



World Bank – Croatia Partnership
Country Program Snapshot
April 2012



RECENT ECONOMIC DEVELOPMENTS

Growth and External Performance

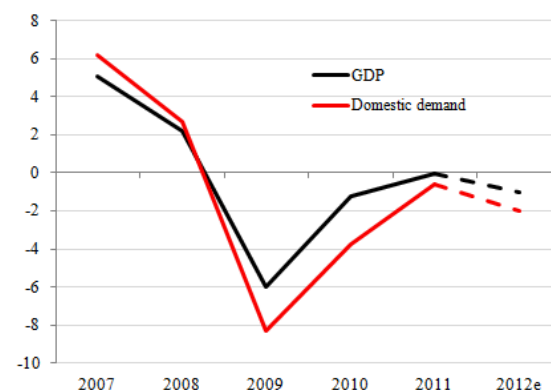
Like many other countries in the region, the global financial crisis impacted Croatia. In 2009-2010, the economy contracted by 7.2 percent. This was followed by a stagnation of 0.04 percent in 2011. The outlook for growth in 2012 remains weak, given Croatia's dependence on economic cycles of the European Union. About half of Croatia's trade is with the euro area, primarily with Germany and Italy and the euro area is the source of about three-fourths of FDI flows into the country. Croatia also has a high concentration of banks whose ownership indirectly exposes them to the euro-area crisis. Croatia's recovery in the near future will be largely driven by developments in the external environment.

The new administration took office in December 2011 at a time when the Croatian economy faces daunting challenges. High household and corporate indebtedness are constraining domestic demand. Unemployment remains at above 12 percent for survey-based unemployment. The private sector has been bearing the brunt of the crisis with around 115,000 jobs lost mostly in manufacturing, construction and trade. The public sector on the other hand newly employed 7,500 people. The informal sector remains large and uncaptured in growth and employment performance.

The fiscal deficit is widening and public debt is growing. In 2011, the general government deficit increased for the third consecutive year to 5.3 percent of GDP (based on ESA methodology) largely because revenues declined by 1.2 percentage points of GDP. Expenditures as a share in GDP are expected to have declined by 0.8 percentage points in 2011. Interest payments grew by 25 percent compared to 2010, and by November 2011 public debt with guarantees had reached 63 percent of GDP.

The current account deficit declined to 1.0 percent of GDP in 2011, having reached nearly 9 percent three years earlier. The CAD has continued to adjust, mainly because of weakening imports and increasing tourism receipts. The financial sector remained stable, but the risks to banking sector health are increasing. Non-performing loans reached 12.4 percent by end 2011 preventing faster credit recovery, which

remained anemic. Capital adequacy remains high (at 19.2 percent at end 2011) and continues to safeguard the banking sector soundness.



Prospects for economic recovery remain fragile and the new administration faces the challenge of embracing deep reforms. In the short term, the main economic challenge will require policies to protect the economy against negative external impacts, making fiscal consolidation a priority. With the poverty rate at about 14 percent and youth unemployment at 40 percent, structural reforms could help stimulate job creation, productivity and social cohesion. The demand for Croatian goods and tourism services will be uncertain coupled with limited prospects for foreign capital inflows. Thus, the fiscal consolidation effort could help rationalize expenditures, to create room for activities that support growth and protect the vulnerable. Moreover, structural reform can be leveraged to enhance Croatia's competitiveness and promote investment - by creating efficient government institutions and predictable legal framework, more flexible and skilled labor force, and improved access to finance.

Beyond ensuring macro stability and achieving smart, sustainable and inclusive growth to boost economic competitiveness, the Government faces the strategic challenge of maximizing the use of EU Structural Funds. Upon joining the EU on July 1, 2013, Croatia's access to EU funds will increase sevenfold. While EU funds allocations to member states are fixed, receipt of funds depends on successful expenditures. Therefore, the government faces the challenge of creating the fiscal space for co-financing EU-funded projects. In addition, structural changes in the social sectors, education and the business climate will enable Croatia to take advantage of access to a larger EU market.



To support recovery and mitigate social impacts, the former Croatian Government adopted the Economic Recovery Program (ERP) in April 2010. However, after the launch of reforms across social sectors, as well as reforms to improve the investment climate, the pace to implement them slowed down as general elections were approaching in December 2012.

In May 2011, the World Bank supported the implementation of the ERP through a EUR 150 million budget support loan (ERDPL). In early 2010, the World Bank's Fiscal, Social, and Financial Development Policy Loan (DPL), contributed to Government efforts to maintain macroeconomic stability and protect the most vulnerable groups of society. The Bank also provided a US\$ 141 million line of credit for exporters through the Croatian Bank for Reconstruction and Development to help the companies ride through the crisis. To support Croatia's efforts in policy reforms the Bank produced policy notes on the fiscal responsibility framework and labor market legislation options. The Bank also produced the 2009 Croatia EU Convergence Report *Reaching and Sustaining Higher Rates of Economic Growth* and the 2010 *Social Impact of the Crisis and Building Resilience* report to assess the impact of the crisis on the labor market and poverty in Croatia. With the arrival of a new administration in December 2011, the Bank produced *Croatia Policy Notes: A Strategy for Smart, Sustainable and Inclusive Growth* summarizing the main economic and development challenges confronting Croatia today, as it prepares to join the European Union in 2013.

Croatia and the European Union

On July 1, 2013, Croatia will crown almost twenty years of economic and social progress, since declaring independence by becoming

the 28th member state of the European Union.

The demanding and difficult negotiations, which were launched in 2005, officially concluded on June 30, 2011 followed by the December 9, 2011 signing of the European Union accession treaty. Two chapters in particular, out of a total of 35, had posed the biggest challenge – Chapter 23 on judiciary and fundamental rights and Chapter 11 on competition. The EU accession process provided Croatia with a strong incentive to adopt reforms and harmonize its legislation with the *EU acquis communautaire*. The European Commission (EC) will continue to monitor Croatia's reform progress during the ratification process, in particular those related to the judiciary and fundamental rights.

Croatia is preparing for future access to the Structural and Cohesion Funds. Since 2007, Croatia has been using Instrument for Pre-Accession Assistance (IPA) – the EU financing program to support the country's preparation for membership. More than EUR 1 billion, or about EUR 150 million a year, has been available through IPA for the period 2007-2013. The IPA programs are closely linked with the accession process, with projects addressing specific benchmarks established under the negotiations, and project preparation for post-accession funds. By using IPA funds, Croatia is also building its capacities and resources for the absorption of significant Structural and Cohesion Funds that will be made available upon membership. IPA procedures for selection of projects, tendering and contracting are similar to the procedures under the Structural Funds – and the use of IPA funds are providing invaluable experiences for the country's institutions as they prepare for future use of much larger post-accession funds.

Upon accession, the EU Structural and Cohesion funds available to Croatia will exceed EUR 1.5 billion a year. At the same time, Croatia will also be obliged to contribute about EUR 680 million annually to the EU budget. A number of new member states have found it a challenge to absorb EU funds effectively and efficiently, as they represent a huge increase over pre-accession funds. These funds present a remarkable opportunity to address Croatia's needs in transport and environment, as well as in innovation and modernization of production. A major challenge for the coming two to three years will be to create fiscal space to absorb EU funds and avoid being a net contributor to the EU.

The Bank has aligned its program with Croatia's EU accession needs and requirements. Given that IPA funds represent a small portion of resources required for investments to meet *acquis* requirements, the current Bank strategy is centered on supporting Croatia's pre-accession reforms through projects and analytical and advisory activities that complement the EU accession agenda. The Bank has particularly supported Croatia's investments in the environment and water sectors and public administration reforms. Croatia introduced some key EU legislative and institutional changes with Bank support, for instance in the agricultural sector. Through investment operations, the Bank has provided technical assistance for project preparation for IPA-funding, but more so for post-accession funds. Technical assistance is also critical in preparing the institutions for better absorption of EU funds. In the selection and design of operations, primary consideration is given to how the proposed project supports Croatia's EU accession agenda. In the case of social sectors where there is no EU *acquis*, consideration will also be given to how projects complement the EU accession efforts.

Poverty and Social Protection

The global economic and financial crisis has increased poverty in Croatia to 14 percent. Prior to that, poverty in Croatia was below 10 percent and mainly affected those without a job for more than three years and low-skilled workers. Today, the profile of the poor has changed, with economically active, better educated, younger people, living in richer urban areas being most affected. The fall in employment coupled with the fall in real wages has pushed many unemployed workers into poverty. More than 60 percent of social beneficiaries have been poor for more than three years and are considered socially excluded. Almost the same percentage of individuals has been inactive on the labor market for that long, which reduces their chances of reemployment. One policy priority is to focus on preventing short-term unemployment turning into long-term unemployment, and temporary poverty into chronic poverty.

Croatia's social assistance system provides a generous safety net to the poor and vulnerable, but at a high cost, and it is administered through a complex and poorly-targeted system. At almost 5 percent of GDP (in 2009), Croatia spends significantly more on social assistance than other Central and Eastern European Countries. The largest share of

spending goes to war veterans and their survivors (1.8 percent of GDP) and families with children (0.8 percent). Very little of the money spent on social protection is based on the actual financial situation of a person (means-tested programs accounted for 8 percent of total spending in 2010 or less than 0.4 percent of GDP). Rather, most spending goes to categorical programs extending benefits to members of a particular group, such as aid to the elderly, aid to the blind etc. The care system has long been considered outdated, over-centralized and over-institutionalized. It relies on more expensive and less effective institutional care, with many institutions too big and residents tending to stay too long. The number of programs and institutions involved and the lack of harmonized eligibility criteria has made the system costly to administer and led to unequal treatment of claimants.



The Social Welfare Reform Strategy for 2011-16 and the new Law on Social Welfare are looking to address some of the issues. Improvements have been made in administrative consolidation, further decentralization of the administration and provision of social care, building up of community-based social services and foster care to reduce and prevent institutional care, particularly for children. During 2009-10, an integrated Management Information System coupled with full implementation of a unique personal identification number (PIN) will give social workers access to data from other agencies, such as the unemployment bureau and the tax administration, helping them to assess claimants' needs faster.

The World Bank supported the development of an integrated social welfare management information system (MIS), modernization and quality improvement of social services, including the reduction of institutionalized care and improved provision of community-based care. A series of policy-based loans supported the improved targeting and consolidation of

categorical social benefits, contributing to the government's Social Welfare Reform Strategy 2011-2016 and the new May 2011 Social Welfare Act, which the new administration is further revising.

A further challenge to the social protection agenda is the sustainability of the pension system. As the elderly population increases in Croatia, so will the challenge of keeping them out of poverty and ensuring they have adequate income. Pension reform began in Croatia in 1998 with the introduction of the pay-as-you-go system and introduction of a second fully funded pillar in 2002. Further interventions between 2001 and 2007 increased fiscal pressures and delayed the planned increase of the contribution rate for the second pillar from 5 percent to 10 percent over five years. Recently, retirement age for women was raised to 65 and the early retirement age to 60. However, despite the last decade of reforms, Croatia's pension system faces substantial equity, adequacy and fiscal challenges in the short and long run.

The World Bank has supported pension reform in Croatia from its beginnings through analyses, investment projects and advisory services. The most recent *Pension Policy Note on Options for Further Pension System Reform* was presented in November 2011.

Health

Croatia fares well in the provision of health care and healthcare results, but spends 7.8 percent of GDP on health, among the highest for new EU members. The generosity of health benefits, with almost universal health coverage, has put significant pressure on public expenditures, and there is a continued problem with health arrears despite government efforts to establish fiscal discipline in the sector. At the end of 2010, arrears still accounted for 1 percent of GDP. Health expenditures are almost entirely publicly funded (estimated at nearly 85 percent), and health insurance contributions have been the main source of financing (estimated at 91 percent).

Like most other European countries, Croatia is expecting profound changes in its population structure over the next 50 years. The Croatian population will age considerably and as the elderly population grows, the need for health services and long-term care services will rise. The main challenge for the medium term is to improve the efficiency of the health system and

provide better health services, while reducing public spending on health.



During the past few years health sector reforms have focused on legislative, financial, and institutional development. New legislation made it possible to implement changes in health insurance financing, increase private participation in co-payments on supplemental health insurance, and a revenue increase from an excise tax on tobacco, among others, has been channeled back into the health sector. Progress has also been made in reducing inefficiencies in the administration of sick leave, and reducing spending on pharmaceuticals while increasing the availability of innovative drugs. A national system of e-prescription is being implemented that will reduce paperwork of patients, doctors and pharmacists, and increase the capacity of the Croatian Institute for Health Insurance to monitor and control drug expenditures. There are also plans to continue optimizing the hospital network, to cut administrative costs, and standardize operational and treatment costs across hospitals, resulting in improved care for patients.

The World Bank has supported the Government's efforts to rationalize and reduce public spending in the health sector. The *Development of the Emergency Medical System and Investment Planning Project* is supporting the Ministry of Health in making the provision of emergency medical care more efficient and in improving the distribution of emergency medical teams across Croatia. The project is also training Ministry staff and related agencies on how to develop and implement EU-oriented projects, and access EU funds. The Bank also produced several analyses on long-term care policy options and presented them to the government in 2011.

Education & Skills

In the last decade, substantial reforms and improvements have been made in the Croatian education sector. Introduction of the Croatian National Educational Standards and the National Curriculum Framework are replacing out-of-date educational programs and teaching methods, moving away from teaching factual knowledge towards problem-solving and project-oriented classroom activities. The State Matura, the standardized secondary-school leaving exam, was introduced and serves as criteria for enrollment into higher education, giving students from different social and educational background equal opportunities. Improvements have also been made in vocational education and training by consolidating professional profiles. However, advances have been slow in improving the efficiency and the quality of higher education to better respond to the needs of the labor market.

Universal school enrollment has nearly been achieved at the primary level, while pre-school enrollment rates have increased steadily to 60 percent. A similar trend is visible in tertiary education with enrollment rates almost doubling to 52 percent. Secondary enrollment rates are at 88 percent. While more children and youth are enrolling in desired programs, Croatia's enrollment levels remain below OECD and EU levels.



Croatia's education system faces many challenges. The most important challenge is to improve the quality and relevance of education to respond better to labor market needs and reduce the skills gap. In a time of demographic decline, lifelong learning and adult education will be key. As workers become fewer, they will need to be more productive and stay flexible in a rapidly changing labor market to secure pensions and long-term care for the elderly populations who live longer. In addition, the higher education sector stands to benefit from a more dynamic and

performance-oriented approach, improved governance, organization and financing, increased completion rates and student mobility, as well as financial and legal integration of Croatia's largest universities. Vocational education is characterized by a mismatch between the skills it produces and those demanded in the labor market

The World Bank supported the development of a national curriculum framework for pre-school, primary, and secondary education; introduction of a centrally-administered secondary school-leaving exam, 'State Matura'; and implementation of major school construction and rehabilitation programs that helped reduce the number of pupils attending three-shift schools from 9 percent in 2005 to below 2 percent in 2010, and quadrupled the number of pupils attending single-shift schools from 12 percent to 48 percent. A regional higher education technical assistance program is supporting the introduction of a new financing model in higher education based on performance-based contracts and an independent assessment of the University of Zagreb by the European University Association.

Agriculture

Agriculture plays an important part in the Croatian economy. In 2010, the agriculture sector accounted for around 7 percent of GDP and employed 14 percent of the labor force. With approximately 180,000 registered farmers and 42 percent of the country's population living in rural areas, agriculture is an important source of livelihood. Land fragmentation and unfavorable structure of agricultural plots with a lot of small family farms (the average farm size is 2.4 ha) remain a constraint.

Protection of the rural environment is central to the EU Common Agricultural Policy and equally central to rural development because it encourages farmers to protect and enhance the environment. The Agriculture and Rural Development Chapter has been one of the most challenging within the EU accession framework. The former Ministry of Agriculture, Fisheries and Rural Development (MAFRD), now the Ministry of Agriculture (MoA) has been working intensively on the harmonization and adoption of a number of regulations in the area of agriculture, food safety, veterinary and phytosanitary policies, and fisheries.

However, further efforts are needed to achieve full alignment with the EU *acquis* and to increase the absorption capacity for rural

development funds. Currently, Croatia lacks experience in the design and implementation of an agro-environment program. Without timely preparation of the agro-environment program and implementation, Croatia may lose significant funds intended as incentives for farmers to adopt environmentally-friendly agricultural practices.



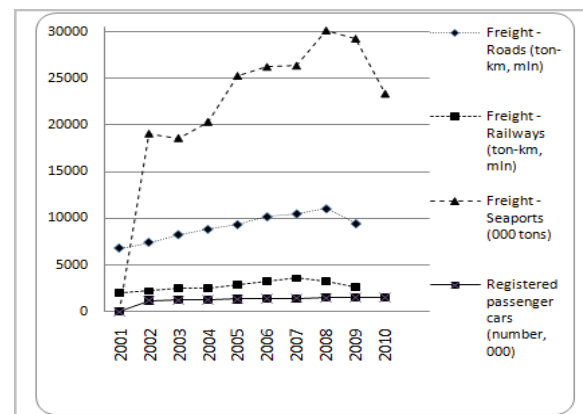
To address some of these challenges the World Bank's *Agriculture Acquis Cohesion Project* is helping to develop sustainable systems and capacities within the MoA to ensure timely compliance with EU *acquis* conditions in the rural sector while the *Agriculture Pollution Control Project* is helping to increase the use of environmentally-friendly agricultural practices by farmers living in the Danube River Basin in order to reduce nutrient discharge from agricultural sources to surface and ground water bodies.

Transport and Infrastructure

Croatia has the geopolitical advantage of lying along three Pan-European transport corridors between the European Union and Southeastern Europe. The Croatian authorities have invested heavily in developing the country's pan-European transport network. This has been achieved primarily through public funding, focusing mainly on roads/motorways and ports. With the construction of 670 km of new motorways between 2001 and 2009, the motorway network is now almost complete and in line with EU standards. The port sector is currently the focus, with investments to upgrade port capacities in the two main international ports of Rijeka and Ploce, as well as in the smaller ports of Dubrovnik, Zadar, and Sibenik. During the last decade, freight volumes have almost doubled, with international transport representing half of total freight traffic.

However, Croatia's railway sector faces major challenges, as the rail transport system has not achieved the operational and financial

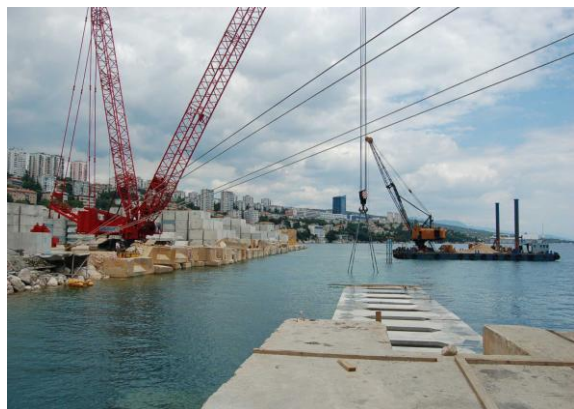
performance needed to support Croatia's economic development. It faces a large backlog of investments in rail infrastructure and inefficient operations in the national carrier, Croatian Railways (HZ). Also as currently structured, HZ is bound to generate conflict-of-interest issues upon EU accession as it is both a regulator of the transport market and the owner of the state-owned railway. It remains dependent on high state subsidies, (0.5 percent of GDP) posing a serious budget concern and compromising its competitiveness in the European transport market.



If Croatia's railway network is to be integrated with the EU network, it will require major investments to gradually achieve the same safety and quality standards and further institutional and organizational reforms to comply with EU directives and ensure financial sustainability. Some funds, including EU funds, have been used to modernize Croatia's railways network, but the level of investments remains far below investments in the road sector. Much larger EU funds will be available upon accession, calling for speedy preparation of the most beneficial projects, such as those (i) prioritizing investments based on the cost-benefit analysis and capacity to promote development of transport and trade in Croatia; (ii) modernizing the core network and the major corridors to meet European quality standards for speed, safety and reliability; and (iii) promoting connections with the port of Rijeka to raise its share of flows of goods into and out of Central European countries.

Croatia's transport network is insufficiently integrated and coordination across the network could be further strengthened. An integrated approach to transport development would help Croatia to start collecting dividends from its geographic position as a gateway to Europe from the south. Croatia has the potential to become a regional logistics and distribution

hub. It also has the possibility of becoming an important regional player and leader (inland and on the Adriatic), on issues that are transboundary in essence. Integrated transport and logistics could facilitate trade across the region, and logistics in itself could grow into a specialized productive sector.



The World Bank is helping transform Croatia's two largest international seaports in Rijeka and Ploce as gateways to Central and Eastern Europe. The projects in Rijeka and Ploce are introducing long-term concessions by private investors and developing additional physical capacity in the ports, integrating them in existing and new transport corridors. The Bank has also been supporting the development of railway transport in Croatia since 1999. Currently, the Bank is drafting a policy paper on the railway sector defining concrete recommendations for implementing the most urgent actions up to the moment of Croatia's EU accession.

The Environment, Energy and Climate Change Agenda

Croatia's territory is ecologically among the best preserved in Europe, with 47 percent of its land and 39 percent of its sea designated as specially-protected areas and areas of conservation. Croatia boasts 19 National and Nature Parks, with some of them, such as the Plitvice Lakes National Park, designated as UNESCO World Heritage sites. Croatia's natural beauty draws in millions of tourists each year, with tourism revenues representing around 15 percent of the country's GDP. Preservation of the environment is high on the country's development agenda and a requirement for European Union membership.

Environmental and energy policy in the last few years has been progressively aligning with the EU environmental and energy *acquis*.

Croatia has successfully finalized negotiations for Chapter 27 – Environment, and established transitional arrangements related to air quality, climate change, waste management, water quality, industrial pollution, risk management and chemicals. Chapter 15 – Energy, was successfully closed with no transitional arrangements.

Croatia became Party to the Kyoto Protocol in 2007, committing to its general objectives as adopted in the 2009 energy strategy. The Energy Strategy sets clear goals regarding renewable energy and energy efficiency, in line with the EU 20-20-20. The climate and renewable energy policy is designed to reduce carbon dioxide emissions by 20 percent, increase the renewable energy share of the energy mix to 20 percent, and improve energy efficiency by 20 percent, all by 2020. In line with the strategy, mechanisms have been developed for low carbon projects, promotion of renewable energy resources with incentives and for energy efficiency projects.

Nevertheless many institutional challenges remain. The institutions responsible for environmental issues remain fragmented between different bodies, making decision-making less effective. Croatia is also facing difficulty in implementing the heavy EU directives – primarily the landfill directive and the urban waters directive, which calls for construction of landfills and wastewater treatment plants. The waste strategy envisages construction of at least 15 regional waste management centers and more than 100 wastewater treatment plants, with major budgetary implications. For the water sector alone, the total cost through 2023 for harmonizing Croatian law with the EU's water-utility directive is estimated at EUR 12.6 billion. While EU structural and cohesion funds are expected to provide the bulk of the financing, the short- and medium-term financing gap is bound to put extra pressure on the national budget at a time when further fiscal consolidation should be a priority.



The World Bank's Coastal Cities Pollution Control Program is focused on safeguarding the quality of coastal waters and the environment, both of strategic importance to Croatia's tourism industry, local communities' livelihoods, and marine life. This is being done through the construction or upgrades of wastewater collection, treatment, and disposal systems along the Adriatic coast. The Program is also helping Croatia meet EU directives in the water sector. The *Inland Waters Project* is improving water supply, collection, and treatment services, as well as flood protection in municipalities in the inlands of Croatia. The *European Union Natura 2000 Integration Project* will help improve nature protection and adjust to EU standards.

THE WORLD BANK PROGRAM IN CROATIA

Since Croatia joined the World Bank in 1993, the Bank has provided financing for 47 projects in the amount of US\$ 3.3 billion. As of March 2012, the portfolio consists of 13 ongoing projects totaling US\$ 1,160 million of net commitment, of which some 39 percent is disbursed. The World Bank's activities in Croatia are guided by the Country Partnership Strategy (CPS), agreed on by the Government in 2008 and covering the period 2009-2013. The CPS is centered on Croatia's goal of joining the EU and accelerating its income convergence with other member states in a fiscally, socially and environmentally sustainable way. For this CPS period, total new lending has reached US\$ 1,046 million, with about half in budget support to the authorities through Development Policy Loans aimed at mitigating the impacts of the crisis.

In the remaining year, the CPS will initiate a transition from a focus on projects to knowledge as a prelude to the next CPS. The current program, which is characterized by a large lending portfolio, will begin to evolve toward a stronger partnership in analytical and advisory activities (AAA), focusing on policy challenges such as structural reforms and institutional reforms to boost economic competitiveness and institutional capacity-building related to EU membership. These reforms are particularly relevant to Croatia's ability to absorb EU funds. The CPS will also explore opportunities to apply innovative instruments and approaches to support Croatia. Building on the recent strong partnership with the Croatian Bank for Reconstruction and Development (HBOR), which has provided important support to the recovery of Croatia's real

economy, the Bank may explore possible limited additional financing and guarantee operations to support HBOR's future bond issuance. This transition from traditional investment lending to a strong knowledge partnership is aimed at laying the groundwork for the next CPS (FY14-FY17), which will be aligned with Croatia's entry into the EU and support the country in maximizing the benefits of EU membership.

Portfolio of Croatia (US\$M) – March, 2012					
	Project	Loan Amo	Board approval	Effective	Closing date
1	Rijeka Gateway	194.2	07/08/2003	10/10/2003	09/30/2012
2	Agricultural Acquis Cohes.	30.1	02/16/2006	11/21/2006	07/31/2012
3	Trade and Transp. Inter.	142.2	11/14/2006	03/20/2007	06/30/2014
4	Inland Waters	133.4	05/30/2007	01/29/2008	12/31/2012
5	Revenue Admin. Mod.	34.0	06/28/2007	12/21/2007	06/30/2013
	Agricultural Pollution (GEF)	5.0	12/06/2007	07/31/2008	07/31/2012
6	Reg. Neretva & Treb. (GEF)	2.0	05/29/2008	03/06/2009	12/31/2013
7	Develop. of EMS & Invest.	28.3	09/30/2008	01/15/2009	06/30/2013
8	Rijeka Gateway II	122.5	12/11/2008	07/14/2009	12/15/2014
9	Coastal Cities II	87.5	12/11/2008	06/04/2009	09/30/2014
	Coastal Cities (GEF)	6.4	12/11/2008	“ “	“ “
10	Export Finance Intermediat.	141.2	08/04/2009	11/25/2009	08/31/2013
11	Justice Sector Support	36.3	04/06/2010	07/12/2010	06/30/2015
12	EU Natura 2000 Integration	28.8	02/10/2011	05/19/2011	04/30/2016
13	Integrated Land Administration	23.8	08/04/2011	-	10/31/2015
	Total Net Commitment	1,060	-	-	-

THE WORLD BANK & PARTNERS

Throughout its engagement in Croatia, the World Bank has developed and maintains partnerships with key international institutions active in the country. Key partners include the European Commission, the European Bank for Reconstruction and Development (EBRD), United Nations agencies, and several bilateral donors, who have either co-financed many projects or been involved in preparatory work. Regular discussions are held with EC representatives on how the World Bank can best support Croatia's preparation for EU membership and align its operations to the vast EU agenda. The EBRD has co-financed several large infrastructure projects, and continues to be a partner in development discussions. The United Nations Development Programme (UNDP) has done complementary activities in support of several Bank projects and been a partner in preparing the recent *Social Impact of the Crisis and Building Resilience* report. On a yearly basis, together with the other UN agencies in Croatia, the World Bank marks UN Day, raising awareness about global issues such as climate change. The Bank

also maintains regular dialogue with other stakeholders – parliamentary committees, academics, private sector, entrepreneurs, trade unions, and civil society organizations.

Since 1999, the World Bank Croatia Office has been engaging with civil society organizations through the Civil Society Fund (CSF), awarding around US\$ 490,000 to 131 civic engagement projects. These small grants have made a large contribution to local communities and given many vulnerable groups a voice. These funds helped establish the first 24-hour hotline for victims of domestic violence in Sisak, a town of economic and social hardship with one of the highest rates of domestic abuse in the country. The CSF program also helped in the reconciliation efforts in war-affected areas. It brought together traditionally segregated Vukovar high school students in a project entitled “Let’s get to know each other”, which trained them in documentary filmmaking. The students made four documentaries, which have recently been featured at the Zagreb International Festival of Documentary Films. More importantly, the students from different backgrounds are now in the process of establishing the first-ever documentary film club in Vukovar. The Bank has also actively engaged and financially supported CSOs through its investment projects. The *Social and Economic Recovery Project* actively engaged civil society organizations to participate in activities that promoted social inclusion and reconciliation among different groups in war-affected areas. The *Social Welfare Development Project* promoted CSOs engagement in the provision of innovative community-based social services.



The World Bank's **Public Information Center** is located at the National and University Library in Zagreb, open to the public. The PIC provides access to the latest development information to the widest possible audience. The PIC also organizes events to further encourage the exchange of ideas on key issues facing the country's development.

WHO CAN USE THE PUBLIC INFORMATION CENTER?

The PICs are open to the public. No fee is required to use the PIC. Users can access information from the Internet and thousands of World Bank publications and other development related materials.

WHAT SERVICES ARE OFFERED?

The Public Information Center's services include:

- Online access to World Bank project documents, reports, and publications.
- Access to development and research sites on the Internet.
- Access to development-related publications by international institutions, governments, and NGOs.

WHAT REPORTS AND DOCUMENTS ARE AVAILABLE?

Among the Reports and Documents available at the Public Information Center are:

- [Project Appraisal Documents \(PADs\)](#). These contain descriptions of a project and the plan for its implementation, including procurement procedures. They are made available to the public after presentation to the Board.
- Economic Sector Reports. These include macroeconomic analysis of Croatia's economy, analyses of major economic sectors and other reports on specific issues, such as poverty assessments, etc.

Assistance at the PIC is provided during opening hours by the NUL staff.

PIC OPENING HOURS:

Monday through Friday: 8:00 to 21:00
Saturday: 8:00 to 15:00

Location:

National and University Library
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p.p. 550

10 000 Zagreb
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Location:

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Dolac 1
51000 Rijeka
Tel: +385 (51) 336 911
www.svkri.hr

University of Split
Library at the Faculty of Economics
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Visoka
21000 Split
Tel: +385 (21) 430 621
www.efst.hr

For more information on World Bank in Croatia visit:
www.worldbank.hr

INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

Key Dates:

Approved: August 4, 2011

Expected Effectiveness: November 15, 2011

Closing: October 31, 2015

Financing in million US dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	23.80
Government of Croatia	2.74
Other (EU IPA financing)	9.79
Total Project Cost	36.33

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	23.80	5.00	18.80



Challenge:

Improving tenure security and strengthening the land administration system is crucial for accelerating the judicial and public administration reforms, the fight against corruption, and completing the privatization process as Croatia enters the final stage of accession to the European Union. Since 2000, the World Bank and Croatian agencies have been working together through the Real Property Registration and Cadastre project to implement the first phase of the reform of the land registry and cadastre systems, simplifying procedures, improving efficiency of services, reducing backlogs, increasing transparency and access to information, and developing joint procedures and a common land database under the Joint Information System (JIS). This first phase of reforms has brought about remarkable results such as reducing land registry cases backlogs by 84 percent, reducing the national average time for registration of a mortgage from 58 days in 2002 to the current six days, and provision of registry and cadastre information online for free anywhere and anytime. With a second phase of reforms supported by the Integrated Land Administration System project (ILAS), the land administration system, including cadastre and registration, will be further strengthened and better aligned to EU spatial data directives to the benefit of Croatian citizens, government agencies/ministries, and the business community.

Project Objective:

The Integrated Land Administration System project (ILAS) will further modernize the land administration and management system to improve the efficiency, transparency and cost effectiveness of government services. This will benefit the public, who will have increased access to information and better services with fully integrated digital data, the business community with faster services, and increased access to information and government institutions, which will be able to share and view government spatial data more easily.

Expected Results:

- Completion of the national roll-out of the Joint Information System, which will provide unified data including land registry and cadastre information in one database, making this information available to citizens and the public and private sectors.
- Submission of cadastre and land registry transactions online, thereby reducing costs and further improving services for the public and private sector.
- Access to and use of digital information from multiple government stakeholders to streamline and facilitate spatial information sharing, which would reduce duplication of costs and improve the quality of public services.
- Adoption of the EU INSPIRE directive, a requirement for all member states. INSPIRE calls for effective sharing of spatial data locally and across borders to the benefit of all EU public authorities and governments. To achieve this, the project will help with the establishment of a National Spatial Data Infrastructure, allowing the implementation of e-government initiatives and effective environmental monitoring.

Key Partners:

The Bank team works closely with the State Geodetic Administration responsible for the cadastre and the Ministry of Justice responsible for the land registry through the municipal courts.

Key Development Partners includes the European Union, which is providing parallel financing through the IPA program.

EU NATURA 2000 INTEGRATION PROJECT

Key Dates:

Approved : February 10, 2011

Effective: May 19, 2011

Closing: April 30, 2016

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan**	28.8	4.90	23.90
Borrower	3.8		
EU Structural Funds	27.6		
(expected)			
Total Project Cost	60.2		

**** Original amount is 20.8 million EUR.**

Note: The PPA of US\$ 0.5 million approved on December 16, 2008.



Challenge:

Following the successful completion of the Karst Ecosystem Conservation (KEC) Project in December 2009, the Government of Croatia requested continued support from the World Bank to help expand and support Croatia's preparations for EU integration in the Nature Protection Sector. EU accession requires an expanded ecological network beyond the core National and Nature Parks to be designated and aligned with EU Nature Protection Legislation, and the Birds and Habitats Directives. Based on these Directives, EU members must determine what areas are important for conservation of European endangered species and habitat types. Croatia's National Ecological Network (NEN), established in October 2007, covers 47 percent of Croatian Territory and 39 percent of territorial sea, and serves as the preliminary basis for defining the future Natura 2000 network in Croatia, a requirement for accession. The EU Natura 2000 Integration Project is designed to support Croatia's accession in meeting its obligation to implement requirements of the Birds and Habitats Directives and support enhancement of Croatia's capacity to absorb EU funds, especially after accession.

Project Objectives are to: (i) help support Park and County Public Institutions to implement Natura 2000 objectives in investment programs; (ii) strengthen capacity for EU-compliant reporting and biodiversity monitoring; and (iii) introduce programs that involve a wide group of stakeholders in Natura 2000 network management.

Expected Results:

- Through **Protected Area and National Ecological Site Investments**, nature institutions will learn to design and implement ecological network investments using requirements similar to those required by future EU structural funds. This will demonstrate how investments, including educational and interpretive materials, can support the goal of maintaining "favorable conservation status" at Natura 2000 sites as defined by the EU Habitat Directives.
- **Ecological Network Data Systems** will help consolidate nature protection data, biological monitoring, and inventory work to respond to EU reporting requirements under the Birds and Habitats Directives. As Natural Resource Data is one of the 17 spatial data themes under the EU INSPIRE (*Infrastructure for Spatial Information in Europe*) Directive, the project will support data system compliance with EU INSPIRE Directive requirements.
- In addition, the activities under the **Ecological Network Capacity Building** Component will promote inter-sectoral cooperation for (i) agri-environment measures for Natura 2000 sites; (ii) improve protected areas boundary delineation; (iii) introduce a park volunteer program; and (iv) improve the system to track and diversify protected-area finance.

Key Partners: The Ministry of Environmental and Nature Protection (MoENP), the State Institute for Nature Protection, Croatia's 19 protected areas and 20 county-level nature protection institutions; the Ministry of Agriculture, Fisheries and Rural Development; the State Geodetic Administration; the Ministry of Regional Development, Forestry and Water Management; and the Delegation of the EU in Croatia, providing assistance to Croatia in the process of harmonization with the EU *Acquis* (environment and agriculture sector in this case).

CROATIA JUSTICE SECTOR SUPPORT PROJECT

Key Dates:

Approved: April 6, 2010

Effective: July 12, 2010

Closing: June 30, 2015

Financing in million US dollars:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	36.30
Government of Croatia	2.68
Total Project Cost	38.98

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	36.48	6.60	29.70

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

A well-functioning justice system is a prerequisite for a modern, thriving society in which citizens and businesses can fully rely on the efficiency, transparency, independence, and professionalism of critical justice sector entities, such as the courts and the prosecution. The development of an independent, professional, and effective justice system is a key prerequisite for Croatia's European Union accession, and also for the development of a mature and sustainable democracy creating an atmosphere of trust in the Croatian economy – a necessary precondition for further development. In line with this, the justice system's continued modernization and reform is a key priority for Croatia.

Project Objective:

The Justice Sector Support Project seeks to improve the efficiency of Croatia's justice system. It does this through support for implementation of key reform legislation related to three key elements of Croatia's justice system – the courts, the prosecution, and the Ministry of Justice. Project activities will improve the efficiency of the court system by consolidating the court network in Split, Karlovac, and Pula, while at the same time modernizing the judiciary's operational information systems and strengthening case management practices. The State Attorney's Office will be strengthened so as to speed up prosecution through investments in infrastructure, modernization of operational information systems, and institutional strengthening. In addition, the project will strengthen the management functions of the Ministry of Justice.

Intermediate results:

- A baseline survey of users was completed in summer 2010 (and will be repeated at least twice during the project);
- Aggregate case backlog volume for 74 courts and SAO offices reduced by 8.6 and 13.5 percent, respectively, in June 2011 as compared to end-2009;
- Reduced average number of days for service to parties, days between first and final hearings and expert testimonies in three selected courts (Pula, Split, and Karlovac) by 64, 66, and 59 percent, respectively.

Key Partners in Croatia:

The Bank works closely with (i) the Ministry of Justice of Croatia, which is implementing the project; (ii) Croatia's Supreme Court and the judiciary; and (iii) Croatia's State Attorney's Office and prosecution offices.

Key Development Partners:

The Netherlands supported project preparation with a contribution to the Bank of EUR 0.2 million and has contributed EUR 0.6 million for implementation support. Many project activities build on and deepen previous support from the EC and other partners (the Netherlands, and the UK). Continued close coordination will remain central to project implementation and supervision. In addition, a Justice Sector Public Expenditure and Institutional Review (JSPEIR), an analytic work financed by the Bank and a EUR 0.2 million contribution from the Netherlands aim to, in coordination with the Ministry of Finance, provide technical support to the Ministry of Justice to strengthen resource management and – over time – link resource allocation more closely with performance.

CROATIA EXPORT FINANCE INTERMEDIATION LOAN

Key Dates:

Approved: August 4, 2009

Effective: November 25, 2009

Closing: August 31, 2013

Financing in million US dollars:

Financier	Financing	Disbursed	Undisbursed
IBRD	141.22**	121.80	19.40

**** Original amount is EUR 100 million.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

The global economic recession has affected all of the economies in the region, including Croatia's. Limited liquidity in global markets has meant restricted access to medium- and long-term financing for many private enterprises, which are an important engine for growth and job creation. It was important to support the Government's goal of enhancing economic competitiveness by preserving exports and employment, and fostering sustainable growth and recovery during the period of economic downturn.

Project Objective:

The objective of the project is to support the preservation and growth of exports by providing medium- and long-term working capital and investment finance to exporters and foreign exchange earning companies. The project, through the Croatian Bank for Reconstruction and Development (HBOR) and private commercial banks, is making additional financing available to exporters, so they can continue to invest in their businesses and create employment opportunities, and more importantly ride out the crisis. To address these issues the project focused on improving access to credit to exporters affected by the crisis by offering long-term financing and ensuring the competitiveness of Croatian exporters as Croatia is moving towards EU integration.

Key Results:

The impact of the project is measured by the export and investment performance of the companies, the amount of medium- and long-term lending extended to exporters in Croatia, and the payment performance of the companies financed by the project.

- ✓ As of January 2012, EUR 70 million was utilized by 48 companies within a range of EUR 34,000 and EUR 10,000,000 for working capital purposes to confront and mitigate the economic downturn.
- ✓ Most of the financed companies were top-notch companies, ranging from small- and medium-enterprises (SMEs) to large ones, with over two-thirds from the manufacturing sector. Some of the largest loans were provided to companies in the pharmaceutical industry, agri-business, textiles, machinery, and metal production. Also, the project supported companies operating in IT, agriculture, waste management, and tourism.
- ✓ With the crisis leaving many people jobless, access to favorable medium-term finance enabled most of the companies to preserve the current workforce and even create new jobs.
- ✓ Companies experienced a large increase of their export revenues, growing by 19 percent. These achievements are important as these companies represent around 5 percent of the overall trade export of Croatia.
- ✓ An additional benefit of the project is that it helped HBOR to operate more in line with market principles. HBOR recognized that competitive forces can prevent collusion and high interest rates and used the same lending principle on a similar loan with another financial institution. Another improvement was also seen in monitoring, as they have started to implement economic impact assessments.

Key Partners:

The Bank team works closely with HBOR, responsible for the implementation of the project. In addition, the team is in close coordination with the Central Bank and the Ministry of Finance. Development Partners included the IFC, which contributed substantially to the project preparation through the knowledge and experience with the private sector and banking industry. Other institutions included EBRD and EIB, also at the preparation stage, which were consulted based on their long-term involvement in this area.

CROATIA RIJEKA GATEWAY PROJECT II

Key Dates:

Approved: December 11, 2008

Effective: July 14, 2009

Closing: December 15, 2014

Financing in million USD:

<i>Financier</i>	<i>Financing</i>
IBRD	122.5
Government of Croatia	5.8
Total Project Cost	128.3

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	122.5	0.30	122.20

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

Rijeka is strategically located at the gateway for the Pan-European Transport Corridor Vb, both as a port and as a destination for business and tourism. The port reestablished its relevance and experienced strong growth in container activities in the five years prior to the project approval. Overall dry cargo traffic grew 107 percent and passenger traffic by 144 percent between 2002 and 2007, with particularly high traffic growth in container traffic. Accordingly, the port of Rijeka now needs to align its capacity with market demand to maintain this positive momentum.

Moreover, as most port-cities, Rijeka faces the complex challenge of balancing the demand for additional space for both port and city activities. Free space in Rijeka is scarce, as the city is bordered by a mountain range and the sea. The present layout of the port provides insufficient and inadequate space for modern cargo operations. High urban density and very limited sea access still give Rijeka an industrial image. This reduces its attractiveness as a tourist and business destination.

Project Objective:

The key goal of the second Rijeka Gateway Project, a part of the comprehensive Rijeka Gateway Program, is to develop the capacity, financial performance, and quality of services in the port of Rijeka to meet growing traffic demand, through public-private partnerships, while facilitating urban renewal by enabling the relocation of port activities.

The project supports the objective by: (i) expanding the development of two port container terminals started under the first Rijeka Gateway project (extension of the existing Brajdica Container Terminal and construction of infrastructure for a 400 meter long Zagreb Container Terminal), the expansion of which is financed through the Rijeka Gateway Program; and (ii) enhancing port services (concessions of terminals, information flow, enhanced environmental response). The port component will enable the conversion of the Delta and port of Baross areas, by making alternative port space available. The concessionaire for each terminal will finance and provide superstructure and equipment.

Key Intermediate Results:

After two years of project implementation:

- The extension of the Brajdica Container Terminal is under construction.
- The award of the construction contract for Zagreb Container Terminal is in its final stage about to be awarded.
- A leading international container operator has been selected to become a majority stakeholder in the concessionaire operating the Brajdica Container Terminal.

Key Partners:

The Bank is closely working with Port of Rijeka Authority, Luka Rijeka, the City of Rijeka and the Ministry of Maritime Affairs, Transport and Infrastructure.

CROATIA RIJEKA GATEWAY PROJECT

Key Dates:

Approved: July 8, 2003

Effective: October 10, 2003

Additional Financing Approved: May 30, 2007

Closing: September 30, 2012

Financing in million USD:

<i>Financier</i>	<i>Financing</i>
IBRD	196.20
Government of Croatia	116.10
Total Project Cost	312.30

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	196.20	154.20	42.00

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

With its physically protected position and natural depth of 25 meters, the Port of Rijeka would be capable of handling the largest vessels if provided with suitable infrastructure. However, between 1980 and 1997, the Port of Rijeka lost almost 70 percent of its total throughput in general and bulk cargo. While the total Northern Adriatic market (Rijeka, Koper, Trieste excluding liquid bulk traffic) increased from about 16 million tons in 1990 to 23 million tons in 2001, Rijeka's share of the market declined from 35 percent to 12 percent. The main reasons for the decline in traffic at Rijeka during that period were the wars in Croatia and Bosnia and Herzegovina, the loss of traffic to/from the former Republic of Yugoslavia, restructuring of the economies of the region resulting in a decline of bulk traffic, inefficient operations and inadequate port facilities in Rijeka, and poor land connections.

Moreover, as most port-cities, Rijeka faces the complex challenge of balancing the demand for additional space for both port and city activities. Free space in Rijeka is scarce, as the city is bordered by a mountain range and the sea. The present layout of the port provides insufficient and inadequate space for modern cargo operations. High urban density and very limited sea access still give Rijeka an industrial image. This reduces its attractiveness as a tourist and business destination.

Project Objective:

The key goal of the project is to increase Croatia's trade competitiveness by improving the international transport chain through the Rijeka Gateway for both freight and passenger traffic through a modernization of the port and of road network connections, by privatizing port operations and by preparing to redevelop part of the port for urban purposes. The project supports such an objective through an integrated set of components that include (a) port restructuring and modernization; (b) port/city interface redevelopment; and (c) international road improvements.

Key Results:

Over the past six years, the Rijeka Gateway Program has generated new momentum in port development, city life quality, and connectivity in the third largest city in Croatia. Some significant results achieved by the port and other stakeholders include:

- Sharp growth of over 800 percent in container traffic from 2002 to 2010.
- Sharp improvement in the financial situation of the port authority.
- Rehabilitation of an existing cargo berth and provision of modern handling equipment.
- Opening of a section of the Rijeka Bypass improving traffic flows around the city.
- Opening of part of the Road D404 in May 2011 provided direct road access between the main motorway and the Brajdica container terminal and reduced heavy truck traffic within the city.
- Rehabilitation of the small and large arch of the Krk Bridge connecting the large island of Krk to the mainland.
- Opening of the new passenger terminal in 2009, reopening a large part of the waterfront to the citizens of Rijeka.

Key Partners:

The Bank is closely working with Port of Rijeka Authority, Croatian Motorways Company, Croatian Roads Company, Luka Rijeka, the City of Rijeka and the Ministry of Maritime Affairs, Transport and Infrastructure.

CROATIA COASTAL CITIES POLLUTION CONTROL PROGRAM (Phase 2)

Key Dates:

Approved: December 11, 2008

Effective: June 4, 2009

Closing: September 30, 2014

Financing in million US Dollars*:

<i>Financier</i>	<i>Financing</i>
Government of Croatia	87.50
IBRD	87.50
Global Env. Facility	6.40
Total Project Cost	181.40

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	87.50	23.00	64.50
Global Env. Facility	6.40	0.40	6.00

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

The Adriatic coastline is one of Croatia's most valuable economic and natural assets. In 2009, Croatia had 11 million tourist arrivals resulting in tourist revenue of Euro 6.38 billion. Environmental protection of the Adriatic Sea is a key element in the Government's tourism strategy to position Croatia as a quality destination with the slogan: "The Mediterranean as it Once Was." The coverage and quality of wastewater services in Croatia are lower than recent EU member countries, and poor wastewater services have a significant impact on tourism. Sewerage coverage is about 44 percent and about 25 percent of the wastewater collected is treated. Significant investment in the sector is needed to meet EU environmental directives. Between 2009 and 2023, investments needed in the sector are estimated at EUR 3.2 billion, of which half is needed for wastewater.

Program Objective:

The second phase of the Coastal Cities Pollution Control Project supports the Government's comprehensive program to improve the provision of efficient and sustainable wastewater services in Croatia's coastal cities and thus improve coastal water quality along the Adriatic Coast by reducing the nutrient load entering the coastal waters. The project will also pilot innovative wastewater treatment solutions in selected municipalities. Phase 2 of the Program, is being scaled up from 11 to 21 municipalities.

Expected results:

- Percentage of households in participating cities able to connect to wastewater services will increase from 26% to 76%.
- Percentage of wastewater collected in participating municipalities that is treated according to applicable legislation will increase from 10% to 71%.
- 21 coastal municipalities are participating in the project, with construction activities in the majority of sites.
- Improved performance of participating Municipal Water and Sewerage Companies through a model that will monitor and benchmark their performance (operating ratio, collection rate and debt service ratio).
- Reduction in pollution and nutrient load in municipalities with enhanced nutrient reduction facilities.
- Increased knowledge of alternative nutrient reduction wastewater treatment technologies.

Key Partners:

The Bank team works closely with (i) Croatian Waters, which was responsible for overall policy setting as well as for the Management Contract and the Ministry of Agriculture and Environmental and Nature Protection.

CROATIA DEVELOPMENT OF THE EMERGENCY MEDICAL SYSTEM AND INVESTMENT PLANNING PROJECT

Key Dates:

Approved: September 30, 2008

Effective: January 15, 2009

Closing: June 30, 2013

Financing in million US dollars*:

<i>Financier</i>	<i>Financing</i>
IBRD	28.30
Government of Croatia	104.47
Total Project Cost	132.77

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	28.30	12.80	15.50

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

Croatia has achieved positive health outcomes at or above the average of new EU member states. However, some observations suggest that additional health outcomes could be improved. Notably, the gap with the more developed EU economies is still large (e.g. standardized death rates associated with motor vehicle accidents is 30 percent higher). Emergency Medical Services (EMS) are unequally distributed across the territory of Croatia, with teams facing multiple demands, both emergency and non-emergency situations. As no uniform guidelines exist, EMS teams are unevenly distributed across the territory of Croatia with some counties having more than twenty teams per 100,000 people and others less than five. One of the main problems with EMS services is that in addition to pre-hospital emergency calls, the EMS service also handles a large volume of in-home visits, which are mostly out-of-hours non-emergency primary health care services, and operates EMS clinics providing out-patient services to both the general population and patients brought in by ambulances.

Project Objective:

The Project objective is to improve the efficiency and outcomes of the Emergency Medical Services system and to strengthen the capacity of the Ministry of Health and Social Welfare to develop and implement strategic EU-oriented projects.

Key Results:

Since the project became effective in January 2009, substantial progress was achieved in enacting the legal and regulatory changes necessary to support the reform of the EMS system, initiating investments in the delivery of EMS services as well as developing capacity for accessing EU funds for further investments in the health system. Specifically:

- The Croatian Institute for EMS – responsible for national standards of EMS service delivery – has been established and is functioning. County-level institutes for EMS are in the process of being established in cooperation with the counties (to be completed by end-2011).
- The specialization in Emergency Medicine has been established at the Medical Faculty. Emergency Medicine Technicians have been recognized as medical first responders to address critical staffing needs. Rulebooks on the education and skills necessary for EMS workers have been adopted.
- 13 out of 21 EMS Centers are now fully functional (remaining 8 are expected to be functional by June 2012).
- 128 ambulance vehicles and equipment have been delivered and will eventually affect the service delivery on the ground.
- Training materials and equipment for the Croatian Institute for EMS has been received.
- A new standardized Index for Emergency Medical Assistance was developed and intensive training on its utilization is underway.
- 3 hospital EMS Departments and Emergency Services have been established.
- Staff members of the Ministry of Health and related agencies are being trained in accessing EU funds for investments in the health system. Five priority project proposals, consistent with the sector strategy, are under development as part of the capacity-building activity for use of EU funds.

Key Partners:

The Bank team works closely with the Ministry of Health and Social Welfare, which is responsible for the implementation of the project. The project is designed to support the convergence of the health system with the outcome and service standards of the EU following accession.

CROATIA NERETVA AND TREBISNJICA MANAGEMENT PROJECT

Key Dates:

Approved: September 9, 2008

Effective: March 6, 2009

Closing: December 31, 2013

Financing in million US Dollars*:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Global Env. Facility	8.00	4.04	3.96
Recipients (Croatia and Bosnia and Herzegovina)	8.45		
Bilateral Agencies	3.92		
Total Project Cost	21.27		



Challenge:

Improved water resources management and biodiversity conservation have been identified by Croatia and Bosnia and Herzegovina (BH) as key environmental issues in their National Environmental Action Plans. The Neretva and Trebisnjica River Basins (NTRB) water resources, and the ecosystems dependent upon them, play an important part in the economies of both countries and the livelihoods of over 430,000 people. The Neretva River (220 km) originates in BH, and flows through Croatia for its final 20 kilometers, before entering the Adriatic Sea at Mali Ston Bay. The Trebisnjica river (99 km) is located entirely in the Republika Srpska in BH and is hydraulically linked to the Neretva. Taken together, these two rivers comprise most of the Adriatic watershed of BH and Croatia. Both rivers are crucial for energy production, recreation, fisheries, drinking water, and irrigation. They carry the (generally untreated) wastewater of the municipalities and many industries in the basins. The approach to improve the water resources management and biodiversity of the Neretva and Trebisnjica River Basins called for a joint effort of the two countries, resulting in the regional, transboundary project the Neretva and Trebisnjica Management Project (NTMP), supported by the Global Environmental Fund through a US\$ 8 million grant, out of which US\$ 2 million has been granted to Croatia and US\$ 6 million to BH.

Project Objective:

The project aims to provide a mechanism for efficient and equitable water allocation among the users of NTRB at the transboundary level, and for enhancing the basin ecosystem and biodiversity through improved water resources management, through; (i) Improved transboundary water resource management – strengthening the management of the NTRB's water resources and environment through institution and capacity building; measurement, monitoring and information management and preparation of a river basin management planning; (ii) Improved management and use of wetlands ecosystems and biodiversity – maintaining and conserving water dependent ecosystems in the NTRB, according to requirements of the European Union (EU) Water Framework Directive (WFD) through improved operation of reservoirs, hydropower plants and dams and rehabilitation of small scale water management infrastructure; (iii) High-priority investments for water pollution – reducing water pollution to the NTRB through high priority investments in low cost, wastewater technology improvements in five municipalities (Bileca, Konjic, Ljubuski, Nevesinje and Trebinje) and two industrial sector investments (Konjic) in BH through municipal wastewater treatment improvements, industrial pollution control and strengthening of water quality monitoring laboratories; and (iv) Public Participation and Management of Project Implementation – increasing civil society participation in the decision-making process for water resource management and establishing an incentive mechanism for responsible, local level resource management.

Expected Results:

- Increased interstate cooperation and capacity for transboundary water resources management, and application of Integrated Water Resources Management (IWRM) principles; and
- reduction of nutrients and other pollution from municipal and industrial sources in the selected municipalities;
- improved maintenance of environmental flows and improved ecosystem health and biodiversity; and
- reduction of saltwater intrusion as a result of implementation of pilot program in the Neretva Delta.

Key Partners:

The main partners are, in BH, the Ministry of Agriculture, Water Management and Forestry in the Federation of BH, and the Ministry of Agriculture, Forestry and Water Management in Republika Srpska, under the coordination of the Ministry of Foreign Trade and Economic Relations of BH; and, in Croatia, the Ministry of Agriculture through Croatian Waters (HV). Key donors include the EC, and the Governments of Spain and the Netherlands. Other important partners are the five participating municipalities in BH.

CROATIA REVENUE ADMINISTRATION MODERNIZATION PROJECT

Key Dates:

Approved: June 28, 2007

Effective: December 21, 2007

Closing: June 30, 2013

Financing in million US Dollars:

Financier	Financing
IBRD Loan	68.00
Republic of Croatia	58.10
Total Project Cost	126.10

World Bank Disbursements, million US Dollars:

	Total	Disbursed	Undisbursed
IBRD Loan	34.00**	10.10	23.90

**** Cancelled USD 34 million effective as of June 30, 2010**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

Fiscal reforms are vital to the Government of Croatia's program of structural and institutional modernization that is intended to contribute to successful EU accession. EU accession discussions relating to Croatian Tax Administration (CTA) centered on three main issues: (i) legislative harmonization; (ii) building institutional capacity; and (iii) strengthening its information systems and data exchange capabilities.

Project Objective:

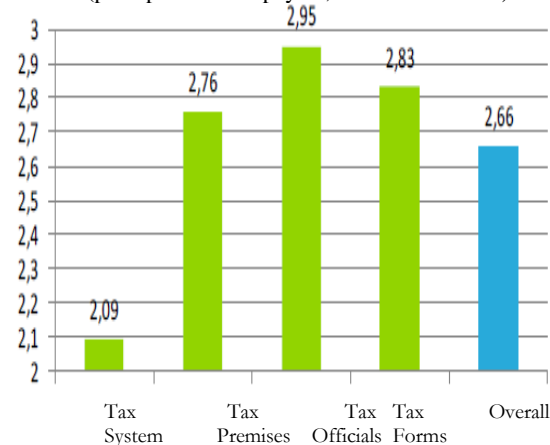
The Croatia Revenue Administration Modernization Project aims to strengthen the fiscal management system and public sector governance through increased efficiency, transparency, and accountability of the CTA. This is expected to be achieved by enhancing voluntary taxpayer compliance, strengthening institutional and human capacity, and promoting professional ethics, equity, and fairness. The project will consolidate the database structure and facilitate information sharing with various social insurance agencies, which will help the social welfare system become better able to provide for those that need social benefits the most, enhance the business climate by improving client services and reducing the taxpayer compliance burden, as well as meet Croatia's EU accession obligations.

Key Results:

- The new Legal and Physical Personal Identification Numbers were created and mailed nationwide. PIN is fully operational and the work on the personal asset and income reports connecting data from various administrative registries is underway. This aims to improve the fight against tax evasion, but also, through the exchange of relevant information with other government institutions, securing that various social benefits and rights do reach those in needs.
- The Business Process Analysis Tools and Training were obtained and detailed business process redesign has been completed leading to improved efficiency of tax administration and reduced compliance cost to tax payers.
- The institutional effectiveness tax compliance rate survey observed an improvement from 86 (2006) to 89 percent (2010), while the tax administration employees report a satisfaction rate at 3 (compared to a maximum of 5).

Quality and Integrity of the Croatian Tax Administration

(perception of tax payers, scale 1min-5max)



Source: Deloitte for the Croatian tax Administration

Key Partners:

Ministry of Finance, Croatian Tax Administration.

CROATIA INLAND WATERS PROJECT

Key Dates:

Approved: May 30, 2007

Effective: January 29, 2008

Closing: December 31, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	133.40
Republic of Croatia	6.67
Total Project Cost	140.08

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	133.40	77.10	56.30

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

Following the launch of Croatia's negotiations for EU membership in October 2005, Croatia started to work on meeting the EU directives related to the water sector, more specifically planning for and making improvements in water supply, wastewater treatment and flood protection. The former Ministry of Regional Development, Forestry, and Water Management (MoRDFWM), now the Ministry of Agriculture (MoA), – through its agency for water management, Croatian Waters/Hrvatske vode (HV) – developed a Water Management Strategy, which includes water safety and flood protection-activities that are supported through the Inland Waters project.

Project Objective:

The project aims to improve water supply and water collection and treatment services, as well as flood protection measures in municipalities in the inland part of Croatia. The project will directly benefit the local population by protecting their health through the provision of safe drinking water and collection and treatment of wastewater. Project activities will also ensure the safety of the population and protect the property through the implementation of adequate flood protection measures. The project area covers the Sava, Drava, and Danube river basins. The proposed investments will help to improve service standards in multiple small municipalities, and assist Croatia in meeting EU water directives and strengthening the institutions responsible for water management. The project should assist the Government to increase the public water supply to an additional 65,000 people while wastewater treatment will be extended to additional 31,000 residents in the project area.

Key results:

- 12 municipalities are participating in the project, with ongoing construction activities in each.
- Constructions and upgrades of wastewater systems, which are already under way, will nearly double sewerage coverage in four municipalities (Ogulin, Virovitica, Našice and Southern Baranja) from 36 percent to 62 percent (the end target being 76 percent).
- Construction/upgrade of sewerage networks completed in three municipalities (Ogulin, Nasice, Virovitica; amounting to a total of 88km of network).
- 13km of dykes have been rehabilitated in the Lonjsko Polje area.
- The Technical Assistance (TA) component is helping prepare projects that would help the country to absorb EU funds. Currently, four projects are being prepared and are included in the priority list for EU financing.

Key Partners:

The Bank team works closely with (i) the Ministry of Agriculture (MoA), which is responsible for overall policy setting (ii) Croatian Waters/Hrvatske vode (HV), ultimate recipient of the loan, and implementer of the Project.

CROATIA TRADE AND TRANSPORT INTEGRATION PROJECT

Key Dates:

Approved: November 14, 2006

Effective: March 20, 2007

Additional Financing Approved: August 4, 2011

Closing: June 30, 2014 (one-year extension, orig. closing December 31, 2011)

Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	142.20
Government of Croatia	26.94
Other Lenders (EBRD)	14.38
Total Project Cost	183.54

World Bank Disbursements, million US Dollars:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	142.20	45.30	96.90

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

In 2003 and 2004, traffic along the Southern part of the Pan-European Transport Corridor Vc started to experience strong growth. This corridor connects heavy industrial centers in the Southeast European Region to the Adriatic coast through the port of Ploče, the second largest international port in Croatia. New private investments in those heavy industrial centers indicated a likely further increase in traffic. The port facilities did not have the capacity to accommodate the foreseen increase, as it had received only limited upgrades in the previous decade. The development of the port is at the core of the government economic development policy since the port plays a major role in the economy of Southern Croatia both as an employer and as a strategic infrastructure.

Project Objective:

The Trade and Transport Integration Project is working to develop trade along Corridor Vc by improving the capacity, efficiency and quality of services on the southern end of Corridor Vc with particular focus on the port of Ploče and on coordination aspects among all corridor participants.

The Project includes investments to: (i) increase port infrastructure capacity (construction of a new container terminal and a new bulk cargo terminal); and (ii) introduce a modern electronic port community system. It also supports: (i) strengthened corridor dialogue among corridor participants; (ii) establishment of cost recovery based concession arrangements; and (iii) increased private sector involvement to address these priorities, reduce commercial risks, and secure financing for port cargo handling equipment. Additional Financing was approved by the World Bank on August 4, 2011 in the amount of US\$ 66.92 million.

Key Results:

- Major long term concession agreements were signed in 2009 and 2010 for the new bulk and container terminals providing a new framework for public private partnership to develop the port, with incentives for commercial investments in the port and cost recovery fees for the port authority.
- In August 2010, the new container terminal was inaugurated, providing the first dedicated terminal of this type in this part of Croatia, constructed by a Croatian company. New equipment has been put in place, increasing the terminal's efficiency.
- Preparatory works for the construction of the bulk terminal are completed with over 1.5 m m³ of stone use for preloading the new terminal area. Selection of a contractor for the construction of the terminal is in advanced stage of completion.
- The development of a modern port community system is underway to improve the exchange of information among all stakeholders, building on Dutch experience.
- Luka Ploče, the main concessionaire of Ploče port, has increased its capital through IPO in 2011, securing private capital for purchase of equipment, and becoming a company with majority private ownership.

Key Partners:

(i) the Ministry of Maritime Affairs, Transport and Infrastructure; (ii) the Port of Ploče Authority; (iii) Luka Ploče dd; (iv) participants along Corridor Vc (such as railway companies and Croatian Customs); and (v) EBRD.

CROATIA AGRICULTURAL ACQUIS COHESION PROJECT

Key Dates:

Approved: February 16, 2006

Effective: November 21, 2006

Closing: July 31, 2012

Financing disbursements in million US Dollars:

<i>Financier</i>	<input type="checkbox"/> <i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan**	30.10	28.10	2.0
Global Env. Facility	5.00	3.30	1.70
Dutch Grant	4.75	3.78	.97
Government of Croatia	13.62		
Total Project Cost	37.27		

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge:

Croatia's European Union (EU) accession was launched in October 2005, with the Croatian government embarking on the huge task of complying with EU requirements and obligations as laid down in the *acquis communautaire*. One of the most challenging areas is agriculture and rural development calling on the Croatian agriculture sector to, among others (i) prepare a Rural Development Plan, (ii) strengthen institutional capacity, (iii) reinforce statistical data collection, (iv) establish an EU compliant farm registration and animal identification systems, (v) modernize meat and dairy plants to meet EU food safety standards, and (vi) establish a Payment Agency. The Croatia Agricultural Acquis Cohesion Project is designed to support this agenda.

Project Objective:

The project seeks to develop sustainable systems and capacities within the Ministry of Agriculture (MoA) – to ensure timely compliance with EU *acquis* conditions in the rural sector and to increase the use of environmentally-friendly agricultural practices by farmers in Croatia's Pannonian plain – reducing nutrient discharge from agricultural sources to surface and ground water bodies, the latter supported through a Global Environment Facility Agricultural Pollution Control Grant.

Key Results:

- An EU-compliant payment system for the agricultural and rural development sector has been established. The Special accession programme for agriculture and rural development (SAPARD) Managing Authority, Monitoring Committee, and Payment Agency have been established, supported by the project with technical assistance, equipment, furniture, and vehicles.
- Management Information Systems Capacity of the MAFRD has been strengthened. Veterinary and Phytosanitary information systems have been developed compliant to EU standards.
- Technical capacity of MAFRD has been upgraded. Several Ministry staff have acquired a "European Computer Driver's License" and many of them attended English language training courses financed by the project-associated Dutch grant. Ministry staff have participated in technical study tours, and received academic scholarships.
- An EU-compliant Land Parcel Information System has been established.
- The Croatian Food Agency has been supported to conduct "Safety Assessment of Food Additives" and "Manifestation of Mycotoxins in Forage and Compound Feed in Croatia" studies.
- Capacity and standards of existing line institutions have been reinforced. The building of the Plant Protection Institute is under renovation and expansion. The capacity of four National Veterinary Institutes has been improved by renovation and reequipping.
- 80,000 copies of the user-friendly Code of Good Agriculture Practices (CGAP) brochures disseminated to farmers to help them understand and implement the relevant provision of the Code. Ongoing water and soil monitoring through installation of piezometers at 100, 250, and 750 cm deep to measure water quality.
- Ongoing training and demonstration program to educate the livestock community (extension workers, farmers, enterprises) in sustainable, cost-effective manure management on 700 ha in 87 representative farms in the project area.

Key Partners:

The Ministry of Agriculture (MoA), responsible for overall policy setting and Project implementation; Delegation of the European Union in Croatia, providing assistance in the process of harmonization with the EU *Acquis* (agriculture, environment); Netherlands Embassy providing a technical assistance grant in the area of capacity building in MoA; and Global Environmental Facility, which financially contributed to the project.