The Role of Economic Development Agencies in Promoting the Development of Lagging Areas of Croatia - The Case of LEDAs

1. The role of Economic Development Agencies in promoting local economic development

The creation of Local Economic Development Agencies (LEDAs) is based on the Local Economic Development Approach, also known as the **bottom-up approach**. The local economic development approach came as a response to the incapability of the central government in solving socio-economic issues of lagging regions (Maleković, 2002). This approach made it possible for local actors, and instruments for promoting development, to be considered in a new context.

1.1. What is Local Economic Development (LED)?
Local economic development is the process of transforming the local economy and broader society with the aim of overcoming existing difficulties. It seeks to improve the living conditions of the population by means of **consensus-based** actions among different social and economic local actors to take advantage of endogenous resources by promoting local business capacities.

The term 'Local Economic Development' can be derived as follows:
- **Local** - based on endogenous potential, the promotion of the optimal use of local capacities and the creation of a systematic linkage with the national context.
- **Economic** - promotes economic development through the identification of business opportunities, by supporting entrepreneurial initiatives and facilitating access to the market.
- **Development** - promotes improving the quality of life through job creation and income generation.

The LED approach plays a fundamental role in the sustainability of the rehabilitation programme aimed at re-launching economic development process. The main reasons in favour of the LED approach are the following:
The “top-down” approach proved to be unsuccessful in solving complex development problems. The best knowledge regarding local problems, local needs, local resources, local development potential, as well as local motivation for promoting change, exist on the local level. It is of fundamental importance that the local community sees its place in the future, has its development vision and development goals and participates in their implementation.

The LED approach promotes:
- Concentration among the main local actors involved in the economic activities and the setting of priorities
- Integration of local development priorities in regional and national plans for economic development
- Participation and consensus building in economic life at local level;
- Coordination of the few resources available in an area, avoiding double efforts
- Reinforcement of the intermediary capacity of local actors towards national and international organisations to facilitate resource mobilisation for the region
- Support to enterprise creation.

Successful examples of the development of lagging regions in Europe, which have based their success on autonomous and locally “owned” patterns, as well as, the previously mentioned unsuccessful top-down approach, have raised the interests of experts, scientists and policy-makers to the LED approach. Based on endogenous development, the LED approach gave new meaning to the internal coordination, i.e. coordination of local stakeholders in order to achieve synergy and cohesion at local level, at the expense of previously emphasized external coordination. This new approach has also offered new instruments for promoting successful local development. Local economic development agencies have an important place among these instruments.

1.2. What is a Local Economic Development Agency (LEDA)?

The LEDA is the instrument of the Local economic development approach. It is an important instrument of local/regional development in EU countries\(^1\), but also in transition countries and other developing countries\(^2\).

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\(^1\) There are more than 500 local economic development agencies operating in Europe, most of them are situated in the EU.

\(^2\) For further information about LEDAs and the LED approach, see: Local Economic Development Agencies, An instrument to promote Entrepreneurship and Decent Jobs at Decentralised Level, ILO, Geneva, 1998.
The LEDA is supposed to be:
- the main tool and organisational form of the consensus building process on the territorial level
- the central axis of local development strategy
- an economic discussion forum for identifying common development objectives.

1.2.1. Features of LEDAs
There is no single model for local development and it is impossible to identify a single organisational model that can be mechanically replicated. Each country has its own distinctive historical, political, economic, social and cultural characteristics and those of different territories within each country are similarly distinctive. Nevertheless, several core characteristics of LEDAs have proven to be universal and are indeed essential in order to contribute significantly to the progress of the local economy.

It is an organised structure
LEDA is non-profit organisation and it has its own legal character that guarantees political and administrative autonomy. Its legal form permits the participation of local actors both from the public sector (local administration, decentralised parts of national government, etc) and the private sector (associations, chambers of commerce, trade unions, producer's organisations, banks, etc).

Mixed public-private participation and the private administrative status have proven to be factors of success. The participation of public institutions and administrations gives agencies political, institutional and programming links with various actors at all levels.

Territorial coverage
LEDAs are territorial structures whose areas of operation coincide with an administrative division of the country involved such as: the region, province, district, canton, department or other. The reduced territorial coverage of the LEDA has proven to be the most appropriate for involving decentralised state structures in LEDAs activities. This territorial dimension also allows LEDAs to activate a critical mass of natural, economic and human resources for self-sustaining development and makes it feasible for local actors to participate in their activities.

In countries whose administrative divisions do not envisage intermediate levels, consortia of municipalities have been promoted. In the case of LEDAs established in large cities, areas of operation have most often coincided with the administrative subdivisions of the city council.
It co-ordinates local economic development planning
A LEDA's first step is to assemble all the actors in order to design a strategy for local economic development. LEDAs can either co-ordinate the planning process directly or else provide technical assistance to the local administrations responsible for that planning. In this way the businesses that it has supported can be oriented to produce benefits for territorial development and not just for their owners and workers. Although these plans are based on valorisation and the use of local natural, human, technical and economic resources they should also provide space for attracting exogenous investments that are compatible with endogenous development.

It supports SME development
The obstacles of entrepreneurial activities in transition and developing countries are well known. They include a lack of entrepreneurial culture, technical expertise and market opportunities, insufficient support infrastructure and difficult access to financial resources. Banks have reservations toward SMEs, especially regarding start-up projects; they often require collateral that is beyond the means of most potential borrowers and are unwilling to bear the costs of examination of numerous small loans applications.
It is clear that a LEDA will be truly useful only if the assistance it provides in drafting business plans is followed by help in financing them. One of the factors of sustainability and success is a credit fund, usually formed with resources provided by the cooperation organisation involved. Credits are disbursed on the basis of business plans whose feasibility is thoroughly assessed by LEDAs technical experts. As a result, the chances that the borrower will repay the loan are increased. Local financial institution are always included in this credit scheme because experience has shown that it is important that “clients” who previously had no experience with the financial system become familiar with it.
Besides support in drawing up business plans and providing inexpensive credit, LEDAs should also be able to offer technical support once the business has been started up, as experience shows that the initial phase is crucial for the survival of the entrepreneur. This means that LEDAs must have sufficient human resources, or, when its own resources are insufficient that they can draw from staff made available by its stakeholders.

It is a forum for social dialogue and negotiation
A LEDA agency is intended to be a forum for social dialogue and negotiation where local actors can promote and determine their own processes of economic development. Both the public and private sector have a clear
interest in participating in this process. The former reaps the political advantage of getting closer to society, to popular needs and opinions and promoting itself for voters. The public sector also benefits from delegating the implementation of policy decisions to a specialised technical structure. For the private sector, on the other hand, it is a forum for voicing its development demands in direct dialogue with the agency and public sector as well.

1.3. LEDAs in Croatia

It is necessary to emphasize that LEDAs in Croatia were not designed or implemented by the same recipe that was used in Bulgaria or in Honduras, or in any other country. LEDAs were designed just as an overall framework based on certain principles of the Local Economic Development Approach, but which ensures enough space to adapt itself to specific local conditions. One other important remark is that even Croatia's LEDAs themselves were not designed and founded following exactly the same path. Local stakeholders were the ones who were in position to influence the design of LEDAs, to discuss its mission and objectives, its relations to other relevant institutions and bodies, its legal status with the support of international and local experts. Of course, there was a line when deciding how LEDA should look, that couldn't be crossed and international and local experts were there to take care of it. Nevertheless, the whole framework brought by the international and local experts to the local stakeholders was wide enough to be adapted to local conditions.

Although distinctions between LEDAs have occurred over time, accentuation will be given to common features for all LEDAs, emphasizing only those distinctions which were judged as relevant.

Four LEDAs have been established up to now, the first two in 2000, in the city of Drniš (LEDA Krka), in the county of Šibenik-Knin, and in Okučani (LEDA Western Slavonia), covering the county of Slavonski Brod-Posavina and the county of Požega-Slavonia. The third was established in July 2001 in Sisak (LEDA Sisak), covering the county of Sisak-Moslavina and the last LEDA was established in December 2001 in Vukovar (LEDA Vukovar), covering the county of Vukovar-Srijem.

1.3.1. Background information relevant for the process of setting up these LEDAs

Two important factors influenced the setting up process, and, to a lesser extent, the performance of LEDAs. The first one was the decision to set up LEDAs in specific lagging areas, i.e., Areas of Special State Concern (ASSC), and the second one is the fact that integral regional development policy did not exist at that time.
ASSC comprise primarily war-torn areas that had been previously occupied during the 1991-1995 period. These areas have suffered enormous devastation and the deterioration of physical infrastructure, industrial facilities, mine contamination, and a significant loss of the domestic, especially young and skilled, population, all of which contributed to a sharp decline in economic activity. By way of illustration, the unemployment rate in the ASSCs in June 2002 was around 35%, while in the rest of Croatia it was around 20%.

These areas are also characterised by a small number of economic support institutions and the weak organisation of civil society and private institutions. (Van Empel, 2000).

A favourable consequence of this situation, where similar institutions do not exist, was the fact that LEDAs were not seen as a threat or a competitive institution. Other consequences were not so favourable and they included the following:

- Substantial time and effort had to be spent in order to bring the local actors closer to the ideas of the local economic development approach and a role of institution like LEDA
- Problems with finding appropriate employees for LEDA-s, as the most capable human resources had already left the ASSCs
- The lack of SMEs in the ASSC and the non-existence of entrepreneurial culture left LEDAs to deal with a very limited number of potential clients.

The non-existence of an integral regional development policy has influenced the project in several aspects:

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3 Most of these areas are situated along the borders with Serbia and Montenegro and with Bosnia and Hercegovina.

4 Calculation of the author, based on the data from a research study conducted by Jurlin, Puljiz, Maleković and Polić (2002).

5 This is not the case in the rest of Croatia where there are several successful examples. For example, Istria was the first county to found a county development agency (in December 1999). Further on, the most successful entrepreneurial centres are situated in the northern part of Croatia, Međimurje, and the western part, in Rijeka. This situation is understandable knowing that the County of Istria, Primorje-Gorski kotar and the County of Međimurje did not suffer from direct war damage, the level of overall economic activity in these counties is much higher, and they have long tradition of successful small and medium entrepreneurship, etc.

6 The only exception is the case of the Entrepreneurial Centre in the County of Šibenik-Knin, where efforts had to be made in order to break this fear of the LEDA as a threat to the Centre.

7 For further details regarding the situation of regional policy in Croatia, see Maleković, S., Polić, M., Puljiz, J., Jurlin K. (2001): Conceptual framework for Croatia’s regional policy, Technical assistance of the EC (OBNOVA 2000 programme) to the Ministry of Public Works, Construction and Reconstruction, IMO, Zagreb.
Local and regional (county) development agencies were not recognised as an important tool of national/county development policy and therefore attempts to found such institutions were, in the beginning, faced with skepticism about the need for such institution. This was particularly the case with the first two LEDAs.

There were no other development agencies that could be used for the transfer of knowledge and experience about the setting-up process and, later, about the operation phase.

Development planning, an important aspect of LEDAs activities, is still not developed in Croatia and local stakeholders still do not see it as an important tool of development.

It is important to notice that the central governmental development policy towards ASSC was focused on the reconstruction and construction of physical infrastructures and living premises, while the promotion of business activities was backed only with different tax and non-tax allowances and concessions for businesses and employees. Instruments like institutional support for businesses were not considered important. The role of local actors was only to identify the infrastructure, premises and buildings that needed to be reconstructed or constructed, and then to wait for ministries and other responsible bodies to come and start the building activities. Of course, this is a very general picture, and exceptions exist, but nevertheless it shows the state of the spirit in the ASSC. At the time when UNDP/UNOPS and other involved institutions arrived with the initiative for setting up LEDAs, the local stakeholders got used to this “simple” kind of support and were very passive about searching for other ways and other instruments for development promotion.

1.3.2. Situation (the reasons for the project)

Setting up LEDAs in Croatia was part of the UNDP/UNOPS programme in Croatia. The main objective of the UNDP/UNOPS mission in Croatia was to support the process of revitalisation of war-torn areas and LEDAs are recognised as an excellent tool for the realisation of that objective. This finding was supported by the success that LEDAs that were established during the 90s of the last century, where there have been significant increases in employment, which is especially important for the ASSC in Croatia, as they

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8 Even these concessions and allowances were often changed which contributed to the overall insecurity among existing entrepreneurs and also among potential external investors.

9 Since 1993 13 LEDAs in Central America have created more than 25000 permanent jobs and 16000 temporary ones (ILO, UNOPS, EURADA, COOPERAZIONE ITALIANA, 2000).
are faced with very high unemployment. Another reason for setting up LEDAs in the ASSC was the non-existence of economic support institutions in that area.

1.3.3. Project (main idea, goals and obstacles)
The main idea of the Local Economic Development Agency is to promote economic development within its territory by helping to re-establish normal conditions for economic growth and job creation, strengthening local economic and administrative capabilities and promoting local participation. LEDAs should contribute to “…an integrated and comprehensive planning of the regions economic development on the basis of democratically determined development priorities and taking into account social and environmental issues” (Van Empel, 2000).
The process of setting up local development agencies in Croatia turned out to be a longer and more complex process than expected. One of the main reasons is the situation in Croatia, where a clearly defined regional policy is still missing. There is no national regional development strategy, institutional structure is still unclear, regional policy instruments are insufficient and underdeveloped, etc. This situation was reflected on the local level in the sense that local actors didn't have a clear understanding about the local economic development concept, nor about the main instruments of this concept. The whole setting-up process was, in fact, a process of learning for the local actors, raising their awareness about the importance and potentials of this local economic development concept (Maleković, 2002). This (learning) process took more time than expected due to the current situation where local stakeholders found themselves for the first time in a position to think about development, to identify their strategic objectives, to identify possible fields of cooperation with other local units, institutions, etc.

1.3.4. Actors and their relations
In the situation where regional policy is still a concept on paper, and the sectoral approach is the standard policy approach, it is not surprising that the task of establishing the first Local Economic Development Agency was realised at the initiative of international organisations, in this case UNDP/UNOPS. The role of the ILO was to provide expert support due to their

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10 Support institutions like the Centre for Entrepreneurship in Šibenik, which formally covered the part of the county that was in the ASSC, had no significant activity in that part of the county. Instead, they were focused on the coastal, urban parts of the county that have a developed tourism sector.
international experience in LEDA development and the IMO had the role of local partner\(^\text{11}\).

The LEDA concept is based on the participatory approach, meaning that all relevant actors must be actively included in the process of designing and setting up the LEDA. Actors which were invited as potential LEDA members to take part in the process of setting up the LEDA were the following:

- The County, and all municipalities/towns within the County.
- The Chambers (Chamber of Commerce/Chamber of Crafts)
- NGOs active in that area
- Financial institutions based, or with a branch, in the territory
- Co-operatives
- Other relevant institutions.

All these actors were invited as potential LEDA members to take part in the process of setting up the LEDA.

1.3.5. Actions (measures, mechanisms) taken by actors

The LEDA was set up in several phases, which included a series of workshops about the local economic development concept and the role of the LEDA, designation of the future LEDA and definition of the roles and obligations of relevant actors.

The first phase in setting up the LEDA, the sensibilisation phase, was very important, because it served as the basis for the following phases. This phase was focused on bringing closer the local economic development concept to the actors in a series of workshops. This phase also included collecting and analysing all relevant information about the socio-economic situation in the county. A number of discussions with local stakeholders were held in order to get a clear picture of the situation.

This phase took longer than expected, mostly due to the specific circumstances, which included the lack of knowledge about the concept of local economic development, followed by scepticism about the benefits of the project. This scepticism was slowly diminishing, mostly due to study tours (to local economic development agencies in Portugal and Germany) and the first workshops, as well as numerous briefings with local experts.

The second, designing, phase was preparation for the future concept of the LEDA. Roles and relations between various actors were analysed. Questions, such as the territorial coverage of LEDA, and the legal forms and activities in

\(^\text{11}\) UNDP-United Nations Development Programme, UNOPS United Nations Office for Project Services, ILO International Labour Organisation, IMO Institute for International Relations, Zagreb
which it will be engaged were also defined. These issues were dealt with by several working groups during the workshops.

The third phase, the foundation of the LEDA, included numerous technical and organisational assignments such as: the designation of the LEDA statute, elections of the Board of Directors, the calling of the assembly general, accepting all proposed legal documents as well as others.

The fourth phase, the internal structural setting and the start of functioning, included the creation and acceptance of a working plan, organisation of databases, designing of training schemes, signing contracts with different institutions, etc.

The fifth phase, the consolidation phase, includes steps such as self-evaluation and the development of cooperation with different financial sources, etc.

Of course, the duration of each phase was different for each LEDA. Also, the activities within each phase were also slightly different, depending on the environment and the estimations of the expert team that was in charge. It is also understandable that with each new LEDA, phases were implemented faster and more successfully.

1.3.6. Critical factors for success or failure

Firstly, it can be said, that establishing LEDAs in war-torn areas through the participatory approach, having in mind all political and other hindering circumstances that accompany this task, is success by itself. Secondly, it is still too early to judge the overall success of the task as the LEDAs are still in the “incubation” phase.

Critical factors in the success of the process of setting up LEDAs are also hard to judge, as they differ from one case to another. But it is certain that the particular engagement and “drive” of the local and international experts has a substantial impact. On the other hand, the readiness of the EC to cover the majority of financial expenses during the first two years has certainly contributed to the readiness of local actors to accept this project. Here, however, also lies the threat for LEDAs as the EC established a decreasing scale of financial support for the operational costs of the LEDAs: 100% in the first 2 years, 75% in the third, 50% in the fourth and 25% in the fifth.

On the other hand, counties and municipalities, especially those in ASSC are currently not ready to substantially contribute in the financing of LEDAs activities. The reason lies in their very limited budgets, but also in the still present scepticism towards LEDAs possibilities. The way to win over this scepticism is to show concrete, successful results of LEDA activities, and these results again would require financial means and so we would arrive at a dead end position if the UNDP and EU were to withdraw from this project.
The sceptical position of local officials forced LEDAs to focus on business support activities, where they could obtain visible results very quickly. This was done by setting up credit and guarantee schemes for local entrepreneurs. When the first projects were successfully implemented in accordance with these schemes, the position of LEDAs in the eyes of the local stakeholders improved, and many of the municipalities started again to pay their membership fees to the LEDA. The ILO-expert who was assigned to work with Croatian LEDAs (although on a part-time basis) had a crucial role in this success. His knowledge and experience with other LEDAs worldwide significantly helped to improve the capacity and motivation of the local LEDA staff.

Other important factor in the success of LEDAs is the quality of their employees. A couple of remarks are worth mentioning:

- The employees of the first two LEDAs did not participate in the setting up process, which later took substantial time to introduce them to the overall idea, other local stakeholders, their responsibilities, etc.
- Both directors of the first two LEDAs were young and educated, but without previous experience in similar activities. They had never worked before in a local administration or anywhere similar, and they had no previously established connections and relations with local stakeholders.
- The other two LEDAs employed persons from the county administration as directors, ensuring in that way a stronger position in the county, but also in communication with municipalities and other local actors.
- An ILO expert, who was hired to work with LEDA teams (although on a part-time basis), has significantly contributed to the overall performance of LEDAs, especially in the case of the first two LEDAs.

The problem of lacking experience and credibility seems to be a major obstacle of LEDA staffs. Some training was provided by international organisations (such as the ILO) in order to raise the capacity of these staffs, but still this is not enough in order to solve the problem of experience and credibility. It is also obvious that the lack of education possibilities in Croatia for workplaces like LEDAs is a closely connected issue.

1.3.7. Results

The main activities of LEDAs can be summarized as follows:

- **Support to local SMEs**
  Support includes either direct assistance through Guarantee Funds or by selecting the right support institution for them. LEDAs are also very active in the counselling of entrepreneurs and business plan elaborations. Further important activities include the elaboration and implementation of educational programmes for local entrepreneurs, where an emphasis is
given to the start-up entrepreneurs for whom a Start Your Business programme\textsuperscript{12} was launched in cooperation with the UNDP-UNOPS, the ILO, the Ministry of Crafts, Small and Medium Enterprises and the Croatian Employment Service.

**Guarantee funds**

The introduction of Guarantee Funds was an important factor in the overall performance of LEDAs and for the improvement of the position of LEDAs in the eyes of local stakeholders. Guarantee Funds are part of the Quick Impact Facility (QIF) programme, which is designed by the EC in order to enhance reaching objectives from the CARDS and the SAA. The QIF Croatia programme is implemented by UNDP/UNOPS with the technical support of the ILO. Although all credits are approved by banks, and disbursed with their own resources, the programme insures the risk of any individual loan through the Guarantee Fund. The programme normally guarantees up to 50\% of each single operation / credit; but, in the case of SMEs, this percentage may, in exceptional cases, go up to 70\%. The actual "leverage level" given by the banks is one to one. For each euro the programme deposits into each Guarantee Fund, the corresponding bank adds one euro from its own resources.

- **Evaluating local development resources with the aim of promoting local entrepreneurship and creating a favourable climate for business development.**

In cooperation with other supporting institutions in the county and with the active participation of other important local stakeholders, including those in the local business community, an investment guide was elaborated which should serve as the basis for attracting potential investors, both from other parts of Croatia and internationally. This was elaborated for the Krka LEDA and the LEDA in Western Slavonia. Also, LEDAs elaborate specific studies about production possibilities in the county. For example, studies on organic food production for the Šibenik-Knin County and Western Slavonia were elaborated by the LEDA in Krka and the LEDA in Western Slavonia. These studies were presented on several occasions to potential domestic and international investors.

\textsuperscript{12} The Start Your Business (SYB) course is a tailor-made product based on the ILO SYB Training package and it is run by local ILO-licensed trainers. It is a nine-module management-training programme with a focus on starting and improving small businesses as a strategy for creating more and better employment in transition economies. Another aim of the training is to create easier access to finance through the existing Guarantee Fund.
• **Organising seminars and lectures which aim to represent the successful examples of economic support institutions in Croatia and worldwide to local communities.**

In cooperation with the ILO, this new form of education for local actors was introduced. The LEDA of Western Slavonia organised a lecture by the head of the entrepreneurial centre in Čakovec\(^\text{13}\), in the County of Međimurje.

• **Informing the county (region) about existing entrepreneurial opportunities and access to financial and technical support.**

This activity was particularly important in Sisak-Moslavina County, where the LEDA was, at the time, the only economic support institution that provided such relevant information.

The level and extent of the mentioned activities differs slightly for different LEDAs depending on their duration, capabilities and specific local circumstances.

2. **How can the position of economic support institutions in lagging regions be improved?**

It is quite obvious that economic support institutions in Istria, Rijeka, Zagreb or Medimurje are in a more favourable position due to the more developed social and business environment in which they operate. Local actors in those areas are more open and ready for cooperation with economic support institutions and besides, local municipalities and counties there are financially stronger than those in the ASSC. Additionally, the number of supporting institutions in the ASSC is still very low, and local actors are still skeptical about their involvement and cooperation with such institutions. Overall economic activity in those areas is still at a very low level, which results in limited possibilities for business support activities. Development agencies working in the LEDAs of ASSC still depend on international (financial) support, which puts them in an insecure position having in mind that international organisations plan to reduce their support. These are, among others, the reasons why stronger support, especially on the county level, is needed for development agencies in these lagging regions.

The position of development supporting institutions, particularly those in lagging regions like LEDAs, is still very unstable. Currently, LEDAs are dependent on technical and financial support from foreign governments and international organisations. This situation is slowly changing, meaning that

\(^{13}\) This entrepreneurial centre was awarded as the best in Croatia for 2002 by the Ministry of Crafts and Small and Medium Enterprises.
LEDAs are beginning to rely more on their own, and governmental, sources of funds. Yet, the situation is far from satisfactory. In order to increase the confidence level of local actors, LEDAs had to quickly show some tangible results. This situation forced LEDAs to focus on business support activities, especially for credit and guarantee schemes for local entrepreneurs. As credit access is still a significant problem for entrepreneurs in ASSC, the entrance of LEDAs in credit support activities increased their value and recognition in the eyes of local actors. Currently, it seems like LEDAs do not differ much from entrepreneurial centres, with the only exception of providing guarantee schemes for entrepreneurs. This is a significant advantage, however, when comparing them to other entrepreneurial centres, but it depends on the readiness of international organisations and governments (such as those in the EU) to further participate in the scheme. On the other side, LEDAs so far have devoted little attention to areas such as development planning, monitoring of strategy implementation and evaluation processes, which all fall under the possible/expected activities of the development agencies. Although local actors and their cooperation and communication with LEDAs, together with the LEDAs' capacities and capabilities still represent key determinants of LEDA activities and results, another important actor is arising and that is the formulation of national regional policy followed by a new institutional set up. This ongoing process is closely connected with the process of the adjustment of Croatia towards the EU in the field of regional development. The current situation suggests that important improvements in the institutional framework are expected. According to the SAA\textsuperscript{14}, up to 2005, a number of institutions like the National Regional Development Agency and regional development agencies should be founded and the CARDS programme offers financial and technical support for fulfilling these tasks. With special regard to expected institutional improvements, some possible steps in order to improve the current position of development supporting institutions in lagging regions (in this case LEDAs) could be:

- **To include LEDAs (at least in the beginning, only those that are most advanced) in the overall regional policy institutional framework as the regional (county) development agency.**

  The status of a regional (county) development agency should be to strengthen the position of LEDAs among local actors. It should bring new tasks to LEDAs such as coordinating the elaboration of the county development strategy, the monitoring and evaluation of the strategy

\textsuperscript{14} SAA: Stabilisation and Association Agreement.
implementation process, and cooperation with the coordinative body on national level. Another important detail is that in this way the performance of LEDAs could also be easily monitored and evaluated (for example by the national agency for regional development).

- **To engage LEDAs in assisting the economic support institutions at the central level.**
  Institutions like the Fund for Regional Development are currently very active in financing regional and local development projects. They are faced with numerous financing requests from the local level. LEDAs could assist the Fund by prioritising project proposals due to their very good knowledge of the situation in the field. They could also be very helpful in monitoring the project implementation and reporting to the Fund about the project impact.

- **To provide LEDAs with sufficient technical support in order to further improve their capacities and capabilities.**
  It is still necessary to raise the capacity of LEDAs in the field of development planning, monitoring, evaluation of strategy implementation and in marketing i.e. public promotion activities. Although the UNDP/UNOPS and the ILO have provided LEDAs with different types of technical support, it still seems that permanent technical support has been missing, especially at the beginning of the LEDAs' work. Domestic experts could be better used regarding this issue in the future, particularly because they are much cheaper than foreign ones, and today they possess valuable experience in this field.

- **To improve the public promotion of LEDAs at all levels.**
  Since the future of LEDAs very much depends upon their “acceptance” at the local and county levels, but also on the national level, it is necessary to further continue and strengthen all public promotion activities. It is particularly important to emphasize the specific features (advantages) of LEDAs, which distinguish them from the other economic support institutions like entrepreneurial centres.

These steps do not presume, however, that LEDAs should leave their present engagement in supporting businesses. On the contrary, implementation of these steps should provide LEDAs with the additional capacity in their communication and cooperation with the business community.

Most of these steps can also be implemented for other institutions in the rest of the country due to one simple reason - Croatia needs institutions that can perform tasks such as the elaboration of development programmes. Just for illustration, in February of 2003, the Ministry of Public Works, Reconstruction and Construction announced the first tender for the elaboration of
sustainable island development programmes. It will be very indicative to see how many economic development support institutions on regional and local level will apply for this task.

3. Concluding remarks

There are some interesting conclusions that can be drawn up from the experience of LEDAs:

- The initiative for setting up local economic development agencies in ASSC came from an external actor, in this case the UNDP and the EU. This is a very common situation for lagging areas. The reason could be found, among others, in the low capacity of local administration in dealing with economic development issues.

- The most important issue in getting initial interest and support from local stakeholders, necessary for the whole process to start, was the financing issue, as the financial strength of local municipalities is very weak. In this case, external actors, i.e. the EU, promised to cover all expenses of the project in the first two years which was crucial in order to get support from local stakeholders.

- It is very important to develop, within the local stakeholders, the feeling of ownership of the setting-up process and later of the LEDA itself. This feeling of ownership motivates local stakeholders to actively participate in the process. This feeling can later easily fade away if LEDAs do not actively “feed” it (by its active cooperation with local stakeholders, for example through common projects, regular meetings, workshops, etc).

- The role of the local partner is very important, particularly in the initial setting-up phase, when local stakeholders showed certain political mistrust of the international organisations\(^\text{15}\), and when local partners had to put in significant effort in order to overcome this situation. Local partners were in a position to achieve this due to the easier and more accessible communication with the local stakeholders.

- The number of LEDA employees is for now very limited (up to four) and therefore the quality of its employees is a critical issue for LEDA self-sustainability. Individual capabilities and motivations, especially those of the LEDA's director, are of the greatest importance. From this point of view, it seems that it would be very beneficial for LEDAs if their staff (at least the director) already had successful experience in dealing with local economic development issues.

\(^{15}\) The reason was the view of some local stakeholders that LEDAs are just to be an instrument of international organisations for further support of the Serbian minority in these areas.
Policy makers on central and regional levels should have in mind that for several (earlier mentioned) reasons economic support institutions situated in lagging areas are faced with greater difficulties than the ones in more developed areas and therefore they require more attention and support. Now that the LEDAs have survived their first most critical “incubation” phase, and when the external technical and financial support is gradually diminishing, the support from the part of regional, but also central government, institutions, could be of key importance.

References

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Zakon o područjima od posebne državne skrbi (Law on Areas of Special State Concern), NN 44/96 (amended NN 57/96, 124/97, 73/00, 87/00 and 94/01)
