This Project Portfolio update was created as a tool to inform the public and partners about World Bank lending as well as to encourage broader participation in the projects.

The Project Portfolio includes basic data on the World Bank’s activities in Croatia, including lending, grants and analytical and advisory activities. Project briefs contain the information on project components as designed at the time of approval. The data on disbursements displayed in the summary table for individual projects and the extension of closing dates are regularly updated.

The Borrower is responsible for all procurement steps, including advertising, pre-qualification evaluation, preparation of bidding documents, evaluation of bids and contract awards. The Borrower, not the World Bank, contracts directly with companies and consultants. Therefore, consultants, contractors, manufacturers and suppliers of goods and services should contact the implementing agencies in Croatia if they are interested in participating in World Bank funded projects.

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FOREWORD
The World Bank has been extensively engaged in providing financial support, technical assistance, policy advice and analytical services to Croatia since the country joined the Bank in 1993. The basis of the World Bank’s activities in Croatia is the Country Partnership Strategy (CPS), agreed in consultation with the Government and other stakeholders, including the civil society, which spells out the Bank’s assistance in a four-year period. The recent Country Partnership Strategy (CPS) discussed at the Bank’s Board of Executive Directors in September 2008 covers the period 2009-2012 and includes three standard types of assistance: loans, grants, and analytical and advisory activities.

The goal of this Country Partnership Strategy (CPS) is to support the completion of Croatia’s EU accession process, the rapid convergence of its income level with that of current EU member states in a fiscally, socially and environmentally sustainable fashion, and a decent quality of life for Croatia’s citizens. The Bank Group program will aim at contributing in the four identified areas of emphasis: (i) sustaining macroeconomic stability; (ii) strengthening private sector-led growth and accelerating convergence with the EU; (iii) improving the quality and efficiency in the social sectors; and (iv) increasing the sustainability of long-term development. The EU accession agenda will remain a cross-cutting theme in the design and implementation of the Bank Group’s program.

* * *

The World Bank’s lending to Croatia since 1989\(^1\) totals US$2.66 billion\(^2\), comprising 42 operations. As of October 2009, 19 projects are in active status, with a total commitment value of US$1,235.5 million. The portfolio includes five full-scale Global Environment Facility (GEF) Grants in the portfolio: Renewable Energy Resources Project, Regional Neretva and Trebišnjica Management Project, and the remainder three GEF-funded grants are blended with IBRD loans: Energy Efficiency, Agricultural Pollution Control and Coastal Cities Pollution Control. Currently only one project is pending effectiveness, the Export Finance Intermediation Loan, which was signed in September 2009.

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\(^1\) Istria Water Supply and Sewerage, the first Bank-funded project to Croatia, was approved by the Bank in 1989.

\(^2\) Based on original commitment expressed in US$ equivalent at the time of appraisal of individual projects.
Croatia’s portfolio has traditionally focused on infrastructure and environment, while current operations in this sector are designed to assist the country’s EU accession efforts. The projects in the social sectors (education and social services), aimed at improving public service delivery, are also getting higher prominence. Critical consideration is given to the EU-related agenda: (i) through improving the conditions and efficiency of the transport sector (30%), to help create favorable trade conditions along the corridor Vc by connecting seaways with European road and railway corridors; (ii) while improving infrastructure in the water sector (22%) assists Croatia in meeting the EU directives. Support to industry and trade (16%) is channeled through financing to companies for preservation and growth of exports and jobs; while strengthening the capacity and quality of services in the public administration and justice (12%) aims to improve efficiency and service delivery in the public administration, such as Tax Administration, State Geodetic Administration and various ministries. The remainder of the assistance includes support to the energy sector and the reforms in the agricultural sector.

\[3\] Initial commitment in US$ million equivalent at the exchange rate at the time of project approval;

\[4\] This GEF grant is considered one project with IBRD Coastal Cities Pollution Control 2;

\[5\] Regional project between Croatia and Bosnia and Herzegovina amounting US$7.0 mil;

\[6\] This GEF grant is considered one project with IBRD Agricultural Acquis Cohesion;

\[7\] On May 30, 2007, the Bank’s Board of Directors approved Additional Financing for Rijeka Gateway Project, which increased the amount of the project from US$156.5 million to US$204.5 million equivalent.
Since March 2006, the Bank and the Government have been conducting joint portfolio reviews on an annual basis. The reviews also include an assessment of analytical work and projects under preparation. The objective of such reviews is to sustain a joint focus on CPS implementation, with a view of achieving the CSP outcomes. In the past years, the review identified project effectiveness delays and slow disbursements as main issues affecting project implementation. This is partly due to the large share of more recent loans in the portfolio, and in some cases, it could be attributed to the lack of familiarity with Bank procedures at the start-up phase of project implementation. The Bank and the Government have committed to work together to address these issues through preparation of a handbook for use of new implementing agencies to expedite loan approval and effectiveness, and increased use of project preparation facilities, as well as retroactive financing instruments to jumpstart implementation.

* * *

The active pipeline of operations to Croatia for FY2010-11\(^8\) delivery consists of four investment loans in various stages of preparation, with indicative value of US$185-210 million in commitments:

<table>
<thead>
<tr>
<th>Projects under Preparation</th>
<th>Status</th>
<th>Indicative amount USSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaster Risk Mitigation and Adaptation</td>
<td>Negotiations planned in November 2009</td>
<td>35-40</td>
</tr>
<tr>
<td>Judicial Reform</td>
<td>Appraisal scheduled for November 2009</td>
<td>35-40</td>
</tr>
<tr>
<td>Nature Protection</td>
<td>Preparation ongoing</td>
<td>35-50</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Preparation ongoing</td>
<td>80</td>
</tr>
</tbody>
</table>

\(^8\) The Bank’s fiscal year (FY) is from July 1 to June 30 (i.e., FY10 started on July 1, 2009)
To date, Croatian ministries, state administration bodies and public sector agencies have completed the implementation of 23 Bank-financed investment and adjustment lending operations:

**Completed Projects**

<table>
<thead>
<tr>
<th>Completed Projects</th>
<th>Amount US$ mill</th>
<th>Closed on</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Istria Water Supply &amp; Sewerage</td>
<td>28.0</td>
<td>June 30, 2000</td>
</tr>
<tr>
<td>2 Emergency Reconstruction</td>
<td>128.0</td>
<td>Dec. 31, 1999</td>
</tr>
<tr>
<td>3 Health Project</td>
<td>40.0</td>
<td>Dec. 31, 1999</td>
</tr>
<tr>
<td>4 Highway Sector</td>
<td>80.0</td>
<td>June 30, 2001</td>
</tr>
<tr>
<td>5 Technical Assistance</td>
<td>5.0</td>
<td>Dec. 31, 1999</td>
</tr>
<tr>
<td>6 Capital Market Development</td>
<td>9.5</td>
<td>June 30, 1999</td>
</tr>
<tr>
<td>7 Emergency Transport and Mine Clearance</td>
<td>102.0</td>
<td>Dec. 31, 2001</td>
</tr>
<tr>
<td>8 Enterprise and Financial Sector Adjustment</td>
<td>95.0</td>
<td>Dec. 31, 2001</td>
</tr>
<tr>
<td>9 Farmer Support Services</td>
<td>17.0</td>
<td>Dec. 31, 2002</td>
</tr>
<tr>
<td>10 Investment Recovery</td>
<td>30.0</td>
<td>Dec. 31, 2002</td>
</tr>
<tr>
<td>11 Coastal Forest Reconstruction</td>
<td>42.0</td>
<td>June 30, 2003</td>
</tr>
<tr>
<td>12 Structural Adjustment Loan (SAL)</td>
<td>202.0</td>
<td>Oct. 31, 2003</td>
</tr>
<tr>
<td>13 Eastern Slavonia Reconstruction</td>
<td>40.6</td>
<td>Dec. 31, 2004</td>
</tr>
<tr>
<td>14 Trade and Transport Facilitation in Southeast Europe</td>
<td>13.9</td>
<td>March 31, 2005</td>
</tr>
<tr>
<td>15 Railway Modernization and Restructuring</td>
<td>101.0</td>
<td>June 30, 2005</td>
</tr>
<tr>
<td>16 Health System</td>
<td>29.0</td>
<td>Dec. 30, 2005</td>
</tr>
<tr>
<td>17 Programmatic Adjustment Loan (PAL)</td>
<td>184.9</td>
<td>June 14, 2006</td>
</tr>
<tr>
<td>18 Technical Assistance 2</td>
<td>7.3</td>
<td>June 30, 2006</td>
</tr>
<tr>
<td>19 Court and Bankruptcy Administration</td>
<td>5.0</td>
<td>Jan. 31, 2007</td>
</tr>
<tr>
<td>20 Karst Ecosystem Conservation (GEF)</td>
<td>5.1</td>
<td>Dec. 31, 2007</td>
</tr>
<tr>
<td>21 Municipal Environmental Infrastructure</td>
<td>36.3</td>
<td>Dec. 31, 2007</td>
</tr>
<tr>
<td>22 Programmatic Adjustment Loan 2 (PAL 2)</td>
<td>197.4</td>
<td>Oct. 31, 2008</td>
</tr>
<tr>
<td>23 Pension System Investment Project</td>
<td>27.3</td>
<td>Dec. 31, 2008</td>
</tr>
<tr>
<td>Total</td>
<td>1,426.3</td>
<td></td>
</tr>
</tbody>
</table>

* * *

In addition to loans, the Bank has also provided and/or administered **52 grants and technical assistance projects**. The total allocation of grants provided to Croatia until present amounts to around **US$70 million**.

In addition, the Bank’s office in Zagreb has been implementing the Civil Society Fund program (formerly Small Grants Program) on an annual basis since 1999. The Program complements and facilitates the Bank’s social development agenda by providing grants to civil society organizations. It is aimed at promoting dialogue and dissemination of information on development and to enhance partnerships with the civil society at the country level. A total of US$ 319,000 has been awarded and 97 NGOs have benefited from the Program in Croatia. In 2009, after

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* Five GEF full scale grants are included in the amount.
reviewing 109 project proposals across Croatia, nine projects were awarded grants in the amount of US$ 45,000. The project activities in 2009 ranged from empowering youth and marginalized group, social inclusion of disabled people, to supporting rural development. The 2009 beneficiaries were: Environmental Association Argonauta, “SUNCE”, Taekwondo club Dugo Selo, Association of social workers Zadar, Autonomous Center, Women’s Association ‘Prospective’ Devrske, Open Media Group, Croatian Youth Network and Women’s Association Vukovar.

**Technical assistance** projects that have been recently or currently administered by the Bank include:

<table>
<thead>
<tr>
<th>Project</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sida Trust Fund Grant for Support to Public Administration Reform (closed December 31, 2008)</td>
<td>1.16 million</td>
</tr>
<tr>
<td>Sida Trust Fund Grant for Co-financing the Social Welfare Development Project (closed June 30, 2009)</td>
<td>2.00 million</td>
</tr>
<tr>
<td>Dutch Grant for the Technical Assistance to Support the Implementation of the Agricultural Acquis Cohesion Project (closed June 30, 2008)</td>
<td>4.75 million</td>
</tr>
<tr>
<td>Three EU CARDS Grants for cadastre and land registry reform - administered by the Bank as co-financing with the ongoing Real Property Registration and Cadastre Project (grants closed December 31, 2008)</td>
<td>15.32 million</td>
</tr>
<tr>
<td>IDF Grant for Enhancing Corporate Financial Reporting in Croatia (ongoing)</td>
<td>350,000</td>
</tr>
<tr>
<td>Project Preparation Advance for proposed Judicial Reform Project (ongoing)</td>
<td>653,000</td>
</tr>
<tr>
<td>Project Preparation Advance for proposed Nature Protection (ongoing)</td>
<td>500,000</td>
</tr>
</tbody>
</table>

**In addition to** providing finance for the development of Croatia through investment and other projects, the World Bank also provides policy advice and technical assistance to the Government. This advice relies on the Bank’s long-term experience in working in countries in transition and in economies that have successfully carried out structural reforms in and outside the region, as well as those that have recently joined the European Union.

In the framework of its non-lending services, the World Bank has prepared several analytical and policy studies. Most recent studies include:

- **Croatia: Living Standard Assessment - Promoting Social Inclusion and Regional Equity** - which provides estimates of national and regional poverty and inequality. The report offers data and analysis relevant to Croatia’s efforts to address the issues of poverty and regional disparities, by shedding light on the strategic priorities in this task and some of the main trade-offs involved. It also provides recommendations for improving social spending effectiveness and regional development strategy (completed in January 2007);

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10 IDF stands for Institutional Development Fund;
Project Portfolio as of October 2009

- **Croatia: Public Finance Review - Restructuring Public Finance to Sustain Growth and Improve Public Services** – which provides recommendations to the government on avenues to address external vulnerability and sustainable growth of Croatia through more forceful fiscal adjustment, and explore ways to increase public sector efficiency (delivered in 2007);

- **Croatia: Report on the Observance of Standards and Codes (ROSC) for Accounting and Auditing (A&A)** - aimed at assessing the regulatory and institutional framework and practices in view of the *acquis* requirements on financial reporting and auditing. It uses International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and the relevant portions of European Union law as benchmarks (delivered in 2007);

- **Croatia: Report on the Observance of Standards and Codes (ROSC) for Corporate Governance** - aimed at assessing Croatia’s corporate governance policy framework, enforcement and compliance practices and providing recommendations for meeting the four EU Directives (delivered in 2007);

- **Croatia: EU Economic Convergence Report** - which assessed the current factors and obstacles for faster productivity growth in Croatia given its convergence efforts to EU, and explore ways to ensure sustainability of long-term growth through increasing flexicurity and generation of higher-value added through a knowledge-based economy (delivered in June 2009).

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In August 2009, the Board of Executive Directors approved a new loan to the Government of Croatia, *Export Finance Intermediation Loan* (US$141 million), which was signed in September 2009.

Over the last year, the World Bank’s Office in Zagreb organized several *Policy and Project-related Workshops* in cooperation with various Government counterparts and stakeholders: (i) learning event on how Croatia’s justice sector compares with European countries (December 2008); (ii) learning event on combating corruption with forensic accountants, under the Bank-Netherlands-Croatia partnership for justice sector support (March 2009); (iii) knowledge-sharing event on addressing the financial crisis in the region: on prudent fiscal response (April 2009), banking sector crisis management (May 2009) and corporate workouts and restructuring in a crisis (June 2009); and (iv) dissemination of Croatia’s EU Convergence Report: Reaching and Sustaining Higher Rates of Economic Growth (September 2009). One of the upcoming workshops will present the findings of the joint Bank and UNDP work on the crisis impact on poverty and employment.
The Government and the Bank conducted annual Joint Portfolio Review November 2008 through February 2009, with aim to ensure that portfolio focus on achieving the country’s development objectives and that these objectives continue to be important for Croatia. The Ministry of Finance and the Bank met with all implementation partners and stakeholders to examine the efficiency and effectiveness of the portfolio, by looking at project performance both at the individual project level and across the portfolio in order to identify cross-cutting issues. The assessment of the portfolio status will enable appropriate decision-making and agreement between the Government of Croatia and the Bank on performance targets and specific actions to be taken in the near term.

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Real Property Registration and Cadastre

One of key reforms needed to promote investment climate in Croatia is the modernization of land registration and cadastre.

Many of the problems in land and real estate markets, and in the efficient implementation of property laws, can be traced to the condition of the registries. These conditions derive from the highly increased number of transactions since privatisation started in 1992, and the related failure to maintain the link between the land books and the cadastre systems over several decades. This has resulted in significant discrepancies between the official records and the actual state of title on the ground.

Objectives

The objective of the project is to help build an efficient land administration system with the purpose of contributing to the development of efficient real property markets that is to an improved investment climate in the country.

In particular, the project will (i) accelerate registration in the cadastre operated within the State Geodetic Directorate (SGD) and real property registration system, which operates in the municipal courts under the jurisdiction of the Ministry of Justice (MoJ); (ii) streamline both systems and the associated transaction processes; (iii) harmonize data between the two systems to ensure that they match with the reality, through cadastre re-surveys and registration corrections, as needed; and (iv) improve customer relations and service provision.

Project components

1. Real Property Registration: improve the title based registration system to increase the security of property rights over land and buildings as well as transactions conducted under this system.

2. Cadastre: establish new integrated cadastre system, develop technical standards, and build a cadastre based on business/corporate plan principles.

3. Inter-agency Operations and IT: develop/implement joint operations for the cadastre and real property registration systems: cadastral survey and mapping, systematic adjudication and registration, data conversion and entry, information system design and training.

4. Project Management, Legal and Policy Development: legal framework completion and policy development; supervision functions and quality management; and development of a common IT/IM strategy between MoJ and SGD.

Partnerships

The SGD and Ministry of Justice have taken the lead in donor coordination for the project. The donors active in this field include: GTZ, Norway, Netherlands, Sweden, USAID, DFID, with the EU as major co-financier, through three EU CARDS funds that are being channeled through the World Bank as trust funds.

Benefits

This project supports a very important activity, which affects the entire Croatian society – clarifying land rights and property ownership. Not only is the establishment of a proper land system essential for economic growth in Croatia but this project will lead to faster registration, sales and mortgage actions, contribute to resolution of property disputes and over time reduce the backlog of court cases involving land issues.

| Borrower | Republic of Croatia |
| Line ministry & Implementing agency | Ministry of Justice & State Geodetic Administration (SGA) |
| Project cost | US$37.2 mil |
| WB loan | US$25.7 mil |
| 3 EU CARDS Grants | US$15.3 mil |
| Closing date | December 15, 2009 |

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Rijeka Gateway

Connections with main European transport corridors is very important for Croatia’s efforts to attract foreign investment and generally to increase its competitiveness.

Objectives

The project will help reestablish the port of Rijeka as the natural gateway for Croatia and Central Europe, supporting the activities that will increase the port’s overall efficiency and performance. The project aims to increase Croatia’s trade competitiveness by improving the international transport chain through the Rijeka Gateway for both freight and passenger traffic, through modernization of the port and road network connections.

Specific objectives include: (i) increasing efficiency and improving financial, social and environmental conditions at Rijeka port, rehabilitating infrastructure and replacing equipment; (ii) preparing to redevelop part of Rijeka Port for urban purposes; and (iii) improving international road connections linked to the Rijeka Gateway and the administration of the road sector.

Project Components

1. Port Restructuring and Modernization: Rehabilitation of infrastructure in the Western Port Area; Multipurpose terminal at Zagreb berth; rehabilitation of infrastructure and superstructure; Modern Heavy Cargo Handling Equipment; Vessel Traffic Management System and an Electronic Data Interchange system.

2. Port/City Interface Redevelopment: Urban redevelopment, rehabilitation of the port area and construction of a passenger terminal.

3. International Road Improvements: (i) Rijeka Bypass and Connector Roads; Zagreb-Macelj Motorway (rehabilitation); Krk Bridge; and Black Spot Elimination; (ii) Pavement and bridge management systems, minor equipment and management software.

Benefits

Direct benefits include (i) increased traffic and revenues, and reduced operating costs at Rijeka Port; (ii) reduced road vehicle operating costs and delays; (iii) increased trade in transport services and economic activity generated by increases in transit traffic; (iv) reduced Government financial contributions to Rijeka

| Borrower | Republic of Croatia |
| Line ministry | Ministry of the Sea, Transport and Infrastructure |
| Implementing agency | Port of Rijeka Authority, Croatian Roads & Croatian Motorways |
| Project cost | US$314.4 mil |
| Effectiveness | October 10, 2003 |
| Closing date | December 31, 2010 |

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Energy Efficiency

Croatia seeks to ensure an efficient energy supply in an environmentally sustainable manner at realistic but socially acceptable prices. Its efforts in this respect will enhance the country’s economic efficiency for easier EU accession and as well as help it to meet its international environmental obligations.

Objectives

The project facilitates the above objectives of Croatia by supporting conditions for an increasing demand for and supply of energy efficiency projects and services. Specifically, it facilitates the creation of an energy efficiency market in Croatia leading to greater efficiencies in energy use and making Croatia’s economy more competitive, while reducing dependence on energy imports. The project is to help HEP ESCO, a newly established developer of energy efficiency projects, to develop, finance and implement energy efficiency projects on a commercial basis, using local businesses as key delivery agents. It is also intended to provide a framework for other emerging energy service providers to tap into new energy efficiency business opportunities.

The project also introduces the banking community to market mechanisms for lending funds to an untapped industry. It will help them build capacity to provide project-based debt financing and introduce the concept of focusing on credit risk only with another party handling technical risks.

Project Components

1. Energy Saving Investments: principally finance goods, materials and installation works to support ESCO activities.
2. ESCO Project Development and Project Financing: Preparation costs for an early investment in the first pipeline of projects.
3. Enhancing the Creditworthiness of ESCO, other Energy Service Providers and End Users: Partial risk guarantee that will leverage commercial bank lending to ESCO and its projects.
4. Training, Information Dissemination, Outreach and Monitoring and Verification: A GEF technical assistance grant to ESCO staff and project partners, other energy efficiency businesses, HBOR and appropriate non-for-profit or consumer groups. It supports training, monitoring and evaluation, and information dissemination related to overall market development.

Benefits

Project beneficiaries comprise users of thermal and electric energy, including local governments, and project partners, namely a broader energy efficiency community, such as energy engineers, small energy service providers and equipment manufacturers.

The direct benefits of the project are realized energy savings, which will (i) reduce energy costs for end users; (ii) renew aging equipment; and (iii) improve quality, affordability and competitiveness of energy delivery systems, without creating any social hardship.

<table>
<thead>
<tr>
<th>Guarantor</th>
<th>Republic of Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line ministry</td>
<td>Ministry of the Economy, Labour and Entrepreneurship</td>
</tr>
<tr>
<td>Implementing agency</td>
<td>HEP ESCO</td>
</tr>
<tr>
<td>Other agency</td>
<td>HBOR</td>
</tr>
<tr>
<td>Project cost</td>
<td>US$30.4 mil</td>
</tr>
<tr>
<td>WB loan</td>
<td>US$5.0 mil</td>
</tr>
<tr>
<td>GEF grant</td>
<td>US$7.0 mil</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>April 8, 2004</td>
</tr>
<tr>
<td>Closing date</td>
<td>June 30, 2010</td>
</tr>
</tbody>
</table>

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Coastal Cities Pollution Control

As it progresses towards the EU, Croatia will have to increase investments in wastewater treatment facilities in order to comply with the environmental acquis. Investment in wastewater treatment facilities and disposal along the Adriatic Coast will also significantly improve the competitiveness of Croatia’s tourism. The challenge for the water sector, however, is how to preserve past accomplishments and fund future investment needs. The sector must become progressively more self-financing and more efficient.

The operation is designed as a three-phased Adaptable Program Loan (APL), which supports the Government’s medium-term program to improve the quality of the Adriatic, and allows the Bank to maintain support for coastal pollution control over the medium term.

Objectives

The development objective of the project is to improve the quality of Croatia’s Adriatic coastal waters to meet European Union ambient quality standards in the participating municipalities, in a financially and operationally sustainable manner, through:

- support for the strengthening of the institutional arrangements for financing and management of wastewater treatment in Croatia; and
- financing of wastewater treatment infrastructure in selected coastal municipalities.

Project components

1. Coastal Environmental Infrastructure Component, finances investments in the construction and expansion of sewerage networks, main collectors, pumping stations, wastewater treatment plants, and submarine outfalls;

2. Institutional Strengthening and Program Management Component, finances equipment, technical assistance, training and studies to: devise and implement an institutional framework for water pollution control; complete engineering designs and environmental and social assessments for investments; ensure the capacity of the Special Purpose Subsidiary Company (SPSC) for Project implementation, evaluation and monitoring, including financial management; and strengthen and bring utilities to reasonable levels of management, operational efficiency, financial viability; and potentially facilitate private sector participation.

3. Strengthening of the Coastal Waters Monitoring Network, finances equipment, civil works, and technical assistance.

Benefits

The project will have substantial environmental benefits with a direct impact on the populations of the Project area, including approximately 300,000 permanent residents in the coastal region (in the participating municipalities) as well as seasonal tourists which increases population to 850,000 in the summer months. Investing in wastewater treatment is expected to have a direct and positive impact on the quality of bathing and fishing waters, and the associated economic benefits are expected to be significant. Investing in wastewater treatment facilities is also expected to have positive effects on the viability of the fisheries and aquaculture sectors, and detailed investment design will take into account the impact on local fisheries and areas of shellfish cultivation. The project, thus, will have many positive multiplier-effects: on environmental conditions, growth prospects and private sector investments (both of which are expected to accompany the recovery in the tourism sector), and on the sustainability of local authorities to finance and manage water sector infrastructure during Project implementation and in the future.
Social & Economic Recovery

Croatia has been seeking to revitalize war-affected areas, thus reducing regional disparities and enabling all of its territories to contribute to the economic growth and development.

The World Bank initially supported the above efforts through a grant, amounting to nearly US$2.0 million. The grant was implemented by the Catholic Relief Services (CRS), from 2001 to 2004, with the primary goal of addressing the economic and social situation in the Zadar and Šibenik-Knin counties, by providing financial and technical assistance to farmers’ and producers’ cooperatives, local institutions and municipalities, local associations and NGOs. All activities have been implemented in cooperation with municipal and county authorities, which has built the grounds for continuing these joint efforts through a larger Bank-financed project.

Objectives

The main objective of the project is to support the economic and social revitalization of disadvantaged and war-affected areas as a way to increase social cohesion.

Project Components

1. The Community Investment Program, which funds works, goods, and services for demand-driven subprojects in the Areas of Special State Concern in the areas of social inclusion, economic revitalization, and small community infrastructure. The activities include, among other, improvement of access by war-affected, disadvantaged or vulnerable persons to community-based services, initiatives, and activities; income generation activities in local communities, and financing of a business development program.

2. The De-mining component funds services for de-mining, and the provision of goods. Its objective is to ensure that Community Investment subprojects achieve their intended potential without the risk of anti-personnel mine accidents.

3. The Institutional Development component funds consultant services, equipment and goods for capacity building for central, regional, and local authorities, to support regional development approaches by central and local administrations for/within the Areas of Special State Concern, establishing participatory and technically sound practices in territorial planning, decision-making, and implementation in line with the EU principles.

Benefits

The project supports the economic and social recovery of the populations of the Areas of Special State Concern through community investment activities and institution building. In addition to social cohesion and regional integration, the project will, in particular, contribute to (i) increased opportunities for small businesses and income generation activities for local producers' groups; (ii) increased social inclusion of marginalized and vulnerable groups; (iii) increased access to social services and utilities; (iv) improved access to productive capacity and assets through demining; (v) improved performance of local institutions in their planning capacity and in their interaction with their constituents.

The project will also build the capacity and expertise of the project management unit, which could later work with the EU pre-accession funds and could evolve as an authority managing structural funds following EU accession.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Republic of Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line ministry &amp; Implementing agency</td>
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Renewable Energy Resources

The project supported by a Global Environment Facility (GEF) will be used to capitalize an equity finance mechanism to provide risk-sharing capital for leveraging private equity and commercial lending into renewable projects.

Objectives

The project’s main objective is to reduce greenhouse gas emissions on a continuous basis by overcoming barriers to implementation of renewable energy market. It is to help develop an economically and environmentally sustainable market for renewable energy resources in Croatia. This will make Croatia’s economy less reliant on imported electricity and fossil fuels, and help in reducing overall emissions. The project also aims at supporting private investment in renewable energy and generating local industry and employment.

The project will achieve the objectives by: (i) Overcoming the barriers to market development, including: (a) legal (e.g., lack of enabling policy and legal framework, inadequate planning capacity, unclear permitting and licensing procedures, unclear land ownership); (b) financial (e.g., lack of understanding of renewable energy in banking and business community, lack of risk capital); and (c) technical (e.g., potential strain on transmission system). (ii) Providing assistance to confirm market potential, build knowledge and implementation capacity, streamline procedures, monitor compliance with minimum share targets, and inform the public.

Project components

1. **Overcoming the barriers to market development**, including legal (e.g., lack of enabling policy and legal framework, inadequate planning capacity, unclear permitting and licensing procedures, unclear land ownership), and financial (e.g., lack of understanding of renewable energy in banking and business community, lack of risk capital); and technical barriers (e.g., potential strain on transmission system).

2. **Providing assistance to confirm market potential**, build knowledge and implementation capacity, streamline procedures, monitor compliance with minimum share targets, and inform the public.

Benefits

Beneficiaries include HEP, local governments, NGOs, the banking community, policy-makers, regulatory authority and private developers.

The project is expected to increase energy security through reduced imports of electricity and fossil fuel, as well as reduce carbon dioxide, sulfur and NO\textsubscript{x} emissions. It will also assist Croatia in complying with Kyoto Protocol and EU Directives on renewable energy.

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<th>Recipient</th>
<th>Republic of Croatia</th>
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Social Welfare Development

The Croatian authorities requested the World Bank's cooperation in developing a project that would address the needs of the most vulnerable through reforms of, and investments in, the social welfare system. The objective is to identify and implement organizational, institutional, and financial measures to improve the availability, efficiency and effectiveness of social services to these groups. This is consistent with best practice in many European countries, which aim to complement cash social assistance benefits with service interventions that are tailored to the needs of the local community (foster care, programs for the elderly, drug rehabilitation, etc.).

Objectives

The main objective of the project is to strengthen the quality of social services and improve administration, planning and policy making of the social welfare system. The project aims to strengthen social welfare administration, finance new innovations of social service delivery, and address issues such as streamlining benefits, social service planning, organization, and financing.

It focuses on capacity strengthening to collect, analyze, and disseminate improved social statistics for poverty. The project will finance renovations, equipment, technical assistance, and training.

Project Components

1. Improving social services delivery will develop a sustainable spectrum of social programs across prevention, service delivery, and client re-integration into the community;

2. Strengthening of the Social Welfare Management Information System will improve the reliability and timeliness of social benefit administrative information used for cash benefit system oversight and individual claims processing, and implementing 'one-stop shop' administrative services for clients.

3. Upgrading existing Social Services Facilities will upgrade county centers for social welfare and enhancing the safety of older residential social service facilities by investing in hygienic upgrades.

Partnership

The UNDP is supporting a policy monitoring unit in Ministry of Health and Social Welfare (MHSW). Sweden's Sida has contributed significant grant co-financing of the project. While donor aid resources in this specific area are limited, social welfare reform is complementary to the EU accession (acquis) agenda, and the European Commission and European Delegation are regularly consulted on project implementation.

Benefits

Project benefits will include: (i) efficiency and effectiveness of service delivery to the most vulnerable groups of the population, including children at risk, disabled, elderly, and poor; (ii) better public information on service availability, and improved service quality and responsiveness; (iii) greater reliability and availability of household level statistical information needed to develop, monitor and evaluate national policy; and (iv) improved fiscal efficiency of social benefits.

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</table>

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**Education Sector Development**

Education will be one of the main determinants of the potential success and prosperity of Croatia as it moves to integrate with the highly competitive and socially diverse European community. The education system has remained centralized, with overloaded teaching programs and often outdated instructional practices that all together make it difficult to respond to the changing realities through education. However, education has traditionally been highly valued in Croatian society and is today seen as a main key to successful employment and life. Hence, one of Croatia’s most important priorities is ensuring delivery of high quality education to all of its citizens.

**Objectives**

The main objective of the project is to improve student learning and system performance. The medium-term goal is that teachers and students will use a wider range of appropriate methods in teaching and learning, and that system management, including policy development, implementation and a monitoring is strengthened.

**Project priorities/components**

1. **Priority One** is enriching the classroom by renewing curriculum in all schools and shifting the focus of teaching towards active learning, problem-solving and understanding. This component incorporates National Education Standards in school curricula, develops teachers' professional knowledge and skills, and creates professional learning communities for teachers in schools.

2. **Priority Two** improves monitoring and evaluation. This component establishes an externally administrated school leaving examination, Matura, and supports the design and establishment of this examination and related logistics; and develops policies, activities, and structures that improve the capacities of the education system to collect, analyze, assess, and disseminate information related to the system's performance.

3. **Priority Three** strengthens management and leadership by supporting efforts to improve management, e.g. policy development, planning and fiduciary capacities, and coordination capacities at the regional level and educational leadership at the school level.

4. **Priority Four** supports regional development and innovations to reduce the number of multiple-shift schools, and promoting opportunities for schools to provide more optional and non-formal activities.

**Benefits**

To achieve sustainable leadership and change, the Croatian education system will benefit from sector-wide development rather than reforms through stand-alone projects. Sustainable educational leadership and changes in the ways the system works can be achieved by supporting Government's efforts to improve the entire education system, as described in the Education Sector Development Plan. This will help the Government to strengthen planning, management and monitoring of education that are essential requirements in the changing European community and its knowledge economies.

The social benefits of education, specifically the synergies between education and the promotion of a good investment climate, constitute a primary rationale for the public funding of education in Croatia. A good investment climate provides opportunities and incentives for firms to invest productively, create jobs, and expand. Improving the investment climate goes hand in hand with enhancing human capital, while a skilled workforce is essential for firms to adopt new and more productive technologies, and a better investment climate raises the returns to investing in education.

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**Closing date**
March 31, 2011

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Science & Technology

The Project seeks to improve the competitiveness of Croatia’s economy by reorienting Croatia’s science and technology infrastructure towards the needs of industry and the economy at large. The Project would contribute to Croatia’s goals to increase growth and competitiveness of Croatian firms, facilitate economic integration with global markets, and further develop the country’s technological base.

Objectives

The main objective is to enable research and development institutions to commercialize research outputs, while maintaining their scientific excellence; and to increase the ability of enterprises, particularly small and medium sized companies, to invest in research and development activities. The Project is also expected to contribute to improving the Croatian industry's access to European Union markets.

Project components

1. Research and Development Institutions component supports the commercialisation of publicly funded research results and research capacity in selected Research & Development Institutions (RDIs) and universities;

2. Business Innovation Center of Croatia Component aims to increase development, use and adaption of technology by the enterprise sector by providing financing support for technology startups, technology-based companies, and Research & Development centers;

3. Unity Through Knowledge Fund (UKF) helps engage Croatian scientific Diaspora in joint projects and other initiatives, to transfer their knowledge and skills for the benefit of Croatian society, as well as to motivate scientists to return to Croatia.

Benefits

The project will help create infrastructure for contractual R&D in Croatia in order to promote innovations and improve quality of services and products by the industry, through support to commercialization of research outputs of the two largest R&D institutions in Croatia (Ruder Bošković Institute and Brodarski Institute) to help them reorient themselves towards applied research. These efforts have provided demonstration effect among universities in Croatia, as a result of which, two major universities – Zagreb and Rijeka - joined the project later during project implementation.

It also aims to provide means and build appropriate financial mechanisms to support development and adoption of new technologies by the industry, promote growth of technology and hi-tech companies, improve quality and diversity of the products by industry, which, ultimately, will contribute to improvement of competitiveness of Croatian firms.
District Heating

The project has derived from the need to address urgently the investment backlog in heat transmission and distribution, in order to provide an economic, reliable and sustainable supply of district heating. It was also meant to mitigate the inadequate maintenance and the inefficiency of the heating installations at the end-user level. This would help in diminishing the need for eventual price increases with a view of compensating for increased maintenance cost.

Objectives

The project seeks to promote Hrvatska Elektroprivreda Toplinarstvo’s (HEP T) operational efficiency in Croatia, by reducing energy and water losses; increasing the profitability of HEP T; and increasing the level of customer satisfaction. It aims to improve the quality, reliability and affordability of district heating services in Zagreb and Osijek. The project has been designed to finance the backlog of urgent rehabilitation investments needed to improve efficiency, competitiveness of district heating and customer service. At the same time, specific project activities aim to reduce the energy consumption by improving heat energy efficiency at the end-user level.

Project Components

1. **Infrastructure Rehabilitation component** includes the following investments: (i) Zagreb network rehabilitation entails the replacement of a dual pipe trench (35 km), transmission pipes (20 km), and distribution pipes (15 km). These investments were identified as priority rehabilitation investments where energy and water losses are high; and, (ii) Osijek network rehabilitation entails the replacement of distribution pipes (15 km) and connection to the main combined heat power (CHP) plant of customers currently connected to the inefficient local heat only boilers.

2. **Consulting services component** includes: the development of a demand side management (DSM) Program, where HEP will look at options to promote voluntary installation of DSM equipment. The component further includes the completion of two surveys in Zagreb and Osijek; preparation of bidding documents; construction supervision; and, preparation of annual audits.

Benefits

The project benefits are economic and environmental, both locally (Zagreb and Osijek) and nationally. District heating customers in the two cities will benefit from being connected to a more efficient and cost-effective supply of heat.

The State and Municipal authorities will also benefit from improved quality, affordability and delivery of district heating. Further benefits lay in a transparent and accountable management of the district heating sector and adoption of a model concession agreement.

The economy at large will benefit from the reduced environmental impact of more efficient energy services and from the reduced environmental emissions associated with lower consumption of natural gas and mazut in heat production.

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<tr>
<th>Country contact:</th>
<th>Bank Team Leader:</th>
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<tbody>
<tr>
<td>Mr. Robert Krklec HEP Toplinarstvo tel. + 385 1 613 1983 fax: + 385 1 613 1978 <a href="mailto:robert.krklec@hep.hr">robert.krklec@hep.hr</a></td>
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</tr>
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</table>
Trade and Transport Integration

Transport linkages with EU markets are made through the Trans European Network corridors (X, Vb and Vc), which carry the vast majority of trade, transit and tourist traffic between the EU and the Southeast European region. As such, these corridors became central to the Croatian Government program of transport infrastructure modernization.

The Government has requested the assistance of the Bank, in partnership with EBRD, to develop the project design. The project required an integrated approach to corridor development across borders, taking into account its physical, financial and operational dimensions.

The project is co-financed with EBRD, which will support financing of the Bulk Cargo Terminal component, through the World Bank’s procurement procedures. The partnership fostered the dialogue at the regional level on improving rail operations along corridor Vc, in close coordination with the EBRD/EIB-funded railways project in Bosnia Herzegovina.

Objectives

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

The Project seeks to achieve this objective through: (i) investments in increased capacity of the port infrastructure; (ii) introduction of a modern electronic port community system; (iii) strengthened corridor dialogue among corridor participants; (iv) establishment of cost recovery based concession arrangements; and (v) increased private sector involvement to address these priorities, reduce commercial risks, and secure financing for port cargo handling equipment.

Project Components

1. Port Infrastructure Development. This component includes: (i) construction of a new bulk cargo terminal with an initial capacity of 4 million tons; (ii) construction of a container/multipurpose terminal with an initial capacity of 66,000 containers; and (iii) construction/rehabilitation of the supporting port infrastructure (road, rail, water, wastewater, and power supply) within the port area.

2. Trade and Transport Integration. This component includes the development and rollout of a modern electronic port community system, integrating all members of the port community (shipping lines, shipping agent, stevedoring companies, banks, rail, road transport, border agencies…) into a seamless information system enabling accurate and timely exchange of information and automated processing.

3. Project Implementation: (i) Technical assistance to Port of Ploce Authority (PPA) to implement its business plan and establish the concession for new terminals; (ii) technical services required for the preparation and supervision of Project components; (iii) audit services for the Project and PPA; (iv) training on Project management, procurement and financial management; (v) procurement support; and (vi) incremental implementation costs.

Benefits

The Project will contribute to increased economic growth, needed to achieve convergence to EU living standards. The government plans to achieve this by downsizing the state presence in the economy, and encouraging enterprise restructuring and new business creation. It will specifically contribute to the EU Accession agenda through: (i) Integrated Border Management to improve border procedures, align them with the EU standards and strengthen coordination of relevant agencies; (ii) railway modernization; and (iii) “Motorways of the Sea” policy.

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Agricultural Acquis Cohesion

The EU accession timetable underscores the scale and urgency of the agenda Croatia must adopt for timely EU accession. Although a substantial endeavor is underway, there remains a significant unfinished and un-financed agenda. Ministry of Agriculture, Forestry and Water Management (MAFWM) needs substantial support to accelerate Croatia’s alignment with the agriculture acquis, upgrade its food safety system and facilitate the SAPARD-driven rural development program and associated Payment Agency. The Government has requested World Bank assistance to fill specific gaps that will contribute to the Croatia’s overall preparedness to fulfill the EU membership requirements.

A portion of the loan would be used to capitalize a pilot SAPARD pre-financing facility for SAPARD municipal measures to help enable lower income communities gain access to commercial capital for pre-financing investment needs.

Objectives

Project aims to develop sustainable systems and capacities within the MAFWM to ensure timely compliance with European Union acquis (legal) conditions in the rural sector. The primary project outcome would be more transparent, participatory and market-oriented support to and regulation of agriculture and rural development in Croatia, implemented within the framework of the prevailing EU Common Agriculture Policy (CAP) and acquis communautaire.

Project Components

1. Strengthening capacity for absorbing European Union financial assistance in agriculture: This will increase capacity during pre-accession to comprehensively implement the acquis communautaire (the precondition for accession, aimed at improving financial reporting) concerning the EU CAP.

2. Empowerment of MAFWM administration and management: This component will assist MAFWM management and administration team to access information needed for their decision making process in a more timely and structured manner.

3. Ensuring safe food and sanitary and phytosanitary conditions. This component supports the development of the Croatia Food Agency and creates the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements.

4. Project Management. The component finances project management, including refinancing the Project Preparation Facility, which assisted in preparing the Project.

Benefits

The project is expected to generate several outputs, among which the main ones relate to strengthened institutional capacity, such as:

- an effective, transparent SAPARD/IPA Managing Authority and Monitoring Committee; and an independent Payment Agency implementing an EU compliant, GIS-based Integrated Administration and Control System (IACS);
- an EU compliant Farm Accountancy Data Network (FADN), overseen by a National FADN Committee; and an integrated, user-friendly food safety, IACS, farm registry and Agriculture Information Centre databases supported by reliable, secure and fast information technology systems;
- an effective, transparent and accountable Croatia Food Agency and associated food safety risk assessment and management system;
- an effective, transparent and accountable sanitary and phytosanitary institutional framework and management system;
- plant protection, veterinary and public health reference laboratories applying ISO 17025 accredited testing methodologies.

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<td>Country contact</td>
<td>Ms. Jasna Mikulec, Ministry of Agriculture, Fisheries and Rural Development</td>
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<tr>
<td>Bank Team Leader</td>
<td>Mr. Michael Carroll, IBRD Washington, ECSSD</td>
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Co-financing by Dutch Government provides support for their decision making process in a more timely and structured manner.

3. Ensuring safe food and sanitary and phytosanitary conditions. This component supports the development of the Croatia Food Agency and creates the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements.

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- an effective, transparent and accountable Croatia Food Agency and associated food safety risk assessment and management system;
- an effective, transparent and accountable sanitary and phytosanitary institutional framework and management system;
- plant protection, veterinary and public health reference laboratories applying ISO 17025 accredited testing methodologies.
Revenue Administration Modernization

During the last two years, the Government has made important steps in improving the functioning of its revenue administration. At the same time, the EU accession discussions related to the Croatian Tax Administration (CTA) have focused on three main issues: (i) legislative harmonization; (ii) building institutional capacity; and (iii) strengthening its information systems and data exchange capabilities.

Notwithstanding the improvements that CTA has introduced over the years, and the sustained effort of its staff, a number of weaknesses make the agency highly vulnerable to emerging trends and challenges, which include human resource policies, information systems, and stakeholder voice. These trends and challenges are acknowledged by the CTA, which is planning to embark on a tax administration modernization program to address them. The project is designed to support these sustained Government efforts.

Objectives

The objective of the project is to achieve improvements in efficiency, taxpayer services, and tax compliance through capacity building and systems improvement in the Croatian Tax Administration (CTA). By supporting the development of a strategic plan for tax modernization and assisting in its implementation, the project will help in harmonization of tax administration policies and operations with the EU accession expectations.

Project components

1. Organizational Consolidation and Functional Realignment of Tax Office, including Physical Facilities - seeks to improve tax compliance, efficiency and upgrade services through (i) support in restructuring the organization of the city of Zagreb network offices, and improve organizational and staffing arrangements, taxpayer services and enforcement processes, including HR management, and physical construction; and (ii) support to CTA to strengthen and consolidate its large taxpayers’ offices through provision of information technologies, training and advisory activities;

2. Knowledge and Professional Upgrading of Tax Officials and Stakeholders - seeks to raise professionalism, competence, and integrity of tax officials through the establishment of tax Training Center and the knowledge of taxpayers and other stakeholders;

3. Technological Upgrading for Services, Management Information System, and TIN Implementation Support - seeks to leverage technology in order to improve e-taxpayer services, enhance management decision-making, and facilitate the exchange of information among government agencies through the introduction of taxpayers’ identification number (TIN);


Benefits

The project would consolidate the database structure and facilitate information sharing with various social insurance agencies, helping the social welfare system in better targeting the most vulnerable groups, by developing a wealth-based means test for a wide array of social benefits. Skills upgrading of the staff and the consolidation of tax offices in Zagreb will yield significant payoffs in terms of a more effective and efficient tax administration that will help improve compliance. The project will also enhance the business climate by improving client services and reducing the burden of taxpayer compliance.

It will help Croatia to meet its EU accession obligations in the field of tax administration reform strategy, and in particular, related to the EU’s recommendation to accelerate the alignment of national tax legislation, and strengthen operations of the tax administration, including IT interconnectivity.

| Borrower | Republic of Croatia |
| Line ministry & Implementing agency | Croatian Tax Administration (CTA) |
| Project cost | US$126.0 mil |
| WB loan | US$68.0 mil |
| Effectiveness Closing date | December 21, 2007 June 30, 2013 |
| Country contact | Bank Team Leader: |
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Inland Waters

Following the launch of Croatia’s negotiations for the EU membership in October 2005, Croatia intends to meet the EU directives related to the water sector and address the key development issues in the sector: water supply, wastewater and flood protection. In response to the above issues, the Ministry of Agriculture, Forestry and Water Management (MoAFWM) - through its agency for water management, Hrvatske vode (HV) - has developed a Water Management Strategy, which has among other priorities, water safety and flood protection-related objectives that the project will directly address.

Objectives

The objective of the project is to improve water supply services, wastewater services, and flood protection measures in municipalities selected from the inland part of Croatia. The area covered would be from the Sava and Drava/Danube river basins and the proposed investments would enable Croatia to meet EU directives.

Project components

1. Technical Assistance (EUR 5 million) - (i) EU Accession Support will include: institutional strengthening in HV and Ministry of Agriculture Forestry and Water Management (MOAFWM); and preparation of projects, including the preparation of engineering studies and designs, for financing by the EU and other sources; (ii) Project Implementation Support (by HV) will include consultancy services and training needed for project implementation; and (iii) Institutional Strengthening of Utilities will be used by the utilities that will benefit from the project and will include consultancy services and training for utilities to run more efficiently and improve services.

2. Investments (EUR 100 million) - (i) Three sets of proposed utility investments to: increase water supply coverage and improve water supply services; increase sewerage coverage and improve wastewater collection service; and improve treatment of collected wastewater as per applicable standards; and (ii) flood protection measures in the central Posavina area which includes the Lonjsko Polje flood protection area (a Ramsar wetland site).

Benefits

The project will help to increase the service coverage of water supply and wastewater collection and treatment, in the inland part of Croatia. This is in line with the objective of the country to meet EU directives to provide good quality water and collect and treat wastewater. The Technical Assistance component will help to: (a) prepare projects that would help the country to absorb EU funds and meet EU directives; and (b) strengthen the beneficiary water utilities which in turn will help to promote better management for the provision of water and wastewater services.

The flood protection component will help to complete the investments in the central Posavina area by increasing the flood water retention volume. This will help to minimize impact of floods due to the Sava river in Croatia and also in downstream riparian countries which is a positive regional impact of the project.
Agricultural Pollution Control

Croatia is committed to improving water quality and reducing nutrient pollution over its entire territory as agreed under the Danube River and Black Sea Conventions and is in the process of negotiating its EU accession agreements for the Nitrate and Water Framework Directives. Although a substantial endeavor is underway in policy, institutional and environmental reform in the agriculture sector, there is a significant, unfinished under-financed government agenda, in particular to reduce nutrient discharge to surface and groundwater in the Pannonian plain.

Objectives

The development objective of the GEF project is to significantly increase the use of environmentally friendly agricultural practices by farmers in Croatia’s Pannonian plain in order to reduce nutrient discharge from agricultural sources to surface and groundwater bodies.

Project Components

1. Mitigating Nutrient Loads to Water Bodies from Point-source Pollution (Manure Management) - promoting sustainable manure management practices to reduce nutrient loads to the surface and ground water bodies of Croatia; establishing a Nitrates Mitigation Investment Fund within the Ministry of Agriculture, Forestry and Water Management (MAFWM) Payment Directorate to finance grants for 60 percent of the tax inclusive cost of manure storage and management; providing support for Water and Soil Monitoring and Impact Analysis through installing piezometers in selected sites to monitor the quality of water flowing out of livestock farms implementing the Project financed manure management sub-projects; assisting in including a systematic sampling and testing of well water in rural areas, both as a goodwill measure for participating farmers as well as to demonstrate the risk to rural communities from inappropriate nitrates management.

Development and Promotion of Agri-Environment Measures - assist with the establishment and implementation of the Code of Good Agricultural Practices (CGAP), currently under preparation by the MAFWM. The Code is expected to be passed as a Governmental Ordinance by the end of 2007.

Public Awareness and Replication Strategy

- The Croatian Agricultural Extension Institute (CAEI) will implement a project county and nationwide public information campaign to disseminate the benefits of proposed project activities with a view to their replication with IPARD support.

Project Management - The project will be managed by the Project Implementation Unit (PIU) of the Agricultural Acquis Cohesion Project that has been established within the MAFWM Department for Policy, EU and International Relations.

Benefits

The project will enhance the capacity in policy and regulatory matters as to enable the MAFWM and Ministry of Environmental Protection, Physical Planning and Construction (MEPPPC) to continue with implementation of integrated action plans for nutrient reduction after project completion. The project will emphasize early involvement of key stakeholders, including policy makers, local public officials and community leaders, farmers, their associations and civil society to ensure social sustainability, create the ownership and contribute to social sustainability after the life of the project.

The project will also benefit the farmers by promoting yield-enhancing agricultural practices that will improve agricultural productivity and efficiency, aimed at raising farm and household incomes and improving the standard of living in the project area. Sustainability of funding for watershed management operations will be enhanced once the long-term economic benefits of project interventions, such as nutrient management and manure management, become evident to the local population and government as well as with the incorporation of agri-environment measures in the annual budgets of the MAFWM and by leveraging IPARD funding.

Recipient and Implementing agency

<table>
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<th>Ministry of Agriculture, Fisheries and Rural Development</th>
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**Neretva and Trebisnjica Management Project**

The Neretva and Trebisnjica Management Project (NTMP) is a transboundary basin between Bosnia and Herzegovina (BiH) and Croatia that covers approximately 10,000 km². The Neretva River (220 km) originates in BiH, and flows through Croatia for its final 20 kilometers, before entering the Adriatic Sea at Mali Ston Bay. The Trebisnjica River (99 km) is located entirely in the RS and is hydraulically linked to the Neretva River. Taken together, these two rivers comprise most of the Adriatic watershed of BiH and Croatia. Both rivers are crucial for transport, recreation, fisheries, fishing, and used for drinking water, irrigation and energy production.

**Objectives**

The objective of the project, supported by Global Environment Facility (GEF), is to improve the water resource management at the Neretva and Trebisnjica river basins (NTRB) and the transboundary level, providing mechanism for efficient and equitable water allocation amongst the basins’ users and for improved health of the ecosystems and biodiversity in the basins.

**Project Components**

1. **Improved transboundary water resource management**: improve water resource management capacity in both countries and strengthen the transboundary mechanisms (institutional, technical, and regulatory) and tools for effective water resource management. It has three sub-components: (a) Institution and capacity building; (b) Measurement, monitoring and information management; and (c) Preparation of a river basin IWRM plan.

2. **Improved management and use of wetlands ecosystems and biodiversity**: maintain and conserve water-dependent ecosystems and their associated biodiversity in the coastal area of the NTRB, which has been identified as critical for the health of the Adriatic – Mediterranean ecosystem. This component will finance water infrastructure improvements in both countries, including improved wetlands management and a pilot scheme to address saline water intrusion in Neretva Delta in Croatia, rehabilitation of small scale water management infrastructures in the two countries such as gates, weirs, river banks, and irrigation structures.

3. **High-priority investments for water pollution**: reduce water pollution, mainly nutrients, of the NTRB through high priority investments in low cost, appropriate wastewater technology improvements in three municipalities, small improvements of wastewater collection and treatment infrastructure in other two municipalities and one industrial sector in BiH.

4. **Public Participation and Management of Project Implementation**: increase civil society participation in the decision making process for water resource management and establish an incentive mechanism for responsible, local level resource management.

**Benefits**

The project broadens the experience of surface waters management to include river basins and to demonstrate the possibilities of cooperation in a post-conflict context. It complements and builds on the Bank-financed projects, other development partners and the governments to strengthen water resource management within countries and to restructure the water sector to be more responsive to the EU requirements. In the past, most of the international assistance has focused on country level programs and technical assistance rather than providing support for transboundary cooperation and investment funds for mitigating the root causes of the problems threatening the water resources and environment.

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**Recipient**
BiH and Republic of Croatia

**Implementing agency in Croatia**
Croatian Waters (HV)

**Project cost**

| Recipient | BiH and Republic of Croatia |
| Board approval | May 29, 2008 |
| Closing date | December 31, 2013 |

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Development of Emergency Medical Services and Investment Planning

The main challenge in the medium term is maintaining and improving health outcomes while achieving a steady state level of spending consistent with a sound fiscal policy framework. The Government has already adopted a series of reforms to contain spending, supported by the Bank-financed Programmatic Adjustment Loan (PAL). In an effort to improve the financial situation of the health care system while maintaining performance, a new health insurance law was approved by Parliament in 2006. The Government has also initiated the implementation of structural reforms in payment mechanisms to providers and the supply of services. The payment mechanism for hospitals is being modernized with the introduction of Diagnostic Related Groups (DRGs). This policy has been supported by the World Bank through the Japanese preparation grant for the proposed project.

The overhaul of the Emergency Medical Services (EMS) system is the first stage in restructuring the supply of services. The reform to the supply of services will proceed in stages and will include the restructuring of health care facilities, changes in the financing and reforming the EMS to improve efficiency and responsiveness. The project would support the reform of EMS services as the first stage in the restructuring of services given the readiness for implementation, the consensus reached among the major stakeholders on the process and content of the reform program, and the urgency to improve services in the sector.

Objectives

The Project objective is to improve the efficiency and outcomes of the EMS system and to strengthen the capacity of the Ministry of Health and Social Welfare (MoHSW) to develop and implement strategic EU-oriented projects.

Project Components

Development of Emergency Medical Services – investments to restructure the EMS in order to improve the geographical distribution of resources, responsiveness, efficiency, and quality of services. It addresses a specific area of EMS provision and monitoring: (i) establishment of a National EMS Institute, to provide overall policy guidance and set national guidelines and standards for EMS services in Croatia; (ii) reorganization of pre-hospital EMS, to support the implementation of the national guidelines at the county level, retraining of EMS personnel to a uniform standard, upgrading ambulances, creation of dispatch centres at the county level, and the integration of EMS dispatch units with 112 — the national emergency number — call centres to reduce the number of locations where the dispatch is being done from 83 to 25; (iii) integration of in-hospital EMS to support the creation of integrated EMS departments in major hospitals; and (iv) development of telemedicine projects to improve EMS delivery in underserved areas, islands and other sites.

2. Institutional Support to MoHSW for EU-Oriented Strategic Planning - (i) to complement supply side reforms by developing restructuring plans for health care facilities and human resources; and (ii) to strengthen the capacity of the MoHSW to develop and manage projects in preparation for the use of EU (pre-) accession funds. It is aimed at developing Priority Programs (to advocate that EU funds are invested in Health), capacity building for accessing EU Funds, and project management support.

Benefits

The project is expected to contribute to the following achievements:

- Improved internal efficiency demonstrated by an increase in field calls as percent of total EMS calls;
- Increased allocative efficiency indicated through a decrease in cross-county variation of EMS teams per capita;
- Improved emergency care outcomes as evidenced by improved outcomes for motor vehicle accidents and ischaemic heart disease cases treated by the pre-hospital ambulance service and in hospital emergency receiving areas; and
- Improved capacity to prepare and implement EU-oriented projects as measured.
Rijeka Gateway 2

The Pan-European transport Corridors X, Vb and Vc that cross Croatia carry the vast majority of trade, transit and tourist traffic between the EU and the Southeast European region, and within the region. Among these corridors, the Pan-European Corridor Vb and X connect Hungary and Serbia to the Adriatic Sea via the gateway of Corridor Vb, the Port of Rijeka. These corridors are central to the program of transport infrastructure modernization of the Croatian Government, which includes investments in Croatian railways, in its international ports of Rijeka and Ploce, and in a comprehensive network of roads and motorways.

Over the past four years, the ongoing Rijeka Gateway project has generated new momentum in port development, city life quality and connectivity to major corridors. The port has re-established its relevance in container transportation, exceeding in 2006 the traffic level expected in 2020 at the time of appraisal of the Rijeka Gateway Project and as a consequence its financial standing has improved.

The Bank is sought in the transport sector both as an advisor and a financier building on the solid cooperation established to date, in the port and corridor development sector under the Rijeka Gateway Project, the Rijeka Gateway Additional Financing, the Trade and Transport Integration project, and the Trade and Transport Facilitation project. The project will build on the partnerships and achievements of the first Rijeka Gateway Project, engaging a broad spectrum of stakeholders.

Objectives

The overall objective is to increase Rijeka’s competitiveness as a city-port, by responding in a sustainable manner to renewed demand for container flows through the port of Rijeka, while facilitating an urban renewal of selected parts of the port, through public-private partnerships. Specific objectives include: (i) to develop the Rijeka Port into a major, financially self-sustained, regional container port; (ii) to ensure that rail, road and logistical corridor connections are upgraded through parallel projects to match the port increased capacity; and (iii) to contribute to the urban revival of Rijeka through redevelopment of about thirteen hectares of port land for urban purposes.

Project Components

1. The Port Development component would support the highest priorities identified in the final Masterplan update, supported by PRA and the Government: (i) construction of new port terminals; (ii) design, technical studies and supervision services required for the construction of new terminals; (iii) transaction advisory services for concession arrangements; (iii) internal road within the port area; (iv) information flow integration; (v) technical studies required for coordination of road and rail corridor development; (vi) project implementation and supervision cost.

2. The City-Port Interface component would tentatively include the following subcomponents for PRA: (i) technical assistance to PRA and the City of Rijeka to set up a proper institutional mechanism to manage effectively the concession for the Delta and Port of Baross; (ii) technical assistance to attract private investment in the real estate development; (iii) consultation of citizens on proposed development; (iv) construction of a road to the passenger terminal; and (v) financing for infrastructure costs (roads, waterfront, utilities, additional landfill along Southern Delta coastline, site clearance) within the Delta and Port of Baross areas and for port-city competitiveness, including design, technical studies and supervision services required for the construction.

Benefits

Support to the urban revival of Rijeka is central to the competitiveness of this city-port. As an example of a highly relevant project, the conversion of the Delta/Port of Baross would create a new destination within the city, well connected to outside transport networks, with significant business development and job opportunities. This project would triple the sea access for Rijeka citizens, while the feasibility and technical studies indicated that about 2000 to 3000 jobs would be created by transforming the entire area.

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<tr>
<td>Ms. Zorka Beganovic</td>
<td>Mr. Gerald Ollivier</td>
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Coastal Cities Pollution Control 2

The Adriatic coastline is one of Croatia’s most valuable economic and natural assets. In 2005, Croatia had 10 million tourist arrivals resulting in tourist revenue of Euro 7 billion (20% of GDP). Environmental protection of the Adriatic Sea is a key element in the government’s tourism strategy to position Croatia as a quality destination with the slogan: “the Mediterranean as it once was”.

The coverage and quality of wastewater services in Croatia are lower than recent EU member countries, and poor wastewater services have a significant impact on tourism. Sewerage coverage is about 44 percent and about 25 percent of the wastewater collected is treated. Significant investment in the sector is needed to meet EU environmental directives. Between 2009 and 2023, investments needed in the sector are estimated at Euro 3.2 billion, of which half is needed for wastewater.

The Coastal Cities Pollution Control Project supports the Government’s comprehensive program to improve the provision of efficient and sustainable wastewater services in Croatia’s coastal cities and thus improve coastal water quality along the Adriatic Coast. The Project uses an Adaptable Program Loan to provide long-term support to the Government’s program. The cost of the program is Euro 280 million over 10 years, of which the Bank may finance Euro 140 million in three phases (Euro 40 million, Euro 60 million and Euro 40 million).

Phase 1 of the project, which became effective in December 2004, is being implemented in 11 of the 47 identified sub-projects on the coast. 40 percent of the project funds have been disbursed. Municipal Water and Sewerage Companies (MWSCs) that sign sub-loan agreements commit to levying an investment surcharge on the sewerage tariff which is calculated to repay the local share of the loan. Over 50% of the project cost is financed from user fees. The Coastal Cities Pollution Control 2 is phase 2 of the project.

Objectives

The objective of the project is to improve the quality of Croatia's Adriatic coastal waters to meet EU ambient quality standards in the participating municipalities, in a financially and operationally sustainable manner. This objective would be achieved by broadening and deepening the approach of the first phase. The project will be broadened by increasing MWSCs participating in the project from 11 to an additional 33, and deepened by ensuring greater alignment with EU accession objectives through additional technical assistance at the national and municipal levels.

Project Components. Component 1: Wastewater investments. The component will finance investments in wastewater collection, treatment and disposal in participating MWSCs.

Component 2: Institutional strengthening. The component will finance technical assistance to improve the financial and operating efficiency of MWSCs. The component will also support further EU accession requirements as agreed in the acquis communautaire and by providing consulting services to prepare projects for future EU financing.

Component 3: Seawater quality monitoring. This component would include monitoring of HV wastewater facilities and effluent and support the seawater quality monitoring system.

Benefits

The project will contribute to the following:
- Improved sea water quality which improves bathing water and aquaculture;
- Contribution to tourism strategy, both in quantity and quality of tourists to the coastal areas;
- Improvements in the financial and operational performance of the MWSCs which will lead to improvements in water and wastewater service delivery.

The project is also supported through Global Environment Facility (GEF) grant to reduce the nutrient load in the Adriatic Sea and protect significant biodiversity through investments in higher levels of wastewater treatment.

| Recipient | Republic of Croatia |
| Implementing agency | Croatian Waters (HV) |
| Project cost | US$ 181.4 million |
| WB loan | US$87.5 million |
| GEF grant to Croatia | US$ 6.4 million |
| Board approval | December 11, 2008 |
| Effectiveness | June 4, 2009 |
| Closing date | September 30, 2014 |

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Export Finance Intermediation Loan

Croatia enjoyed strong economic growth in recent years (around 4.5% per year in 2001-2008) driven by a domestic demand boom, expansion of industrial production and tourism-related activities, and large capital inflows. This resulted in rapid convergence with the EU in per capita income terms. The country’s GDP per capita, at PPS in 2008, was 63.6% and 101.8% of the average level of EU27 and EU10, respectively. However, like the rest of the region, Croatia is now experiencing a slowdown as EU demand for its goods and services weakens and liquidity in global capital markets limits access to external funding sources. Challenges on the macro front include a downturn in employment, sustainable adjustment of the current account deficit, and meeting external financing requirements of the public and private sector.

Objectives

The proposed project’s primary objective is to support the preservation and growth of exports by providing medium and long-term working capital and investment finance to exporters and FX earning enterprises (e.g. tourism, logistics). The outcomes of the project will be measured by the export and investment performance of the sub-borrowers, the amount of medium and long-term lending extended to exporters in Croatia, the payment performance of the sub-borrowers in the project, and the impact on employment in the companies supported.

Project Components

The proposed €100mn Croatia Export Finance Intermediation Project (CEFIP) is a single-component project consisting of a credit line to Croatian Bank for Reconstruction and Development (HBOR) as the borrower and implementing agency. HBOR will wholesale the funds to private banking institutions (Participating Financial Intermediaries or PFIs), which in turn will on-lend to eligible private exporters and quasi-exporters such as the tourism and logistics sector.

Benefits

CEFIL will support the Government of Croatia’s aim to maintain a steady flow of credit to the private sector and assist in enhancing competitiveness looking towards full European integration. The outbreak of the global financial crisis in summer 2008 has had profound effects on the operating environment of Croatian economy. Croatian banks were not immune to the global environment. International interbank market has become more risk averse and the liquidity condition especially for longer term maturity funding has tightened significantly. As a consequence, loan growth in Croatia has slowed down and banks have adjusted their balance sheets to cope with the new environment. Hence, additional support to the HBOR to be used to support exporters, tourism, agriculture and SMEs is expected to partially offset the stagnation in capital flows by providing additional medium and long-term funding.


**Judicial Reform**

In September 2005, the Government approved a new *Strategy of the Reform of the Judicial System*, along with the Action Plan, which proposed a set of measures, including structural reforms of the court system, aimed at increasing the efficiency of the court system, reducing case backlog, strengthening the judicial training system, promotion of alternative dispute resolution and introducing more transparency and performance monitoring into the operations of courts. The Bank loan would support continued Government efforts in implementing the mentioned Action Plan as to reform the country’s judicial system and fulfill the EU requirements for strengthening the Croatian judiciary and bringing it to European standards in terms of independence, impartiality, efficiency and professionalism.

**Objectives**

The objectives of the proposed investment operation would be to: (i) support rationalization of the court network; (ii) increase efficiency of the court proceedings and reduce the existing case backlog though reform of court administration and court financing and; (iii) continue support for roll-out of Integrated Case Management System (ICMS) and other related court automation programs.

**Project Components**

1. *Judicial Administration and Court Management* will focus on: (a) enhancing the role of court presidents in managing the court operations in all significant areas, such as financial management, human resources management, strategic planning, performance monitoring and case-flow management; (b) creating case-management teams within courts; (c) reform of court financing, including analysis of the current financing practices, reform of the judicial budget planning and management system, increasing financial independence of courts and financial authority of court presidents, reform of the court fees system; (d) further upgrading and re-engineering of the court statistics, performance monitoring and management by results; and (e) developing functional and building standards for court facilities.

2. *Rationalization of the court network* – To accommodate the needed restructuring of the court system to allow more rational organization of the network of courts and their jurisdiction, the project will provide assistance for the implementation of the Rationalization Plan in several areas, including re-adjustment and rehabilitation of court facilities in order to accommodate the changes in the organizational structure of the court system.

3. *Court Automation* - The component would support several areas identified by the Ministry of Justice, which are closely related to further implementation of the ICMS (which was financed under the Court and Bankruptcy Administration Program). These include: (a) Document Management System – Development, piloting and roll-out; (b) Increased Connectivity for the Judicial Network; (c) E-Filing and; (d) Management Reporting Tool.

4. *Judicial Training* – this component would focus on two issues: (i) development of a comprehensive system for initial judicial training (presently, non-existent); and (ii) support to the Judicial Academy: both, in terms of strengthening institutional capacity of the Academy, and improving the system of continued judicial education.

**Benefits**

Croatia has been receiving substantial financial support from the EU, including in the justice sector. The EU pre-accession funds committed to judicial programs up to 2008 amount to approximately EUR 14.0 million. The proposed Bank loan would be a complementary source of financing in the justice sector and would focus on the areas which are outside of the existing EU-financed programs. The Bank is in a position to provide not only financial support to the Croatian Government and judiciary, but also technical and analytical expertise, its experience in assisting EU candidate countries in fulfilling structural reform agenda and its role as a neutral partner in consolidating support for politically-sensitive reform measures.

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**Note:** This is information on an evolving project. Certain components may not be necessarily included in the final project.
**Nature Protection**

Following successful completion of the Karst Ecosystem Conservation (KEC) Project, closed in December 2007, the Government of Croatia requested continued support from the World Bank for a follow-up loan to help expand and support Croatia’s preparations for EU integration in the Nature Protection Sector. The KEC project demonstrated a systematic approach to addressing biological data collection gaps, participatory park management planning, and community investments to enhance biodiversity benefits across five parks in Croatia. EU accession requires an expanded ecological network across the core National and Nature Parks to be protected and aligned with EU Nature Protection Legislation; the Bird and Habitat Directives.

**Objectives**

The proposed project development objective is to help establish and implement an integrated ecological network that advances EU harmonization and integration under the Bird and Habitat Directives, and generates local and national benefits.

**Project components**

1. **Ecological Network Investments**

   Acceleration of efforts to implement Park Action Plans identified through the management planning process; establish a GIS-format management system integrated across the ecological network, and strengthen fire prevention, monitoring, and control.

2. **Community Driven Conservation and Rural Revitalization Investments** support capacity building and a menu of small community grants that aim to simultaneously meet objectives for nature protection and rural development, and promote benefits to local people in and near protected areas.

3. **Institutional Capacity Building and Program Management** - Supporting the Ministry of Culture Directorate for Nature Protection, the State Institute for Nature Protection, county institutions, and protected areas staff at national and county levels in meeting the challenges of a more integrated and expanded nature protection system. It will also support collaboration on nature protection efforts with other government sectors.

**Benefits**

Direct benefits include:

- a) Completion of priority action and management plans for National & Nature parks such as improved park infrastructure and tourist facilities, improved educational and interpretation services; and implement actions to protect most critical species and habitats
- b) reconstructed firebreak roads, automated telemetry equipment for early detection and warning, and fire fighting equipment adapted to park vehicles,
- c) enhanced capacity for future absorption of EU Rural Development and Nature Grant programs

In addition to the specific objectives of each park or protected area, the overall National Ecological Network (NEN) has important objectives that can best be met through a system-wide approach. This includes data collection and analysis for national-level monitoring of the status and trends of biodiversity, providing a diverse and sustainable basis for a growing tourism industry and educating national and international visitors about the value and challenges of nature protection. The proposed system in Croatia is considered representative of local ecosystems, except for marine areas. The proposed project would support expansion and integration of marine protected areas, which is critical for long-term sustainability of Croatian fisheries, which face new threats with EU accession under the common fisheries policies.

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**Note:** This is information on an evolving project. Certain components may not be necessarily included in the final project.
Pension System Investment

Pension reform in Croatia was launched in 1998 through reforms of the parameters of the existing PAY(-as-you-)GO system. The reform continued with introduction of the second pension pillar in 2002, and is continuing with ongoing reforms of the pension administration system.

However, a successful introduction of second pillar accounts has not been supported by achievement of financial stability of the PAYGO pension pillar needed to raise the second pillar contribution rate beyond current 5 percent, despite improvement of collection rate of social contributions and faster collection and dissemination of tax and contribution data. The Bank has supported all aspects of pension reform in Croatia, including its design, legislation and implementation. The introduction of the second fully funded pillar in 2002 was backed by the Bank loan for capacity building of the new pension system institutions Hagena and Regos, developing processes they are responsible for, modernizing the Croatian Pension Insurance Institute (HZMO), and improving related areas within Ministry of Finance (MoF).

Objectives

The project aims to improve the effectiveness and transparency of Croatia’s system for reporting and enforcement of social contributions and personal income taxes, in particular for the new system of funded pensions. In addition, the project aims to strengthen the capacity in existing and new agencies managing different parts of the pension system.

Project components

1. Supporting design and start-up of the new data collection mechanism for funded pension contributions, which would unify information collection and eventually revenue withholding for income tax and contribution liability on wages and salaries into a more frequent, efficient and transparent system;

2. Building physical and technical capacity in the new second/third pillar agencies (former Supervision and Regulation Agency (HAGENA), currently Croatian Financial Services Supervisory Agency HANFA and Central Registry of Affiliates (REGOS) to manage and regulate the new system; and

3. Promoting improvements in the management and operations of the Croatian Pension Insurance Institute (HZMO).

Benefits

The project has contributed to improved compliance and revenues for all obligatory contributions and personal income taxes and supported the Government’s efforts to reduce the tax and contribution reporting burden on employers. In addition to supporting transfer of control and enforcement functions from the Pension Institute and Health Insurance Institute to the Tax Department, it has also strengthened capacity in HZMO, HANFA and REGOS to administer and regulate all three pillars of the pensions system in Croatia.

Beneficiaries include all citizens using the pension, health and unemployment systems, young people either working presently or yet to enter the workforce through a more diversified pension program, and employers who will benefit from reduced reporting requirements supported by the project.
**Second Programmatic Adjustment Loan (PAL II)**

In August 2006, the Government adopted a Strategic Development Framework (SDF) for 2006-2013, with the primary goal to achieve social prosperity through growth and employment in a competitive market economy, acting within a modern European welfare state. The aim is to increase the average GDP growth rate to six percent by 2013, in order to facilitate convergence to the average EU income. To achieve this goal, the Government plans to: (i) complete the unfinished transition process, through redefining the role of the state, completing privatization and restructuring, and improving investment climate; (ii) develop infrastructure, including ICT, improving education outcomes, linking R&D to the business sector, increasing flexibility of labor markets, and strengthening social cohesion; and (iii) sustain and promote macroeconomic stability, environment and regional development, and integrated financial services.

This demanding agenda, as embedded in the EU integration efforts, calls for a launch of intensive structural and institutional reforms across sectors. The Programmatic Adjustment Loan (PAL) has been recognized as an effective tool for supporting this ambitious effort, through addressing key structural and institutional reforms across a range of sectors. The second PAL builds on the first PAL operation, approved in 2006. It is a key component of the Bank's assistance to Croatia.

**Objectives**

The second PAL aims at supporting enhanced economic growth through: (i) improving the investment climate, and (ii) reducing the size and improving the efficiency of the public sector. Fulfilment of the EU accession criteria and successful EU integration call for intensive structural and institutional reforms, and the PAL series support the Government in that effort.

**Project Specific Objectives**

1. **Improvements in the investment climate** by completion of the privatization or liquidation of state-owned enterprises, improving financial discipline of enterprises, reducing the cost of doing business, and strengthening the judiciary;

2. **Efforts to improve governance** by rationalizing and improving efficiency of public administration, and improving public expenditure management;

3. **Measures to enhance fiscal sustainability of sector programs** by addressing health financing, rationalizing social benefits, improving fiscal and social sustainability of the pension system, and fiscal sustainability of railways operations.

**Benefits**

The PAL series help the Government implement a medium-term reform program to achieve its goals of enhanced economic growth and progress towards EU accession. The reforms supported are part of the EU accession requirements, and of the Government's Strategic Development Framework and Pre-Accession Economic Programs. They aim to strengthen the public sector's capacity to carry out its role more effectively, and provide an enabling environment for private sector growth.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Republic of Croatia</th>
</tr>
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<tbody>
<tr>
<td>Coordinating ministry</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>WB loan</td>
<td>US$197.4 million (EUR150.00 million)</td>
</tr>
<tr>
<td>Board approval</td>
<td>May 30, 2007</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>April 28, 2008</td>
</tr>
<tr>
<td>Closing date</td>
<td>October 31, 2008</td>
</tr>
</tbody>
</table>

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Municipal Environmental Infrastructure

For Croatia, the environment has not only a special dimension in the process of European integration, but is also closely linked to the performance of the tourist sector. Water supply and environmental conditions, particularly wastewater disposal, are especially important for supporting the revival of tourism in coastal areas. At present, there are many deficiencies in the existing wastewater collection, treatment and disposal facilities, which could lead to a continual degradation of what are among Croatia’s most attractive tourism assets.

Objectives

Specific objectives of the project are:

- to reduce municipal wastewater pollutant discharges into the environmentally sensitive Kaštel and Trogir Bays consistent with Croatian and EU standards;
- to improve the safety, reliability, and delivery of drinking water in the project area;
- to improve the operational and financial performance of the water and wastewater utility.

Project Components

Wastewater - design and construction of the Split-Solin wastewater mains, a treatment plant at Stupe and submarine outfall at Stobreć; (ii) design and construction of the Kaštel-Trogir wastewater mains, pumping stations, tunnel, treatment plant, and submarine outfall.

Water supply - mains at Kaštel, pumping station, reservoir and supply pipeline at Sv. Kajo, reservoir and supply pipeline at Sućurac and pumping station and pipeline at Solin; (ii) upgrading of the water supply subsystems at Ravne Njive and Kunčev Grad.

Institutional strengthening of Split Water and Sewerage Company (SWSC); (ii) strengthening of EKO Kaštel Bay; (iii) SWSC corporate development plan; (iii) provision of laboratory and testing equipment.

Benefits

The project will contribute importantly to environmental improvement in an area with major tourism potential and assist in the revival of tourism with significant benefits to the economy. It will confer direct health benefits from the reduction in environmental pollution and reduced risks of contamination.

In addition to improving the reliability and delivery of water supply in the project area, it will assist the Split Water and Sewerage Company to improve its operational and financial performance.

<table>
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<tr>
<th>Borrower</th>
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<tbody>
<tr>
<td>Guarantor</td>
<td>Republic of Croatia</td>
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<tr>
<td>Implementing agency</td>
<td>EKO – Kaštelanski zaljev</td>
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<td>Project cost</td>
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<td>Co-financing</td>
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Karst Ecosystem Conservation

Croatia enjoys unusually rich biodiversity of global significance due to its geography, between the Mediterranean and Central-European continental climatic regions, and its geology, which is predominantly karst. The Croatia Biodiversity Strategic Action Plan (BSAP), completed in 1999, identified degradation of the karst ecosystems as a key problem and noted the following threats: habitat changes and fragmentation; water and air pollution; extensive exploitation of natural resources; and introduction of foreign species.

Obstacles faced by the Ministry of Culture, the agency responsible for nature protection, in addressing these threats include limited capacity for conservation management; inadequate integration of biodiversity conservation into physical plans and sectoral strategies; lack of environmental awareness regarding karst ecosystems; and limited public participation in the decision making process.

Objectives

The KEC project objective is to protect the biodiversity of karst ecosystems in a way that is participatory, community-based, economically viable, and integrated with the country’s socio-economic goals.

Project Description and Main Components

About 40% of the KEC project region is under protected area status and includes four national parks and one nature park. The KEC project specifically helps build national capacity to conserve biodiversity - support natural resource management by strengthening of laws and regulatory framework; strengthen national capacity to ensure biodiversity conservation; expand species and taxa under legal protection; develop a biodiversity inventory, mapping and monitoring system; increase public awareness and support for biodiversity.

It establishes community - based mechanisms for biodiversity conservation and sustainable resource use in the karst areas, by promoting sustainable nature based tourism in karst region; increasing local public awareness and support for biodiversity conservation; improving protected area management and services for biodiversity conservation; and supporting regional cooperation program for karst ecosystem conservation.

The project is improving the contribution of biodiversity assets to the economic well-being of local communities, through financing a small grants program called the Conservation and Rural Revitalization Grants (CRRG) program.

Benefits

The project has environmental, financial, institutional and social benefits. The primary environmental benefit is the increased national level capacity to protect globally significant biodiversity in the Croatia karst ecosystems. Protected areas have developed management plans that include a business plan with feasible financial targets and adequate allocation of resources for conservation activities.

It improved the social sustainability of biodiversity conservation by increasing local communities’ participation in the decision making process on protected area management and by supporting them in developing small business including nature based tourism services.

Through the CRRG program, the project also enables groups and individuals to carry out entrepreneurial projects which demonstrate linkages between sustainable use of natural resources, economic development and biodiversity conservation. The grants are available to farmers, artisans, entrepreneurs, business, individuals, NGOs and others.

| Recipient | Republic of Croatia |
| Line ministry & Implementing agency | Ministry of Culture |
| Project cost | US$8.4 mil |
| GEF grant | US$5.1 mil |
| Signing | June 19, 2002 |
| Closed on | December 31, 2007 |

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**Court and Bankruptcy Administration**

An efficient market exit mechanism is very important for Croatia’s efforts to promote investment climate and conditions for sustainable growth. Main constraints in the current exit mechanism that still displays a low number of bankruptcy proceedings are related to the deficiencies of the bankruptcy institutional infrastructure, as well as to the capacity and readiness of debtors and creditors to use the bankruptcy mechanism.

In order to improve the critical elements of the bankruptcy system, the court administration and case management at the commercial courts should be radically strengthened, as well as the capacity and competence of judges and extra-court bankruptcy professionals.

**Objectives**

The project directly addresses the above challenges and its speedy implementation provides for some immediate benefits. It assists the Borrower in advancing insolvency proceedings by modernization of selected commercial courts and increasing professionalism and competence of judges and bankruptcy trustees.

**Project Components**

**Commercial Court Administration and Case Management Model**

(i) Implementation of the court organization model in the pilot courts; (ii) Implementation of the case flow management model in the pilot courts; (iii) Modernizing elements of management information system; (iv) Designing operational manuals for the court organization, case flow management and information management models; (v) Training judges and court personnel; (vi) Implementing standardized legal forms; and (vii) Introducing court performance standards.

**Legal Information system:** (i) Development of an automated, indexed database of legal documents network; and (ii) Setting up access to the above database from the pilot courts.

**Regulatory Framework for Trustees and Administrators:** (i) Developing professional standards for the trustees/administrators and the procedures for testing their knowledge; (ii) Establishment of regional centers for bankruptcy professionals in the regional offices of Chambers of Commerce and/or Crafters in Zagreb, Split, Rijeka, Osijek and Varaždin; and (iii) Designing a regulatory framework for trustees and administrators.

**Upgrading skills of Bankruptcy Professionals:** (i) Diagnostic studies for designing training programs; and (ii) Training of commercial judges, trustees and administrators in bankruptcy and insolvency.

**Insolvency and Legal Services Framework:** Studies aimed at improving the analytical basis for articulating a comprehensive legal/judicial reform program.

**Project Management:** Providing training and support services, including audit services to the PMU staff.

**Benefits**

The immediate benefits of the Project will be: (i) increased confidence in and use of commercial courts and of the bankruptcy process by enterprises and other actors in Croatia's economy; (ii) improved judiciary system, with commercial courts that are better managed and organized, and commercial judges trained in current legal and institutional issues related to bankruptcy, and sufficiently knowledgeable about business; (iii) a pool of bankruptcy professionals who will have increased knowledge relevant to their profession, and a clear structure and rules in which to function; and (iv) improved and more efficient case management and modernized management information system.

The target group is the enterprise sector and more broadly, the population at large which will have access to a better judiciary system starting with the commercial courts.