World Bank Group – Croatia Partnership

Country Program Snapshot

April 2015

WORLD BANK GROUP

RECENT ECONOMIC DEVELOPMENTS

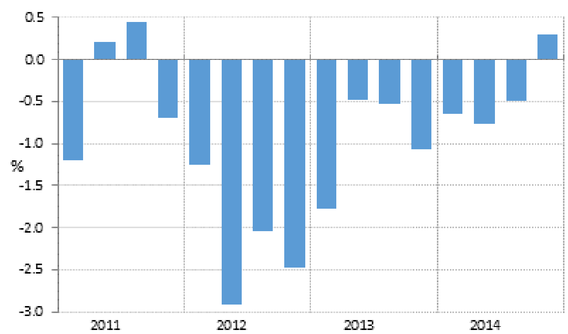
Growth and External Performance

Croatia remained in a recession in 2014 and GDP declined by 0.4 percent, although a mild recovery is forecasted for 2015. Since the onset of the 2009 financial crisis, Croatia has lost 13 percent of its output and is facing increasing poverty. Domestic demand is still suppressed amid weak labor market developments, household deleveraging, delayed investment decisions, and negative market expectations. The most negative contribution to growth came from a decline in construction, while industrial production, retail trade, and tourism finally registered growth in 2014. The long recession kept the unemployment rate at 17 percent in 2014, despite strong support from active labor market policies. About 60 percent of the unemployed have been jobless for more than one year, and the youth unemployment rate (ages 15–24) exceeds 40 percent. The poverty rate, measured at US$5 per day (purchasing power parity [PPP] 2005), continued to rise slowly, reaching 8.4 percent in 2014.

Yet, a mild recovery is forecast for 2015, spurred by European Union (EU)-funded investments. As the absorption of EU funds strengthens in 2015, investments in research and development (R&D) and public infrastructure are expected to turn positive, hopefully generating jobs for the large pool of unemployed construction workers. Real GDP growth is expected to gradually strengthen from 0.5 in 2015 to 1.5 percent in 2017. The recently approved debt relief scheme for the country's poorest households, with monthly earnings below HRK 1,250 (US$180) and debt of less than HRK 35,000 (US$5,150) (around 4 percent of the population), is expected to stem an increase in poverty, aided also by the recent government decision to fix the Swiss franc (CHF) loan repayment exchange rate to ease the debt burden.

Fiscal consolidation efforts slowed in 2014, causing uncertainty about Croatia's compliance with the Excessive Deficit Procedure (EDP). The EDP was launched in January 2014 by the European Commission (EC), envisaging a 2014 deficit of 4.6 percent of GDP. However, the fiscal deficit remained above 5.5 percent of GDP in 2014 (up from 5.2 percent in 2013). Public debt reached 80 percent of GDP in 2014 and external debt remained high at 108 percent of GDP. The Government announced that consolidation measures would be adopted by April 2015 along with the new National Reform Program (NRP), which will be assessed by the EC. Based on this assessment, the EC will decide whether to activate the excessive macroeconomic imbalance procedure. The EC had already expressed concerns over deepening imbalances in February through a Croatia in-depth review, including concerns about the net international investment position, losses in the market share of exports, and the rise in and persistent high level of public debt and the unemployment rate. To complement fiscal consolidation efforts, the authorities are conducting a spending review process for health, subsidies, the wage bill, tax expenditures, and public sector agencies (supported by the World Bank) to identify 10 percent cuts in spending.

Figure 1. GDP Growth

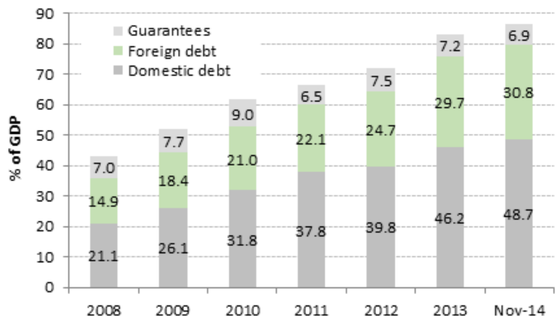


Source: Croatian Bureau of Statistics (CBS).

External vulnerabilities and risks to the banking sector persist. Reflecting subdued domestic demand but growing interest payments and a decline in workers' remittances, the current account remained in surplus but declined slightly to 0.1 percent of GDP. The trade deficit narrowed to 15.4 percent of GDP, reflecting growing exports to the EU and lower oil prices. Deleveraging by parent banks continued; however, foreign direct investment (FDI) tripled compared to one year ago. Credits remained negative, with loan quality deteriorating. Nonperforming loans (NPLs) rose to 17 percent by December 2014 (from 15.7 percent at end-2013), driven mainly by the corporate sector portfolio (at 30 percent).

The outlook is subject to downside risks. Due to its reliance on volatile capital flows and high public and private sector indebtedness, Croatia remains vulnerable to financial market volatility. A missed EDP target, depressed consumption, ongoing corporate sector restructuring, and slow EU funds absorption could undermine investors' perceptions and result in another year of output decline. Progress in addressing inactivity and unemployment as the main cause of the recent rise in poverty remains slow. Addressing fiscal vulnerability and existing social challenges requires faster implementation of structural reforms.

Figure 2. Public Debt and Fiscal Deficit as Share of GDP



Maximizing the Benefits of European Union Membership

Beyond ensuring macro stability and increasing Croatia's competitiveness, the Government faces the strategic challenge of maximizing the use of EU Structural and Cohesion Funds. For Croatia, EU membership brings enormous opportunities as well as major challenges. It provides improved access to a market of 500 million people, enabling Croatia to benefit from the flow of labor and capital and from new information and technology transfers. Most importantly, EU membership gives Croatia access to EU Structural and Cohesion Funds in excess of €1.8 billion a year. These funds present a remarkable opportunity to address Croatia's needs in transport and the environment as well as in innovation and the modernization of production. On the other hand, membership brings with it the serious challenges of aligning strategies and policies to absorb and manage the allocated EU funds. Croatia is obliged to contribute approximately €520 million annually to the EU budget. A major challenge for the coming two–three years will be to secure enough funds from the state budget to absorb EU funds and avoid being a net contributor to the EU. As seen from the experience of other new member states, many governments have been successful in developing the necessary documents to secure funds from the EC, but weaknesses in implementation often limit their usage.

Social Protection and Poverty

The prolonged recession led to an increase in relative poverty in Croatia to above 19 percent in 2013. Before the recession, poverty was below 10 percent and mainly affected individuals unemployed for more than three years and low-skilled workers. Household Budget Survey data suggest that poverty incidence increased almost entirely due to a deterioration in living standards, as job losses and real wage reductions depressed household consumption. It appears that coping mechanisms in the early years of the recession have been exhausted. The unemployment rate increased faster for men, reflecting the impact of the recession on sectors dominated by men, such as construction and manufacturing, as opposed to women's greater reliance on pensions and public sector wages. Higher-than-average poverty incidence is found in single elderly households, as well as in households headed by either an unemployed or inactive person without a pension (all above 40 percent in 2011). More than half of Croatia's poor live in households headed by a pensioner. Moreover, more than 60 percent of social beneficiaries have been below the poverty line for more than three years and are considered socially excluded. Almost the same percentage of individuals have been inactive in the labor market for that period of time, which reduces their chances of reemployment.

Croatia has an extensive but costly and fragmented social assistance system. Spending on non-insurance-based social protection remains high (at over 3 percent of GDP) and was largely protected during the crisis. The Government's efforts to protect social assistance benefits and old-age pensions during that time have partially mitigated the impact on poverty and shared prosperity. However, after six years of recession, the demand for social protection is on the rise, while the resources to finance it are increasingly scarce. The share of spending on categorical social assistance benefits or entitlements is high, while the share of poverty-focused programs is still disproportionally low, even after the recent reform of the Guaranteed Minimum Benefit (GMB), supported by a World Bank Development Policy Loan (DPL). The new GMB consolidates four different social benefit programs and applies means testing as the eligibility criteria in order to protect the most vulnerable (single-member households and single parents). Better targeting allowed for an increase in the GMB by one-third to HRK 800 per month in 2014, an important development particularly since the earlier poverty benefit amount had declined to below even the basic goods basket.

The Government has started to implement a set of reforms to consolidate and improve the targeting of the system to better protect those in need. As a first step, social policy was centralized under the Ministry of Social Policy and Youth to improve administrative coordination.

The Government also rolled out a comprehensive management information system (MIS) that (i) increases the transparency and availability of information for policy making, as it now links various cash benefits providers (social services offered by the social welfare centers), and (ii) reduces the scope for error and fraud.

Through the *Social Protection System Modernization Project* supported by the World Bank, the Government has recently launched a further set of reforms to address key weaknesses in the social protection system. These include the consolidation of major social assistance and unemployment benefits under a one-stop-shop network; the harmonization of disability certification; and the development of a system to prevent, detect, and correct error and fraud, advancing the deinstitutionalization agenda as well as developing tools that could target activation measures for those at risk of becoming long-term unemployed.

The World Bank has also supported the development of the integrated social welfare MIS to promote the modernization and quality improvement of social services, including the reduction of institutionalized care and the improved provision of community-based care. A series of policy-based loans, most recently the Second Economic Recovery DPL, supported the improved targeting and consolidation of categorical social benefits, contributing to the Government's Social Welfare Reform Strategy 2011–16 and the Social Welfare Act passed in 2013.

An additional 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, followed by 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 to 10 percent over five years. Recently, the retirement age for women and men was raised to 67, with full implementation in 2038. The Government has also abolished the privileged pensions of government officials and members of parliament. Although not having a significant fiscal impact, this change will nevertheless improve the equity in the pensions system. In August 2012, the list of military occupations subject to early retirement with an extended service period was rationalized as well. To further align privileged pensions to the general system, the Government reduced those above HRK 5,000 a month by 10 percent in December 2013. Although the authorities have been implementing several measures to improve the sustainability of the system, it still faces substantial challenges with regard to equity, adequacy, and fiscal concerns in the short and long run.

The World Bank has supported pension reform in Croatia from its beginnings through analyses, investment projects, advisory services, and policy-based loans, most recently through the Second Economic Recovery DPL.

Health

Croatia has achieved progress in improving the health system's performance in terms of health outcomes and public satisfaction over the past twenty years, but these results have come at a high cost. Croatia spends 7.9 percent of its GDP on health, which puts Croatia at the top of the list compared to new EU members. In this fiscally constrained environment, the Croatian health system faces a mismatch between declining available public resources, growing expenditures, and increasing needs due to the demographic and epidemiological changes in the country. The system is also generating large sector arrears that are around 1 percent of GDP.

Croatia has started to implement important reforms to improve the cost effectiveness and quality of the health care sector, including hospitals. These reforms include a new performance-based payment mechanism in hospitals; centralized procurement for nonmedical equipment and consumables; and the 2014–16 National Hospital Development Plan. The authorities are also enhancing quality assurance and prevention programs and expect to achieve savings by further strengthening referrals, sick-leave applications, e-health, and primary care financing. In addition, the entire Medical Emergency System has been reformed to reduce the time it takes to respond to life-threatening situations.

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 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.

The World Bank is supporting the Government's efforts to rationalize public spending in the health sector. The new World Bank–supported Improving Quality and Efficiency of Health Services Program-for-Results will help the authorities to improve the access, quality, and efficiency of public health services by strengthening management capacity in health care, reorganizing the structure and activities of health care institutions, improving the quality of health care, strengthening preventative activities, and preserving the financial sustainability of the system.

Education and Skills

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. The higher education sector therefore stands to benefit from a more performance-oriented approach; improved governance, organization, and financing; increased completion rates and student mobility; and the financial and legal integration of Croatia's largest universities. Moreover, vocational education is currently characterized by a mismatch between the skills it produces and those demanded in the labor market.

The Strategy for Education, Science and Technology adopted in October 2014 aims to reform the education and training system. It foresees implementing a wide-reaching reform of the whole education system, including an enhanced system of quality assurance, the development of national competence standards for teachers, and a new national framework curriculum, and gradually introducing work-based learning into all vocational education and training programs. In higher education, the Strategy, among other goals, focuses on the revision of study programs, the harmonization of study programs in line with labor market needs, and the stronger internationalization of higher education.

The World Bank supported the development of a national curriculum framework for preschool, primary, and secondary education and the introduction of a centrally administered secondary school-leaving exam, the State Matura. The Bank also supported the implementation of major school construction and rehabilitation programs that helped reduce the number of pupils attending three-shift schools from 9 percent to below 2 percent, and quadrupled the number of pupils attending single-shift schools from 12 to around 50 percent. A regional higher education technical assistance program has supported the introduction of a new financing model in higher education, centered on performance-based contracts and an independent assessment of the University of Zagreb by the European University Association.

Competitiveness

The Croatian economy is less competitive than that of its peers. To achieve private sector–led growth (Croatia's private sector share of GDP remains at 70 percent, a level lower than its EU peers) and faster EU convergence, actions are needed to liberalize the labor market and jump start enterprise restructuring. Also needed are the kind of new business creation and old firm exits required for the economy to reorient itself toward one reliant on knowledge, innovation, and transit-related services to maximize the country's geo-economic advantage as Europe's transport hub.

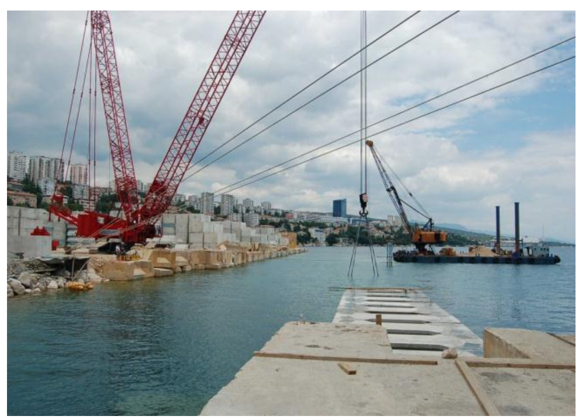
In recent years, Croatia's progress on improving the business environment for the private sector has been partial. In the judiciary, driven by EU accession, Croatia has achieved substantial progress on improving efficiency, reducing the court case backlog, and increasing the accountability and transparency of the judicial system, all important factors for doing business. It has continued to speed up land and property registration and reduce backlogs. Progress has also been made in the R&D and innovation sectors in promoting cooperation between research institutions and industry, though levels of R&D spending have remained low and even decreased during the years of recession. Cooperation between innovative firms and public research organizations, where 60 percent of public R&D investments goes, is limited to 24 percent in Croatia as compared to 38 percent in Slovenia and 64 percent in Finland. In addition, further support is needed to small and medium-sized enterprises (SMEs), in particular access to finance for new, smaller firms attempting to export and facing much larger competition now that Croatia is a part of an open EU market.

During the past year, the Government has taken some steps to facilitate the creation of jobs in the private sector. With Bank support through the Second Economic Recovery DPL, it amended the labor law to make working hours and hiring and firing more flexible. It reduced some administrative barriers for investments, such as simplifying business registration and issuance of construction permits. It also proceeded with enterprise restructuring and the privatization of nonstrategic state-owned enterprises (SOEs) to reduce high state aid and free up state assets that are locked in nonviable companies.

To address some of these challenges, the World Bank worked closely with the Government in many areas. It provided support in implementing judiciary and land administration reforms through the *Justice Sector Support Project (JSSP)* and the *Integrated Land Administration System Project (ILAS)*. JSSP helped upgrade the courts' case management system while ILAS is helping to reduce the backlog in land registration and introduce a common land database. The *Science and Technology Project (STP)* helped major R&D institutions in Croatia commercialize research results through patenting, research contracts, and license agreements, bringing knowledge institutions closer to the business sector and mobilizing private sector R&D through participation in R&D financing for innovative SMEs. The *Second Science and Technology Project* is strengthening capacity and preparing the public sector to absorb EU funds for R&D and innovation by developing a pipeline of project applications for financing from EU funds available under the Cohesion Policy and from the Horizon 2020 fund.

Transport and Infrastructure

Croatia has the geopolitical advantage of lying along three pan-European transport corridors between the EU and Southeast 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 kilometers of new motorways between 2001 and 2009, the motorway network is now almost complete and in line with EU standards. The port sector has also been a focus of policy makers, 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. Prior to the global financial crisis, freight volumes almost doubled, with international transport representing half of total freight traffic. This was followed by a sharp decline, since 2008, due to the global economic uncertainties.



The Government implemented a major railway sector reform in 2012, compliant with EU Directives. Initial reform steps were taken already in the mid-2000s, with the formation of Croatian Railway as a holding company with four lines of business. This complex process required the establishment of an effective regulatory framework to regulate access for new operators and to ensure competition. Two regulatory bodies overseeing traffic safety and standards and the fair access to the market were later established in line with EU regulations. In June 2012, the Ministry of Maritime Affairs, Transport and Infrastructure (MMATI) then adopted a five-year restructuring plan for Croatian Railway Holding, which was split into three independent entities, HZ Infrastructure (HZI), HZ Cargo (HZC), and HZ Passenger Transport (HZP), limited liability companies owned by the Republic of Croatia, and the holding company was dissolved. The EU has defined rail as one of the key recipients of EU Cohesion Funds, given that this mode is deemed safer and more energy efficient than roads, which are the dominant mode in the sector. It is forecasted that EU funds will allocate close to €2 billion to the Croatian railway sector between 2014 and 2020.

Following the reform of 2012, Government focus is now on restructuring the companies and rationalizing public support. The institutional reforms are mostly complete. In recent years, the companies' management has focused mainly on implementing the separation and solving the immediate financial difficulties or bankruptcy (HZC and the subsidiaries of HZI and HZP), with much less emphasis on the reorganization of services and operations, commercial policy, or medium-term planning. Experience in Europe shows that operational restructuring takes a lot of time. This has now started, as HZP and HZC are currently finalizing their reform plans for submission to the EC, while a new business plan for HZI is taking into account the smaller level of investment financing available from the EU and domestic sources.

The sector still faces numerous institutional and organizational challenges. First, traffic has been decreasing since the start of the crisis for both passengers and freight. Second, the railway sector has been relying heavily on budget support. Although EU support to the sector will likely be sustained, direct state financial support is bound to be constrained in the coming years. Third, operational performance also remains an issue, with labor productivity constantly falling while the wage bill remains very high. Croatia's accession to the EU thus provides unique opportunities for the country to modernize its key international corridors through the use of EU Structural Funds and to open up the railway sector to increased investment, market competitiveness, and efficiency.

The World Bank is helping to transform Croatia's two largest international seaports in Rijeka and Ploce into gateways to Central and East 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 into existing and new transport corridors. The Bank is also supporting the development of railway transport in Croatia. Recently, the Bank produced a *Railway Policy Note* analyzing how the railway sector can become a greater engine of growth and its railway companies more efficient and competitive in the EU. As a result of the policy note, the Bank, together with the three railway companies and MMATI is preparing a Railway project aimed at improving the operational efficiency and the financial sustainability of the public railway sector in Croatia.

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 several, 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 has been a requirement for EU membership.

However, waste and water management remain a challenge in Croatia. Performance against recycling targets is weak, with only 15 percent of municipal waste being recycled. The efficiency of the public water supply is low and system losses are high. The landfill and urban waters directives call for the 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 of harmonizing Croatian law with the EU's water utility directive is estimated to be €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.

Croatia's economy is more energy and carbon-intensive than the EU average. With EU membership, Croatia became a party to the 2020 Climate and Energy Package and set binding national savings targets for the reduction of greenhouse gas emissions (GHG), an increase in energy consumption produced from renewable energy resources, and an improvement in energy efficiency. Croatia is on track to achieve its national renewable energy target of 20 percent. It is also likely to achieve its energy-efficiency target, and progress has been made in implementing specific energy-efficiency measures in the public sector at the local and regional levels. In recent years, national and EU funding has been used to implement renovation programs for public building, energy-efficiency improvement investments in industry, and information campaigns. While progress is being made, Croatia needs to put more effort into scaling up renewable energy resource (RER) and energy-efficiency programs to alleviate energy security concerns and improve access to reliable and affordable energy imports.

The World Bank's *Coastal Cities Pollution Control Program* is focused on safeguarding the quality of coastal waters and the environment, which are both of strategic importance to Croatia's tourism industry, local community livelihoods, and marine life. This is being done through the construction or upgrade 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 *European Union Natura 2000 Integration Project* is helping Croatia improve the protection of nature and adjust to EU standards. A regional study on energy efficiency is under way that aims to provide a roadmap to scaling up energy efficiency in the residential and public sectors, including options on institutional arrangements and financing and delivery mechanisms.

THE WORLD BANK PROGRAM IN CROATIA

Since Croatia joined the World Bank in 1993, the Bank has provided financing for 52 projects in the amount of US$3.5 billion. The portfolio consists of 12 ongoing projects with a total net commitment of US$900 million, of which about 50 percent has been disbursed. The World Bank's activities in Croatia are guided by the Country Partnership Strategy (CPS), approved in June 2013 and covering the period until 2017. The CPS is centered on supporting Croatia's convergence with the EU. The engagement will focus on promoting key reforms and fiscal adjustments, supporting competitiveness measures, and maximizing the economic benefits of EU membership. The efforts will be on boosting the income growth of the bottom 40 percent of the population—that is, looking at whether the welfare of the poorest segment of society is improving and whether prosperity is being shared among all segments. For this CPS period, an indicative financial envelope is up to US$800 million in lending.

Portfolio of Croatia (US$M) – March, 2015

	Project	US$M	Approval	Closing date
1	Trade and Transp. Integr.	142.2	11/14/2006	12/31/2015
2	Revenue Admin. Mod.	32.0	06/28/2007	06/30/2015
3	Rijeka Gateway II	122.5	12/11/2008	06/15/2017
4	Coastal Cities II	87.5	12/11/2008	12/31/2015
	Coastal Cities GEF	5.7	12/11/2008	" "
5	Export Finance Intermediat.	202.6	08/04/2009	08/31/2015
6	Justice Sector Support	23.7	04/06/2010	06/30/2015
7	EU Natura 2000 Integration	28.8	02/10/2011	04/30/2016
8	Integrated Land Administ.	23.8	08/04/2011	10/31/2015
9	Science & Techn. 2	26.2	04/26/2013	06/30/2017
10	Improving Health Services	103.5	05/08/2014	06/30/2018
11	Adriatic Sea Env.Poll Ctrl	4.3	06/11/2014	03/15/2017
12	Social Protection System	95.6	09/19/2014	12/31/2018
	Commitment	898.1	-	-

With this strategy, the Bank has envisaged transitioning from a focus on projects and lending to a knowledge partnership. The current program is still characterized by a large lending portfolio, and the Bank seeks to develop a stronger partnership in Analytical and Advisory Activities (AAA), focusing on policy challenges and structural 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.

To support Croatia's efforts in policy challenges and reforms, the Bank produced the Public Finance Review, which analyzes fiscal consolidation challenges in a macro context and amid the fiscal pressure of EU funds, and recommends how to maximize available financial resources. Through the results-based health operation, the Bank supports the Government's reforms in the health sector to sustain good health outcomes at a lower cost, while the recently approved *Social Protection System Modernization Project* supports efficiency and effectiveness measures in social services provision and the delivery of social assistance cash transfers to the most vulnerable. The proposed operation in railways seeks to assist with restructuring the three railway companies and improving their operational performance as part of the country's aim to increase its competitiveness.

To assist Croatia's convergence with the EU and the absorption of Structural Funds, the Bank recently launched a Croatia and Bosnia and Herzegovina Global Environment Facility (GEF) grant *Adriatic Sea Environmental Pollution Control Project (I)* to help Croatia with environmental management, highly relevant on the EU agenda, and assist with absorbing EU funds for investments in leachate treatment and management. In 2015, the Bank will continue to provide technical assistance to the Government in assessing the macroeconomic and social impact of reforms under the National Reform Plan.

The World Bank and Partners

Throughout its engagement in Croatia, the World Bank has developed and maintained partnerships with key international institutions active in the country, with a particular focus on the EC and its representatives in Zagreb. Regular discussions are held with EC representatives in Brussels as well as in Zagreb on how the World Bank can best support Croatia's integration into the EU and align its operations to the vast EU agenda. EC representatives are often invited to review reports and studies for EU membership relevance and to participate in an advisory capacity in the preparation of projects, such as for the DPL series. The EC has also been a cofinancier in several projects that supported Croatia's institutional transition to an EU member. Representatives of the EC were consulted during the course of the development of the new four-year CPS 2014–17 with Croatia, which will help the country take full advantage of the benefits of EU membership.

Other partners include the European Bank for Reconstruction and Development (EBRD), various United Nations agencies, and several bilateral donors, which have either cofinanced many projects or been involved in preparatory work. The EBRD cofinanced several large infrastructure projects and continues to be a partner in development discussions. The Bank also maintains regular dialogue with other stakeholders, including parliamentary committees, academics, the private sector, entrepreneurs, trade unions, and civil society organizations.

International Finance Corporation

Croatia became a member and shareholder of IFC in 1993. IFC's committed investment portfolio in Croatia as of June 30, 2014 was US$277.7 million. In FY14, IFC invested US$141.9 million in Croatia.

IFC's investments have financed projects in the financial markets, general manufacturing, tourism, and agribusiness sectors. Across all sectors, IFC prioritizes investment in Croatia's less-developed regions and in projects that contribute to greater economic diversification and regional integration.

IFC's recent investment projects in Croatia include:

- Up to €42.5 million in financing for the 34.2-megawatt Rudine wind farm, near the coastal town of Slano, some 32 kilometers northwest of Dubrovnik. The wind farm will be built and operated by Austria's RP Global. IFC provided a €18.9 million loan and mobilized an additional €23.6 million from UniCredit Bank Austria through a syndicated loan.

- An up to US$26 million investment for an 18 percent share in the holding company Zagreb International Airport, part of the ZAIC-A Ltd. Consortium, and a loan extension of up to US$48 million for the development of the Zagreb International Airport, which will boost tourism and encourage economic growth in Croatia.

- €50 million loan to Société Générale – Splitska Banka to increase access to finance for Croatia's agribusiness and SMEs, contributing to job creation and poverty reduction in underdeveloped regions of the country.

- €38.8 million in financing for the 30 megawatt (MW) Jelinak wind farm in the northwest of the Split-Dalmatia region. IFC provided €15.4

million in loans to a local subsidiary of ACCIONA Energia and mobilized an additional €23.4 million from UniCredit Bank through a syndicated loan.

- €50 million loan to Atlantic Group to support the development of agribusiness and cooperation in a region (including Croatia) that is still recovering from the crisis.
- €12 million loan to Italian farm equipment producer SAME DEUTZ-FAHR (SDF), operating in Croatia to support agribusiness development.
- €20 million loan to the local subsidiary of Austrian energy producer RP Global Holding to support the 43.7 MW wind farm Danilo near Sibenik. IFC mobilized an additional €35 million from UniCredit through a syndicated loan.
- €20 million loan to Croatia's C.I.O.S. to increase recycling in the region, improve the situation of marginalized workers who collect scrap metal, and reduce $C0_2$ emissions, supporting efforts to address climate change. C.I.O.S. is the leading company in Southeast Europe for the disposal and primary processing of industrial waste. Through this investment, IFC is also supporting C.I.O.S.'s parent company, Germany-based Scholz.

IFC's recent advisory projects in Croatia include:

- **The Southeast Europe Tax Transparency and Simplification Program**, which works to achieve two objectives: simplify tax administration procedures to reduce tax compliance costs, particularly for SMEs; and improve the administrative legal framework and efficiency of international taxation procedures, with a focus on transfer pricing and double taxation treaties. Supported by the Swiss State Secretariat for Economic Affairs (SECO).
- **The *Western Balkans Trade Logistics Project*,** which works to achieve two objectives: reduce the number of documents and days needed for goods to be exported and imported, and streamline procedures for the flow of cargo by road, air, and river. The project is supported by the EU.
- **Public-Private Partnerships**: IFC provides advice on designing and implementing public-private partnership (PPP) transactions to national and municipal governments to improve infrastructure and access to basic services such as water, power, health, and education. The program is supported by donor partners Austria, Norway, and Switzerland.
- **The Resource Efficiency Program** aims to stimulate investment in resource-efficient technologies and best practices; to improve management processes and operational practices in industry across all sectors; and to raise awareness among policy makers and financial institutions. The program is supported by the Federal Ministry of Finance of Austria.

CROATIA: SOCIAL PROTECTION SYSTEM MODERNIZATION PROJECT

Key Dates:
Approved: September 19, 2014
Effective: December 24, 2014
Closing: December 31, 2018

Financing in million US Dollars*:

Financier	Financing
IBRD	95.55
Total Project Cost	**95.55**

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IBRD Loan	95.55	0.00	76.98

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

Challenge:
Croatia is going through a prolonged recession, which has led to an increase in poverty. Social protection spending has been largely protected during this period; however, the social protection system has become fragmented and costly to administer. To address the weaknesses of the system, the Government adopted a new Social Welfare Act, which provided the legislative basis to initiate a wide-ranging set of reforms of the social protection system. The project will support the implementation of reforms in five key areas: (i) the consolidation of social assistance benefits administration under a one-stop shop, providing a single service point to social assistance beneficiaries to apply for and receive a range of cash benefits; (ii) the unification and harmonization of certification of disability, resulting in a faster, more transparent, and more efficient certification process for applicants; (iii) a reduction in error, fraud, and corruption in social protection benefits; (iv) the de-institutionalization of vulnerable children and adults by increasing family-type environments outside of institutions and improving care and quality standards for these groups; and (v) the provision of more tailored services to the unemployed and long-term unemployed to help them return to the labor market.

Project objective:
The project aims to improve the efficiency and effectiveness of Croatia's social protection system.

Expected Results:
- Reduced private costs for social assistance beneficiaries and the unemployed by at least 15 percent compared to the 2014 baseline;
- Percentage of cases certified by IDCPREPD's (Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability) full-time certifying officers increased from 0 percent to at least 90 percent in 2018;
- Effective system to reduce error, fraud, and corruption in risk-prone social protection programs in place;
- 715 children without parental care and children and adults with disabilities moved from institutions to family-type living environments;
- Cumulative fiscal savings of at least 0.5 percent of GDP resulting from the one-stop shop, a reduction in error and fraud, and the unification of the disability assessment over the project lifetime.

Key Partners: The Bank works closely with Ministry of Social Policy and Youth (MSPY), Ministry of Public Administration (MPA), Ministry of Labor and Pension System (MLPS), Ministry of Finance (Mfin), Central Disability Certification Institute (CDCI), Croatian Pension Insurance Institute (CPII), Croatian Employment Service (CES), Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (IDCPREPD), Public Administration Offices (PAOs), Centers for Social Welfare (CSWs), Social Welfare Residential Institutions (Homes), and civil society organizations (CSOs).

GEF CROATIA AND BIH ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)

Key Dates:
Approved: June 11, 2014
Effective: December 5, 2014
Closing: March 15, 2017

Financing from all cofinanciers, million US Dollars:

Financier	*Financing*
Global Environment. Facility	6.77
Recipients (Croatia)	4.33
Recipients (BIH)	2.44
Total Project Cost	29.97

World Bank Disbursements, million US Dollars *:

	Total	*Disbursed*	*Undisbursed*
Global Env. Facility (HR)	4.33	0.00	4.33

Note: Disbursements may differ from financing due to exchange rate fluctuations.

Challenge:
The Adriatic Sea is home to many of the region's largest cities and is one of the most important bodies of water in Southern Europe because of its ecological value and important marine habitats. Unfortunately, the ecological balance of the Adriatic is threatened by trans-boundary pollution. The deteriorating state of the sea affects fisheries, services, and tourism, threatening livelihoods and the economies of Croatia and Bosnia and Herzegovina (BiH).

Project objective:
The project will assist the two countries in reducing the discharge of pollutants in the eastern Adriatic Sea, particularly nitrogen, prepare pollution control projects in selected localities in Dalmatia and Herzegovina, and strengthen the capacity to monitor the water quality of the sea.

Key Expected Results:

- The leachate treatment plant in Mostar's (BiH) landfill and the leachate collection and treatment plant in Zadar's (Croatia) landfill will be equipped with high efficiency nutrient removal equipment, demonstrating how it can be applied in future landfills and wild dumps closures.
- Six investment proposals will be prepared and presented to the EU for funding;
- Equipment will be provided and installed to strengthen the regional capacity to monitor sea water quality to support compliance with and implementation of the European Union (EU) Marine Strategy.

Key Partners: Energy Efficiency and Environment Protection Fund (EEEPF), and Ministry for Environment and Nature Protection.

CROATIA: IMPROVING QUALITY AND EFFICIENCY OF HEALTH SERVICES PROGRAM-FOR-RESULTS

Key Dates:
Approved: May 8, 2014
Effective: September 8, 2014
Closing: June 30, 2018

Financing in million US Dollars*:

Financier	*Financing*
Government of Croatia	144.8
IBRD	103.5
Total Project Cost	**248.3**

World Bank Disbursements, million US Dollars:

	Total	*Disbursed*	*Undisbursed*
IBRD Loan	103.5	9.39	73.34

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

Challenge:
Croatia has achieved progress in improving the health system's performance in terms of health outcomes and public satisfaction over the past 20 years. However, these results come at a high cost. Croatia spends 7.9 percent of its GDP on health, which puts Croatia at the top of the list compared to new European Union (EU) members. In this fiscally constrained environment, the Croatian health system faces a mismatch between the available public resources, growing expenditures, and increasing needs due to the demographic and epidemiological changes in the country. Croatia has started to implement important reforms to improve the cost-effectiveness and quality of the health care sector, including hospitals. These reforms include a new performance-based payment mechanism in hospitals, centralized procurement for nonmedical equipment and consumables, and the 2014–16 National Hospital Development Plan. The authorities are also enhancing quality assurance and preventions programs and expect to achieve savings by further strengthening referrals, sick-leave applications, e-health, and primary care financing.

Program Objective:
This new health sector program aims to improve the access, quality, and efficiency of public health services by strengthening management capacity in health care, reorganizing the structure and activities of health care institutions, improving the quality of health care, strengthening preventative activities, and preserving the financial sustainability of the system. The program supports the Government of Croatia's 2012–2020 National Health Care Strategy, which identifies the strategic problems and reform priorities of the health care sector. These are: (i) poor connectivity and insufficient continuity of health care across all levels of the system (primary, secondary, and tertiary); (ii) the uneven quality of care; (iii) the inadequate efficiency and effectiveness of the health care system; (iv) the poor and uneven availability of health care across regions; and (v) relatively poor health indicators, particularly those related to risk factors and health behaviors.

Key Expected Results:

- Increased gatekeeper function of primary health care
- Increased provision of non-invasive diagnostic and treatment procedures
- Differentiated acute care services from long-term care in-patient services
- Rationalized health facilities through reshaping/merging schemes
- Diagnosis and treatment for prevalent noncommunicable diseases (NCDs), based on a growing body of clinical guidelines, including the Health Technology Assessment (HTA)
- Quality control mechanisms in place (regular technical and clinical audits and sentinel events surveillance system)
- Increased communication about quality control mechanisms and technical audits
- Increased efficiency and reduced hospital arrears

Key Partners: The program will be implemented by the Ministry of Health, the Croatian Institute for Health Insurance, and the Agency for Quality and Accreditation in Health Care and Social Welfare, and overseen by the Ministry of Finance. The program will use the new Bank instrument in which disbursements are linked to results.

CROATIA: EXPORT FINANCING GUARANTEE PROJECT (CEFGP)
PARTIAL CREDIT GUARANTEE (PCG)

Key Dates:
Approved: June 27, 2013
Closing: October 1, 2017

Financing in million US dollars:

A PCG of up to €200 million (US$256.40 million equivalent) will be available to the Croatian Bank for Reconstruction and Development for commercial lending of up to €250 million.

Challenge:

The global economic recession continues to affect all 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. By providing additional financial resources to Croatia's exporters through the guarantee, the restrictions will be decreased.

Project Objective:

The Partial Credit Guarantee (PCG) is intended to mobilize lending through the Croatian Bank for Reconstruction and Development (HBOR) to the commercial banking sector. The PCG will help HBOR raise funds from the market at more competitive terms and for longer maturities than it could without a guarantee. The funding raised will be on-lent through HBOR to Croatian exporters. This continued access to finance in an environment of constrained funding, due to the impact of the Eurozone crisis, will further boost the competitiveness of the Croatian export sector as the country enters the EU.

Expected Results:

- The PCG should help HBOR secure long-term financing for exporters so that they can continue to invest in their businesses, upgrade their technologies, and create jobs in an increasingly competitive environment.

Key Partners: The Bank team works closely with HBOR, which is 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 International Finance Corporation (IFC), which contributed substantially to project preparation through knowledge and experience with the private sector and banking industry.

CROATIA: SECOND SCIENCE AND TECHNOLOGY PROJECT

Key Dates:
Approved: April 26, 2013
Effective: July 31, 2013
Closing: June 30, 2017

Financing in million US Dollars*:

Financier	Financing
IBRD	26.24
Government of Croatia	5.18
Total Project Cost	**31.42**

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IBRD Loan	26.24	7.23	15.90

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

Challenge:
Croatia's research and innovation sector has undergone important reforms in recent years. Expenditures in research and development (R&D) were growing in the years preceding the 2008–09 financial crisis. However, R&D expenditures have stagnated since, and in particular the share of private investments in R&D is not reaching levels of the most successful countries in the European Union (EU). The Europe 2020 Strategy sets important goals in the research and innovation agenda, building on EU experience that shows that investments in R&D and innovation have led to increases in growth and productivity. The efficient use of EU funds to promote these goals is one of Croatia's strategic decisions. The Second Science and Technology Project (STP II) will help those involved in research and innovation, including public research institutions, scientific communities, and high-performing researchers to fully benefit from EU membership by increasing their capacity to apply for and implement EU-funded projects. This includes the Business Innovation Croatian Agency (BICRO), which provides matching grants and soft loans for early seed and pre-commercial R&D projects. BICRO has merged with the Croatian Agency for SMEs, Innovation and Investments (HAMAG) and will become an intermediate body for the implementation of EU funds. At the same time, the Unity through Knowledge Fund (UKF), which finances joint projects of local researchers and the scientific diaspora, improves the competitiveness of Croatian researchers and their integration into the European Research Area (ERA).

Project Objective:
The STP II continues to support research and innovation programs for small and medium-sized enterprises (SMEs) and researchers, helping them to benefit from EU funds. This is done by assisting selected public sector institutions to build their capacity to use the EU funds successfully and to design project proposals to be financed under the EU Cohesion Policy. Through R&D financing under the BICRO and UKF programs, the project is helping to stimulate the demand for EU funds from the business and scientific communities.

Preliminary/Expected Results:
- The project helped the Government develop two strategic documents that are the ex-ante conditionality required for the use of EU funds, notably the Strategy on Education, Science and Technology and the National Research Infrastructure Roadmap.
- One project proposal prepared for EU funds, notably a €18 million R&D grant scheme for technology transfer, is in the contracting stage under the 2007–13 Operational Program Structural Funds. There are also four project proposals that have been selected for developing a pipeline for EU-funded research infrastructure projects.
- The value of projects in the pipeline for funding through the EU grant scheme managed by BICRO is €6.4 million.
- About 30 project proposals for financing from EU Horizon 2020 funds are expected to be generated from 18 ongoing contracts under the UKF R&D programs.

Key Partners: The Bank team works closely with the Ministry of Science, Education and Sports, which is responsible for project management, and project beneficiaries/counterparts, notably HAMAG,-BICRO, UKF, and universities.

CROATIA: INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

Key Dates:
Approved: August 4, 2011
Effective: November 15, 2011
Closing: October 31, 2015

Financing in million US dollars:

Financier	*Financing*
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:

	Total	*Disbursed*	*Undisbursed*
IBRD Loan	23.80	7.29	11.80

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

Challenge:
Improving tenure security and strengthening the land administration system are crucial for accelerating judicial and public administration reforms, fighting against corruption, completing the privatization process, and improving the investment climate. 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 the 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 case backlogs by 84 percent, lowering the national average time for the registration of a mortgage from 58 days in 2002 to the current six days, and providing 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 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, and the business community with faster services. It will also increase access to information and government institutions, which will be able to share and view government spatial data more easily.

Key Results:

- National roll-out of the JIS, 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. So far, the JIS has been implemented in 16 Land Registry Offices (LROs) and 13 Cadastre Offices (COs), and a permanent management structure for the JIS is in place.
- Transactions in the land registry (sales and mortgages) have been reduced from 46 days in 2010 to 38 days in 2014, and transactions in cadastral offices reduced from 30 days in 2010 to 4 days in 2014.
- Submission of cadastre and land registry transactions is available online, thereby reducing costs and further improving services for the public and private sectors.
- Access to and use of digital information from multiple government stakeholders to streamline and facilitate spatial information sharing, which would reduce duplication costs and improve the quality of public services. So far 16 government bodies (up from six in 2010) have access to and use of digital information on spatial data.
- Adoption of the EU INSPIRE directive, a requirement for all member states. INSPIRE (Infrastructure for Spatial Information in the European Community) calls for the 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 for 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 include the EU, which is providing parallel financing through the Instrument for Pre-Accession Assistance (IPA) program.

CROATIA: EU NATURA 2000 INTEGRATION PROJECT

Key Dates:

Approved: February 10, 2011
Effective: May 19, 2011
Closing: April 30, 2016

Financing in million US Dollars:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan**	28.8	15.66	9.61
Borrower	3.8		
Total Project Cost	**60.2**		

**** Original amount is €20.8 million**
Note: 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 into 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 the 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. The EU Natura 2000 Integration Project is designed to support Croatia's effort to implement the requirements of the Birds and Habitats Directives and to enhance its capacity to absorb EU funds, especially since accession.

Project Objectives:
The objectives of the project 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.

Key Results:

- Through Protected Area and National Ecological Site Investments, nature institutions will learn to design and implement ecological network investments using conditions 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. To date, out of 35 planned investments, 19 have been completed, five are under way, and five are being prepared for procurement procedures.
- 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 Directive, the project will support data system compliance with EU INSPIRE Directive requirements.
- Activities under the Ecological Network Capacity Building Component will (i) promote inter-sectoral cooperation on 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 Environment and Nature Protection (MoENP); the State Institute for Nature Protection; Croatia's 19 protected areas and 21 county-level nature protection institutions; the Ministry of Agriculture; and the State Geodetic Administration.

CROATIA: JUSTICE SECTOR SUPPORT PROJECT

Key Dates:
Approved: April 6, 2010
Effective: July 12, 2010
Closing: June 30, 2015

Financing in million US dollars:

Financier	*Financing*
IBRD Loan	23.73
Government of Croatia	2.68
Total Project Cost	**26.41**

World Bank Disbursements, million US Dollars:

	Total	*Disbursed*	*Undisbursed*
IBRD Loan	23.73	17.24	4.29

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 prosecutor's office. The smooth functioning of the courts and efficient law enforcement mechanisms are essential for Croatia's economic development and good governance. In line with this, the justice system's continued modernization and reform remain key priorities for Croatia as a new member of the European Union.

Project Objective:
The Justice Sector Support Project seeks to improve the efficiency of Croatia's justice system by supporting the implementation of key reform legislation related to three key elements of Croatia's justice system: the courts, the prosecutor's office, 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 (SAO) will be strengthened so as to speed up prosecution through investments in infrastructure, the modernization of operational information systems, and institutional strengthening. In addition, the project will bolster the management functions of the Ministry of Justice.

Key results:

- Reduced case backlogs and improved case disposal ratios in project-financed courts and prosecution offices;
- Reduced processing times in courts for key stages of judicial process, including (a) service of notice to parties; (b) time between first and final hearings; and (c) testimony of expert witnesses;
- Improved user ratings for efficiency for project-financed courts and prosecution offices (2010 baseline survey done);
- The project has supported the State Attorney's Office (SAO) through information systems and technical support, notably the prosecution Case Tracking System (CTS), which is being used in prosecution offices in Karlovac, Gospic, Zlatar, and all Zagreb prosecution offices, and improved the functioning of the Integrated Case Management System (ICMS).

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 judiciary; (iii) Croatia's State Attorney's Office and prosecutor's offices; and (iv) the Ministry of Finance. **Key Development Partners:** The Netherlands supported project preparation with a contribution to the Bank of €0.2 million and has contributed €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 United Kingdom). In addition, a Justice Sector Public Expenditure and Institutional Review (JSPEIR), an analytic work financed by the Bank and a €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 to performance.

CROATIA: EXPORT FINANCE INTERMEDIATION LOAN

Key Dates:
Approved: August 4, 2009
Effective: November 25, 2009
Closing: August 31, 2015
Additional Financing Approved: September 29, 2012
Financing in million US dollars:

Financier	Financing	Disbursed	Undisbursed
IBRD	**202.64****	152.61	37.43

**** Original amount is EUR 150 million.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Challenge:
The recession has brought about limited liquidity in global markets, which has translated into restricted access to medium- and long-term financing for many private enterprises, which are an important engine for growth and job creation in Croatia. 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 providing financing to exporters so they can continue to invest in their businesses, create employment opportunities, and more importantly, ride out the crisis. At the same time, the project is improving access to credit to exporters by offering long-term financing and ensuring the competitiveness of Croatian exporters as Croatia is moving toward EU integration. An additional loan in the amount of €50 million extended to HBOR will enable banks to continue extending credit to the private sector in an environment of constrained funding.

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 February 2015, around €105 million had been utilized by 64 companies within a range of €34,000–€10 million, mainly for working capital purposes to confront and mitigate the economic downturn.
- Most of the financed companies are top-notch companies, ranging from small and medium-sized 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, agribusiness, textiles, machinery, and metal production. The project also 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. Collectively, by December 2014, supported companies increased the overall employment level by 4.3 percent.
- Companies experienced a large increase in their export revenues, growing by 33.4 percent. These achievements are important, as these companies represent around 5 percent of Croatia's overall trade exports.
- 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 HBOR has started to implement economic impact assessments.

Key Partners: The Bank team works closely with HBOR, which is 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 International Finance Corporation (IFC), which contributed substantially to project preparation through knowledge and experience with the private sector and banking industry. Other institutions included the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (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: June 15, 2017

Financing in million USD:

Financier	*Financing*
IBRD	122.5
Government of Croatia	5.8
Total Project Cost	**128.3**

World Bank Disbursements, million US Dollars:

	Total	*Disbursed*	*Undisbursed*
IBRD Loan	122.5	23.23	70.57

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

Challenge:

Rijeka is strategically located at the gateway of 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 project approval. Overall dry cargo traffic grew 107 percent and passenger traffic by 144 percent between 2002 and 2007, with particularly high growth in container traffic, but this traffic has since partially slowed, even as containers have continued to grow. Accordingly, the port of Rijeka had to align its capacity with market demand to maintain this positive momentum and also position itself in the long term compared to its immediate Adriatic competition (Koper, Trieste). Moreover, as do 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, and 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, which reduces its attractiveness as a tourist and business destination.

Project Objective:

The key goal of the second Rijeka Gateway II 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 the construction of infrastructure for a 400-meter-long Zagreb Container Terminal); 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 Baros areas by making alternative port space available. The concessionaire for each terminal will finance and provide superstructure and equipment.

Key Intermediate Results:

- The extension of the Brajdica Container Terminal has been completed and was made operational in July 2013. It brought around US$70 million in private investment, exceeding the original project target.
- The operations of the Brajdica Terminal by the Adriatic Gate, majority stakeholder of International Container Terminal Services Inc. (ICTSI), have already led to increased productivity and to the development of container activities.
- Subsidies have been reduced from 46 percent of operating revenues in 2007 to 3 percent in 2014.
- The contract for design and construction of the Zagreb Container Terminal (ZCT) was signed in April 2012, with the Joint Venture (JV) Grandi Lavori Fincosit, Nuova Co Ed Mar, Maltauro and construction began in August 2014
- With the construction of the Zagreb Terminal, an increase in port container capacity is expected from the current 150,000 20-foot equivalent unit (TEU) to 750,000 TEU, and container traffic from 145,000 TEU to 300,000 TEU by 2017.
- Increase in dry cargo port activities carried out by operators with private majority ownership is expected.

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

CROATIA: SECOND COASTAL CITIES POLLUTION CONTROL PROJECT

Key Dates:
Approved: December 11, 2008
Effective: June 4, 2009
Closing: December 31, 2015

Financing in million US Dollars*:

Financier	*Financing*
Government of Croatia	87.50
IBRD	87.50
Global Env. Facility	5,70
Total Project Cost	**181.40**

World Bank Disbursements, million US Dollars:

	Total	*Disbursed*	*Undisbursed*
IBRD Loan	87.50	64.54	11,74
Global Env. Facility	5,70	2,01	3.69

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. Croatia hosts around 13 million foreign tourists each year, with foreign tourist revenue exceeding €7 billion. Environmental protection of the Adriatic Sea is a key element in the Government's tourism strategy to position Croatia as a quality destination. The coverage and quality of wastewater services in Croatia are lower than in other EU member countries, and poor wastewater services have a substantial impact on tourism. Significant investment in the sector is needed to meet EU environmental directives. Between 2009 and 2023, investments needed in the sector are estimated to be €3.2 billion, of which half is for wastewater.

Program Objective:
The second 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 enhance coastal water quality along the Adriatic Coast by reducing the pollution and nutrient load entering the coastal waters. The project will also pilot innovative wastewater treatment solutions in selected municipalities. The project will cover 22 municipalities.

Key Results:

- 22 coastal municipalities are participating in the project, with construction activities currently ongoing in all project sites.
- Percentage of households in participating cities able to connect to wastewater services has increased from 26 (baseline 2009) to the current 65 percent, with an expected end target of 76 percent.
- Percentage of wastewater collected in participating municipalities that is treated according to applicable legislation increased from 10 percent (baseline 2009) to the current 45 percent and is expected to further increase to 71 percent.
- Performance of participating Municipal Water and Sewerage Companies (MWSC) is being assessed through an established benchmarking platform that is monitoring and benchmarking their performance. This platform is now being expanded to all MWSCs in the country.
- Pollution and nutrient load in selected municipalities will be reduced with enhanced nutrient reduction facilities.
- The implementation of the project is increasing the knowledge of affordable nutrient reduction wastewater treatment technologies.
- Project restructuring was completed in June 2014, extending the project by 15 months, shifting more funds for EU project pipeline preparation, and resulting in a partial cancellation of US$700,000 of the Global Environment Facility (GEF) grant funds.

Key Partners: The Bank team works closely with Croatian Waters, which was responsible for overall policy setting as well as for the Management Contract; the Ministry of Agriculture; and the Ministry of Environment and Nature Protection.

CROATIA: REVENUE ADMINISTRATION MODERNIZATION PROJECT

Key Dates:

Approved: June 28, 2007
Effective: December 21, 2007
Closing: June 30, 2015

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	31.96**	16,92	11.79

**** 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, which is intended to contribute to the country's successful adjustment to EU economic and fiscal policy, but are even more important to fiscal consolidation. The EU highlighted three main issues related to the Croatian Tax Administration (CTA): (i) harmonizing legislation; (ii) building institutional capacity; and (iii) strengthening 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 the 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 in tax administration. The project aims to strengthen compliance risk management in tax administration, consolidate the database structure and facilitate information sharing with various administrative agencies, enhance the business climate by improving client services and reducing the taxpayer compliance burden, and help Croatia meet its EU accession obligations.

Key Results:

- The Legal and Physical Personal Identification Numbers (PIN) is fully operational and the work on the personal assets and income reports connecting data from various administrative registries is well under way. This aims to improve the fight against tax evasion, but also, through the exchange of relevant information with other government institutions, confirm that various social benefits and rights do reach those in need.
- The Business Process Analysis Tools and Training were obtained, and detailed Business Process Reengineering proposals completed. Implementation of a Large Taxpayers Office and information and communications technologies, including e-audit, e-learning, internal/external communication, compliance risk management, and e-taxation systems, are under way, leading to improved efficiency in tax administration and reduced compliance costs to taxpayers. For example the taxpayer compliance costs, as assessed by taxpayer surveys, decreased from HRK 14,495 in 2010 to HRK 11,977 in 2013.
- Taxpayers' perception of the quality of CTA services went from 2.66 (compared to a maximum of 5) in 2010 to 3.14 in 2013 and has been increasing steadily.
- Taxpayer compliance rates have increased, based on the internationally accepted method for estimating the tax gap, from 2.7 percent in 2008 to 4.4 percent in 2012.

Key Partners: Ministry of Finance, Croatian Tax Administration.

CROATIA: TRADE AND TRANSPORT INTEGRATION PROJECT

Key Dates:
Approved: November 14, 2006
Effective: March 20, 2007
Additional Financing Approved: August 4, 2011
Closing: December 31, 2015

Financing from all co-financiers, million US Dollars:

Financier	*Financing*
IBRD	142.22
Government of Croatia	26.94
Other Lenders (EBRD)	14.38
Total Project Cost	**183.54**

World Bank Disbursements, million US Dollars:

	Total	*Disbursed*	*Undisbursed*
IBRD Loans	142.22	111.38	27.12

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 South East European Region (essentially Bosnia and Herzegovina) to the Adriatic coast through the port of Ploče, the second largest international port in Croatia. The development of the port is at the core of the Government's economic development policy, since the port plays a major role in the economy of Southern Croatia, both as an employer and as an element of the strategic infrastructure, and is also a major element in the competitiveness of Bosnia and Herzegovina's industries.

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 the corridor, with a particular focus on the port of Ploče and on coordination aspects between 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 between corridor participants; (ii) the 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 to complement the initial financing of US$75.3 million.

Key Results:

- The new container terminal, the first dedicated terminal of this type in Southern Croatia, was constructed by a Croatian company and handed over to the concessionaire in February 2011. The terminal is now fully operational and its capacity has been increased to 66,000 20-foot equivalent units (TEU) after the purchase of a new Panamax gantry crane by the Port Operator.
- Construction of the Bulk Cargo Terminal (BCT) is in process, though it is experiencing delays. The terminal, with a capacity of 4.6 million tons and draft of 19 meters, will be able to accommodate ships of up to 180,000 deadweight tonnage (dwt). The Port Authority investment in infrastructure will be accompanied by private sector investments for superstructure and equipment. The newly estimated time for the completion of the terminal is summer 2015.
- Luka Ploče, the main concessionaire of Ploče port, increased its capital through an initial public offering (IPO) in 2011, securing private capital for investments and becoming a company with majority (more than 80 percent) private ownership.

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

INTERNATIONAL FINANCE CORPORATION

CROATIA: ATLANTIC GRUPA

Key Dates:

Approved: September 2012
Signed: October 2012

IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
Loan	65.03	2013

Atlantic Grupa, headquartered in Zagreb, Croatia, is a multinational company whose activities include the production, sale, and distribution of fast moving consumer goods throughout the Balkans, Russia, and Western Europe. The Group is a leading producer of food and personal care products, as well as a leading distributor of consumer goods in Southeast Europe. The Group also owns a private chain of pharmacies in Croatia. The project entails the refinancing of Group debt, including debt of its Serbian and Croatian subsidiaries, and is aimed at supporting the Group's balance sheet restructuring. The total project is estimated at €300 million. IFC investment is an A-Loan of up to €55 million for IFC's own account. The balance of project funding is provided by EBRD as well as other commercial lenders.

The Project Development Objective. IFC provided Atlantic Grupa with long-term financing that is currently not possible to secure from commercial banks or capital markets locally. By providing a loan to Atlantic Grupa, IFC is supporting the development of the private sector in Croatia and the wider region.

The development impact of the project is expected to:

- Support the Croatian company in its South-South investments in the region, including in Serbia, thus helping a new regional player in its expansion and regional integration;
- Through appropriate financial support, further improve the business sustainability of an important regional employer and agri-processing company involved in value-added production in a sector important to the region;
- generate tax revenues.

IFC's expected additionality includes:

- providing financing at reasonable rates and longer tenors appropriate for the type of investment and not otherwise available in the country;
- strengthening the Group's balance sheet by consolidating its debt and extending the maturity of its loans post-acquisition of another regional player;
- diversifying the Group's funding base;
- providing expertise in the energy-efficiency and cleaner production investments expected in coffee and beverage production.

Key Partners: EBRD, commercial banks.

CROATIA: RP GLOBAL - DANILO WIND FARM, SIBENIK

Key Dates:

Approved: June 2012
Signed: June 2012

IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
Loan	26.44	2013

IFC is helping Croatia increase its supply of renewable energy by arranging up to €55 million in financing for a wind farm near the town of Sibenik. IFC provided a €20 million loan to the local subsidiary of Austrian energy producer RP Global Holding to support the 43.7-megawatt facility. IFC mobilized an additional €35 million from UniCredit through a syndicated loan. The Danilo Wind Farm is expected to provide a steady supply of power to homes and factories while helping combat climate change. The project will see 19 2.3 megawatt (MW) turbines built in central Dalmatia, about 15 kilometers from the Adriatic Sea. It will boost Croatia's supply of wind-generated power by 34 percent. The wind farms began its commercial operations in June 2014.

The Project Development Objective. IFC provided RP Global with long-term financing that is currently not possible to secure from commercial banks or capital markets locally. By providing a loan to RP Global Holding, IFC is supporting the development of renewable energy sources in Croatia.

The development impact of the project is expected to include:

- Increase in Croatia's wind energy capacity by 43.7MW from the current level of 124 MW, a significant 35 percent increase;
- Associated displacement of carbon from the country's substantial thermal generation plants, leading to a reduction in pollution and a contribution to the effort to combat global warming; average annual greenhouse gas (GHG) avoided is estimated at 33,000 tons CO_2, while total GHG avoided is estimated at 660,000 tons CO_2;
- Demonstration effect, given that it is one of the largest wind power projects in the country to date;
- Reduction in Croatia's significant energy imports.

IFC's expected additionality includes:

- Provide Limited Recourse Financing. Financing is not available in the maturities, structures, and terms necessary for such infrastructure projects in the Croatian renewable energy sector. IFC is able to provide long-term financing, offer a mezzanine instrument to reinforce the capital structure of the project, and mobilize commercial financing in a challenging market environment.

Key Partners: Commercial banks

CROATIA: SAME DEUTZ FAHR ZETELICE

<u>**Key Dates:**</u>

Approved: June 2012
Signed: July 2012

<u>IFC financing (million US Dollars):</u>

Financier	*Amount*	*Fiscal Year*
Loan	15.7	2012

SAME DEUTZ FAHR Zetelice d.o.o. is a producer of combine harvesters located in Zupanja, Croatia. It was privatized in 2005 when it was acquired by the Italian producer of agricultural machinery, SAME DEUTZ FAHR Group SpA (SDF). Since the acquisition, SDF has revamped the company's operations by modernizing its machinery and operations, consolidating SDF's European harvest combine production on its site, introducing new products, and making it one of SDF's main logistics centers. The project consists of introducing leading-edge harvesting technology into the Croatian company and gearing it to become a major exporter and distribution center for Europe and the Commonwealth of Independent States (CIS). The total project cost is estimated at €25 million, and the IFC investment is a €12 million C loan for IFC's own account.

The Project Development Objective. IFC provided SDF with long-term financing that is currently not possible to secure from commercial banks or capital markets locally. By providing a loan to SDF, IFC is supporting the development of agribusiness in Croatia and the wider region.

The development impact of the project is expected to include:

- Contribution to food security. Based on a competitive cost structure, quality, an efficient distribution network, and service, the project is expected to increase the availability of tractors and harvest combines in the region. This, in turn, should help improve agricultural productivity and thus output and contribute to food security.
- Contribution to rural development. The increased mechanization of agriculture in the region is expected to lead to higher farmer income as well as the development of small businesses that provide spare parts and maintenance/repair services for agricultural machinery.
- Job preservation in a frontier region. By supporting the continuation of the Croatian company's post-privatization restructuring, IFC's investment is expected to ensure the preservation of at least 300 jobs at the plant and help increase indirect employment in the supply chain and distribution network of the SDF group in the region through the company's growth.

IFC's expected additionality includes:

- Countercyclical role. Current market conditions in Europe magnify IFC's countercyclical role, as most of the European banks, especially the Italian banks that are active in eastern Europe, have been limiting their exposure to emerging markets due to funding and capital constraints. In this regard, IFC would be supporting a second-tier European company within the context of the IFC response to the European crisis.
- Longer-term flexible financing structure. The loan structure fits well with the needs of SDF, which are not available from other sources during current market conditions.

Key Partners: EBRD, commercial banks.

CROATIA: JELINAK WIND FARM

Key Dates:

Approved: May 2013
Signed: May 2013

IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
Loan	20.5	2013

The project company, Vjetroelektrana Jelinak d.o.o., is 100 percent owned by Acciona S.A. ("Acciona"). Acciona is a multinational Spanish infrastructure conglomerate, whose core activities include renewable energy, construction, infrastructure concessions, and water. Acciona's energy division develops, constructs, and operates primarily wind as well as solar, biomass, and hydro generation assets. The company directly and indirectly owns 8.4 gigawatts (GW) of installed capacity in 13 countries and currently has one of the largest wind farm portfolios in the world.

The Project Development Objective. IFC, a member of the World Bank Group, is helping Croatia increase its supply of renewable energy by arranging up to €38.8 million in financing for the 30-MW Jelinak Wind Farm in the northwest of the Split-Dalmatia region. IFC will provide €15.4 million in loans to a local subsidiary of ACCIONA Energia. IFC has mobilized an additional €23.4 million from UniCredit Bank through a syndicated loan. The Jelinak Wind Farm will increase Croatia's wind energy capacity by 30 MW, 16 percent up from the current level of 180 MW. It will also help to meet the growing energy demand in the country, helping Croatia diversify its energy provision and become less reliant on imports. The Jelinak Wind Farm is expected to generate 63.8 GW hours per year, providing a reduction in greenhouse gas emissions of approximately 21,000 tons per year.

The development impact of the project is expected to include:

- increasing Croatia's wind energy capacity by 30 MW from the current level of 180 MW, a 16 percent increase
- increasing the share of energy from low carbon sources
- helping Croatia meet EU renewable energy targets in the run-up to accession
- reducing Croatia's significant energy dependence

IFC's expected additionality includes:

- IFC is well positioned to assist Acciona to grow in IFC's countries of operation; this is Acciona's first wind farm in the country.
- Financing is not available in the maturities, structures, and terms necessary for such infrastructure projects in the Croatian renewable energy sector.
- IFC is able to provide long-term financing, offer a mezzanine instrument to reinforce the capital structure of the project, and mobilize commercial financing in a challenging market.

Key Partners: Commercial banks.

MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

MIGA was created in 1988 as a member of the World Bank Group to promote foreign direct investment in emerging economies to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders and by covering risks, including expropriation, breach of contract, currency transfer restriction, war and civil disturbance, and the non-honoring of sovereign financial obligations. In Croatia, it is supporting the following projects:

Project name: **Zagrebačka Banka d.d.**

Project Status: Active
Fiscal Year: 2010
Host Country: Croatia
Date SPG disclosed: September 2, 2009
Project Board date: September 17, 2009
Sector: Banking
Environmental Category: FI
Investor Country: Austria
Gross Exposure: US$278.6 million
Project Type: Non-SIP
Project ID: 8044
Guarantee Holder: UniCredit Bank Austria AG

MIGA has issued a guarantee of up to US$278.6 million for UniCredit Bank Austria AG's (UBA) €200 million shareholder loan to its subsidiary, Zagrebačka Banka d.d. (ZABA) in Croatia. The coverage is for a period of up to eight years against the risks of transfer restriction, expropriation, and war and civil disturbance.

The shareholder loan is intended to improve ZABA's asset liability management by matching the assets and funding of similar maturities. Consequently, the loan is designed to boost the structural liquidity ratio of ZABA's balance sheet. The loan is part of the broader funding strategy of the UniCredit Group to refinance its subsidiaries and is particularly important in view of the current turmoil in financial markets worldwide, including Croatia.

MIGA supports this project in conjunction with the World Bank Group's Financial Sector Initiative framework as part of a coordinated international response to the ongoing global financial crisis. Croatia, like many other countries in the Europe and Central Asia region, is currently facing difficult fiscal adjustments along with the need for external financing. MIGA's support to the project will help Croatia's financial sector by injecting liquidity into ZABA, boosting confidence in Croatia's banking sector, and contributing to the improvement of the country's financial stability.

One of the main objectives of the World Bank Group's Country Partnership Strategy for Croatia for 2014–17 is to strengthen private sector–led growth and accelerate convergence with the European Union. The project is fully consistent with these objectives.

Project name: **Zagrebačka Banka d.d.**

Project Status: Active
Fiscal Year: 2010
Host Country: Croatia
Date SPG disclosed: May 19. 2010
Project Board date: June 3, 2010
Sector: Banking
Environmental Category: FI
Investor Country: Austria
Gross Exposure: US$326.7 million
Project Type: Non-SIP
Project ID: 8503
Guarantee Holder: UniCredit Bank Austria AG

MIGA has issued a guarantee of US$326.7 million to UniCredit Bank Austria AG (UBA) for a period of up to 10 years against the risks of transfer restriction, expropriation, and war and civil disturbance. The project involves a US$378 million shareholder loan from UBA of the UniCredit Group to its subsidiary Zagrebačka Banka d.d. (ZABA) in Croatia.

The shareholder loan is intended to serve two purposes. First, in view of UBA's approach, this loan is being extended to always maintain sound and strong liquidity standards among its subsidiaries. Consequently, UBA intends to improve ZABA's structural liquidity ratio by lengthening the tenor of ZABA's funding to better match its liabilities. Second, this loan is intended to support new lending in the Croatian economy.

The project falls under MIGA's Financial Sector Initiative. As a result of the recent financial crisis, the state of Croatia's economy remains delicate. This project forms part of MIGA's response to the crisis and is consistent with the objectives of the Joint IFI Action Plan, a coordinated program of the World Bank Group, the European Investment Bank, and the European Bank for Reconstruction and Development.

Given ZABA's size and systemic importance in Croatia's banking, support for this project is critical to making the sector more resistant to future unforeseen shocks. With 130 branches, almost 800 ATMs, and nearly 310,000 online customers, ZABA is the largest retail and corporate bank in Croatia.

Project Name: **Mercator – H Croatia**

Project Status: Active
Fiscal Year: 2012
Host Country: Croatia
Date SPG disclosed: June 9, 2011
Project Board date: June 23, 2011
Sector: Services
Environmental Category: FI
Investor Country: Slovenia
Gross Exposure: US$29 million
Project Type: Non-SIP
Project ID: 10226
Guarantee Holder: SID – Slovenska Izvozna in Razvojna Banka, d.d.
Ljubljana (SID Bank, Inc.; Ljubljana)

On August 4, 2011, MIGA issued a guarantee of US$29 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in Croatia. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

This project brief comprises four projects in Croatia for the guarantee holder.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with the national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports among Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

Project name: **Mercator – Croatia**

Project Status: Active
Fiscal Year: 2012
Host Country: Croatia
Date SPG disclosed: June 9, 2011
Project Board date: June 23, 2011
Sector: Services
Environmental Category: FI
Investor Country: Slovenia
Gross Exposure: US$5.9 million
Project Type: Non-SIP
Project ID: 10224
Guarantee Holder: SID – Slovenska Izvozna in Razvojna Banka, d.d. Ljubljana (SID Bank, Inc.; Ljubljana)

On August 4, 2011, MIGA issued a guarantee of US$5.9 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in Croatia. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

This project brief comprises four projects in Croatia for the guarantee holder.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with the national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports among Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

Project name: **Mercator – Croatia**

Project Status: Active
Fiscal Year: 2012
Host Country: Croatia
Date SPG disclosed: June 9, 2011
Project Board date: June 23, 2011
Sector: Services
Environmental Category: FI
Investor Country: Slovenia
Gross Exposure: US$8.1 million
Project Type: Non-SIP
Project ID: 10227
Guarantee Holder: SID – Slovenska Izvozna in Razvojna Banka, d.d. Ljubljana (SID Bank, Inc.; Ljubljana)

On August 4, 2011, MIGA issued a guarantee of US$8.1 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in Croatia. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

This project brief comprises four projects in Croatia for the guarantee holder.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with the national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports among Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

Project name: **Mercator – Croatia**

Project Status: Active
Fiscal Year: 2012
Host Country: Croatia
Date SPG disclosed: June 9, 2011
Project Board date: June 23, 2011
Sector: Services
Environmental Category: C
Investor Country: Slovenia
Gross Exposure: US$8.2 million
Project Type: Non-SIP
Project ID: 10228
Guarantee Holder: SID – Slovenska Izvozna in Razvojna Banka, d.d. Ljubljana (SID Bank, Inc.; Ljubljana)

On August 4, 2011, MIGA issued a guarantee of $8.2 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in Croatia. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

This project brief comprises four projects in Croatia for the guarantee holder.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with the national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports among Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

Project name: **Zagrebačka Banka d.d.**

Project Status: Active
Fiscal Year: 2012
Host Country: Croatia
Date SPG disclosed: June 11, 2011
Project Board date: June 26, 2011
Sector: Banking
Environmental Category: FI
Investor Country: Austria
Gross Exposure: US$298.8 million
Project Type: Non-SIP
Project ID: 8503
Guarantee Holder: UniCredit Bank Austria AG

On June 29, 2012, MIGA issued a guarantee of US$298.8 million to cover UniCredit Bank Austria AG's (UBA) €250 million shareholder loan to its subsidiary, Zagrebačka Banka d.d. (ZABA) in Croatia. The coverage is for a period of up to three years against the risks of transfer restriction, expropriation, and war and civil disturbance.

The guarantee represents MIGA's continued support to UBA in Croatia, as the agency covered UBA's two previous shareholder loans to ZABA of €200 million in 2009 and €280 million in 2010.

The purpose of this shareholder loan is to support the development of ZABA's loan portfolio. Accordingly, UBA intends to use a part of the loan to improve ZABA's structural liquidity ratio by lengthening the tenor of ZABA's existing medium-term funding. The remaining amount is allocated to support new medium-term lending in the Croatian economy.

Several years after the global financial crisis, the state of Croatia's economy remains delicate as a result of spillover effects from over-indebted neighboring Eurozone countries. This loan forms part of UBA's continuing efforts to support ZABA during a time of economic contraction and uncertainty, strengthen ZABA's balance sheet, and improve access to credit within the economy. Given ZABA's size and systemic importance in the Croatian banking sector, these measures will play critical roles in increasing market liquidity and lending activity in the general economy.

One of the main objectives of the World Bank Group's Country Partnership Strategy for Croatia for 2014–17 is to strengthen private sector–led growth and accelerate convergence with the European Union. The project is fully consistent with these objectives.

From a regional perspective, MIGA's support to this project forms part of the World Bank Group's current two-year plan to actively bolster countries in emerging Europe and Central Asia that are impacted by the Eurozone crisis.