RECENT ECONOMIC DEVELOPMENTS

Growth and External Performance

Croatia returned to growth in early 2015 after six years of recession. After 0.8 percent growth in the first half of 2015, real GDP grew by 2.4 percent in the second half. In the end, GDP grew by 1.6 percent in 2015, after losing 12 percent of its value during the prolonged recession. Growth was broad based, coming from exports of goods and services as well as consumption, underpinned by declining oil and food prices and changes in the personal income tax. Investments continued to pick up as the absorption of European Union (EU) funds improved.

The labor market improved slightly, as growth recovered and employment support measures took hold. Unemployment remained high at 16.3 percent in 2015. Public sector and service sector employment, as well as active labor market programs for vulnerable groups and youth, contributed to improvements in the labor market. Croatia doubled the amount of employment subsidies supported by the EU Youth Guarantee Scheme in 2015.

The current account balance recorded a surplus of 5.2 percent of GDP in 2015. The largest contribution came from surplus on the income account for the first time in 15 years as parent banks did not withdraw profits due to CHF-loans conversion losses (2 percentage points of GDP). Strong tourism performance increased the surplus on services, while positive contribution came also from the rise in transfers from the EU. At the same time, external debt declined to 103.7 percent of GDP from 108.4 percent of GDP, on the back of financial sector deleveraging. Despite robust new foreign direct investment (FDI) of EUR1.9 billion in 2015, net FDI declined to its historical low (€666 million or 0.3 percent of GDP) due to the telecommunications profit transfer abroad and losses in foreign-owned banking sector, affected by the mandatory CHF loans conversion.

Growth supported fiscal consolidation in 2015. The fiscal deficit declined to 3.2 percent of GDP in 2015, down from 5.5 percent in 2014. VAT collection and doubled transfers from the EU budget contributed to a 4.4 percent increase in revenues, while expenditures dropped by 0.8 percent underpinned mostly by 22 percent lower expenditure on gross fixed capital formation supported by lower budget spending during the pre/post-election period. The decrease is in line with the target set by the European Commission’s (EC) excessive deficit procedure, which seeks to correct it by 2017.

In March 2016, the EC decided not to activate the corrective action procedure against Croatia but noted that the country will be subject to specific monitoring. The EC pointed out that the existing vulnerabilities were linked to the high levels of public corporate and external debt in a context of high unemployment. The EC is expected to review its assessment of Croatia in May 2016 and will take into account the objectives and aspirations of the Government’s national reform program, which is to be presented in April together with the convergence program.

Real GDP Growth Rate (percent)

![Real GDP Growth Rate Chart](source: Croatian Central Bureau of Statistics (CBS)).

After six years of recession, economic activity is expected to increase by 1.9 percent in 2016, though several downside risks remain. External factors, such as a slowdown in Croatia’s main trading partners, the U.S. Federal Reserve’s tightening monetary policy, and a surge in emerging markets risk premiums could undermine Croatia’s fragile recovery, affecting exports and raising the financing costs of an already highly indebted government. On the domestic side, the commitment to implement long-lasting structural reforms remains weak, though it is needed to ensure macroeconomic stability and growth.

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 short-term challenge is 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 use.

Social Protection and Poverty

The prolonged recession led to an increase in relative poverty in Croatia to above 19 percent in 2014. Before the recession, poverty was below 10 percent and mainly affected low-skilled workers and individuals unemployed for more than three years.

Croatia has a generous and complex welfare system that relies heavily on categorical as opposed to needs-based, poverty-focused benefits. Spending on non-contributory social welfare (traditional cash transfer programs for the poor, pensions for war veterans, and the child tax allowance) remains high (at 4.8 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.

Croatia’s social welfare system has over time also become costly to administer, with responsibilities scattered across different ministries and institutions. Three separate ministries are in charge of setting social welfare policy, and four ministries with multiple specialized agencies and their networks administer social welfare programs. This fragmented administration raises the personal costs to beneficiaries applying for benefits at multiple agencies, augments the risk of error and fraud in the social protection system, and slows down policy making.

In 2013, Croatia started to implement a set of reforms to consolidate and improve the targeting and administration of the social system to better and more efficiently 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) increased 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) reduced the scope for error and fraud. It also introduced a new Guaranteed Minimum Benefit (GMB) in 2014 that consolidated four different social welfare benefits and applied means testing.

Through the Social Protection System Modernization Project supported by the World Bank, the Government 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 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 also developing tools to better target activation measures for those at risk of becoming long-term unemployed.

The World Bank has also supported the development of an 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 Development Policy Loan (DPL) (2014), supported the improved

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 that 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. Privileged pensions of government officials and members of parliament were abolished. 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, pensions above HRK 5,000 a month were reduced by 10 percent in December 2013. Although the authorities have been implementing these and other measures to improve the sustainability of the system, it still faces substantial challenges with regard to equity, adequacy, and fiscal concerns because of low labor activity and coverage 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, and through the Second Economic Recovery DPL (2014).

Health

Croatia enjoys relatively good and improving health outcomes, but these results come at a high cost. In 2013, Croatia spent approximately 7.3 percent of GDP on health, which put the country above the 6.8 percent average for EU member states since 2004 but below the average for EU members before 2004. Health sector arrears are an important concern, as they represent about 0.8 percent of GDP (as of September 2015), with three-quarters produced by hospitals and half by clinical centers. Halting the growth of arrears at hospitals, particularly at clinical centers, will be key to fiscal sustainability.

The main challenge in the coming decade will be to improve health outcomes for all while containing upward pressures on health spending driven by an aging population and new technologies. Chronic and noncommunicable diseases dominate the burden of disease, and the projected rapid aging of the population will put additional pressure on health spending. Croatia’s hospital-centric system and service delivery network are not well suited to its changing care needs. Improving the functioning of primary care is critical for strengthening more cost-effective preventive care and rationalizing service delivery.

To address some of the challenges, Croatia has started to implement 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.

The World Bank has been supporting the development of Croatia’s health system for over 15 years. Currently, the World Bank–supported Improving Quality and Efficiency of Health Services Program-for-Results is under implementation by the Ministry of Health, and key stakeholders and 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, specifically the need to respond better to the challenges of demographic decline, an aging population, the skills mismatch, and high youth unemployment. The most important challenge is to improve the quality and relevance of education to respond more adequately to labor market needs and reduce the skills gap. In a time of demographic decline, high youth unemployment, and a brain drain from the country, lifelong learning, adult education, apprenticeships, and reskilling programs will be key. As the workforce contracts, workers will need to be more productive and stay flexible in a rapidly changing labor market. The higher education sector would 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. Vocational education also needs attention as it is currently characterized by a mismatch between the skills offered and labor market demand.

Croatia's education reforms in recent years have covered many aspects of the system, ranging from preschool to university. The most recent Strategy for Education, Science and Technology, adopted in October 2014, is aimed at reforming the education and training system. In addition, an expert group of practitioners has been working on Comprehensive Curricular Education Reform. The reform proposal is undergoing an assessment by the relevant stakeholders.

The next wave of policy reforms should be guided by the need to promote a more modern skills agenda and to develop the relevant cognitive and adaptive skills. The quality of general education needs to be improved to reduce the inequities between socioeconomic groups at the top and bottom of the income distribution. Better labor market information is needed to improve the relevance of skills developed through education. Further progress in higher education financing reforms through performance-based funding (PBF) would help improve quality and relevance, research capacity, and the accountability and autonomy of higher education institutions. Finally, policies that address high youth unemployment would need to be accelerated.

The World Bank has 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 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. Most recently, the Bank started providing advisory services to the Ministry of Science, Education and Sports and higher education institutions to implement more efficient and adaptive funding models, based on PBF, to maximize the quality and accessibility of the higher education system in Croatia.

Competitiveness

The competitiveness level of the Croatian economy was made worse by the prolonged recession. Export performance has been uninspiring, reinforced by low levels of productivity and the lack of “creative destruction” and innovation among firms. To become more competitive and catch up with its peers in the EU, Croatia needs to promote more productivity-based and innovation-driven growth. There are promising signals from an outlying group of dynamic, small exporters in innovative niche sectors. Supporting this strategy, which is based on increasing employment and productivity and promoting exports and innovation, requires investing in innovative small and medium-sized enterprises (SMEs), research and development (R&D), and the needed human capital. Progress has 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 particular, further support is needed to SMEs, especially access to finance, as the lack of early-stage financing prevents innovative ideas with commercial potential from reaching the market. This is very important for new, smaller innovative firms attempting to export and facing much larger competition now that Croatia is a part of an open EU market.

**To move this process along, multifaceted reforms are needed, which, among other measures, include** continued reforms in business registration; further improvements in the performance of courts and in land and property registration; the enhanced accountability and transparency of the judicial system; and the transformation of public institutions into providers of efficient, effective, and transparent services to businesses and citizens. All of these are important elements in doing business.

**To address some of these challenges, the World Bank works closely with the authorities in many areas.** It provides support in implementing judiciary and land administration reforms through the *Justice Sector Support Project* (JSSP) and the *Integrated Land Administration System Project* (ILAS). JSSP is helping to 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 follow-up *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. The new *Innovation and Entrepreneurship Venture Capital Project* aims to strengthen risk capital financing for innovative SMEs and start-ups in Croatia and to help the private sector become stronger, more productive, and more competitive.

**Transport and Infrastructure**

Croatia has an important 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 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. However, investments in the motorway network have come with a large debt burden that is weighing heavily on public finances. This is further exacerbated by the operating inefficiencies in the road sector. 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 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 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, the Government's 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 likely to be constrained in the coming years. Third, operational performance also remains an issue, with labor productivity on the decline while the wage bill remains very high. Croatia’s EU membership 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.

Overall, Croatia needs to strengthen strategic planning in the transport sector. The National Transport Development Strategy, once finalized, together with a castor traffic model that is already in place, should provide an overall framework for transport sector development. The strategy should contain multi-year implementation plans, carefully updated with optimized investments that are linked to appropriate funding sources, such as the national budget or different EU sources.

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 through the Sustainable Croatian Railways in Europe Project, aimed at improving the operational efficiency and financial sustainability of the public railway sector in Croatia. The project is assisting railway companies to improve their operational efficiency and financial situation in order to deliver better services in a financially sustainable way. The project complements major investments in infrastructure on international corridors funded by the EU by focusing on overall sector restructuring and the sustainability of the public companies, which is in line with the Government’s EU agenda. The project is also assisting the Ministry of Maritime Affairs, Transport, and Infrastructure to coordinate and manage the railway sector reform.

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. The overall water management framework is sound, but EU membership mandates compliance with EU Water Directives, which is bringing operational and financial challenges that require the largest investment cycle in Croatia’s history. In parallel, reforms to improve technical and operational
efficiency are needed. Irrigation of agricultural land was neglected over an extended period of time, which continues to undermine agricultural competitiveness and exacerbates the risks that climate change will negatively impact agricultural production. Although flood protection systems in Croatia are fairly developed, improvements are still needed in river basin–based cross-border cooperation and in the development of additional flood protection infrastructure to respond to the increased frequency and intensity of extreme weather events.

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, which 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 buildings, 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 provides a roadmap to scaling up energy efficiency in the residential and public sectors, including options on institutional arrangements and financing and delivery mechanisms. The Croatia and Bosnia and Herzegovina Global Environment Facility (GEF) grant Adriatic Sea Environmental Pollution Control Project will help Croatia with environmental management, highly relevant on the EU agenda, and assist with absorbing EU funds for investments in leachate treatment and management.

THE WORLD BANK PROGRAM IN CROATIA

Since Croatia joined the World Bank in 1993, the Bank has provided financing for 53 projects in the amount of US$3.5 billion. The portfolio consists of 11 ongoing projects with a total net commitment of US$1.0 billion, of which about 50 percent has been disbursed. The World Bank’s activities in Croatia are guided by the Country Partnership Strategy (CPS), discussed 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 to improve the welfare of the poorest segment of society and ensuring that prosperity is being shared among all segments. For this CPS period, an indicative financial envelope is up to US$800 million in lending, of which US$616 million has been delivered.

With this strategy, the Bank 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 is gradually developing a stronger partnership in advisory

<table>
<thead>
<tr>
<th>Portfolio of Croatia (US$M) – September 2015</th>
<th>Project</th>
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<td>Commitment</td>
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services. The focus is on policy challenges, structural and institutional reforms to boost economic competitiveness, and institutional capacity building related to EU membership, particularly relevant to Croatia’s ability to absorb EU funds.

**To support Croatia’s efforts in policy challenges and reforms**, in February 2016, the Bank produced the report, “The Croatia Policy Notes – Restoring Macroeconomic Stability, Competitiveness and Inclusion.” The report provides policy options to inform the debate and strengthen the reform process in Croatia. 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 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 railways operation 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. The venture capital project aims to strengthen risk capital financing for innovative SMEs and start-ups that can help companies move from idea to product or service.

**To assist Croatia’s convergence with the EU and the absorption of Structural Funds**, the Bank recently launched the Croatia and Bosnia and Herzegovina 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 continued to provide technical assistance to the Government in assessing the macroeconomic and social impact of reforms under the National Reform Program, and it is supporting the Government’s spending review efforts. In September 2015, at the Government’s request, the Bank launched advisory services in the area of higher education finance, which are aimed at supporting the Ministry of Science, Education and Sports and the public universities to embark on full funding agreements for a more efficient and equitable higher education sector.
CROATIA: INNOVATION AND ENTREPRENEURSHIP VENTURE CAPITAL PROJECT

Key Dates:
Approved: July 7, 2015
Effective: October 6, 2015
Closing: September 30, 2021

Financing in million US Dollars*:

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<tr>
<td>IBRD</td>
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Total Project Cost 21.9

World Bank Disbursements, million US Dollars *:

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<tr>
<td>IBRD</td>
<td>21.9</td>
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Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Challenge:
Stronger exports are critical for Croatia to achieve faster and sustained economic growth. Innovative small and medium-sized enterprises (SMEs), including startups, can play a key role in this process, as they can help leverage the country’s low-cost base, boost productivity, and increase exports. However, innovative SMEs still need support in the Croatian entrepreneurial landscape, in particular with accessing early-stage financing, that is, helping companies move from idea to product or service. In the coming years, Croatia will benefit from early-stage financing through European Structural and Investment Funds, which will also support science, technology, innovation, and entrepreneurship. However, unless Croatia has an efficient risk capital financing framework in place, these funds may not be fully absorbed. Therefore, it is important for Croatia to develop a sound mechanism for early-stage financing.

Project Objective:
The project aims to strengthen risk capital financing for innovative SMEs and startups in Croatia, and to help the private sector become stronger, more productive, and more competitive.

Expected Results:
- To date, there is not a single existing venture capital fund registered in Croatia, in spite of the healthy demand for early-stage financing. The project will help establish a Pilot Venture Capital Fund to cover the financing gap and remove capacity constraints for innovative SMEs and startups, which are commercializing research and development.
- A Seed Co-Investment Fund will be set up that will provide smaller amounts of risk capital financing alongside investors in the market, such as angel financing and incubators.
- At least 27 firms will receive risk capital financing from the Venture Capital Fund or the Seed Co-Investment Fund (12 and 15, respectively).
- HAMAG-BICRO, the Croatian Agency for SMEs, Innovation and Investments, as well as investors and entrepreneurs, will receive training and advice to prepare them for using future EU funds.

Key Partners: The Bank works closely with the Ministry of Entrepreneurship and Crafts, and HAMAG-BICRO.
CROATIA: SUSTAINABLE CROATIAN RAILWAYS IN EUROPE PROJECT

Key Dates:
Approved: April 30, 2015
Effective: August 4, 2015
Closing: May 31, 2020

Financing in million US Dollars*:

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World Bank Disbursements, million US Dollars *:

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

Challenge:
The Croatian railway sector went through a significant transformation in the past decade to meet European Union (EU) accession criteria, harmonizing its legal and institutional framework with that of the EU. The sector now comprises three independent public companies—HZ Infrastructure, HZ Cargo, and HZ Passenger Transport—and the Government plans to make each company more customer oriented and competitive. These transformations also aimed to reduce the high budget support provided to the daily operations of the railways. Although significant, these reforms were not enough for the Croatian public railways to survive and grow in the large and competitive EU transport market. The sector’s productivity is still behind that of its peers, and additional efficiency measures are needed to make it sustainable and competitive.

Project objective:
The project will assist the three railway companies to improve their operational efficiency and financial situation in order to deliver better services in a financially sustainable way. The project complements major investments in infrastructure on international corridors funded by the EU by focusing on overall sector restructuring and the sustainability of the public companies, which is in line with the Government’s EU agenda. The project will also assist the Ministry of Maritime Affairs, Transport, and Infrastructure to coordinate and manage the railway sector reform.

Expected Results:

- Improved operational efficiency and financial situation in the three railway companies, thereby also improving efficiency in the use of public resources
- Implementation of restructuring plans in the three railway companies
- IT modernization and integration in the three railway companies
- Rehabilitation of rolling stock to improve efficiency (HZ Passenger Transport, HZ Cargo)
- Installation of railway safety crossings, improvement of structures that currently represent a safety risk, and rehabilitation of priority lines, including those on major European corridors (HZ Infrastructure)
- Provision of financing for severance packages for release workers, including training and requalification opportunities

Key Partners: The Bank works closely with the Ministry of Maritime Affairs, Transport, and Infrastructure, the Ministry of Finance, HZ Infrastructure, HZ Cargo, and HZ Passenger Transport and coordinates with the European Commission.
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*:

<table>
<thead>
<tr>
<th>Financier</th>
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</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>95.55</td>
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</table>

Total Project Cost 95.55

World Bank Disbursements, million US Dollars *:

<table>
<thead>
<tr>
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<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>95.55</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Loan

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

Challenge:
The prolonged recession, which ended recently, has led to an increase in poverty. Social protection spending has been largely protected during this period; however, the system has become fragmented and costly to administer. To address the weaknesses, 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:

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<tr>
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<td>Recipients (Croatia)</td>
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<td>Recipients (BiH)</td>
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World Bank Disbursements, million US Dollars *:

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<tr>
<td>Global Env. Facility (HR)</td>
<td>4.33</td>
<td>0.00</td>
<td>3.78</td>
</tr>
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</table>

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 quality of the sea water affects fisheries, services, tourism, livelihoods, and the general economies of Croatia and Bosnia and Herzegovina (BiH).

Project objective:
The project will assist the two countries in reducing the discharge of pollutants into 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 in sensitive areas.

Key Expected Results:

- The leachate treatment plant in Mostar’s (BiH) landfill and the leachate collection and treatment plant on Korcula Island (Croatia) landfill will be equipped with high-efficiency nutrient removal equipment, demonstrating how it can be applied in future landfills and wild dump 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 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*:

<table>
<thead>
<tr>
<th>Financier</th>
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<tbody>
<tr>
<td>Government of Croatia</td>
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<tr>
<td>IBRD</td>
<td>103.5</td>
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<td><strong>Total Project Cost</strong></td>
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World Bank Disbursements, million US Dollars:

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<tr>
<td>IBRD Loan</td>
<td>103.5</td>
<td>8.32</td>
<td>74.84</td>
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</tbody>
</table>

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

Challenge:
Croatia enjoys relatively good and improving health outcomes. However, these results come at a high cost. Croatia spends 7.3 percent of its GDP on health, which puts the country at the top of the list of post-2004 European Union (EU) members, and has high health sector arrears. In a fiscally constrained environment, the Croatian health system faces a mismatch between the available public resources 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 prevention programs and expect to achieve savings by further strengthening referrals, sick-leave applications, e-health, and primary care financing.

Program Objective:
This 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 inpatient 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 has affected 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*:

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<thead>
<tr>
<th>Financier</th>
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<tbody>
<tr>
<td>IBRD</td>
<td>26.24</td>
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<td>Government of Croatia</td>
<td>5.18</td>
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Total Project Cost 31.42

World Bank Disbursements, million US Dollars *:

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<tr>
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<th>Undisbursed</th>
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</thead>
<tbody>
<tr>
<td>IBRD  Loan</td>
<td>26.24</td>
<td>7.56</td>
</tr>
</tbody>
</table>

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 crises, but they have stagnated since then and are now below the levels of the most successful countries in the European Union (EU). As part of implementation of the Europe 2020 Strategy, Croatia set its 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 Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO), which provides matching grants and soft loans for early seed and pre-commercial R&D projects and which will also serve as an intermediate body for the implementation of EU funds. At the same time, the Unity through Knowledge Fund (UKF), embedded in the Croatian Science Foundation (CSF), finances joint projects of local researchers and the scientific diaspora, thus improving 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 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 HAMAG-BICRO and UKF/CSF programs, the project is helping to stimulate the demand for EU funds from the business and scientific communities.

Results:

- Key innovation and R&D policy documents have been prepared, which are required for the absorption of EU funds: Strategy on Education, Science and Technology, Innovation Strategy, and National Research Infrastructure Roadmap.
- 17 UKF projects were completed in December 2015, and preliminary results include: (i) the submission of new applications worth €17.2 million to EU Funds (from which a successful award from EU Horizon 2020 of €2.1 million was made to a project in Rudjer Boskovic Institute – RBI); and (ii) the commercialization of results.
- A €12.8 million R&D grant scheme for Strengthening Capacities for Research, Development and Innovation, enhancing cooperation between public R&D institutions and private firms, was developed and funded from the EU 2007–13 OP Regional Competitiveness, European Regional Development Fund (ERDF); 19 projects have been contracted.
- Four EU funds applications for large R&D infrastructure projects are being developed.
- Additional grant schemes to be prepared for funding from the European Social Fund (ESF), ERDF, and Horizon 2020.

Key Partners: The Bank team works closely with the Ministry of Science, Education and Sports, which is responsible for project implementation, and project beneficiaries/counterparts, notably HAMAG-BICRO, UKF/CSF, and universities.
CROATIA: INTEGRATED LAND ADMINISTRATION SYSTEM PROJECT

**Key Dates:**
- **Approved:** August 4, 2011
- **Effective:** November 15, 2011
- **Closing:** April 30, 2017

**Financing in million US dollars:**

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<tr>
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</thead>
<tbody>
<tr>
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<td>23.80</td>
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<tr>
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<td>2.74</td>
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<tr>
<td>Other (EU IPA financing)</td>
<td>9.79</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>36.33</strong></td>
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**World Bank Disbursements, million US Dollars:**

<table>
<thead>
<tr>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>23.80</td>
<td>10.72</td>
</tr>
</tbody>
</table>

*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, combating 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 (ILAS) project, 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 rollout 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 71 Land Registry Offices (LROs) and 69 Cadastre Offices (COs), and a permanent management structure for the JIS is in place. Full rollout of the JIS is expected in July 2016.
- Transactions times in the land registry (sales and mortgages) have been reduced from 46 days in 2010 to 24 days in February 2016, and transactions times in COs reduced from 30 days to 7.6 days.
- Submission of cadastre and land registry transactions is available online, thereby reducing costs and further improving services for the public and private sectors.
- Improved access to and use of digital information from multiple government stakeholders will streamline and facilitate spatial information sharing, which would reduce duplication costs and improve the quality of public services. So far 17 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, 2017

Financing in million US Dollars:

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<th>Financier</th>
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<tbody>
<tr>
<td>IBRD Loan**</td>
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<td>Borrower</td>
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<td><strong>Total Project Cost</strong></td>
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<td></td>
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</table>

** 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 European Union (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 Croatia’s 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 EU membership.

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 Birds and Habitat Directives. To date, out of 35 planned investments, 23 have been completed, seven are under way, five are in the tendering process, 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.
- Beginning in 2013, all 19 nature and national parks are now using the Management Effectiveness Tracking Tool as part of the standard yearly planning and reporting obligations of parks.

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, 2016

**Financing in million US dollars:**

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<tbody>
<tr>
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**World Bank Disbursements, million US Dollars:**

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<tr>
<td>IBRD Loan</td>
<td>36.3</td>
<td>18.53</td>
<td>0.32</td>
</tr>
</tbody>
</table>

*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 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 in project-financed courts from 437,892 to 366,721; and improved case disposal ratios in project-financed courts and prosecution offices;
- Reduced processing times in courts for key stages of the 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), and another survey will be done just before the closing of the project;
- Support for the 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 has 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, 2016
Additional Financing Approved: September 29, 2012

Financing in million US dollars:

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<tr>
<td>IBRD</td>
<td>202.64**</td>
<td>134.78</td>
<td>32.34</td>
</tr>
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</table>

** 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 and create employment opportunities. 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 moves 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 2016, around €140 million had been utilized by 63 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 (data for 2015 are pending).
- Companies experienced a large increase in their export revenues, growing by 33.4 percent by December 2014 (data for 2015 are pending). 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:**

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>122.5</td>
</tr>
<tr>
<td>Government of Croatia</td>
<td>5.8</td>
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</table>

**Total Project Cost** 128.3

**World Bank Disbursements, million US Dollars:**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>122.5</td>
<td>36.80</td>
<td>56.34</td>
</tr>
</tbody>
</table>

*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 were reduced from 46 percent of operating revenues in 2007 to 2 percent in 2015.
- The contract for the 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. Completion of the works is currently scheduled for mid-2018.
- 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
GEF Grant: still active, closing May 31, 2016

Financing in million US Dollars:

<table>
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<tr>
<th>Financier</th>
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<tbody>
<tr>
<td>Government of Croatia</td>
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<tr>
<td>IBRD</td>
<td>87.50</td>
</tr>
<tr>
<td>Global Env. Facility</td>
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<tr>
<td>Total Project Cost</td>
<td>181.40</td>
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World Bank Disbursements, million US Dollars:

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<th>Undisbursed</th>
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<tr>
<td>IBRD Loan</td>
<td>87.50</td>
<td>85.95</td>
<td>1.55</td>
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<tr>
<td>Global Env. Facility</td>
<td>5.70</td>
<td>3.32</td>
<td>2.38</td>
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</tbody>
</table>

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 is also piloting innovative wastewater treatment solutions in selected municipalities. The project covers 23 municipalities.

Key Results:
- 23 coastal municipalities are participating in the project, with construction activities completed or at the final stages 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 72 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 48 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 being expanded to all MWSCs in the country.
- Specifically, project-funded activities through the GEF grant will reduce the pollution and nutrient load in selected municipalities through enhanced nutrient reduction facilities.
- The implementation of the project is increasing the knowledge of affordable nutrient reduction wastewater treatment technologies.

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: TRADE AND TRANSPORT INTEGRATION PROJECT

Key Dates:
Approved: November 14, 2006
Effective: March 20, 2007
Additional Financing Approved: August 4, 2011
Closing: May 31, 2016

Financing from all co-financiers, million US Dollars:

<table>
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<tr>
<th>Financier</th>
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<tbody>
<tr>
<td>IBRD</td>
<td>142.22</td>
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<tr>
<td>Government of Croatia</td>
<td>26.94</td>
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<tr>
<td>Other Lenders (EBRD)</td>
<td>14.38</td>
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<td><strong>Total Project Cost</strong></td>
<td><strong>183.54</strong></td>
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World Bank Disbursements, million US Dollars:

<table>
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<tr>
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<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loans</td>
<td>142.22</td>
<td>131.94</td>
</tr>
</tbody>
</table>

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. 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 estimated time for the completion of the terminal is end-May, 2016.
- 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 88 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).