevant. The participants were able to achieve concrete insights into the developments that lay ahead of them in Croatia, given the recent EU-assisted move towards decentralization in Portugal.

The study tours offered the opportunity to answer some of the participants' questions relating to the financing of LEDAs, as well as the possibilities for cooperation or competition with already existing institutions, mechanisms for coordination and the promotion of entrepreneurial development. The LEDA staff gained a much broader understanding of the LED Process as a whole, which in turn enabled them to better define their own future role as partners of the LEDA network. An additional positive outcome was the ties that developed between the local actors during these study tours.

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## II.7. Membership of the LEDAs

Since the LEDAs represent the interests of local businesses, economic institutions and the public authorities, their membership is equally diverse. Their wide membership was built up during the pre-launch stage. During a period of up to one year before the LEDA were established, the Institute for International Relations<sup>9</sup> worked as a partner in assisting the local stakeholders through the different steps undertaken in the LED Process.

In Sibenik-Knin County, the founding members or General Assembly is composed of its founding members, (1) town of Drniš; (2) Town of Skradin; (3) Town of Knin; (4) Municipality of Unešić; (5) Chamber of Handicraft; (6) Jadranska Banka; (7) Centre for Small and Medium Enterprise in Šibenik; (8) Agricultural Cooperative “Primošten Burni”; (9) “Kninjanka” d. d. Knin; (10) “Agroprerada” d. d. Knin and (11) “Drnišplast” d. o. o. Drniš.

In Western Slavonia, the founding members include the public authorities in Brodsko-posavska County and Požeško-slavonska County. The towns of Lipik, Pakrac and Novska. The municipalities of Brestovac, Dragalic, G. Bogicevci, Jasenovac, Okucani, Stara Gradiska, Velika and Vrbje. The Chamber of Economy Sl. Brod, Požega. The Chamber of Handicrafts Sl. Brod, Požega. The Croatian Agriculture Advisory Services (HZZPSS), Sl. Brod, Požega. The CTR-Technology Development Centre Sl. Brod and finally, the IMO-Institute for International Relations Zagreb.

Each LEDA is headed by an Executive Director with the backing of a management board. The management boards meet regularly to review the activities of the previous month and to ensure the legitimacy and broad-based approval of the LEDA activities.

In Sibenik-Knin County an office space is provided free of charge through the municipality in Drnis. In the current building there are possibilities for expansion. In general this LEDA Krka is well situated geographically. Drnis is located centrally and is one of the three major urban centres in the region.

The LEDA in Western Slavonia is situated on the main crossroads of the transportation network in the region. LEDA WS has basic infrastructure, premises, computers, and office premises were offered rent-free by the municipality in Okucani.

## II.8. Main goals of the LEDAs since their launch

Since their launch in mid-2000,<sup>10</sup> the Local Economic Development Agencies in Croatia have faced a *triple* challenge. These include:

- finding solutions to cushion the impact of pre-existing economic trends (the rural exodus, collapse of the cooperative movement during the war and generating employment for those made redundant during economic restructuring);
- attempting to differentiate themselves from government and humanitarian aid organizations;
- making a substantial contribution economic reconstruction and peace-building efforts.

<sup>9</sup> IMO, <http://www.imo.hr>

<sup>10</sup> LEDA Sisak began its activities in July 2001.

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In this context, the LEDA have focused mainly on:

- informing the county concerning the existing entrepreneurial opportunities and their access to financial and technical support;
- supporting the promotion of the region by preparing and promoting regional development initiatives, as well as by channelling financial and technical resources that will contribute to the development of the local economy in the regions;
- assessing and valuing the local resources, in order to promote sustainable entrepreneurial activities and create a favourable climate for business development;
- assisting SMEs in their development, either directly or by helping selecting the right support institutions for them;
- supporting and stimulating innovations, introducing new technologies and products to the local markets.

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### III. Achievements of the LED Process to date

#### III.1. Territorial analysis and institutional mapping

In support of long-term goals of the Local Economic Development Agencies, one of the immediate priorities has been for the staff to become more acquainted with the territories that they serve. As mentioned earlier, a SWOT analysis and identification of economic opportunities was carried out during the preparatory phase. A thorough analysis of the (economic) potential in the regions covered was made possible through interviews, company visits and the preparation of company profiles.<sup>11</sup>

The survey, elaborated in collaboration with local business community and government, involved:

- a preliminary analysis of the major socio-economic and political data of the territory, particularly through statistics and surveys (employment situation; employment per sector; number of SMEs in the region; industrial output);
- a spatial analysis of local economic development issues: existing land use per economic sector and priorities for future land-use planning; transportation and communication networks; and, linkages between towns and cities;
- an overview of local natural, human and physical resources (geographical and topographical features, availability of human resources and transportation/communication networks). All of these aspects have an impact on transactions costs both within the local economy and between the local economy and national and regional economies.

Overall, the territorial analysis determines strategic sectors driving economic growth in the region and makes suggestions for reviving specific sectors (e. g. construction, retail, livestock farming, market gardening, fisheries, tourism, transport, etc. ). On the basis of this analysis, the LEDA then begin to build consensus on economic development targets, although they remain open to all types of businesses that support the economic development process.

The LEDAs have also carried out an institutional mapping exercise, focussing on the objectives of the different local stakeholders and the dynamics among them. This has resulted in an inventory of the existing economic, training or agricultural support institutions, producers' associations, NGOs, etc.

... the creation of Local Economic Development Agencies offers a real opportunity to bring a greater degree of cohesion into regional economic planning and programme delivery, and for tourism to play a key role in regional regeneration. (Mr Boris Berovia; Executive Director, LERA Krka)

The LEDA Western Slavonia is currently finalizing an “investment guide”, which will be used as a tool to promote the region and should create an immediate impact at the local level.

<sup>11</sup> An example of the questionnaire used to collect data from companies is attached in Annex 1.

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In Sibenik-Knin County, detailed studies have been carried out on ecological food and rural tourism. On the basis of these, the Executive Director of the LERA Krka made a proposal to the NGO Catholic Relief Services for funding to organize the commercial organization and marketing of smoked hams, which are traditionally produced in each household in the rural areas. This is just one way in which the LERA Krka are helping local people to transform resources into assets.

**Market making in Western Slavonia: The wholesale market for agricultural products**

One of the fundamental problems related to agricultural production in Okučani municipality is the absence of an organized market. The farmers face huge obstacles in distributing their products and are forced to create their own channels, selling their goods either on markets of neighbouring towns and counties or selling to intermediary retailers who go after high profit margins. Recently the LEDA WS has had a project approved by USAID to prepare a business plan for the completion of this market. Once finished, the market can house 60 people, selling their products in a sheltered and hygienic environment. The expected number of households that benefit from the market will be around 700 as fruit and vegetable production is a traditional economic activity among returned refugees. Almost 95 per cent of the vegetable and fruit production takes place as part of a family concern.

### **III.2. Creating a framework for LED principles: The operational plan**

On the basis of the results of the territorial analysis exercise, the LEDA have formulated operational plans outlining their visions and objectives in the long, medium and short terms. This plan provides concrete suggestions regarding specific activities (policies and projects) and tools through which the local stakeholders can reach their common development objectives.

In particular, the operational plan sets out to answer to the following questions:

- why establish a LEDA? (the mission statement);
- what do you want to achieve? (the objectives);
- how do you intend to do it? (the position of the LEDA within the available advisory, training and information services already available for the SME market, or in other words what are the LEDA products);
- who will do what? (organization of LEDA);
- where and when will it be done? (programme and timetable);
- how much is going to cost? (the budget).

The operational plan also addresses more strategic issues, including the identification of the target groups (business starters, the unemployed, existing businesses), type of support and services offered and level of risk involved in the administration of Guarantee Fund.

### **III.3. Forging partnerships**

At the municipality level, the Executive Director of the LEDA Western Slavonia has been consulting with the Offices of Economic Development, Agriculture and Fisheries and Physical Planning to raise awareness about the objectives of the LEDA and to identify ways in which it can complement and strengthen the services offered by local institutions.

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At the same time, the LEDA WS has been looking at how reforms in SME development and land use planning and regulation can be more closely interlinked, especially towards the creation of industrial or enterprise zones.

In Sisak County, the LEDA Sisak has received considerable financial support from the local authorities to create a fund for the promotion of local enterprises. Only recently the first three credits were approved through an active intermediation of the LEDA.

A centre for SMEs was opened in Sibenik in 1998 providing business development services (information, promotion, marketing, preparation of business plans, etc.), while in Western Slavonia, the independently run Centre for Technology in Slavonski Brod provides similar services. Over recent months, the LEDA Western Slavonia and CTR (Technology Centre) in Slavonski Brod have begun to study possibilities for closer collaboration so that they can present themselves as one instrument providing business development services in Brodsko Posavska County. In preparation for an eventual merger, a mutual agreement was signed between CTR and LEDA WS on 28 January 2002 and now forms the basis upon which both parties will develop common projects. In any case, the Director of the CTR in Slavonski Brod is also the President of the LEDA Western Slavonia while in Sibenik-Knin County, the President of the LERA Krka is Director of the Centre for SMEs in Sibenik.

The LEDAs provide a starting point for local administrative structures to access and make the best use of international development and investment funding, particularly for local capacity building and training activities.

A representative of the Agency for German Technical Assistance (GTZ) has been working with the Ministry of Crafts and SMEs since its creation in 2000. GTZ has been active in Vukovar County, Eastern Slavonia, where a new LEDA was opened in December 2001. Similar collaborative arrangements are desired by the ILO to avoid unnecessary duplication of activities with public authorities and other development partners throughout the country.

LEDA Krka applied for a support to the Canadian Technical Cooperation directed towards organizing special training courses (SIYB) aimed at increasing the entrepreneurial skills of local businessmen as a preparation for obtaining a credit in the new Guarantee Fund for SMEs. This application was approved in early February. The first training course will be organized in Šibenik on the basis of the ILO SIYB methodology at the end of April 2002.

Finally, there is also a considerable amount of exchange between the LEDA in Sibenik-Knin and Western Slavonia on how to deal with various economic and political issues arising in their catchment areas, as well as on regional trade and market organization strategies. The staff of these two institutions have developed very supportive relationships with one another.

#### **III.4. Promoting the territory**

Although the Areas of Special State Concern are now a few years distant from the conflict, one of the key long-term tasks of the Local Economic Development Agencies in both Sibenik-Knin County, Western Slavonia and Sisak County is to sell the comparative and competitive advantages of their regions and, in doing so, to overcome any lasting perceptions of national or foreign potential investors of the potential risks involved.

The LEDAs are therefore building on their knowledge of local markets and their absorption capacity, local suppliers, distributors and sources to make the territory attractive

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to the local, national and international business community. Use has been made of marketing techniques such as brochures and the Internet to open up the region to untapped internal and external markets. The LEDA Western Slavonia has developed a web site with considerable success so far. The Executive Director is also participating in radio talk show debates on economic development in the region.

LEDA Sisak is also busy preparing the organization of a local trade fair this coming spring in the county hall in the town of Sisak where local food producers and furniture makers can exhibit their products during a three-day event. The possibility of having a more permanent exhibition of local arts and crafts in the county hall is currently under review.

Representatives of the three LEDAs participated in several different national and international events, such as trade fairs, presentations and business contact days, as for instance the business contact days in Graz (Austria, organized by the Chamber of Commerce of Steiermark); the Central European Initiative Summit Economic Forum in Trieste, Italy; the Croatian-Hungarian business days in Slavonski Brod; the presentation of alternative apple and fruit production in Orahovica and the International Trade Fair in Zagreb. The LEDAs supported the attendance of several local companies in the last three events.

### **III.5. Business development services (BDS)**

Business development services help to improve the performance of the enterprise, its access to markets, and its ability to compete. Until recently, the Areas of Special State Concern were lacking a mechanism for encouraging the birth of start-ups or supporting them in the formative stage of business. The creation of the Ministry of SMEs and the support it provides at the local level through the municipalities is beginning to change this situation. In fact, in Croatia, all counties now have to establish a business support centre by law by the end of 2001.

#### **Creating closer ties with overseas partners: Business-to-business in Sisak County**

Since its launch, the LEDA Sisak has become involved in a business-to-business programme, implemented by Dutch technical cooperation. This Dutch programme – NMCP – is aimed at fostering business relationships between Dutch and Croatian companies. The LEDA helped to identify suitable local partners and has prepared three concrete proposals for Croatian companies that are interested in collaborating with Dutch firms. The first concrete outcome of this programme is that technical assistance is now being provided to a Croatian mushroom grower by a Dutch mushroom farm.

In both Sibenik-Knin County, as well as in Pozega Slavonska and Brodsko Posavska counties, it has been further agreed that the LEDA will refer local business people to existing BDS providers.<sup>12</sup> When this is not possible, or where the services are considered unsatisfactory, the LEDAs will seek to identify appropriate expertise and offer services directly. In certain cases, the mandate of the LEDAs may extend to capacity building for the professional service providers themselves.

<sup>12</sup> It concerns here business incubators in Pakrac, Nova Gradiska and Slavonski Brod; the Technology Centre in Slavonski Brod; the Chambers of Commerce and Handicrafts in Slavonski Brod and the SME Support Centre in Pozega. All of them – with the exception of the Technology Centre – are fully state owned.

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Some of the specific areas encompassed in a BDS package include:

- research and information;
- facilitating access to credit;
- training;
- identifying and developing impact projects;
- promoting new business models.

#### **Furniture making in Western Slavonia**

The LEDA in Western Slavonia was recently approached by a local furniture company specialized in traditional production methods for assistance in expanding its market. The Director of the LEDA identified potential wholesale distributors both nationally and internationally through catalogues and the Internet. The LEDA then helped the local company to prepare basic marketing materials, such as brochures and catalogues, as well as acting as the liaison with a local publishing company. A low-budget web site was then created with a link to the web page of the LEDA. While the local businessman has not yet shown an interest in gaining access to a credit to finance his expansion projects, the relationship with the LEDA is being strengthened and if such a time comes, an individualized package of assistance will be designed.

### ***Research and information***

The most frequently requested types of research and information by SMEs include:

- information about products and contacts with sources of supply or potential new markets;
- research into developing and introducing new products;
- information on available sources of funding, credit lines, government assistance programmes;
- information and contacts with training providers (professional bodies, institutes of technical education and universities);
- timing of trade events (fairs, exhibitions or commodity exchanges);
- information on custom tariffs, concessions, exemptions or quotas;
- updated legal and taxation regulations.

The LEDAs are working with the appropriate local institutions to make this information more widely available to businesses in both urban and rural areas. Many of the initial contacts have been made through personal relationships and referrals. These are now crystallizing into a thorough institutional database of contacts in the region. However, the role of the LEDA is not limited as a one-off information provider. These institutions are playing a catalytic role in helping to ensure that the information provided becomes a portal to further growth opportunities and services.

The ILO, for its part is providing relevant input through its Publication Department in Geneva, where a broad selection of studies and publications on business promotion and counselling, as well as management consulting, etc. are available.



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## **Credit schemes: The Guarantee Funds**

The establishment of sources of local finance is a crucial aspect in successful community and local economic development. Restructuring and the promotion of promising local enterprises is not an easy task, but in the absence of local financial support, it is virtually impossible. This financial support should be extensive, affordable (i.e., below market price) and accessible.

Since 1998, the ILO has set up five Guarantee Funds with four regionally based, commercial banks. The Funds are aimed at supporting income-generating activities, thereby promoting the socio-economic reintegration of returnees and other families affected by war. To this end, credits will be only agreed for productive activities. The financial resources for these Guarantee Funds have been provided by the European Union and by UNDP. *More than 1,040 loans* have been approved so far, mainly for small-scale agriculture, livestock and small family businesses and *more than 2,300 new jobs* have been created as a direct result since 1998.

With the arrival of a new tranche of funding from the EU in late December 2001, an additional three new Guarantee Funds will be signed. These Funds will specifically target businesses in the fields of tourism, small-scale manufacturing, agro-industries, eco-food production, commercial farming, crafts and services. The loan ceiling will be increased to 50,000 Euro and the ILO will provide regular backstopping to the new loan applicants through the LEDAs.

In 2002, the LEDAs in fact will assume responsibilities for helping loan applicants to prepare their business plans or feasibility studies, screening the applications together with the bank, sensitizing businesses on the rules about repayment of credits and monitoring the businesses as they grow and expand. Depending on the initial assessment, businesses will receive short training courses until the business is strong enough to receive a credit.

Together with HBOR (the Croatian Bank for Reconstruction), the ILO is also analysing the possibility of creating a matching fund scheme wherein credits would be more generous than are currently financed through the EU Guarantee Fund. The credits would be supplied under the condition that they comply with the basic criteria and regulations laid out in the general framework agreement that has been signed with the banks.

The LEDAs in Western Slavonia and Sibenik County have already prepared more than 30 business plans, resulting in the creation of at least 70 direct new jobs. Most of the initial business plans prepared were for activities in the field of subsistence agricultural, therefore their effect on the number jobs created has been relatively low, so far.

## **Training**

In Croatia, it is widely accepted that the managers of small businesses and start-up companies generally lack entrepreneurial skills in spite of the wide variety of available training methodologies and materials on offer in the marketplace. Surveying the training that is available, there is still a need for BDS which would enable entrepreneurs to not only get their business off the ground, but provide a tailored menu of assistance to enable them to stay in business.<sup>13</sup>

<sup>13</sup> ILO activities in UNDP/UNOPS programme, Progress Report No. 2, Jan.-Mar. 2002, prepared by Geert van Boekel.

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In this light, there is a space for specific training interventions such as the ILO's SIYB (Start and improve your business) courses. Seminars planned by the LEDAs will therefore focus on the legal and registration procedures required for starting a business, increasing the understanding of the business environment, improving the business in terms of management capacities and finding new sources of investment capital. Capacity-building activities are targeted at the businesses themselves may include training in how to develop a marketing strategy and materials (such as catalogues, brochures and web pages, etc.).

By the end of April 2002, the first SYB training of trainers course will be organized, in which 12 experienced business trainers will participate to analyse the applicability of the ILO SYB material. In Šibenik-Knin County alone 128 people have already been identified whom are interested in participating in a Training of Entrepreneurs course (SYB). The LEDA Krka recently received financial support from the Canadian International Development Agency (CIDA) to carry out a number of these courses.

However, a key objective during the implementation stage should be to use, promote and strengthen existing local implementation structures. For example, training activities should always be carried out by local training institutions, chambers of commerce or universities. Other implementation structures might include business innovation centres, business incubators and regional development agencies, etc. Local consultants can very often provide the same services and in a more cost-effective way. However, in the absence of appropriate local implementation structures, alternative structures must be designed. International consultants will be employed only when specialist services are not immediately available or doubts exist in relation to their competence.

When necessary, use will be made of training courses offered by different development partners such as GTZ, which have successfully used market-oriented methodologies to carry out training courses towards the development of large-scale industrial projects. The Dutch Managers Cooperation Programme (NMCP) is also playing a critical role in the strengthening of the business environment in Western Slavonia, Sisak and Sibenik-Knin County.

A short seminar was held in Sibenik in November 2001 on the concepts of risk, credit and portfolio management. This seminar, financed by the EU-UNOPS, was facilitated by a number of Dutch banking consultants and attended by representatives of regional commercial banks, as well as representatives of the local municipality and the staff of all the Croatian LEDA. Although the seminar was organized within the framework of the UNOPS Guarantee Fund, such activities are helping to deepen the understanding of authorities and banks of SME needs outside of the programme framework.

Concerning the training of the LEDA personnel, the new members of staff took part in a two-day seminar focusing on business plans and financial analyses in early March 2002. The course in Okučani was attended by eight people, and carried out in collaboration with CTR Slavonski Brod.

### ***Identifying and developing regional development projects***

In order to create confidence (especially among the private business community) it is very important to strive for some tangible, visible results. In Sibenik-Knin County, three economic sectors have been classified as having strategic importance to the local economy; eco-food, agro-tourism and wood processing. The LEDA Krka will focus on two major economic projects in 2002. This projects must have a high degree of visibility in order for them to impact on the local employment situation.

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In late 2001, an impact assessment was also carried out on eco-food in Western Slavonia. The Executive Director identified producers and organized a number of seminars to promote the concept of ecologically sound food-processing methods. These seminars were attended by approximately 70 producers.

### **Promoting new business models**

In the past, the cooperative model of economic organization and production was quite widespread in Croatia, particularly in the agricultural sector. Unfortunately, the cooperative movement was often maligned due to the lack of transparency, doubts towards true ownership of interests and the seemingly unfair distribution of benefits. Nevertheless, some cooperatives did work well and the few cooperatives that survived the early phase of the transition period were able to continue operating during the war.

In the post-conflict period, the creation of new cooperative organizations has been hampered because many people have focused primarily on finding waged employment, rebuilding their houses and getting some subsistence agriculture activities started. Over the past few years, however, such business models are being revisited as their potential in fostering cohesion within communities becomes clearer<sup>14</sup> and people begin to see cooperatives as a viable way of organizing production in the current economic climate, particularly in the spreading of risks.

### **Promoting cooperatives**

Cooperatives are a tool to boost economic development in the agricultural sector, especially in ethnically mixed communities. (Davor Ilijasic, Executive Director, LEDA Western Slavonia)

The LEDA in Western Slavonia supports three local cooperatives and has organized specific managerial courses, as well as providing support in the day-to-day monitoring of their operations. The exchange of experiences with representatives from existing (agricultural) cooperatives in Western Europe (Netherlands), as well as targeted technical assistance from them, will be a very important part of the work.

- A. The “Brezine” Cooperative in Gornji Bogicevci, was formed by producers from the municipality and nearby area. At present it has 27 members. Its main goal is to support and promote organized agricultural production. It does this by combining efforts for buying or supplying inputs for the production process. At the same time, the cooperative collects and sells the outputs of its members and other producers. Future plans include the instalment of product processing facilities (drying unit, cold storage unit, packaging unit, etc.). The lack of management skills is still a problem for the moment, causing unnecessary delays and inefficiency.
- B. The “Voako” Cooperative in Pakrac began operating in 1999 as an initiative of 38 local fruit (mainly apples) producers. Fruit growing in Pakrac area is a long local tradition. However most of the processing infrastructure was destroyed during the war. Many returnees are now trying to re-launch their pre-war activities. Members of “Voako” cooperative have already taken some initial steps towards developing new markets. Aside from organized fruit production, they have bought 2,000 square metres of space in the “small business zone” of Pakrac with the intention of creating

<sup>14</sup> See literature on the cooperative structure of the Italian industrial districts in Emilia Romagna, Veneto (Bagansco, Brusco, etc.).

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400 tonnes of cold storage capacity. Construction work has begun on the site and storage equipment was recently purchased. At the present time, the Cooperative needs assistance in dealing with management issues because it has grown too fast. Since the LEDA was involved in the start up phase, Voako has requested it with the request to have ongoing support during the expansion phase. The members are especially interested in making use of the network of LEDA to expand their contacts.

- C. The “Dragaliæ” Cooperative in the municipality of Dragaliæ was established by several local agricultural producers just a few short months ago. It focuses mainly on pumpkin growing. Local producers connected themselves with an Austrian firm ready to buy the whole output, but under their own supervision of the whole production process. So far, technical obstacles have included insufficient machinery (tractors, and special combine-harvesters) as well as land irrigation problems. The cooperative lacks the necessary managerial skills. Given the fact Dragaliæ was on the demarcation line during the war and in some areas (for example, the village of Poljane) there are still mines to be cleared, delays in de-mining have also caused problems. The LEDA is maintaining contact with the cooperative with regard to organizational and managerial issues.

In addition to the three cooperatives mentioned above, the LEDA Western Slavonia will launch a promotion campaign to sensitize smallholder farmers (most of whom are returnees) on how they can work together as part of local production cooperatives.

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## **IV. Conclusions**

Development is not a static process. Over time, immediate development targets become the foundations upon which longer term development is built. Priorities change and sometimes the strategies to achieve wider development goals also need to evolve in line with new social and economic contexts.

As the experience of promoting the Local Economic Development Process in Croatia clearly demonstrates, economic and social renewal require a different timescale to humanitarian relief efforts and such processes are fraught with set backs and advance very slowly. There are many issues that still need to be resolved before the country can advance more rapidly along the road of economic recovery and social cohesion. However, in collaboration with their national and local institutional counterparts, Local Economic Development Agencies are playing a key role in catalyzing change and in creating a more inclusive environment for decision making.

In the future, the LEDA will begin to play a more active role as a lobbying mechanism for much deeper reform measures. In particular, the following areas are worthy of mention.

### **IV.1. Financial policies and programmes**

The range of financial instruments involved in the Local Economic Development Process needs to be broadened. The range of financial instruments should be extended to include not only Guarantee Funds run through local state-owned and commercial banks, but also urban and rural cooperatives, credit unions, and local state-led investment funds. At the same time, a tighter collaboration should be developed between the LEDA and the existing County Credit Funds for the stimulation of entrepreneurial activities. In Sisak, as well as Vukovar, such a link already exists.

### **IV.2. Links with local labour offices**

All the LEDA have nurtured good relationships with the most relevant local institutions in their territories. However the scope of relations with the local labour offices, part of the Croatian Employment Office (CEO), will need to be further elaborated. The LEDA could offer a comprehensive package of support services to unemployed people willing to start their own business. Not only could the LEDA provide technical and financial assistance, they could also play a part in the screening of the candidates.

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The shift to a more market-oriented economic system and the need for post-conflict stabilization and reconstruction make it essential for the Croatian Government to overhaul its familiar approaches to regional economic development. In the long term, it is clear that local institutions and business practices must be adapted to make local business environments more hospitable for market activity and new investments. From the example of Croatia, it is becoming increasingly apparent that in areas pulled apart by conflict, the participation of local actors in economic decision-making through a Local Economic Development Process can be a powerful tool in stimulating new social and economic activities and in reintegrating the most vulnerable members of society.

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## Annex I

### National policies and responsible bodies

**The Croatian Government:** Holds responsibility for introducing economic reform measures and designing a comprehensive public administration reform programme and the training of civil servants.

Of note, the *Working programme of the Government of the Republic of Croatia for the period 2000-04* outlines the programme of change in the Republic of Croatia, based on the fundamental commitment to the building of civil society and a democratic and market-oriented state integrated in the European Union. The envisioned legislative changes will bring national laws in line with EU legislation. The programme envisions the stabilization of public finance and efficient budget management.

**Ministry for European Integration:** The Ministry for European Integration was established in February 2000 as a coordinating body within the state administration, working on the adjustment of the Croatian legal and economic systems to those of the European Union. In addition, the Ministry is also responsible for the coordination of EU technical assistance programmes, raising public awareness of the process of rapprochement with the EU, education and awareness raising for government employees on issues related to European integrations as well as for the translation of EU legal documents required for the harmonization of the legal system.

**The Croatian Bank for Reconstruction and Development (HBOR):** National credit programmes are being administered by the Croatian Bank for Reconstruction and Development and the National Guaranty Agency in the fields of agriculture, tourism and small business growth. The National Guaranty Agency provides an 80 per cent guaranty to entrepreneurs. However, the agency itself requires substantial documentation which is difficult for micro and informal entrepreneurs to provide. In November 2001, the EBRD agreed to establish a credit line for SMEs through HBOR which will become operational in 2002.

**Ministry of Agriculture and Forestry (MAF):** Responsible for implementing current laws on agriculture, developing appropriate regulations for their implementation and undertaking other supervisory, administrative, professional and technical work as required. In recognition of the continued importance of the agricultural sector in the Croatian national economy, the MAF formulated the Strategy for Sustainable Agricultural Development, which was adopted by the Government and Parliament in March 1995. The main objective is to promote the efficient production and marketing of agricultural products in a manner that improves the welfare of farmers and consumers, contributes to growth of the Croatian economy, protects the natural resource base of Croatia and ensures the competitiveness of Croatian agricultural products on the world market.

**Ministry of Crafts and Small and Medium Sized Enterprises:** The Ministry for Crafts and SMEs has begun to make local incentive funds available for SMEs. This model is based on the experience of private and public crediting of SMEs in other developed countries. Funds are developed in cooperation with Ministry, local government units (counties, cities and municipalities), the Croatian Guarantee Agency and commercial banks. The Ministry disposes of a large database of investment projects. Until now, there are about 200 projects from the Croatian counties focusing on the development of entrepreneurial infrastructure (SMEs centres, incubators and zones) as well as entrepreneurs' projects from different sectors like agribusiness, industry, tourism etc.

**The Croatian Employment Agency:** The Law on Employment (1996) anticipates numerous insurance measures during employment, as well as active employment policy initiatives. The social insurance system is expected to be partially changed, since the passing of the new Law on Social Welfare and the new Law on Pension and Disability Insurance is in progress. The Republic of Croatia is working toward the elaboration of a National Employment Policy on the basis of the labour market survey with the help of the International Labour Organization.

## Annex II

### Questionnaire used for obtaining information on investment opportunities in Western Slavonia and Sibenik-Knin County

Economic sector

I. Data of company			
Name			
Registration date			
Address			
County		Municipality	
Telephone		Fax	
email			
Manager		Telephone	
Contact person		Telephone	
Ownership structure (in percentage)	Private	Public	Foreign
Number of employees			

II. Basic information about main economic activity				
Description				
Existing documentation about the company (if yes, mark with X)		Programme study		Investment programme
		Feasibility study		Location study
		Environmental impact study		Building permit
		Preliminary design		Registration papers
Estimated value of the investments so far	Total value		Who invested (sources of money)	List of concrete assets
Regular (normal) markets				
Distribution channels				
Estimated sales and production capacity	Year	Amount of sales	Production capacity	Used capacity
	1998			
	1999			
	2000			

<b>III. Seeking cooperation (mark with X)</b>					
	<i>Financial</i>		<i>Technical</i>		<i>Commercial</i>
	Start new business activities		Research and development		Distribution agreements
	Business expansion		Transfer of know-how		Marketing support
	Take-over		Training		Commercial assistance
	Merger		Management		Supply of (new) equipment
	Joint venture		Product design		Legal support
	Other: Please specify		Manufacturing agreements		Other: Please specify
			Patent		
			Licence		
			Technical assistance		



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## **Annex III**

### **Statute of Local Economic Development Agency (KRKA)**

On the basis of Article 11, Law on Associations (published in “Narodne Novine”, No. 70/97 and 106/97), Founding Assembly of Local Economic Development Agency of Šibensko-kninska County “KRKA”, held on 13th of March 2000, constituted:

#### ***General provisions***

##### **Article 1**

By this statute is established: name, head office and the territorial coverage of the Association – Local Economic Development Agency (hereinafter: Association); representation; objectives; activities for realization of objectives; transparency of the Associations work; membership and membership fee; rights, obligations and strict obligations of the members; internal organization of the Association; bodies of the Association; their structure, authorizations, decision-making procedure, conditions and mode of election and recall; duration of the mandate and responsibility of the members; property and management with potential profit; mode of Association assets' generation, as well as termination and property procedure in the case of termination.

##### **Article 2**

Full title of the Association is: Lokalno ekonomsko razvojna agencija Šibensko-kninske županije “KRKA” (Local Economic Development Agency of Šibenik -Knin County “KRKA”).

Title abbreviation is: LERA “Krka”.

Association Head Office is in Drniš, Trg Kulture 7.

Association is active on the area of Šibenik-Knin County.

Association has a status of a legal person, and as Association is registered at State Directorate for State Administration and Local Self-Government.

Association is represented by President of the Association.

##### **Article 3**

In order to have a better connection among the members and better work performance, Association is entitled to establish its branch offices and other constitutional forms active in the area of several municipalities or towns.

Foundation and mode of work of branch offices is regulated with general provision document established by the Association Assembly.

##### **Article 4**

Association has the round stamp 35 mm in diameter with full name written out on its peripheral, while in the centre has sign of the head office of the Association.

##### **Article 5**

Association can cooperate and can become member of similar national and international associations and organizations.

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## Article 6

Work of the Association is public.

Transparency is ensured and achieved by in time and true information of the members of the Association and by the mass media.

Members are keeping informed through delivery of the written materials and through the meetings of the Association bodies.

Representatives of the mass media can attend the meetings of the Association bodies and inform public about the work of these bodies.

In order to ensure full work transparency, Association can publish its organ in accordance with regulations on public informing. Decision about publishing is made by the Assembly.

Association can, according to circumstances, publish other means of public informing (periodicals, bulletins, posters, etc.), according to the regulations on publishing.

## ***Objectives and activities for their achievement***

### Article 7

The main objective of the Association is to stimulate and help local economic development on the area of Šibenik-Knin County and to promote entrepreneurship as a way of improvement of economic efficiency.

Foreseen activities for achieving abovementioned objectives are following:

#### **Economic stimulation**

- identification of business possibilities;
- creating of information system for:
  - marketing,
  - technology,
  - finance,
  - education;
- creating a portfolio of production projects;
- promotion of entrepreneurship.

#### **Promotion of entrepreneurship**

- identifying business activities of significance for the regional economy;
- mobilization of financial sources;
- education and consulting services to entrepreneurs and managers;
- marketing advisory and education.

#### **Stimulation on production based development**

- creating of business plans;

- 
- identifying of financial sources for supporting those projects;
  - implementation and promotion of new technology;
  - promotion of marketing services and activities.

#### **Improvement of economic environment**

- promoting of local level planning processes for economic development;
- promoting of public investment department in the region.

#### **Other activities**

- supporting of students and young experts to deal with local economic development problem;
- networking of experts and professionals and professional education of members;
- all activities that can contribute to achievement of objectives foreseen with STATUTE.

### ***Membership, their rights, obligations and responsibilities***

#### **Article 8**

Membership in the Association can be regular and honorary.

Regular members can be individuals and legal persons that have Head Offices in the Republic of Croatia that are willing to accept the Statute and General Acts of Association.

Honorary members can become citizens of Republic of Croatia and foreigners who have, with their activities, made special contribution to the development of the Association.

#### **Article 9**

After receiving request from the candidate, Management Board of the Association is deciding about acceptance to the regular membership.

Based on the proposal of the Management Board of the Association, the Assembly is deciding about acceptance to the honorary membership.

Association has to have membership register. Management Board of the Association decides about the form and procedural mode of the register.

#### **Article 10**

Rights and obligations of the members are:

- to elect and be elected for the Bodies of the Association;
- to be informed about the work of the Association and its bodies as well as about material and financial transactions;
- to participate actively in execution of the objectives of the Association and contribute to the realization of its activities;
- to give proposals, opinions, and remarks considering the work of the Association and its Bodies;

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- to pay regularly the membership fee;
  - to protect and to promote the reputation of the Association.

#### Article 11

Membership in the Association terminates:

- with termination of existence of the Association;
- by written statement about withdrawal from the membership;
- by the expelling from the membership.

Member of the Association can be expelled from the membership if he/she breaks the rules of the Statute or imperils the interests of the Association or by causing serious damage to the Association and its Membership.

The decision about expelling from the membership is in competence of Management Board.

Expelled member has right for appeal to the Assembly, whose decision about expelling is final.

### ***Tijela udruge***

#### Article 13

Bodies of the Association are:

- Assembly;
- Management Board of the Association;
- President of the Association;
- Supervisory Board of the Association.

#### Article 14

Assembly is the highest body of the Association, and is constituted by all individuals – members of the Association, and authorized representatives of legal persons – members of the Association, who are appointed by a person authorized for the representation of that legal person.

Regular Assembly sessions are held at least once per year.

President of the Association can call for the exceptional Assembly session on his own initiative or upon request of at least one third of total number of the Association's members, but has to propose the agenda immediately.

If the President of the Association does not convene the Assembly, on request of the person from paragraph 3. of this article, the person proposing can, within 30 days from the day of the request, call the session.

On exceptional Assembly session is considered only the issue for which it was convened.

#### Article 15

President of the Association convenes the Assembly by delivering written invitations to the members at least 15 days in advance.

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Invitation contents information about the place and time of the session and proposal of the agenda. Together with the invitation should be delivered material concerning the topics foreseen by the agenda.

## Article 16

Assembly can bring valid decisions if at least half of the Assembly members are present.

If less than a half of the members attend the Assembly session, President will convene new Assembly session in time not less than eight days, and in that case Assembly can bring valid decisions if at least one quarter of the Assembly members are present.

Valid decisions are reached by majority of more than half of the votes of the present participants, unless by this Statute is not determined differently.

Decisions on changing the Statute and termination of existing of the Association has to be reached by two-thirds majority of the present Assembly members.

## Article 17

The Assembly of the Association:

- brings Statute and its changes and amendments;
- brings other general provisions necessary for the functioning of the Association;
- elects and recalls the President of the Association;
- elects and recalls the members of Management Board and Supervisory board;
- bring financial plan and adopts annual financial statement;
- considers performance report of the President;
- decides upon participation of the Association in the work of national and international organizations;
- decides upon association with other organizations, membership in other organizations or its cessation;
- resolves the complaints of the members of the Association on second level;
- decides on termination of existing of the Association and ownership of its property;
- decides about other issues important for the work of the Association established by this Statute, which are not in competence of other body;
- decides on amount of membership fee;
- decides on changes of address of the Associations Headquarters;
- decides on founding and determination of sub-offices.

## Article 18

President of the Association ensures regular and legal work of the Association, and is elected for the period of two years, and can be consecutively re-elected for several times.

Person who is running for a President has to fulfil these conditions: have Faculty degree, active knowledge of English or German language and be able to work on PC.

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Management board and the President of the Association can be relieved of the duty before expiration of their mandate if they overstep their competence or do not fulfil their obligations in satisfactory manner. If the entire Management Board is recalled, the Assembly elects new one with full mandate. In case some of the Management Board members are recalled, the Assembly elects new Management Board members until the end of the current mandate.

Management Board and each of its members are responsible to the Assembly.

Each member of the Management Board can request relieve of the duty before the expiration of the mandate, but is compulsory to execute his duty until the recall decision is brought. Assembly is mandatory to bring decision about recall request on its first session.

## Article 19

Management Board has seven members elected by the Assembly on two years period.

Management Board of the Association:

- formulates proposal for the Statute, its changes and amendments;
- determines financial plan proposal and annual financial statement
- submits annual work report to the Assembly;
- decides about the amount of the memberships fee;
- decides on acceptance and expel from the membership in the I degree;
- takes care about providing information to the membership and publicity;
- decides on Association's property use;
- establishes boards, commissions and other bodies aiming to realize objectives of the Association;
- performs all other activities assigned by the Assembly.

Sessions of the Management Board are held according to the needs. Sessions can be held if the majority of the Management Board members are present, and valid decisions can be reached by the majority of the present members of the Management Board.

## Article 20

President of the Association represents the Association, chairs the Assembly sessions and is responsible for the legality of the Association work.

President of the Association performs its job professionally, and in the same time is President of the Assembly.

President of the Association:

- convenes the sessions of the Associations Assembly and proposes the Agenda;
- implements decisions made by the Assembly and manages the work of the Associations between two sessions;
- prepares drafts of general acts which are to be considered by the Assembly;
- takes care of regularity of members register;

- 
- verifying records from Assembly meetings;
  - arranges and preserves archive of the Association;
  - performs expertise and other affairs in accordance to general acts of the Association.

#### Article 21

Management board on its first session elects, out of its members, President of the Management Board, which execute jobs of President of the Association in his absence.

#### Article 22

Management Board can constitute boards and other occasional working bodies of the Association.

Management board appoints president and members of working bodies out from the Association's membership of two years period.

Boards and other working bodies perform jobs and tasks for which they are established and submit work reports to the Management Board.

#### Article 23

Supervisory Board has three members elected by the Assembly in period of two years and they can be re-elected.

Member of the Supervisory Board cannot be member of the Management Board.

Supervisory Board can bring valid decisions if the majority of its members are present at the session, and valid decisions are brought by the majority of the votes of present members.

Members of the Supervisory Board are responsible for its work to the Assembly.

#### Article 24

Supervisory board considers and supervise:

- implementation of regulations of this Statute and other general provisions of the Association;
- material and financial transactions and utilization of the Association's property;
- realization of the decisions, conclusions and other legal issues;
- executes other jobs assigned by the Assembly.

#### Article 25

Supervisory Board has right to request insight into documentation and all data about the work and business transactions of the Association. Management Board and each member of the Association are mandatory to enable, without delay, insight into requested documentation and data and submit requested information.

Members of the Supervisory Board can attend sessions of the Management Board but have no decision-making capacity.

Supervisory Board can request meeting of the Management Board and of the Assembly if it finds irregularities in financial of other business transactions of the Association, negligence in business execution or violation of the Statute and other general provisions of the Association.

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## Article 26

On the mode and procedure of relieve of duty of Supervisory Board or some of its members are implemented regulations from the Article 18. of this Statute.

## Article 27

Property of the Association consists of revenues gained from:

- fees;
- donations and grants;
- means received from international organizations that support work and activities of the Association;
- means realized through organization of seminars and lecturing and from publishing according to the Law;
- other legal income.

## Article 28

Association's property management is in accordance with the regulations of material and financial transactions of non-profit organizations.

All revenues and disbursements are determined by annual financial plan valid for the specified year.

At the end of the year for which financial plan is brought, annual financial statement has to be submitted.

President of the Association has executive authority right regarding property management.

## **V. Statute and other general documents**

### Article 29

Statute is basic general document of the Association and all other documents has to be in concordance with the Statute regulations.

Outline of the changes and amendments of the Statute are prepared and established by the Management Board of the Association, which submits it for discussion to the members of the Association.

Management Board of the Association considers remarks and proposals submitted for discussion, takes attitudes and establishes proposal of the Statute.

### Article 30

Interpretation of the Statute regulations are given by the Assembly of the Association.

### Article 31

All internal issues of the Association, as well as other issues not determined by the Statute, but request detailed consideration, will be arranged by general documents determined by the Association's Assembly.



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## ***Transitional and final regulations***

### **Article 32**

Associations is terminated by the decision of the Assembly and in cases regulated by the Law.

### **Article 33**

This Statute comes into force on the day of its establishment, and is implemented from the day of registration at the State Directorate for state administration and local self-government.

Statute is signed by the person which is authorized for representing the Association and this sign includes representatives name, surname, function and hand-written signature.

President of the Association:

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## Annex IV

### Contacts

Mr Geert van Boekel  
Regional Expert on Local Economic Development  
International Labour Organization  
Ilica 207  
10000 Zagreb  
Croatia  
Tel: + 385/1/3712-619  
Fax:+ 385/1/3712-628  
e-mail: geert.van.boekel@undp.org

LERA Krka  
Mr Boris Beroviæ, Executive Director  
Ms Josipa Èupia, Assistant of the Executive Director  
Drniš 22 320  
Trg kulture 7  
CROATIA  
Tel/Fax ++385 (0) 22 888 180  
Mobile phone: 098/445-687  
e-mail: lera-krka@si.hinet.hr

LEDA Western Slavonia  
Mr Davor ILIJASIC  
LEDA WS Executive Director  
1, Stjepana Radica  
HR-35430 OKUÈANI  
CROATIA  
Tel: +385 35 372 700  
Fax: +385 35 372 088  
www.hinet.hr/leda

Ministry for Crafts and Small and Medium Size Enterprises  
Ms. Sanja Zelinski, Assistant Minister for SMEs  
Mr. Milenko Lepee, Vice Minister for SMEs  
Ulica Grada Vukovara 78  
10000 Zagreb  
Croatia  
Tel: +385 1 4698300  
Fax: +385 1 6109342  
e-mail: momsp@momsp.hr  
www.momsp.hr

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European Commission

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