

1. CAS Data	
Country: CROATIA	
CAS Year: FY05	CAS Period: FY05 – FY08
CASCR Review Period: FY05 – FY08	Date of this review: September 16, 2008

2. Executive Summary

(i) Negotiations for EU accession were opened for Croatia in October 2005. The overriding objective of the FY05-08 CAS and its 2007 Progress Report, which are evaluated in this review, was to assist the Croatian government for successful EU accession. The strategy was highly relevant: it was centered on four pillars, or subobjectives, all designed to support reforms to turn Croatia into a dynamic and competitive economy so as to facilitate entry into the EU. The core of the proposed assistance program was a series of three programmatic adjustment loans with complementary investment lending to support specific sectoral objectives. On the whole, progress was slower than anticipated as the government had difficulty implementing some of the reforms.

(ii) Under the first pillar—maintain macroeconomic stability—the focus was on reductions in public spending to sustainable levels. But elections in 2007 led to a surge in spending which together with political resistance to subsidy reductions kept the challenge of achieving fiscal sustainability very much alive. On the other hand, the bases for improved public expenditure management were put in place. The outcome for this pillar is rated *moderately unsatisfactory*.

(iii) Progress was made towards the objectives under pillar 2—sustainable private sector growth. The privatization process is off to a good start, there has been a significant reduction in the cost of doing business and sharp growth in container traffic through the ports. Fixed Investment grew from the equivalent of 28.1 percent of GDP in 2005 to 29.8 percent in 2006. Still, greater improvement is needed in the efficiency of public administration, judicial system and railways. The outcome for this pillar is rated *moderately satisfactory*.

(iv) Achievements under pillar 3—broad participation in growth—were disappointing. High completion rates in education and good health outcomes were offset by major shortcomings in reaching other CAS objectives. Modernization of the outdated education system fell short of target, including planned reductions in the share of vocational school enrollment in secondary education and in the percentage of students in multi-shift schools. There was no improvement in targeting of social benefits, and the planned increase in the share of spending for primary health care was less than expected. The outcome for this pillar is rated *moderately unsatisfactory*.

(v) The focus of the CAS under pillar 4 - sustainable natural resource management - was on environmental management capacity, wastewater and water supply management, and energy efficiency. Significant improvements in environmental management have taken place and the government has developed a strategy for meeting the Kyoto protocol, thereby meeting the CAS objective. The outcome for this pillar is rated *satisfactory*.

(vi) Giving equal weight to the four pillars, IEG rates the overall outcome of the program as *moderately satisfactory* and the Bank's contribution to this outcome as *moderately satisfactory*.

(vii) The prime finding from this review is that delays and inaction resulted from the excessively complex nature of the CAS with its involvement in a wide range of issues. With EU accession in the background and the driving force for reform, Bank strategy implementation is likely to be much smoother if selectively focused on reforms which the country is ready to implement, together with AAA to help underpin the reforms.

CASCR Reviewed by:	Peer Reviewed by:	CASCR Review Coordinator
René Vandendries Consultant, IEGCR	Sarwat Jahan Consultant, IEGCR	Jaime Jaramillo-Vallejo Lead Economist, IEGCR

3. CASCR Summary

Overview of CAS Relevance:

1. Croatia applied for EU membership in February 2003 and in June 2004 the European Council granted Croatia candidate status. Accession negotiations were opened in October 2005. The primary objective of the FY05-08 CAS, which was discussed by the Board on December 21, 2004, was to assist the Croatian government for successful EU accession. The CAS was prepared in close cooperation with the government and was in line with Croatia's development strategy expressed in the government's "2003-2007 Mandate". Consultations with civil society and the private sector were also included, and close coordination was established with the European Commission Delegation to help the country meet EU accession requirements and absorb EU assistance.
2. In view of the above context, the CAS was highly relevant: it was centered on four pillars or subobjectives, designed to turn Croatia into a dynamic and competitive economy. The four pillars were: macroeconomic sustainability, sustainable private sector-led growth, broad participation in growth, and sustainable natural resource management. The pillars addressed both the major issues facing the Croatian economy at the time as well as major structural obstacles to be removed in order to make EU accession successful. Though not strictly a results-based CAS, it included a results matrix with key outcomes and intermediate indicators/milestones. The links between milestones and CAS outcomes, however, was often unclear and weak. Furthermore, while the CAS included 37 outcomes only four of these were quantified.
3. The centerpiece of the proposed lending program was a series of three programmatic adjustment loans (PALs) with complementary investment lending to support specific sectoral objectives. There were three lending scenarios (low, base, high case) with well-specified triggers for moving from one case to the next. The CAS was somewhat overoptimistic and the first PAL was delayed as progress in the steps towards entering EU accession negotiations was slower than expected. On the other hand, the start of these negotiations in October 2005 led to some adjustments in the Bank's strategy detailed in the 2007 CAS Progress Report (CASPR). While the CAS pillars and outcomes remained valid in the CASPR, there was now increased emphasis on urgent actions that needed to be taken prior to accession, in the areas of judicial reform, modernization of tax administration and the environment.

Overview of CAS Implementation:

Lending

4. The CAS base case proposed lending program totaled US\$1,064 million over FY05-08, slightly more than half of it for development policy lending: three programmatic adjustment loans (PALs) and a growth policy support loan in FY08, following the PAL series. However, initial difficulties in meeting the triggers to move from the low to the base case (a satisfactory macroeconomic framework, policies to strengthen the business environment, sustainability and improved quality of social services) led to early delays in the lending program. With the delivery of PAL I in September 2005 the triggers were met. As shown in Annex Table 1 there were further delays in later years, including for newly included projects in the CASPR. In the end, actual lending was close to the proposed base case level but somewhat different in composition. There were 2 PALs (about 40 percent of total lending) and investment operations in a variety of sectors, especially in education sector development, trade and transport infrastructure, tax revenue administration, water and wastewater services and flood protection. Despite these delays and adjustments in the lending portfolio the thrust of the strategy remained unchanged and focused on policies and reforms to facilitate EU accession.

Outcome Indicators and Portfolio Risk

5. Six projects exited the portfolio during FY05-08, four of which had satisfactory outcome ratings, below ECA and Bank-wide averages. However, in terms of amount committed, the percent with satisfactory outcomes was 84, similar to ECA and Bank-wide averages.

6. Portfolio performance improved significantly over the CAS period. In FY04, 38 percent of commitments were at risk. A portfolio improvement plan in FY05 addressed some of the major issues (complex project design, weak implementation capacity, lack of familiarity with Bank procedures), which enabled five unsatisfactory projects to be upgraded during FY05. A Joint Portfolio Review in FY06 helped resolve newly emerging project problems. Subsequently, the government made annual reviews of all IFI portfolios a statutory requirement, which appears to have yielded results. By FY08 only 8 percent of commitments in the Bank's Croatian portfolio was at risk, better than ECA or Bank-wide portfolios.

Non-lending Services

7. With a few exceptions, the program of 11 items of ESW was delivered as planned, and several unplanned items were added. Two ESW, a CEM and an ICA, slipped to FY09, and three items were dropped. As EU accession efforts accelerated, the Bank intensified its dialogue with a cross section of society to strengthen government ownership of its strategy and proposed reforms. ESW of particular importance were the Public Finance Review, which laid the basis for the government's efforts at expenditure reduction; preparatory work for the Investment Climate Assessment, which helped the government identify and address prime obstacles to business development; and the Living Standards Assessment which laid the basis for the government's strategy and plan for reform of social benefit spending.

Overview of Achievement by Objective:

Pillar 1: Maintain Macroeconomic Stability

8. The primary objectives of the CAS under this pillar were to reduce public spending to sustainable levels and improve public expenditure as well as debt management. The key lending instruments were the two PALs (FY06 and FY07). Supportive economic and sector work included a FY07 Public Finance Review and a FY03 Health Finance Study.

9. *Public Spending.* The CAS outcome targets were several. While the *public sector wage bill* was reduced from 11 percent of GDP in 2003 to 9.6 percent in 2007, it remained high by international standards and its fiscal sustainability (the non-quantified target in the CAS) remains questionable: total public expenditure declined only marginally and at around 48 percent of GDP in 2008 is some 10 percentage points higher than in the EU new member states. Progress in reducing the *level of government subsidies*, especially to railways and shipyards, was limited. While the CAS called for a steady reduction in absolute amount, subsidies declined in 2006 but then rose again in 2007. Similarly, while there was progress in reducing *health sector expenditures* as a share of GDP (from 6.4 percent in 2004 to 6 percent in 2007) arrears created by hospitals are sizeable pointing to the need for further reform to make the system financially sustainable. The planned *rationalization of cash social benefits* was attempted but failed: the share of targeted programs remained low, declining from 9.3 percent in 2004 to 8.0 percent in 2007. On the other hand, progress was made in reducing *road sector investment* from the very high pre-2005 levels. In sum, progress towards the goal of strengthened fiscal sustainability has been exceedingly slow, partly because of political difficulties in reducing subsidies and partly because of increased public spending associated with elections in 2007. The Bank was probably overly ambitious in setting these public spending objectives, given the political

circumstances in the country. On the other hand, tax and other government revenues grew over the period, government expenditures declined, as did the general government deficit (from 4.8 percent of GDP in 2004 to 2.3 percent in 2007). However, important expenditure cuts targeted in the CAS were not achieved. The general government debt (including both domestic and external debt) declined from 43.3 percent of GDP in 2004 to 37.9 percent in 2007.

10. Public Expenditure Management. Recommendations from the Bank's Public Finance Review are being implemented selectively which should lead to strengthened budget management and execution. Apart from this milestone, other examples that strengthen public expenditure management are: adaptation of GFS 2001 standards, the roll out of the Treasury Single Account, better control of arrears, improvement in the rules and relevance of multi-year budgeting, establishment of audit units at central government units, enactment of the Law on Financial Management and Control Systems in the Public Sector, appointment of controllers to all line ministries. These measures have yet to produce outcomes.

11. Debt Management. With Bank support, a medium-term debt management strategy was approved and has been implemented since 2006. In part as a result, the government's external debt declined from 25.3 percent of GDP in 2004 to 17.7 percent in 2007. However, total external debt (the target of the CAS) increased from 80 percent of GDP in 2004 to 87.8 percent in 2007, remaining a potential source of vulnerability.

12. IEG rates the outcome for this pillar as moderately unsatisfactory.

Pillar 2: Sustainable Private Sector-led Growth

13. The primary objective of the CAS under this pillar was to improve the environment for private sector development by addressing several issues: inefficient loss-making enterprises; the high cost of doing business; an inefficient public administration; and an inefficient judicial system. While past private sector growth has been solid, supported by substantial foreign direct investment in privatizations and recapitalization of banks, greenfield investment has been limited because of the above constraints. Lending support for this pillar included, apart from the two PALs, a large number of projects, especially a FY01 Court and Bankruptcy Administration project, a FY03 Real Property Registration and Cadastre project, the Rijeka Gateway project, a FY06 Science and Technology project, and more recent projects in Trade and Transport (FY07); Judicial Reform (FY08), and Revenue Administration (FY08). Important Economic and Sector work are ongoing reports on EU Convergence and the Investment Climate.

14. Inefficient Loss-making Enterprises. Divestiture of assets held by the Croatian Privatization Fund has progressed, though it is likely to fall somewhat short of target. Moreover, progress towards divestiture of the Croatian Railways has fallen far short of target. And, as mentioned earlier, subsidies to loss-making enterprises remain excessive.

15. High Cost of Doing Business. The Government undertook a number of steps to abolish outdated legislation and reduce barriers to do business. As a result, Croatia's ranking in the Global Competitiveness index improved from 61 in 2004 to 57 in 2007. A measure of the private investment climate, i.e. the EBRD transition indicators for 2007 place Croatia on par with the EU's most recent entrants, Bulgaria and Romania. There has also been sharp growth in container traffic through the ports of Rijeka and Ploce, which was a CAS outcome target. The time to register property has declined from 3-4 years to less than 6 months. Gross fixed capital formation increased from the equivalent of 28.1 percent of GDP in 2005 to 29.8 percent in 2006.

16. Inefficient Public Administration. Progress in this area is difficult to judge. Of the outcomes sought, a reduction in the public wage bill was achieved, as mentioned earlier, and public financial management systems and procurement were aligned with EU standards. Bank support through the

PAL program helped the government to depolitize the civil service. On the other hand, there is limited evidence of increased public satisfaction with the civil service, of more robust socio-economic analysis being incorporated in a majority of legislative proposals, or of impact of the revenue administration modernization program.

17. Inefficient Judicial System. Some progress has been made in this area. The number of court case backlogs has been reduced by more than planned and measures have been introduced to achieve greater accountability and professionalism of judges. The pilot mergers of misdemeanor courts with municipal courts did not achieve the desired efficiency results. The EU 2007 Croatia Progress Report notes that severe shortcomings in the functioning of the judiciary remain.

18. On balance, some significant advances have been made towards strengthening the private investment climate, especially through reductions in the cost of doing business. Greater improvement is needed in the railway sector, public administration and judicial system. IEG rates the outcome for this pillar as moderately satisfactory.

Pillar 3: Broad Participation in Growth

19. The focus of the CAS under this pillar was on the outdated education system, inefficiencies in social assistance, health outcomes, and regional disparities. Project support included a FY99 Health System Reform project, a FY05 Social Protection project, and an Education Sector Development as well as an Agriculture Acquis Cohesion project, both in FY06. Important economic and sector work included the FY07 Public Finance Review and the FY08 CEM. Also, a Regional Living Standards and Development study in 2006 provided information and analysis.

20. Outdated Education System. Outcomes were mixed. Primary and secondary completion rates were well above target, curriculum reform has been initiated, and student assessment results are in line with EU comparators. On the other hand, the expected CAS outcomes of reducing the share of vocational school enrollment in secondary education as well as reducing the percentage of students in multi-shift schools were not reached, largely because these goals were overly optimistic. The Bank's FY06 education project contained more realistic objectives.

21. Inefficiencies in Social Assistance. Little or no progress was made towards the CAS targets in this area. Croatia's very low labor force participation rate has remained, there has been no improvement in targeting of social benefits, absolute poverty was unchanged during the CAS period, and action on labor dislocation as a result of divestiture or civil service rationalization is still pending.

22. Health Outcomes. Croatia has achieved very good health outcomes, comparable to the average for new EU member states. However, these outcomes have come at a high cost: in 2003 health expenditures were the equivalent of 8.2 percent of GDP, rising to 8.4 percent by 2006. The main milestone towards the CAS objective of improved quality of and access to health care was an increase in spending for primary health as a share of total spending: the 16.1 percent share in 2006 fell well short of the target of 18 percent.

23. Regional Disparities. Rehabilitation of areas affected by closure of large enterprises and of disadvantaged and war-torn areas were important objectives. Not much has been achieved except for plans, strategy development and capacity building to implement strategy. There has been some progress towards aligning legislation with the EU acquis in the agricultural sector as a step towards a more competitive agricultural sector.

24. On balance, there have been significant shortcomings in the above outcomes, and IEG rates the outcome for pillar 3 as moderately unsatisfactory.

Pillar 4: Sustainable Natural Resource Management

25. The focus of the CAS under this pillar was on environmental management capacity, wastewater management and water supply, and energy efficiency. Bank assistance took many forms, including Environmental TA, a FY04 GEF Energy Efficiency project, a FY04 Coastal Cities Pollution Control project, a FY05 GEF Renewable Energy Resources project, and a FY06 District Heating project.

26. Environmental Management Capacity. Progress was made in this area, much of it without involvement of the Bank. In particular, the legislative and regulatory framework was strengthened in line with the EU acquis. The Bank did assist in training and capacity building.

27. Wastewater Management and Water Supply. There have been substantial improvements in wastewater management and water pollution control, much of it a result of Bank involvement. A water management strategy was adopted for water supply, water coverage and wastewater treatment. Two quantified outcome targets in the CAS (wastewater collection coverage and public water supply coverage) were dropped in the CASPR and CASCR.

28. Energy Efficiency. The Government has developed a strategy for meeting the Kyoto protocol including identifying targets and goals, thereby meeting the CAS outcome objective.

29. IEG rates the outcome under Pillar 4 as satisfactory.

Achievement of CAS Objectives

Objectives	CASCR Rating	IEG Rating	Explanation / Comments
<u>Objective A</u> : Maintain macroeconomic stability	NA	Moderately Unsatisfactory	Progress towards fiscal sustainability has been slow because of political resistance to reduction in subsidies and increased public spending associated with elections. Steps are being implemented to strengthen budget and debt management.
<u>Objective B</u> : Sustainable private sector-led growth	NA	Moderately Satisfactory	The Government undertook a number of steps to abolish outdated legislation and reduce barriers to do business, thereby strengthening the climate for private sector investment. Enhancing efficiency in public administration, judicial system and enterprises is still needed.

<p><u>Objective C:</u> Broad participation in growth</p>	<p>NA</p>	<p>Moderately Unsatisfactory</p>	<p>Several of the CAS outcomes—reduce the share of vocational school enrollment in secondary education; reduce the percentage of students in multi-shift schools, improve targeting of social benefits; increase the share of spending for primary health care—were not achieved.</p>
<p><u>Objective D:</u> Sustainable Natural Resource Management</p>	<p>NA</p>	<p>Satisfactory</p>	<p>Good progress was made in environmental management capacity as well as in wastewater management and pollution control.</p>

Comments on Bank Performance:

30. With EU accession as the key driver of the reform process, the Bank rightly centered its assistance on the PAL program, which allowed for a continued country dialogue on accession issues not only with the authorities but also with Croatian society at large, including civil society, parliamentarians, and representatives of small businesses and trade unions. Included were policy notes as well as workshops to support public debate. Consistent with the lending program, the Bank conducted a substantial amount of AAA which served as input for the dialogue with all parties concerned.

31. The Bank also effectively coordinated with the EU as well as with other donors through a variety of channels: joint organization of policy workshops, cooperation in selected sectors and reform areas, several cofinancing arrangements, and joint preparation of a Country Procurement Assessment Report with EBRD.

32. The design of the Bank's assistance could have been improved. Although this was not a results-based CAS, it included a results-matrix. However, most of the outcomes were not quantified and often vague (e.g. "improved quality," "sustainability"), and the links between outcomes and milestones were often weak or non-existent (e.g. enactment of a law as a milestone towards reduction in the wage bill, or a reduction of students in multi-shift schools with no indication of how to achieve it.)

33. Implementation of the lending program was characterized by numerous delays. The government had been slow in reform implementation, both because of political resistance to some reforms (e.g. privatization, subsidy reduction) and because of excessive spending accompanying elections. The Bank should have been aware of the political constraints of the country and planned its assistance more carefully to avoid the continuous delays.

<p>4. Overall IEG Assessment</p>	
<p>Outcome:</p>	<p><i>Moderately Satisfactory</i></p>
<p>Bank Performance:</p>	<p><i>Moderately Satisfactory</i></p>

Outcome

34. IEG rates the overall outcome of the Bank's assistance to Croatia as *moderately satisfactory*. While progress has been made it has been slow in coming. Progress was made towards attaining the goal of improving the private investment climate. The "cost of doing business" was reduced substantially and, although much remains to be done, progress in divestiture and judicial reform is off to a good start. On the other hand, progress towards the goal of strengthening fiscal sustainability has been very slow, and efforts to broaden participation in growth have faltered, partly because, in retrospect, some of the CAS targets were probably overly optimistic.

Bank Performance

35. IEG rates Bank performance as *moderately satisfactory*. The Bank correctly focused its assistance on helping Croatia in its efforts to prepare for EU accession. A continuous dialogue with all segments of society and close coordination with the donor community were established to maximize the impact of the Bank's efforts. Although the delays encountered in CAS implementation were largely a result of political constraints in the country, the Bank should have been aware of this problem and planned its assistance more carefully to avoid the continuous delays. In addition, the results-chain in the Bank program was often weak (see para. 32).

5. Assessment of CAS Completion Report

36. The CAS Completion Report is well written and researched. Its coverage closely follows the strategy outlined in the CAS. The analysis is clear. The discussion of progress towards the objectives, laid out under four pillars, makes the appropriate distinction between progress towards outcomes at the country level and progress at the level of the CAS, i.e. at the level of outcomes expected to be influenced by the Bank's activities. Under each pillar there is a good discussion of the primary instruments (Bank lending and AAA) which were meant to contribute to the CAS outcomes.

37. The CASCR could have put more emphasis on and discussed in greater detail the reasons for the continued delays in lending operations or what, in retrospect, appears to have been poor planning of the program. It could also have discussed the often apparent weak link between Bank inputs, intermediate indicators, and outcomes.

6. Findings and Lessons

38. The main finding which follows from this review of the CASCR roughly parallels the findings and lessons in the CASCR itself. Implementation of the FY05-08 CAS suffered from significant delays or inaction on several fronts. The primary reason was the excessively comprehensive nature of the CAS with involvement in a wide variety of structural issues, centered around programmatic adjustment lending. Because the driving force behind reform in Croatia is the prospect of EU accession, EU requirements for reform are likely to dominate. Bank AAA will continue to be useful to help underpin the reforms. Under the circumstances, the main lesson is that implementation of Bank lending assistance is likely to be much smoother if selectively focused on reforms which the country is ready to implement, within a clear results-framework, whether through investment or policy lending.

39. A second lesson from implementation of the Croatia CAS is that a concerted effort at regular portfolio reviews with strong government involvement can help minimize portfolio risks.

Annexes

Annex Table 1: Planned and Actual Lending, FY05-08, Base Case Scenario

Annex Table 2: Croatia - Planned and Delivered AAA, FY05-08

Annex Table 3: IEG Project Ratings for Croatia, Exit FY05-08

Annex Table 4: Portfolio Status Indicators, FY03-08

Annex Table 5: Croatia - IBRD / IDA Net Disbursements and Charges, FY05-08

Annex Table 6: Croatia - Total Net Receipts (ODA, OOF, and Private), 2000-2006

Annex Table 7: Croatia - Economic and Social Indicators, 2000-2006

Annex Table 8: Croatia - Millennium Development Goals

Annex Table 9: Summary of CAS Objectives

Attachment

Attachment 1: IEG-IFC CASCR Review/Country Evaluation

Annex Table 1: Planned and Actual Lending FY05-08, Base Case Scenario (US\$ million)

FY	Project	Planned		Actual	
		CAS	CASPR		
CAS 2005	Social and Economic Recovery	44.0		45.7	
	Science and Technology	40.0		Delayed to FY06	
	PAL I	150.0		Delayed to FY06	
	Education Sector Development	85.0		Delayed to FY06	
	<i>Advanced from FY06</i>				
	Social Protection			40.0	
	Subtotal FY05	319.0		85.7	
CAS 2006	Social Protection (Soc. Welfare Development)	30.0		Advanced to FY05	
	Agriculture Acquis Cohesion	30.0		30.1	
	PAL II	150.0		Delayed to FY07	
	<i>Delays from FY05</i>				
	Science and Technology			40.0	
	PAL I			184.9	
	Education Sector Development			85.0	
	<i>Unplanned: District Heating</i>			29.8	
	Subtotal FY06	210.0		369.8	
CAS 2007	Trade and Transport Integration	50.0		75.3	
	PAL III	150.00		Uncertain	
	Health Sector Development	75.00		Uncertain	
	<i>Delays from FY06</i>				
	PAL II			197.4	
PR '07	Inland Waters		133.4	133.4	
	Rijeka Gateway		48.0	48.0	
	<i>Advanced from FY08</i>				
	Revenue Administration Modernization			68.0	
	Subtotal FY07	275.00		522.1	
CAS 2008	Municipal Services	50.0		Uncertain	
	Environmental Management	60.0		Uncertain	
	Regional Economic Rehabilitation	50.0		Uncertain	
	Growth Policy Support	100.0		Uncertain	
	PR '08	Revenue Administration Modernization		67.0	Advanced to FY07
		Rijeka Gateway II		100.0	Pipeline
		Judicial Reform		35.0	Pipeline
		Sustainable Health Systems		25.0	Uncertain
		Subtotal FY08	260.0		0
		Total	1,064.0		977.6

In addition to the above, of the GEF projects planned during FY05-08, two were dropped (Zagreb Municipal Nutrient Reduction, Sustainable Land Management) and one became effective in FY08: Agricultural Pollution Control, for US\$5 million. One unplanned GEF project, Renewable Energy Resources, for US\$5.5 million became effective in FY05. The Neretva and Trebisnjica River Basin Management for US\$2.0 million also became effective in FY08. Also operational in the CAS period: Karst Ecosystem Conservation Project from FY02-07, totaling US\$4.34 million.

Annex Table 2: Croatia - Planned and Delivered AAA, FY05-08

Planned ESW	Planned FY	Delivered FY
The 2004 CAS		
Reform and EU Accession Policy Notes ^{1/}	2005	2006
Fiduciary Country Systems Development ^{1/}	2005	2005
Regional Development and Living Standards	2006	2006
Public Finance Review	2006	2007
Environmental Management Strategy	2006	2006
CEM (delivered as EU Convergence Report)	2007	Slipped to 2009
Investment Climate Assessment (delivered as part of EU Convergence Report)	2007	Slipped to 2009
Fiduciary Country Systems Development	2007	Dropped
Reforms and EU Accession Notes	2007	Dropped
Reforms and EU Accession Notes	2008	Dropped
The 2007 CAS Progress Report		
FSAP Update	2008	2008
Unplanned ESW		
Fiduciary TA harmonization (Needs assessment)		2005
Decentralization policy		Dropped
Energy Reforms for Integration		2005
Private Sector Participation Options in Roads (PPIAF)		2006
Shipyards and SOE restructuring		2006
Sida Trust Fund for Support of Public Administration Reform		2006
Fiduciary monitoring		Dropped
Independent Procurement Review		2007
IDF Grant: Strengthening Budget Management		2007
Croatia ROSC Accounting and Audit		2007
Croatia II CG ROSC Assessment Study		2007
IDF Grant: Enhancing Corporate Financial Reporting		2007
IDF Grant: Capacity Building for Monitoring Judicial Efficiency		2008
Statistical Capacity Building		2008
TA		
Non-Bank Financial Institutions Integration TA	2005	Dropped
FSAP preparation TA		2007
Environment TA		2007
Working papers		
Croatia: needs assessment study for the Roma Education Fund		2005
Opportunities and options for governments to promote corporate social responsibility in ECA - evidence from Bulgaria, Croatia, and Romania		2006
Regional disparities in labor market performance in Croatia: the role of individual and regional structural characteristics		2007
Doing Business 2008 Croatia: comparing regulation in 178 economies		2007
Mobilizing Croatia's human capital to support innovation-driven growth		2008
Financial Sector Assessment update		2008

^{1/} These were underway at the time of the 2004 CAS.

Source: Business Warehouse, Controller's Webpage and CASCR.

Annex Table 3a: IEG Project Ratings for Croatia, Exit FY05-08

Proj ID	Project Name	Approval FY	Exit FY	IEG Outcome	IEG ID Impact	IEG Sustain-ability
P039161	Railway Modernization and Restructuring	1999	2005	Moderately Satisfactory	Modest	Likely
P048983	Eastern Slavonia Reconstruction	1998	2005	Highly Satisfactory	Modest	Likely
P051273	Health System	2000	2006	Moderately Unsatisfactory	Modest	Non-evaluable
P057767	TA for Institutional and Regulatory Reform for Private Sector Development	1999	2006	Moderately Satisfactory	#	#
P065466	Court and Bankruptcy Administration Project (LIL)	2001	2007	Moderately Unsatisfactory	#	#
P070088	Trade and Transport Facilitation in Southeast Europe	2001	2005	Moderately Satisfactory	Substantial	Likely

Source: BW as of July 1, 2008

Annex Table 3b: Overall Ratings for Croatia, Exit FY05-08

Region	Total Evaluated (No)	Total Evaluated (\$M)	Outcome % Sat (No)	Outcome % Sat (\$)	Inst Dev Impact % Subst (No)	Inst Dev Impact % Subst (\$)	Sustainability % Likely (No)	Sustainability % Likely (\$)
Croatia	6	188.8	66.7	83.7	25.0	9	100.0	100.0
ECA	169	6,702.4	84.8	86.3	65.3	79	91.4	95.3
Bank Wide	763	47,700.4	79.8	85.3	56.0	64	82.8	89.1

Source: BW as of July 1, 2008

Annex Table 4: Portfolio Status Indicators FY03-08 (US\$ million)

Country	2003	2004	2005	2006	2007	2008
Croatia						
# Proj	10	12	11	13	16	14
Net Comm Amt	488.1	495.2	425.3	574.0	1,091.1	847.8
# Proj At Risk	0	5	0	1	0	1
% At Risk	0.0	41.7	0.0	7.7	0.0	7.1
Comm At Risk	0.0	188.0	0.0	45.7	0.0	68.0
% Commit at Risk	0.0	38.0	0.0	8.0	0.0	8.0
Bosnia and Herzegovina						
# Proj	20	20	16	16	15	13
Net Comm Amt	307.7	379.1	349.5	336.5	292.0	231.1
# Proj At Risk	0	1	4	4	1	1
% At Risk	0.0	5.0	25.0	25.0	6.7	7.7
Comm At Risk	0.0	19.8	118.5	70.8	10.0	10.0
% Commit at Risk	0.0	5.2	33.9	21.0	3.4	4.3
Romania						
# Proj	22	18	19	19	20	20
Net Comm Amt	1,313.8	1,242.0	1,395.9	1,457.9	1,742.8	1,755.9
# Proj At Risk	2	2	0	1	3	3
% At Risk	9.1	11.1	0.0	5.3	15.0	15.0
Comm At Risk	130.0	120.0	0.0	80.0	455.0	217.7
% Commit at Risk	9.9	9.7	0.0	5.5	26.1	12.4
Serbia						
# Proj	10	15	17	18	9	10
Net Comm Amt	242.0	352.0	261.0	283.5	384.4	430.8
# Proj At Risk	1	4	1	5	1	0
% At Risk	10.0	26.7	5.9	27.8	11.1	0.0
Comm At Risk	11.5	108.3	20.0	42.0	25.0	0.0
% Commit at Risk	4.8	30.8	7.7	14.8	6.5	0.0
Slovak Republic						
# Proj	3	4	5	6	3	2
Net Comm Amt	206.3	104.3	110.7	92.2	23.3	18.9
# Proj At Risk	0	0	0	1	1	0
% At Risk	0.0	0.0	0.0	16.7	33.3	0.0
Comm At Risk	0.0	0.0	0.0	4.4	4.4	0.0
% Commit at Risk	0.0	0.0	0.0	4.8	19.0	0.0
ECA						
# Proj	288	285	276	294	286	279
Net Comm Amt	14,800.4	14,383.0	15,675.5	16,295.5	16,472.9	17,422.4
# Proj At Risk	22	50	24	28	26	33
% At Risk	7.6	17.5	8.7	9.5	9.1	11.8
Comm At Risk	1,246.7	2,507.9	1,413.0	1,177.8	1,647.9	2,019.4
% Commit at Risk	8.4	17.4	9.0	7.2	10.0	11.6
Bank Wide						
# Proj	1,395	1,346	1,332	1,345	1,347	1,377
Net Comm Amt	94,772.5	92,554.3	93,211.7	92,888.8	97,790.5	104,190.3
# Proj At Risk	218	228	224	188	224	247
% At Risk	15.6	16.9	16.8	14.0	16.6	17.9
Comm At Risk	14,141.5	14,742.1	12,552.7	10,849.8	15,175.6	17,708.6
% Commit at Risk	14.9	15.9	13.5	11.7	15.5	17.0

Source: WB Business Warehouse Table 3a.4 as of July 1, 2008.

Annex Table 5: Croatia - IBRD/IDA Net Disbursements and Charges, FY05-08
(US\$ million)

FY	Disb. Amt.	Repay Amt.	Net Amt.	Charges	Fees	Net Transfer
2005	92,917,478	69,313,916	23,603,561	21,509,668	1,038,732	1,055,162
2006	246,211,057	69,958,589	176,252,468	29,120,409	2,181,592	144,950,466
2007	76,687,089	85,531,139	-8,844,050	43,878,353	1,555,179	-54,277,582
2008	256,165,036	109,886,484	146,278,552	56,707,434	1,805,346	87,765,772
Total	671,980,660	334,690,129	337,290,531	151,215,864	6,580,849	179,493,817

Source: Client Connection as of July 14, 2008

Annex Table 6: Croatia - Total Net Receipts (ODA*, OOF, and Private), 2000-2006**
US\$ million

	Calendar years						
	2000	2001	2002	2003	2004	2005	2006
Total Net Receipts	1,298.5	1,259.3	1,441.7	2,175.5	1,230.0	850.8	2,456.5
o/w ODA	65.6	112.5	131.0	121.6	121.2	127.1	200.0
o/w OOF	89.4	90.9	83.9	267.2	291.5	127.5	477.5
o/w Private	1,143.5	1,055.9	1,226.8	1,786.6	817.3	596.2	1,779.1
ODA+OOF, total	154.9	203.4	214.9	388.8	412.7	254.6	677.4
o/w Multilateral	130.3	122.6	133.3	263.7	349.2	200.0	628.0
o/w IBRD	14.2	37.5	80.2	88.2	14.6	-15.0	130.5
o/w IBRD, %	9.2%	18.5%	37.3%	22.7%	3.5%	-5.9%	19.3%

Source: OECD DAC online database, and Client Connection, retrieved July 7, 2008

*ODA - Official Development Assistance: Grants or loans to countries and territories on Part 1 of the DAC list of Aid Recipients (developing countries) that are: 1) Undertaken by the Official Sector; 2) Have promotion of economic development and welfare as their main objective; and 3) Are granted at concessional terms (the loan has a grant element of at least 25 percent). "

**OOF - Other Official Flows: Transactions by the official sector with countries on the List of Aid Recipients that do not meet the conditions of ODA or Official Aid eligibility, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.

Annex Table 7: Croatia - Economic and Social Indicators 2000-2006

	Croatia						2000-2006 average	Slovak Republic	Romania	ECA	Lower Middle Income		
	2000	2001	2002	2003	2004	2005						2006	
Growth													
GDP growth (annual %)	2.9	4.4	5.6	5.3	4.3	4.3	4.8	4.5	5.2	4.6	5.5	5.7	7.4
GDP per capita growth (annual %)	3.9	5.9	5.5	5.4	4.2	4.3	4.8	4.9	4.3	4.6	6.1	5.6	6.4
GNI per capita, Atlas method (current US\$)	4,360.0	4,390.0	4,640.0	5,480.0	7,020.0	8,360.0	9,310.0	6,222.9	2,187.1	5,872.9	2,752.9	2,928.7	1,438.8
GNI per capita, PPP (current international \$)	8,940.0	9,660.0	10,430.0	11,000.0	12,020.0	12,810.0	13,850.0	11,244.3	7,365.7	13,608.6	7,857.1	7,661.3	3,732.9
Agriculture, value added (% of GDP)	9.1	9.3	9.0	7.3	7.8	7.6	7.4	8.2	10.4	4.0	12.6	8.6	13.1
Industry, value added (% of GDP)	30.3	30.3	29.3	30.2	31.1	31.6	31.6	30.6	23.9	31.5	36.3	31.8	42.4
Services, etc., value added (% of GDP)	60.7	60.4	61.7	62.5	61.1	60.8	60.9	61.2	65.7	64.4	51.1	59.7	44.6
Macroeconomic Indicators													
Gross domestic savings (% of GDP)	15.1	17.9	18.1	20.3	21.7	22.6	23.9	19.9	22.4	23.0	14.0	22.9	33.9
Gross fixed capital formation (% of GDP)	21.8	22.3	24.3	28.6	28.1	28.1	29.8	26.2	19.7	26.3	21.5	20.0	30.3
Inflation, consumer prices (annual %)	4.6	3.8	1.7	1.8	2.0	3.3	3.2	2.9	..	6.6	20.8	..	..
External Accounts													
Exports of goods and services (% of GDP)	47.1	48.4	45.3	47.1	47.5	47.1	47.9	47.2	28.2	75.5	34.2	38.7	34.1
Imports of goods and services (% of GDP)	52.3	54.5	56.4	57.9	56.4	55.5	56.8	55.7	70.1	80.1	42.2	37.9	32.3
Current account balance (% of GDP)	-2.9	-3.7	-8.4	-7.3	-5.3	-6.6	-7.5	-6.0	-14.7	-4.1	-6.5	..	..
Total debt service (% of GNI)	16.9	21.2	17.9	15.4	15.0	14.0	18.5	17.0	3.5	12.1	6.8	9.0	3.9
Total reserves in months of imports	4.1	4.8	5.0	5.2	4.8	4.5	5.1	4.8	3.4	4.8	4.5	6.1	9.4
Fiscal Accounts													
Revenue, excluding grants (% of GDP)	41.7	39.5	41.4	40.7	40.5	40.0	40.0	40.5	37.2	32.4	24.8	31.3	14.2
General government final consumption expenditure (% of GDP)	26.1	22.9	22.3	21.8	21.1	20.5	20.1	22.1	25.1	20.6	9.1	16.1	14.1
Gross national expenditure (% of GDP)	105.1	106.0	111.0	110.8	108.9	108.4	108.9	108.5	141.8	104.6	108.1	..	..
Cash surplus/deficit (% of GDP)	-6.2	-4.8	-3.6	-4.0	-3.9	-2.8	-1.8	-3.9	1.8	-3.3	-1.3	1.9	-1.9
Social Indicators ^{1/}													
Health													
Life expectancy at birth, total (years)	72.8	74.5	74.7	74.8	75.4	75.2	75.8	74.7	74.2	73.7	71.4	68.9	70.0
Immunization, DPT (% of children ages 12-23 months)	93.0	94.0	95.0	94.0	96.0	96.0	96.0	94.9	86.7	99.0	97.7	93.2	85.4
Impr. water source (% of population with access)	100.0	..	..	..	100.0	..	..	100.0	97.0	100.0	57.0	91.4	80.3
Impr. sanitation facilities, rural (% of rural pop. with access)	100.0	..	..	..	100.0	..	..	100.0	92.0	98.0	..	69.9	37.9
Mortality rate, infant (per 1,000 live births)	6.8	..	7.1	..	6.3	5.6	5.5	6.3	13.3	7.1	17.2	25.5	30.2
Education													
School enrollment, preprimary (% gross)	42.3	42.9	45.2	46.1	47.8	50.4	53.3	46.9	..	86.8	74.3	47.4	36.5
School enrollment, primary (% gross)	93.1	93.5	93.9	94.4	95.7	95.0	93.1	94.1	..	101.1	101.9	101.9	112.1
School enrollment, secondary (% gross)	85.3	86.1	87.1	88.2	88.3	88.6	88.8	87.5	..	91.3	84.1	90.1	69.0
Population													
Population growth (annual %)	-1.0	-1.4	0.1	0.0	0.0	0.0	0.0	-0.3	0.9	0.0	-0.6	0.0	0.9
Population, total (million)	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4	3.9	5.4	21.9	460.0	2,215.2
Urban population (% of total)	55.6	55.8	56.0	56.1	56.3	56.5	56.8	56.2	44.7	56.3	54.1	63.6	44.9

1/ Some of these indicators are not available on an annual basis, so some averages are based on fewer observations.

Note: Some data for recent years are still estimates.

Source: WB World Development Indicators (April 2008).

Annex Table 8: Croatia- Millennium Development Goals

	1990	1995	2000	2006
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	63	63	62	62
Employment to population ratio, ages 15-24, total (%)	53	52	49	47
Income share held by lowest 20%	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	23.5
Poverty gap at \$1 a day (PPP) (%)	..	..	..	..
Poverty headcount ratio at \$1 a day (PPP) (% of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Prevalence of undernourishment (% of population)	17	15	..	14
Vulnerable employment, total (% of total employment)	..	..	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	79	..	..	84
Literacy rate, youth male (% of males ages 15-24)	88	..	..	91
Persistence to last grade of primary, total (% of cohort)	..	..	..	..
Primary completion rate, total (% of relevant age group)	79	..	83	86
School enrollment, primary (% net)	84	..	83	86
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	13	12	14	18
Ratio of female to male enrollments in tertiary education	..	..	96	105
Ratio of female to male primary enrollment	89	..	92	95
Ratio of female to male secondary enrollment	..	..	92	94
Ratio of young literate females to males (% ages 15-24)	90	..	..	93
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	34.7	36.8	37.4	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	73	74	73	80
Mortality rate, infant (per 1,000 live births)	63	60	56	50
Mortality rate, under-5 (per 1,000)	92	88	84	73
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	65	63	52
Births attended by skilled health staff (% of total)	..	..	..	65
Contraceptive prevalence (% of women ages 15-49)	57	..	..	60
Maternal mortality ratio (modeled estimate, per 100,000 live births)	430	..	..	400
Pregnant women receiving prenatal care (%)	..	..	..	80
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	124	128	136	139
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	1.0
Tuberculosis cases detected under DOTS (%)	..	14	29	62
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	9.1	..
CO2 emissions (kg per PPP \$ of GDP)	0.7	0.7	0.6	0.5
CO2 emissions (metric tons per capita)	4.1	4.0	4.0	4.3
Forest area (% of land area)	31	..	31	31
Improved sanitation facilities (% of population with access)	45	50	55	57
Improved water source (% of population with access)	76	79	81	83
Marine protected areas (% of surface area)	..	..	..	4
Nationally protected areas (% of total land area)	..	..	..	11.6
Goal 8: Develop a global partnership for development				
Aid per capita (current US\$)	11	12	10	16
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	..	..	..	..
Internet users (per 100 people)	0.1	0.8	6.5	21.4
Mobile phone subscribers (per 100 people)	0.2	1.6	12.2	40.0
Telephone mainlines (per 100 people)	9.9	12.2	16.1	19.5
Other				
Fertility rate, total (births per woman)	3.1	2.9	2.7	2.5
GNI per capita, Atlas method (current US\$)	4,075	5,049	5,252	7,448
GNI, Atlas method (current US\$) (billions)	21,449.1	28,662.6	31,917.2	48,694.1
Gross capital formation (% of GDP)	23.4	22.3	22.3	21.7
Life expectancy at birth, total (years)	65	66	67	68
Literacy rate, adult total (% of people ages 15 and above)	76	..	..	82
Population, total (millions)	5,263.9	5,676.8	6,076.7	6,538.1
Trade (% of GDP)	38.3	42.0	49.3	54.3

Source: World Development Indicators database
Figures in italics refer to periods other than those specified.

Annex Table 9: Summary of CAS Objectives¹

Sub-Objectives	Target Outcomes	Actual Results	Comments
Pillar 1 : Maintain Macroeconomic Stability			
Sustainable level of public spending	Fiscally sustainable public wage bill	The public wage bill was reduced from 11% of GDP in 2003 to 9.6% of GDP in 2007, but remains high by international standards. Furthermore, its fiscal sustainability remains questionable. Total public expenditure declined from 51.3 percent of GDP in 2003 to about 48 percent in 2008, but this is still some 10 percentage points higher than in the EU new member states. Milestones: Rationalization of Government administration through adoption of new Decrees on Organizational Setting for county offices and the Ministry of Health and Social Welfare aimed at the rationalization of staffing based on functional review results.	Some Progress
	Fiscally sustainable level of subsidies to public and state-owned enterprises	Milestones: i) The implementation of the Enterprise Sector Medium-Term Subsidy Reduction plan reduced subsidies from 3.4% of GDP in 2003 to 3.1% in 2004 and 2.4% in 2006. However, the CAS called for a steady reduction of subsidies in absolute amounts; this target is not reached. Instead, the overall level of subsidies was reduced to 878 mill in 2006 (based on 2003 USD exchange rate) but rose again in to 956 mill in 2007. (937 mill in 2008 budget). ii) A Railways restructuring and modernization strategy has been agreed upon. The Bank has provided extensive comments on the Croatian Railways (HZ) business plan including on proposed equipment. HZ has laid off 1628 staff (net) and privatized two subsidiaries. iii) The working ratio (operating costs over operating revenues) at HZ was reduced from 243 at the end of 2004 to 187 in July 2007, but rose again to 193 at the end of 2007.	Limited Progress
	Fiscally sustainable road sector investment	Milestones: A number of efforts were carried out through the Program for Construction and Maintenance of Public Roads, which was agreed with the Bank. Road sector spending for 2005-2008 amounted to 2.8% of GDP/annum, down from the very high pre-2005 levels that exceeded 4%. There was a decline in new construction spending and a slight (but not significant) increase in the share of road maintenance. The construction of new roads is targeted to decline to 1.5% of GDP and maintenance will remain stable at approximately 1%.	Some Progress
	Fiscally sustainable health sector expenditure	While the Croatian Health system has performed relatively well compared to its neighbors, these results have come at a high cost and the public health insurance fund faces growing deficits posing significant fiscal risks. Public spending on health declined from 6.4% in 2004 to about 6% in 2007, but arrears created by hospitals remain sizeable at 0.7% of GDP pointing to need for more reform to make the system financially sustainable. Also, the current payment system to hospitals lacks incentives to contain spending. Milestones: The share of prescription drugs in health spending dropped from 19.3% in 2005 to 18.7% in 2006, still short of the target of 17% for 2008.	Limited Progress
	Rationalized cash social benefits	Milestones: The implementation of the Government social benefit reform strategy was delayed in its implementation in the pre-election period. Social benefit programs were reduced from 18 to 10. The share of targeted programs remained low, declining from 9.3% to 8% due to increased funding for categorical benefits.	Limited Progress

¹ The ratings used are, on a descending scale: Good Progress, Some Progress, Limited Progress, and No Progress.

Sub-Objectives	Target Outcomes	Actual Results	Comments
		Total social benefits were not reduced as a share of GDP: at 4.3% (national plus local level) in 2007, this ratio has been broadly stable during the last couple of years. This is some 2 percentage points higher than the EU average. In addition, this number does not include the benefits provided through tax exemptions—for families with children, non-taxable part of income, etcetera.	
Strengthen weak public expenditure management	Strengthen budget management and execution	<p>Milestone: The draft Public Finance Review was delivered and discussed in June 2007. Recommendations for education, health, social and public administration are being implemented selectively.</p> <p>Apart from this milestone, other examples that strengthen public expenditure management are: adaptation of GFS 2001 standards, the roll out of the Treasury Single Account, better control of arrears, improvement in the rules and relevance of multi-year budgeting, establishment of audit units at central government units, enactment of the Law on Financial Management and Control Systems in the Public Sector, appointment of controllers to all line ministries. The outcomes of these measures are yet to be seen.</p>	Some Progress
Strengthen Debt Management	Sustainable level of external debt	<p>External debt is no more sustainable than before. External debt as a percentage of GDP increased from 80% in 2004 to 87.8% in 2007, after more than doubling since 2001.</p> <p>Milestones: With Bank support a medium-term debt management strategy was approved in 2006 and implemented. This was instrumental, in part, in helping to reduce the government's external debt from 25.3% of GDP in 2004 to 17.7% in 2007. The debt management office in the Ministry of Finance was split into back, middle and front office; the debt registry was established. Training was provided for capacity strengthening.</p>	Limited progress
	Management of currency risk	The CASCR provides no information on how currency risk was minimized	No Evidence
	Management of rollover risk	Short-term debt to total debt share increased from 6.5% in 2003 to 9.1% in 2007, but maturities have increased from 4-5 years in 2002-2003 towards 10-15 years in 2005-2007.	Limited Progress
Pre-CAS Lending	Railways Restructuring	<i>IEG Outcome Rating: Moderately Satisfactory</i>	
	Pension System Investment	<i>ISR Rating as of 2008 DO: Satisfactory IP: Moderately Satisfactory</i>	
	Health System	<i>IEG Outcome Rating: Moderately Unsatisfactory</i>	
New Lending	PAL 1	<i>ISR Rating as of 2008 DO: Satisfactory IP: Satisfactory</i>	
	Social and Economic Recovery	<i>ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory</i>	
	PAL II	<i>ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Unsatisfactory</i>	
Non Lending	Fiduciary Country Systems Development	Delivered in FY05	
	FSAP preparation TA	Delivered in FY07	
	FSAP Update/ Financial Sector Assessment	Delivered in FY08	
	Public Finance Review	Delivered in FY07	
	Reform in EU Accession Policy Notes	Delivered in FY06	
	Procurement Review	Delivered in FY07	
	IDF Grant on Strengthening Budget Management	Delivered in FY07	
	ROSC Accounting and Audit Update	Delivered in FY07	
Private Sector Participation in Roads	Delivered in FY06		

Sub-Objectives	Target Outcomes	Actual Results	Comments
Pillar 2 : Sustainable Private Sector-led Growth			
Improvements in inefficient and loss-making enterprise sector	Enforcement of financial discipline and competitive conditions in enterprise sector	By the end of 2007, around 860 companies were sold or liquidated, including privatization of most agro-kombinats as well as loss-making steel and aluminum industries. Privatization of tourism and shipyards is still pending. Milestones: i) The CAS target of divestiture of 600-800 SOEs held by CPF by 2006 and 1130 SOEs by end- 2008 was only partially met. Over 860 SOEs were privatized. It may be hard to meet the 2008 target. ii) The target to reduce half the asset value of the 10 subsidiaries of the Croatian Railways by end-2006 was not met- two out of sixteen by end-2007, one filed bankruptcy in 2008 and six prepared for privatization in 2008. iii) Enterprise subsidies were reduced as a percentage of GDP (from 3.4% in 2003 to 2.3% in 2007), but the targeted dollar amount was not met: subsidies fell to \$878 mill in 2006 from \$980 in 2003 million but increased again to \$956 million in 2007 falling short of expected outcomes.	Limited Progress
	Energy infrastructure linked to EU market	Milestones: i) As a part of the Energy Market Act in 2004, a new distributional operator and transmission system operator was adopted. ii) Gradual liberalization of electricity market continues as planned. The treaty establishing an Energy Community is effective and the market is liberalized for all Croatian households. iii) Some progress in private participation of infrastructure – in wind, biomass, small hydro and power has been adopted. Law of Production, Distribution and Supply of Thermal Energy was adopted in March 2005. iv) District Heating tariff methodology has been put in place including cost recovery tariffs in place, and an increase of tariffs has been submitted for Government approval. v) The plan of adopting policy and institutional reforms by 2006 has not materialized.	Some Progress
Reduce high cost of doing business and an uncompetitive environment	Significant reduction in administrative and regulatory carriers and processing time	Milestone The Government undertook a number of steps to abolish outdated legislation and reduce barriers to do business. Among them are- the establishment of one-stop shops to simplify business startups. Parliament enacted a new unified law on spatial planning and construction that reduced the number of permits and time for clearance in 2007. Also, the Government implemented regulatory guillotine and land registration modernization.	Good Progress
	Market-oriented R&D system	Milestone According to the CASCR, the Science and Technology Policy, the basis for R&D reform, and its Action Plan were adopted by the Government in June 2007. The restructuring of the Brodarski Institute started, but is yet to be incorporated at the core of the Institute's strategy. Other achievements are: the Rudjer Boskovic Institute established a daughter company, Rudjer Innovations, and the Brodarski Institute became a member of EARTO, a trade association of Europe's specialized research and technology organizations.	Good Progress
	Increase in volume of transit trade	The inter-modal connectivity of Rijeka Gateway has been strengthened. There has been sharp growth in container traffic through the port and growth of 36% of transit through Ploce Port, bringing both ports closer to full capacity for specific types of cargo.	Good Progress
Efficient public administration	Reduction in Public Wage bill share from 11 to 9.5 of GDP by 2008	The wage bill was reduced from 11% of GDP in 2003 to 9.6% of GDP in 2007, but remains high by international standards. Milestones: Intermediate indicators were partly met; the Parliament enacted a new Civil Service Law in 2005. There has been progress on merit-based hiring with HR management systems being created and all line ministries employing new staff but a civil service salaries law is yet to be adopted.	Good Progress

Sub-Objectives	Target Outcomes	Actual Results	Comments
	Increased public satisfaction with transparency, accountability, and efficiency of civil servants based on surveys	<p>Milestones: Public satisfaction surveys were not conducted systematically covering the entire civil service. Surveys financed by the WB IDF grant for Judicial Efficiency and through the Policy and Human Resources Development (PHRD) Fund in health showed high satisfaction with professionalization of public servants, but dissatisfaction with the state of physical facilities.</p> <p>Indicators, some of which are perception based, show mixed results in this area. The PRS Group's International Country Risk Guide rates Bureaucratic Quality unchanged at 3.0 from 2004 through 2008, Corruption at 3.0 in 2004, dropping to 2.5 from 2005 through 2008. The WB Governance Indicator on Government Effectiveness increased from 66.8 in 2003 to 70.6 in 2007, Control of Corruption rose from 57.8 in 2003 to 58.9 in 2007, while Voice and Accountability dropped from 65.4 in 2003 to 60.6 in 2007. Transparency International's Corruption Perception Index increased from 3.5 in 2004 to 4.1 in 2007, while the Heritage Foundation's Freedom from Corruption rating dropped from 38 in 2004 to 34 in 2008 (a component in the Index of Economic Freedom). Note: for each of the indicators above holds: the higher the score, the better.</p>	Limited Progress
	Majority of legislative proposals to parliament with a robust socio-economic analysis	<p>Milestones: There were some steps taken to ensure that legislative proposals have robust analysis. A Fiscal Impact Assessment and an Environmental Impact Assessment are now mandatory for all legislative proposals and strategies. It's not fully clear how the Bank has affected these changes or how the changes have affected outcomes.</p>	Limited Progress
	Revenue administration modernization program underway with early indications of enhanced voluntary taxpayer compliance (Added in the Progress Report)	<p>A new framework for tax administration has been adopted. However, the CASCR provides no evidence that the interventions have led to an improved voluntary taxpayer compliance outcome. The Revenue Administration Modernization project has made little progress since it was declared effective in December, 2007.</p> <p>Milestones: The Croatian Tax Administration (CTA) adopted a strategic framework for long-term tax modernization. The law on taxpayer identification number was enacted by Parliament in May, 2008.</p>	Limited Progress
	Financial management systems and controls and public procurement procedures aligned with EU standards	<p>Milestones: According to the CASCR, the New Public Procurement Act was effective as of January 2008, aligned with EU directives. The institutional capacity of the two lead public procurement agencies was enhanced. Also, the FM systems were substantially aligned with EU standards.</p>	Good Progress
Efficient Judicial System	50% reduction in court case backlogs	<p>Milestones: i) There was some rationalization of the court system by e.g. delegating land registry decisions from judges to authorized clerks. However, the CASCR mentions that no efficiency gains have been achieved so far. ii) Court proceedings have accelerated as witnessed by a 65% reduction in backlog cases.</p>	Some Progress
	Greater Accountability and professionalism of judges	<p>The CASCR reports on the various measures taken to improve accountability and professionalism of judges. However, there is no evidence in the CASCR that these measures have yet led to the intended outcomes. At the same time, the Region suggests that the IDF TF for Monitoring Judicial Efficiency helped carry out surveys which showed increased client satisfaction with judiciary performance.</p> <p>Milestones: i) An evaluation system for judicial performance has been instituted. A new methodology for analyzing and collecting judicial statistics has been put in place. The supreme Court has a system to monitor cases with extensive delays and a new system of judicial inspectors have been introduced. ii) Reforms have been instituted in the area of training curriculum for judges. The judicial academy has been revisiting the curriculum and adding courses with support from the EU.</p>	Some Progress

Sub-Objectives	Target Outcomes	Actual Results	Comments
Pre-CAS Lending	Court and Bankruptcy Administration (LIL)	IEG Outcome Rating: Moderately Unsatisfactory	
	Trade and Transport Integration Project	IEG Outcome Rating: Moderately Satisfactory	
	Railway Modernization and Restructuring Project	IEG Outcome Rating: Moderately Satisfactory	
	Real Property Registration and Cadastre	ISR Rating as of 2008 DO: Satisfactory IP: Satisfactory	
	Reijeka Gateway	ISR Rating as of 2008 DO: Satisfactory IP: Satisfactory	
	TA for Institutional Regulation Reform and PSD	IEG Outcome Rating: Moderately Satisfactory	
	Pension System Investment	ISR Rating as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
	Energy Efficiency (2003)	ISR as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
	Energy Efficiency (GEF) (2003)	ISR as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
Lending	Science and Technology Project	ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	PAL	ISR Rating as of 2008 DO: Satisfactory IP: Satisfactory	
	Social and Economic Recovery PAL 2	ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	Revenue Administration Modernization	ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	Renewable Energy Resources (GEF)	ISR Rating as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
Trade and Transport Integration 2	ISR Rating as of 2008 DO: Satisfactory IP: Satisfactory		
Non Lending	Fiduciary Country Systems Development	Delivered in FY05	
	Reforms and EU Accession Policy Notes	Delivered in FY06	
	Public Finance Review	Delivered in FY07	
	Independent Procurement Review	Delivered in FY07	
	SIDA Trust Fund for Support to Public Administration Reform	Delivered in FY06	
	Shipyards and SOE Restructuring	Delivered in FY06	
	IDF Grant: Supporting Budget Management	Delivered in FY07	
	ROSC Accounting and Auditing Update	Delivered in FY07	
	ROSC Corporate Governance Update	Delivered in FY07	
	Statistical Capacity Building	Delivered in FY08	
	FSAP preparation TA	Delivered in FY07	
	FSAP Update/ Financial Sector Assessment	Delivered in FY08	
	IDF Grant: Institutional Capacity Building for Monitoring Judicial Efficiency	Delivered in FY06-07	
	Doing Business 2008 Croatia (Working paper)	Delivered in FY07	
	Mobilizing Croatia's human capital to support innovation driven growth	Delivered in FY08	
Investment Climate Assessment	Slipped to FY09		

Sub-Objectives	Target Outcomes	Actual Results	Comments
Pillar 3: Broad Participation in Growth			
Improve Outdated Education System	Increase in secondary education completion rate from 78% in 2003 to 85% in 2008	The CASCR notes that due to more accurate data the baselines and expected outcomes for the 14-18 cohort with secondary education have been reset. The primary completion rate was well above 99% and secondary completion rate was above 91.3% in 2007, exceeding predicted targets. Milestones: The intermediate indicator of modernizing the curriculum has been met through the nation-wide rollout of National Standards in primary education as a basis of curriculum reform. There was also some progress towards two other milestones: i.e. introduction of external school learning exams and of professional development systems for teacher and school principals.	Good Progress
	Vocational schools accounting for about half of secondary school enrollment	The vocational school enrollment decreased from 71% to 69.6 percent in 2007/08, at a slower pace than expected. The proposed external school leaving exams have not yet been implemented. The CAS target was not changed in the CASPR, despite the fact that the associated Education project targeted a more realistic goal.	Limited Progress
	Decrease in the proportion of pupils studying in multi-shift schools from 90% to 50%	The percentage of students in multi shift schools was not reached especially given the huge cost associated with this target. There was, however, some progress in eliminating three-shift schools. The CAS target was not changed in the CASPR, despite the fact that the associated Education project targeted a more realistic goal.	Limited Progress
	Student assessment results in line with international comparators	Croatian students performed well compared to other EU comparators. In the OECD's 2006 Program for International Student Assessment, they performed well in science with their scores falling in line with average results. In reading and mathematics, they were slightly behind the EU comparators.	Good Progress
Improve inefficient social assistance system	Sustained increase in labor force participation rate from 50.2% in 2003	Labor force participation (15+) declined from 50.2% in 2003 to 48.8% in 2007, while the labor force participation for 15-64 years marginally increased from 62.3% in 2003 to 63.2% in 2007—although there is no clear trend in these years. Milestones: i) The milestone of improved targeting of social benefits has not been met- the share of best targeted and means tested social support allowance decreased between 2004/2005 and 2007.	Limited Progress
	Some reduction in poverty rates, absolute (11.1% in 2001) and relative (16.9% in 2003)	Absolute poverty remained unchanged at 11.1% in 2004 (as measured in the 2006 Living Standard Assessment). Relative poverty has declined mildly to 16.3% in 2006. Milestone: i) Mitigation of labor dislocation as a result of SOE divestiture and civil service rationalization has been discussed but action is still pending.	No Progress
Improve Health Outcomes	Improved quality of and access to health care services	Life expectancy increased from 72 in 2003 to 76 in 2006. Infant mortality decreased from 6.3% in 2003 to 5.2% in 2006/1000 live births. However, there was limited progress on the milestones. Milestones: i) Spending for primary health as a share of health spending increased from around 16% in 2003 to 16.6 in 2005 and 16.1 in 2006, falling short of the 18% target. ii) The increase in performance-based contracts to 80% of general practitioners has not been met. Only a small share has performance-based contracts. iii) According to the CASCR, an increasing awareness of the importance of preventive health behavior and impact of lifestyle on health has been observed in the recent years, which was supported by public campaigns prepared under Health System Project.	Limited Progress
Reduce Regional Disparities	Rehabilitation of areas affected by closure of large enterprises	There were a number of steps taken towards reaching this objective. Although the Bank offered an instrument for support—the Regional	Limited Progress

Sub-Objectives	Target Outcomes	Actual Results	Comments
		<p>Economic Rehabilitation project—this was dropped at an early stage as the Government shifted its focus.</p> <p>Milestones:</p> <p>i) The Social Impact assessment (SIA) conducted by the Bank addressed proposed restructuring of shipping yards in select areas that anticipated planned divestitures. Mitigation measures were discussed with management and Government and these have been incorporated into the restructuring plans but are pending approval.</p> <p>ii) A Strategy for Regional Development is planned to be finalized in the fall of 2008—beyond the CAS period under evaluation.</p> <p>iii) A draft Act on Regional Development has been prepared but needs to be aligned with EU Cohesion policy for managing regional development in Croatia. As a transitional framework, the Government adopted the Law on Areas of Special State Concern.</p> <p>Bank inputs focused on contributing to the strategy formulation process by providing data and analysis of regional disparities from diverse data sources.</p>	
	Rehabilitation of "disadvantaged and war -affected areas"	<p>Milestones:</p> <p>Capacity building to implement strategy and absorb EU funds at the local level is in progress. Mine clearing efforts are underway.</p>	Some Progress
	Steady progress towards a more competitive agricultural sector aligned with the EU <i>acquis communautaire</i>	<p>Milestones:</p> <p>i) The farmers' registry has been established to better target subsidies, and the SAPARD and Paying agency are functioning and certified by the EU for absorption of EU funds.</p> <p>ii) The capacity of the food safety agency is being built including increasing staffing, equipment and overall institutional setting- all EU requirements. Some steps have been taken towards completion of a food safety management database which is coordinated with a food safety project.</p>	Some Progress
Pre- CAS Lending	Health System Reform	IEG outcome rating: Moderately Unsatisfactory	
	East Slavonia Reconstruction	IEG outcome rating: Highly Satisfactory	
	Pension System Investment	ISR Rating as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
Lending	Education Sector Development	ISR rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	PAL 1	ISR rating as of 2008 DO: Satisfactory IP: Satisfactory	
	PAL 2	ISR rating as of 2008 DO: Moderately Satisfactory IP: Moderately Unsatisfactory	
	Revenue Administration Modernization	ISR Rating as of 2008 DO: Moderately Unsatisfactory IP: Moderately Unsatisfactory	
	Social Welfare Development	ISR rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	Social and Economic Recovery Project	ISR Rating as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
	Agriculture Acquis Cohesion	ISR rating as of 2008 DO: Satisfactory IP: Satisfactory	
Non Lending	Needs assessment study for the Roma Education Fund	Delivered in FY05	
	Regional Living Standards and Development	Delivered in FY06	
	Country Economic Memorandum/ EU Convergence Report	Slipped to FY09	
	Public Finance Review	Delivered in FY07	
	Judiciary Country Systems Development	Delivered in FY05	

Sub-Objectives	Target Outcomes	Actual Results	Comments
Pillar 4: Sustainable Natural Resource Management			
Strengthen environmental management capacity	Strengthened legislative and regulatory framework	There was overall strengthening of the regulatory framework (example: an Environmental Impact Assessment became mandatory for all new legislation and strategies) without much Bank involvement.	Good Progress
	Strengthened institutional capacity at national and local levels	Milestone: The Bank provided training and capacity building and helped establish a benchmarking environmental enforcement indicators program. But administrative capacity is still weak. Investment in environment ministry staff training and certification programs has been partially achieved—according to the CASCR.	Some Progress
	Strengthened technical capacity for monitoring and enforcement	There has been enhancement of technical and monitoring capacity through achievement of the following- Milestones: i) A biodiversity database system including equipment and monitoring protocols was established ii) The Government established a National Waste Management Plan through which it supported public private partnerships in waste management. Preparation of standardized management planning for national parks and nature parks has been adopted for all protected areas.	Some progress
Improve wastewater management and water supply	Reduced water pollution levels in coastal areas near Bank-financed project sites	There have been substantial improvements in wastewater management and water pollution control. Milestones: i) Water Management Strategy was adopted by the Government which has defined the objectives for water supply, water coverage and waste water treatment. ii) A waste water treatment plan in Split was completed and operational benefitting 250,000 people and improving the local environment and waste water discharge.	Good Progress
	Reduced discharge of nutrients from Zagreb into Danube River	Zagreb Municipal Nutrient Reduction, that was planned under the GEF program, was dropped in the early stages due to lack of government interest and change in priorities, which delayed development of the nutrient reduction facility in the wastewater treatment plant in Zagreb.	No Progress
	Increase in wastewater collection coverage from 60 to 80% of households	Originally in the CAS, but dropped in the Progress Report and CASCR	Dropped
	Increase in public water supply coverage from 73% to 85%	Originally in the CAS, but dropped in the Progress Report and CASCR	Dropped
	Increase in connections to public water supply and wastewater treatment and sewage in small municipalities	The CASPR added this outcome (regarding small municipalities). The CASCR does not report on the achievement of the targets, except that the percentage of the population with access to wastewater collection systems remains exceedingly low.	No Progress
Energy Efficiency	Progress towards fulfillment of international obligations under Kyoto protocol to reduce greenhouse gas emissions	The Government has developed a strategy for meeting the Kyoto protocol including identifying targets and goals. Milestones: i) The Government prepared a draft National Strategy on Climate Change and Kyoto Protocol, identifying measures and targets to meet by 2012. ii) The Bank has facilitated the creation of an energy market in Croatia including supporting local banks in financing energy services. ii) An adequate institutional and legislative framework for RER has been created to remove bottlenecks in procedures of obtaining permits, support to distribution and transmission as well as development of secondary RER legislation.	Good Progress
Pre-CAS Lending	Coastal Cities Pollution Control I	ISR as of 2008 DO: Satisfactory IP: Satisfactory	
	Energy Efficiency (2003)	ISR as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
	Energy Efficiency (GEF) (2003)	ISR as of 2008 DO: Moderately Satisfactory IP: Moderately Satisfactory	
Lending	District Heating	ISR as of 2008 DO: Satisfactory IP: Satisfactory	
	Inland Water Project	ISR as of 2008 DO: Satisfactory IP: Satisfactory	

Sub-Objectives	Target Outcomes	Actual Results	Comments
	Renewable Energy Resources (GEF)	ISR as of 2008 DO: Satisfactory IP: Moderately Satisfactory	
	Agricultural Pollution Control (GEF)	ISR as of 2008 DO: Satisfactory IP: Satisfactory	
	Karst Ecosystem Conservation Project (GEF)	ICR as of 2008 DO: Highly Satisfactory IP: Highly Satisfactory	
	Neretva and Trebisnjica Management Project (GEF)		
	Zagreb Municipal Nutrient Reduction (GEF)	Dropped	
	Sustainable Land Management	Dropped	
Non Lending	Energy Reform Integration	Delivered in FY05	
	Environment TA	Delivered in FY07	
	Environmental Management Strategy	Delivered in FY07	
	Energy Workshops	Delivered in FY05	

1. CAS Data

Country: CROATIA

CPS Year: FY04

CPS Review Period: FY05-FY08

Date of This Review: September 16, 2008

2. IFC Areas of Focus during the CAS Period

The 2004 CAS was centered on four key pillars: (i) macroeconomic stability; (ii) sustainable private sector-led growth; (iii) broad participation in growth; and (iv) sustainable natural resource management. In supporting private sector-led growth, IFC was to focus its efforts on helping local private sector companies become more competitive in regional markets by supporting privatization and post-privatization restructuring in key sectors (tourism, agri-food processing, retail, and construction and construction material sectors). IFC was to work with domestic banks to support Croatian companies that have regional operations or have the potential to expand their operations to other countries in the region, thereby meeting IFC's objective to facilitate cross-border integration as part of its regional strategy. In the financial sector, given the improvements in the banking sector, IFC was to focus on structured finance products, leasing, and non-bank financial institutions. FIAS and PEP-SE Infrastructure were to assist in providing advisory services to attract private investors through PPPs. FIAS, together with USAID and UNDP was to help the Government of Croatia to improve the quality of regulations with the goal to reduce the cost and risk of doing business. IFC's participation in the implementation of the 2004 CAS was to be closely aligned with the WB, with particularly close cooperation in the area of infrastructure.

3. Relevance of IFC Areas of Focus

During the CAS period, IFC's interventions in Croatia were in line with WBG's second CAS pillar and with the IFC regional strategy as well.

IFC's main objective in the 2004 CAS "to provide sustainable private sector-led growth" was appropriate for the country especially in light of Croatia's objective to integrate with EU as a market-competitive economy. IFC's combined investment and advisory services strategy to improve investment climate was relevant to the country's needs and complementary with WB's activities in supporting sustainable private sector-led growth.

4. IFC Activities during the CAS Period

A. Investment projects

New investments

During the **CAS period**, IFC made five new investments for a total net commitment of US\$314 million, with an average project commitment of US\$63 million for an average project size of US\$139 million at an average of 1 project per year. There were 3 regional projects during the CAS period for a total net commitment of US\$79 million, with an average project commitment of US\$26 million, and average project size of \$202 million. All five direct investments in Croatia approved during the CAS period are active, as are the three regional projects.

A brief description of IFC's investments in Croatia during the CAS period:

1. **Lidl Croatia:** In 2004, IFC provided \$49 million in loans to Lidl Croatia, to establish 15 discount stores in Croatia.
2. **PBZ Croatia:** In 2005, IFC provided \$99 million in loans to Privredna Banka Zagreb (PBZ) Croatia, which was privatized in 2002, to enhance the availability of long term credit particularly to retail mortgage customers and small enterprises in Croatia.
3. **Agrokor:** In 2006, IFC made an investment of \$51 million in loans to Agrokor. In March 2005, Agrokor acquired 52% of a large agricultural enterprise, Belje, and 99% of a slaughterhouse and meat processing plant, PIK Vrbovec, through a privatization process. The Agrokor project is to restructure, modernize and expand PIK Vrbovec and Belje.
4. **Adriatic Luxury Hotels (ALH):** In 2007, IFC made an investment of \$37 million in loans, and an equity investment of \$16 million in ALH to promote tourism.
5. **PIK Vrbovec:** In June 2008, IFC made an investment of \$62.7 million in loans to expand production capacity of both PIK Vrbovec and Belje.

IFC's regional investments include:

1. **Mercator:** In 2007, IFC invested \$51 million in Mercator. A project expansion to Croatia was made possible through an IFC investment in Slovenia (PS Mercator) aimed at establishing new hypermarket stores in Southern Europe, including Croatia, over the period 2006-2009. Mercator now has 15 stores in Croatia and employs 1,470 workers.
2. **GED Fund II:** In 2007, IFC invested \$19 million in GED Fund II, a private equity fund investing in SMEs primarily in Romania and Bulgaria, and its neighbors including Croatia.
3. **7L Capital:** In 2007, IFC invested \$9 million in 7L Capital, a private equity fund investing in equity investments and SMEs in Southeastern Europe, including Croatia.

Concentration and type of investments. By share of total commitment, IFC's investments in Croatia concentrated on the agro-processing sector (36%), the financial sector for on-lending to SMEs (32%), tourism & accommodation (17%); and retail trade (15%). By instrument, all five investments are loans and 1 had an equity component (tourism). By type of business, there were two *existing* projects in the agribusiness sector, while the other 3 were *greenfield* projects.

IFC's investments in comparative perspective

IFC versus EBRD commitments in Croatia. IFC's total investment in Croatia during the FY04-FY08 amounted to \$314 million, of which only 5% was in equity, while 95% was in loans. EBRD's total direct investments in Croatia during FY04-FY08 amounted to US\$863.5 million (EUR 550M), of which 44% was in equity while 56% was in loans. For the approval period FY04-FY08, seven EBRD projects have been evaluated to date. Five projects have successful or higher overall performance ratings, while six projects have good or higher overall transition impact ratings.²

² Source: EBRD. In EBRD, the overall performance rating ranges from Highly Successful, Successful, Partly Successful, to Unsuccessful. Transition impact ratings range from Excellent, Satisfactory, Good, Marginal, to Unsatisfactory.

IFC investments as a percentage of total gross fixed capital formation (GFCF) in Croatia versus comparators. Croatia's GFCF reached \$15.3 billion in 2007. For every \$1 million of GFCF, on average, IFC invested \$5,126 or more than half of its investment level in Bulgaria, but similar to its investment levels in Romania and Turkey. (See tables below).

Gross Fixed Capital Formation (US\$M)	2000	2001	2002	2003	2004	2005	2006	2007	Average
Bulgaria	1,981	2,479	2,845	3,864	5,060	6,573	8,259	12,327	5,423
Croatia	4,021	4,434	5,603	8,451	10,028	10,927	12,812	15,336	8,951
Romania	7,005	8,298	9,766	12,739	16,329	22,774	28,867	36,863	17,830
Turkey	54,492	31,250	38,916	51,817	79,950	101,787	118,121	141,277	77,201

IFC Orig. Commitments/Total GFCF	2000	2001	2002	2003	2004	2005	2006	2007	Average
Bulgaria	6,694	21,100	8,964	7,309	20,070	8,897	5,618	0	9,832
Croatia	7,177	7,894	1,495	3,480	0	13,548	3,985	3,429	5,126
Romania	1,261	3,061	2,588	6,796	9,389	6,297	5,068	3,605	4,758
Turkey	2,753	2,155	4,738	3,699	2,308	2,848	3,917	3,903	3,290

IFC's actual investments versus strategy

IFC invested, as intended in its strategy, in the financial, tourism, agribusiness, and retail distribution sectors with the objective of helping local companies enhance their regional competitiveness, and with the support of advisory services to bolster exports and further improve the business climate of the private sector. IFC supported and invested in two privatized enterprises acquired by Agrokor.

In the financial sector, with the central bank stepping in to set a lending growth limit to curb the country's worrisome debt levels, IFC faced difficulty in finding banks to on-lend to M-SMEs. Furthermore, the lending limit resulted in the local banks choosing to lend to large enterprises. IFC's strategy was selective in the financial sector in view of the lending growth regulation. In both the financial and the infrastructure sectors where some companies were privatized, IFC faced stiff competition with local banks and EBRD mainly in terms of cost of financing.

IFC did not invest in the construction and construction materials sectors, as well as in the infrastructure sectors as intended in the 2004 Country Assistance Strategy. The construction sector in Croatia faces constant difficult project remapping and planning obstacles (e.g., construction halt or delays) whenever historical artifacts are discovered during the digging phase. Only in mid-2007 did a new Law on Physical Planning and Construction become enacted aimed at reducing the number of construction-related permits and duration for approval. Nevertheless, in early 2007 there were signs that real activity in the construction sector, which had supported GDP growth in previous years through its contribution to fixed capital investment, was beginning to lose impetus anyway.

IFC's ability to invest in the infrastructure areas was limited by the slow pace of privatization in the sector. The Government has decided that the larger state-owned companies are not to be privatized until the time when the country is closer to EU accession. The shipbuilding sector, in particular, continues to have high political sensitivity. Croatia still needs to submit a workable restructuring program for the country's shipyards before it can open negotiations on EU accession in relation to subsidies and fair competition. In the power sector, Croatia has not allowed foreign direct investment in the state-owned electricity utility, Hrvatska Elektroprivreda (HEP). However, the government is working on a new energy strategy, details of which should be available in late 2008, which may potentially bring in more FDI in the energy sector in general. IFC sees a window of opportunity for investment in the power sector as HEP's restructuring and privatization efforts advance.

The 2007 Progress Report stated that the WBG support was to be joint between the Bank and IFC, and in close coordination in promoting private sector investments in infrastructure. IFC should continue to seek opportunities to help make Croatia's infrastructure sector attractive to private sector investors.

IFC's Portfolio in Croatia

During the Pre-CAS period (1973-2003), IFC undertook 16 investment operations with a total net commitment volume of US\$196.5 million. Five out of 16 operations are still active. All active investments are *existing* projects (as opposed to *greenfield*). See Table below for the list of active investments.

Project ID	Project Short Name	Approval FY	Commit FY	Project Status	Project Size	Greenfield/Existing	Sector Group	Sector Code	NET LOANS	NET EQUITY	TOTAL NET COMMITMENT (in US\$'000)
008297	Belisce	1998	1998	Active	42,200	E	Industrial products	M-FA	13,865	6,070	19,935
008314	Alpe Jadran Bank	1998	1998	Active	48,000	E	Finance	O-AA	3,062	0	3,062
009100	Croatia Capital	1999	1999	Active	22,780	E	Funds	P-BA	0	5,000	5,000
011336	ESBank Zagreb II	2002	2003	Active	26,907	E	Finance	O-AA	19,604	0	19,604
011378	Belisce Exp.	2002	2003	Active	41,900	E	Pulp & Paper	J-AA	9,802	0	9,802
Total Active Croatia Investments Pre-CAS period:					181,787				46,333	11,070	57,403
023578	Lidl Croatia	2004	2004	Active	184,000	G	Trade	Q-BA	48,626	0	48,626
023630	PBZ Croatia	2005	2005	Active	96,000	G	Finance	O-AA	99,416	0	99,416
024442	Agrokor	2006	2006	Active	107,148	E	Agribusiness	F-AG	51,060	0	51,060
025519	ALH	2007	2007	Active	246,335	G	Tourism	U-AB	37,091	15,505	52,595
027119	Belje	2008	2008	Active	0	E	Agribusiness	A-BD	0	0	0
027135	PIK Vrbovec	2008	2008	Active	60,156	E	Agribusiness	F-AG	62,710	0	62,710
007323	Mercator Retail	2006	2007	Active	488,000	E	Trade	Q-BA	51,226	0	51,226
024464	7L Capital	2007	2007	Active	100,000	G	Funds	P-BB	0	8,776	8,776
025325	GED Fund II	2007	2007	Active	19,148	G	Funds	P-BB	0	19,148	19,148
Total Active Regional Investments (with Croatia):					607,148				51,226	27,923	79,149
Total Active Investments in Croatia:					1,482,573				396,462	54,498	450,960

Source: MIS

IFC committed balances by sector. At the end of the pre-CAS period (FY03), IFC's committed portfolio was over \$99 million, with 17% in equity and 83% in loans. The financial sector held the highest share of 45%, followed by the industrial sector with 28%. At the end of the CAS period (FY08), IFC's committed portfolio reached over \$366 million, with 5% in equity and 95% in loans. Food and beverages sector held the highest share of 34%, followed by the financial sector with 32%. IFC moved away from the chemical and industrial sector, and invested in new sectors such as retail, tourism, and food & beverages. The share of equity dropped from 17% in FY03 to 5% in FY08, whereas the share of loan increased from 83% to 95% of total committed balances in FY03 and FY08 respectively.

Committed - IFC FY03	EQUITY	LOAN	TOTAL	% of Total
F - Food & Beverages	0	0	0	
G - Chemicals	0	10,000,000	10,000,000	10%
J - Pulp & Paper	0	11,454,000	11,454,000	12%
M - Industrial & Consumer Products	12,109,229	15,411,969	27,521,198	28%
O - Finance & Insurance	0	44,878,852	44,878,852	45%
P - Collective Investment Vehicles	5,000,000	0	5,000,000	5%
Q - Wholesale and Retail Trade	0	0	0	
U - Accommodation & Tourism Services	0	0	0	
Sector	17,109,229	81,744,821	98,854,050	100%
	17%	83%	100%	

Committed - IFC FY08	EQUITY	LOAN	TOTAL	% of Total
F - Food & Beverages	0	125,712,000	125,712,000	34%
G - Chemicals	0	0	0	
J - Pulp & Paper	0	15,714,000	15,714,000	4%
M - Industrial & Consumer Products	0	0	0	
O - Finance & Insurance	0	118,902,600	118,902,600	32%
P - Collective Investment Vehicles	329,160	0	329,160	0.1%
Q - Wholesale and Retail Trade	0	45,177,750	45,177,750	12%
U - Accommodation & Tourism Services	17,213,763	43,213,500	60,427,262	16%
TOTAL COMMITTED BALANCE, FY08	17,542,922	348,719,850	366,262,772	100%
	5%	95%	100%	

DOTS ratings. For the projects approved during the CAS period, the DOTS ratings are *too soon to tell*. For the project approved pre-CAS, there are 6 projects with development outcome ratings: two *successful*, two *mostly successful*, one *mostly unsuccessful*, and one *unsuccessful*.

IEG-IFC ratings. There are no projects approved during the CAS period that were evaluated by IEG-IFC. For the projects approved pre-CAS, there are 7 projects with development outcome ratings: two *successful*, two *mostly successful*, one *unsuccessful*, and two *highly unsuccessful*. Four had *satisfactory* investment outcomes, and three had *unsatisfactory* investment outcomes.

IFC CRR ratings: The average credit risk rating of all five projects approved during the CAS period is *moderate*.

B. Advisory Services

During the CAS period, IFC undertook 3 advisory services, two (Business Enabling Environment) BEE assignments through FIAS and one Environmental and Social (ESS) assignment through TATF totaling \$813,000 or 31% of total donor funding received for Croatia thus far.

1. Croatia Regulatory Governance (BEE): In 2006, IFC provided advisory services with a funding of \$240,000 for this project designed in preparation for Croatia's accession into the EU. IFC's FIAS (together with PEP-SE, WB, & USAID) were to assist the Government to move beyond an item-by-item approach to business environment reform, and instead apply a regulatory governance approach to improve the quality of regulations affecting the start-up and operation of business in Croatia.

2. Southeast Europe Sub-National Doing Business (BEE): In 2007, IFC provided advisory services with a funding of \$380,000 for this ongoing diagnostic M&E project designed to provide tools and motivations for reforms to lower administrative barriers at the sub-national and regional level and reduce transaction costs (i.e., time/cost/procedures to open a business, register property, enforce contracts and deal with licenses) and thereby help stimulate more investment. To achieve this, the project will create benchmarks of the business environment in 16 locations in 6 countries and 1 territory of the South East Europe (SEE) region.

3. Belje Biogas & Composting (ESS): In 2007, IFC provided advisory services with a funding of \$193,000 for this new production facility at Belje regarding innovative management of wastewater and biological waste emanating from the pig farms and biological waste from the new slaughterhouse. There are financial benefits in digesting waste to produce biogas, which in turn can be used for heat, steam and electric power generation. Belje has the potential to earn significant external revenues by avoiding CO₂ equivalent emissions and through the sale of certified emission reductions (CERs), also known as carbon credits. A follow-on investment project, Agrokor Migros, in the retail distribution sector is in IFC's investment pipeline. The Belje project is now complete.

The pre-CAS advisory service assignment is the *Pre-Development Strategy for the Constanza-Pancevo-Omisalj-Trieste (CPOT) Pipeline* in Croatia, Romania and Serbia, Phases 1 & 2, which was approved in 2003 and was operating until 2005, is currently in need of about \$4.5 billion in additional financing. CPOT is a cross-border oil transportation pipeline to bring high quality crude oil from Central Asia and Russia to Southern Europe. Until 2005, IFC supported the second phase of the advisory service assignment on pre-development strategy and coordination of the early institutional efforts to prepare the legal framework and promote the project to potential investors and users.

Advisory Services by Business Line. Based on the April FY08 TAAS Database, there were 24 advisory services assignments in Croatia approved during FY95-FY07. Overall, by facility, FIAS and TATF have been the main providers of advisory services with funding share of 52% and 48% of the total funding, respectively. By business line, IFC's advisory services in Croatia have been predominantly Business Enabling Environment (BEE) projects comprising 68% of total funding of about \$2.6 million; Access to Finance (A2F), 24%; and Environment & Social Sustainability (ESS), 7%. See table below.

Facility	AS business lines in Croatia	Projects	Funding	% of Total	
FIAS	BEE	10	\$ 1,346,154	52%	52%
TATF	A2F	1	\$ 627,000	24%	48%
	BEE	12	\$ 421,725	16%	
	ESS	1	\$ 193,000	7%	
Total FY95-07		24	\$ 2,587,879	100%	100%

CAS objectives regarding deployment of advisory services. FIAS was to reduce the cost of doing business, together with PEP-SE Infrastructure to facilitate PPP in Croatia. During the CAS period, IFC undertook 3 advisory services to improve the business environment of Croatia mainly through reform of regulations affecting the start-up and operation of business. In addition, IFC also provided advisory services to **Agrokor**, an agri-food processing company regarding conversion of biological waste to biogas. PEP-SE was a co-implementer of one advisory service on regulatory reform. However, PEP-SE did not provide advisory services to companies in the infrastructure sectors (e.g., ports, roads, airports, railways, power, shipping, energy, etc.) as intended because of slow reforms in the sectors and thus most still remain state-owned.

PCR and PSR advisory services ratings. One pre-CAS advisory project received a PCR rating of **satisfactory** for development effectiveness, and **satisfactory** for IFC's role and contribution. Another pre-CAS advisory project received a PCR rating of **partly unsatisfactory** for development effectiveness, and **satisfactory** for IFC's role and contribution.

The advisory services approved during the CAS period are too soon to evaluate. However, two have supervision ratings. These two advisory projects were rated as **on or above target** across all 3 categories (monitoring & evaluation, financial, and timeline).

5. IFC Investment Outcomes

Profitability. IFC's five investments in Croatia during the CAS period registered an estimated gross profit contribution of about \$9.2 million by end-FY08. If overhead costs were to be included, the net result would still be positive at about \$5.9 million. Three of the five projects are positive gross income makers. One project registers an overall loss. There are no loan loss reserves for the investments approved during the CAS period.

Overall, IFC's Croatia investments committed during FY05-FY08 show a positive gross profitability rate of 3.4% as a percentage of total outstanding loans and equity for the period, excluding all overhead costs. Croatia's gross profitability rate is lower than IFC's 28% and SECA Region's 26%, for the period FY05-FY08.

6. IFC's Contributions to Private Sector Development

During the CAS period, IFC's interventions in Croatia were in line with the second CAS pillar "sustainable private sector-led growth" and with the IFC regional strategy as well. IFC's investments successfully contributed in the following areas:

Through its investment in **ALH** in the tourism sector, IFC supported post-war reconstruction and hotel capacity expansion, which is also in line with the Government's strategy for the tourism sector.

Through its investment in **PBZ Croatia** in the financial sector, IFC supported the growth of SMEs by providing long-term credit, which is currently difficult to obtain, both in amounts and maturities, as a result of government-mandated lending growth limits to the banks.

Through its investment in **Lidl Croatia** in the retail sector, IFC supported the establishment of discount retail distribution centers that generated high benefits to consumers in the form of lower consumer prices for food and various consumer goods.

Through its investment in **Agrokor**, Croatia's largest retail and agribusiness group, IFC supported post-privatization restructuring of two previously unsustainable local companies (Belje and Pik Vrbovec), through providing long term credit, introducing good corporate governance, and environmental standards in line with EU practices. The result of the turnaround plan for Belje and PIK Vrbovec was an improved cost structure, larger output, and consequently, higher productivity for both companies.

IFC's advisory services targeted interventions with potential significant systemic impact such as preliminary work on **CPOT** pipeline, regulatory reform and advice on investment climate reform.

Construction and PPPs are areas where IFC was unable to play a role because of external constraints. IFC did not play a role in the construction sector nor did it provide its expertise in PPPs. The construction sector is one of the politically sensitive sectors and land-ownership issues still remain. As to PPPs, most of the companies in the infrastructure sector are still state-owned. IFC should continue to seek opportunities to work more closely with WB to leverage WB's presence in Croatia's transport and other infrastructure sectors by offering its expertise/advisory to attract the private sector.

In sum, IFC's made one investment per year in each of the sectors identified as strategic priorities in Croatia in the CAS, except for construction and infrastructure. IFC's investments in Croatia prepared investee companies to become leaders in their sectors, and be able to compete internationally and regionally in preparation for the country's EU accession.

Overall, IFC's additionality was moderate, with evidence of effective support for better standards of corporate governance and environmental standards, but at relatively limited levels of financial risk to IFC (a heavily loan dominated portfolio, mostly with larger clients) and possibly without fully leveraging the presence of the World Bank in the country, particularly to promote infrastructure development. IFC employed a selective strategy, which is compatible with the regional strategy, and chose to work with strong sponsors. IFC did invest,

however, in sectors that are traditionally considered to be high risk, such as agri-business and tourism. In **Agrokor's** case, IFC provided long-term financing which was not easily available to help turn unsustainable enterprises around. The additionality of IFC's advisory services in the area of business enabling environment (BEE) was significant given its close links with the Doing Business Project.

On the other hand, although IFC invested in the leading and largest firms of the targeted sectors where the potential for each entity's impact in the private sector development would be substantial, IFC's activities for private sector development was limited, having been constrained by internal (cost of financing, limited organizational resources devoted specifically to Croatia³) and external factors – such as the slow pace of privatization in the real sectors, lending growth limits imposed by the central bank on the financial sector, the securitization law that was not passed -- which are beyond IFC's control. IFC also faced stiff competition with local banks and EBRD.

Based on IEG interviews in Croatia, an increase in IFC's presence and lending activity is desired, especially in long-term financing for M-SMEs and the tourism sector. Projects in the pipeline include potential investments in the financial services, agribusiness, and the steel sectors. Also, a Bosnian company in the automotive industry (CIMOS) with branches in the region, including Croatia, has sought out IFC financing. These projects are expected to be presented for Board approval in FY09.

7. IFC'S Contribution to CAS Objectives

IFC undertook investments in the leading and largest firms in strategic sectors to promote a sustainable private sector-led growth in Croatia. IFC supported a large German discount retailer, **Lidl Croatia**, to set up retail distribution centers throughout Croatia. IFC supported the second largest commercial bank, **PBZ Croatia**, with a substantial loan for on-lending to SMEs and housing finance. IFC supported a pioneering company in the tourism sector, Adriatic Luxury Hotels (**ALH**) through a corporate loan and equity to strengthen its financial standing and support its expansion in the region. Most notable is **Agrokor**, Croatia's largest retail and agribusiness group, which has distribution and marketing power, the ability to leverage on synergies, and enter into regional and global markets capturing market shares for all its strategic products in Croatia, Serbia and Bosnia. Through Agrokor, IFC supported post-privatization restructuring of two previously unsustainable local companies (Belje and PIK Vrbovec), by providing long term credit, introducing good corporate governance, and environmental standards in line with EU practices. The result of the turnaround plan for Belje and PIK Vrbovec was an improved cost structure, larger output, and consequently, higher productivity for both companies. Agrokor's successful turnaround of Belje and PIK Vrbovec, and continuous improvements in efficiency are also contributing to their increased competitiveness. **PIK Vrbovec and Belje** together now cover the entire meat and crop/feedstock supply chain in Croatia.

IFC undertook 3 advisory services to improve the business environment of Croatia mainly through reform of regulations affecting the start-up and operation of business. The projects have contributed to the following:

- (1) An inventory of 2,863 business-related regulations, accessible to the general public via the Internet;
- (2) Government acceptance of the recommendations to eliminate and/or simplify about 55 percent of all inventoried regulations. The government has initiated implementation of these recommendations;
- (3) Government commitment to institutionalize a systemic review of new regulations using regulatory impact assessment (RIA). The project is expected to result in an estimated \$250 million in expected savings for businesses from the licensing and other business formalities simplification reform. Notably, the 2008 Doing Business Report declared Croatia as the world's second top reformer.

Until 2005, IFC supported the second phase of the work on CPOT Oil Pipeline on pre-development strategy and coordination of the early institutional efforts to prepare the legal framework and promote the project to potential investors and users.

³ As a point of comparison, EBRD has 8 investment officers assigned in Croatia

8. Lessons and Challenges from Past Experience

In companies that were privatized, IFC did not have a role to play since Croatia has a very developed financial markets sector evidenced by the presence of many new local as well as large international commercial banks that can provide products and services efficiently. In countries with a high likelihood of an improving business climate, IFC may consider more pro-active equity strategy as well as a more effective step-down feature on interest rates on loans.

IFC could not find bankable projects in the construction sector, and will likely face the same difficulty finding coastal tourism projects as well, partly because of the legal risks borne out of the lack of appropriate legislation in Croatia in these sectors. One barrier to investment, particularly *greenfield* investment, is the slow implementation of land administration reforms (e.g., land ownership rights; land & building titling; land registry). Moreover, the purchasing by any private party of certain types of land (principally land directly adjacent to the sea or in certain geographically designated areas) can be restricted. Inconsistent regulations and restrictions on coastal property ownership and construction have in the past provided challenges for foreign investors. Legislation passed in 2004 restricts coastal construction and commercial use within 70 meters of the coastline. Successful implementation of an enabling regulatory framework will not take place without a firm commitment from the Government and concerned regulatory bodies. IFC is able to undertake certain operations (investments and advisory) subject to specific reforms being undertaken by the government.

WBG support to Croatia during the latter part of the CAS period was to be joint between the Bank and IFC, working in close coordination to promote private investments in infrastructure. The WB was actively supporting the transport sector of Croatia at that time. IFC should continued to seek more opportunities to work more closely with WB to leverage fully WB's presence in Croatia's transport and other infrastructure sectors by offering its expertise/advisory to help make Croatia's infrastructure sector attractive to private sector investors.

Going forward and with approaching EU accession, IFC faces the challenge of maintaining additionality given the increasing range of other sources of finance and advisory services. This may involve IFC finding ways, including by learning from its experience in other countries that have achieved EU accession, to support more effectively infrastructure development, continued privatization and reaching SMEs.

Reviewer: Victoria Viray-Mendoza

Stoyan Tenev, Head, Macro Evaluation

Peer Reviewer: Daniel Crabtree

Amitava Banerjee, Manager, IEG-IFC

Standard Annex Tables

Table 1: IEG- IFC List of Investment Operations in Croatia, Pre-CAS and CAS Periods (US\$'000)

Project ID	Project Short Name	Approval FY	Commit FY	Project Status	Project Size	Country	Greenfield/ Existing	Sector Group	NET LOANS	NET EQUITY	TOTAL NET COMMITMENT (in US\$'000)
000238	KOMBINAT BELISCE	1973	1973	Closed	48,700	Croatia	G	Pulp & Paper	10,958	0	10,958
000545	BELISCE BEL	1981	1981	Closed	103,600	Croatia	E	Pulp & Paper	20,000	0	20,000
000730	INA-NAFTAPLIN	1984	1985	Closed	201,900	Croatia	E	Chemicals	29,709	0	29,709
005105	T.S. Banka D.D.	1996	1998	Closed	10,800	Croatia	G	Finance	0	1,243	1,243
007854	Koromacno	1997	1998	Closed	27,200	Croatia	E	Cement & Construction	11,384	0	11,384
008297	Belisce	1998	1998	Active	42,200	Croatia	E	Industrial products	13,865	6,070	19,935
008314	Alpe Jadran Bank	1998	1998	Active	48,000	Croatia	E	Finance	3,062	0	3,062
009100	Croatia Capital	1999	1999	Active	22,780	Croatia	E	Funds	0	5,000	5,000
009101	ESBank	1999	2000	Closed	15,000	Croatia	E	Finance	16,756	0	16,756
009230	T.S. Banka RI	1999	1999	Closed	850	Croatia	E	Finance	0	122	122
009449	T.S. Banka RI II	1999	1999	Closed	10,200	Croatia	E	Finance	0	1,245	1,245
009655	Viktor Lenac	2000	2000	Closed	63,340	Croatia	E	Industrial products	6,000	5,600	11,600
010213	Pliva	2001	2001	Closed	113,000	Croatia	E	Chemicals	35,000	0	35,000
010748	Croatia Banka	2002	2002	Closed	19,732	Croatia	E	Finance	1,079	0	1,079
011336	ESBank Zagreb II	2002	2003	Active	26,907	Croatia	E	Finance	19,604	0	19,604
011378	Belisce Exp.	2002	2003	Active	41,900	Croatia	E	Pulp & Paper	9,802	0	9,802
Total Croatia Investments Pre-CAS period:					796,109				177,220	19,281	196,501
023578	Lidl Croatia	2004	2004	Active	184,000	Croatia	G	Trade	48,626	0	48,626
023630	PBZ Croatia	2005	2005	Active	96,000	Croatia	G	Finance	99,416	0	99,416
024442	Agrokor	2006	2006	Active	107,148	Croatia	E	Agribusiness	51,060	0	51,060
025519	ALH	2007	2007	Active	246,335	Croatia	G	Tourism	37,091	15,505	52,595
027119	Belje	2008	2008	Active	0	Croatia	E	Agribusiness	0	0	0
027135	PIK Vrbovec	2008	2008	Active	60,156	Croatia	E	Agribusiness	62,710	0	62,710
Total Croatia Investments CAS Period FY04-08:					693,639				298,903	15,505	314,407
007323	Mercator Retail	2006	2007	Active	488,000	Southern Europe Region	E	Trade	51,226	0	51,226
024464	7L Capital	2007	2007	Active	100,000	Southern Europe Region	G	Funds	0	8,776	8,776
025325	GED Fund II	2007	2007	Active	19,148	Southern Europe Region	G	Funds	0	19,148	19,148
Total Regional Investments (with Croatia):					607,148				51,226	27,923	79,149
Grand Total:									527,349	62,709	590,058

Average Project size Pre-Cas 49,757
Average Project size CAS Period 138,728
Average Project size Regionals 202,383

Average Investment Pre-Cas 12,281
Average Investment CAS Period 62,881
Average Investment Regionals 26,383

Table 2: IEG- IFC List of Advisory Services Projects in Croatia (US\$)

Facility	Project ID	Project Name	Status	Dept/Div - Name	Country	Sector Code	Sector Name	Business Line - Products	Approval FY	Total Funding as of Apr 30, 2008 (actual USD)
FIAS	129	Reviewed the legal and regulatory environment for foreign investment and helped develop an institutional framework for investment promotion.	Closed	CICRS	Croatia		BEE	BEE: Policy, Regulation, and Institutions	1995	\$ 73,020
FIAS	130	Provided assistance in drafting an investment policy statement.	Closed	CICRS	Croatia		BEE	BEE: Investment Policy and Promotion	1996	\$ 73,020
FIAS	131	Helped in the development of the mandate, organizational structure, and the work program of the investment promotion agency.	Closed	CICRS	Croatia		BEE	BEE: Policy, Regulation, and Institutions	1997	\$ 55,245
TATF	502593	Gavrilovic Meat Company – Pre-Feasibility Study	Closed	CAGDR	Croatia	F	Food & Beverages	BEE: Industry specific	1997	\$ 96,000
TATF	502594	Investment Training	Closed	CSEDR	Croatia	O	Finance & Insurance	BEE: Investment Policy and Promotion	1997	\$ 15,650
TATF	502595	Equipment Leasing Company	Closed	CSEDR	Croatia	O-L	Rental & Leasing Services	BEE: Industry specific	1997	\$ 55,000
FIAS	132	Assisted the country's Investment Promotion Agency in reviewing its work program and developing capacity for investment promotion.	Closed	CICRS	Croatia		BEE	BEE: Policy, Regulation, and Institutions	1998	\$ 47,109
FIAS	133	Sponsored a roundtable on investment promotion as part of the Central Europe Initiative.	Closed	CICRS	Croatia		BEE	BEE: Investment Policy and Promotion	1999	\$ 80,000
TATF	502817	Evaluation of Leasing Regulatory Framework	Closed	CSEDR	Croatia	O-L	Rental & Leasing Services	BEE - regulatory framework; industry specific	1999	\$ 30,000
TATF	502940	Diagnostic Study of the Insurance Sector	Closed	CGFGS	Croatia	O-J	Insurance	BEE: Business entry	1999	\$ 80,000
TATF	504206	Tourism Sector Strengthening and Project Identification Work	Closed	CSEDR	Croatia	U	Accommodation & Tourism Services	BEE: Business operation	2000	\$ 15,000
TATF	504297	Study of Technical and Commercial Feasibility, and Preparatory Work Required for Reactivating a Paper Machine	Closed	CSEDR	Croatia	J	Pulp & Paper	BEE: Business operation	2000	\$ 58,000
					Croatia	O	Finance & Insurance	BEE: Business entry	2000	\$ 100,000
					Croatia	O	Finance & Insurance	BEE: Policy, Regulation, and Institutions	2001	\$ 76,000
		assessment.			Croatia		BEE	BEE: Business entry	2001	\$ 163,300
FIAS	135	Provided guidance to the government on the reform of their tax incentives and other aspects of the tax regime that affect FDI.	Closed	CICRS	Croatia		BEE	BEE: Business taxation	2001	\$ 85,100
TATF	507306	Feasibility Study for Expansion of Viktor Lenac	Closed	CGMGT	Croatia	M-CA	Ship Building and Repairing	BEE: Industry specific; privatization	2002	\$ 48,300
TATF	508221	SME Map Development	Closed	CSMBB	Croatia	XX	Other	BEE: Investment Policy & Promotion	2003	\$ 8,060
TATF	523447/522025	Pre-Development Strategy for the Constanza-Pancevo-Omisalj-Trieste (CPOT) Pipeline in Croatia, Romania and Serbia, Phases 1 & 2	Active	CSEYU	SECA Region (Croatia, Romania, Serbia)	B-A	Extractive	BEE: Infrastructure	2003	\$ 421,000
TATF	522195	Gap Analysis and Feasibility Study for the Establishment of a Primary Housing Finance Institution	Closed	CGFRF	SECA Region (Croatia, Bosnia, Macedonia, Serbia)	O-E	Finance & Insurance	Access To Finance - In Development: Housing Finance 100%;	2003	\$ 627,000
FIAS	538778	FIAS Assistance in the Implementation of the study of Admin. Barriers to Investment.	Closed	CICRS	Croatia		BEE	BEE - Developed: Business Entry: (30%); Developed: Licensing, Permits & Inspections: (30%); In development: Business Taxation: (10%); Other: Trade Logistics: (30%);	2003	\$ 149,360
FIAS	541844	Croatia Regulatory Governance	Closed	CICRS	Croatia		BEE	BEE - Developed: Business Entry: (50%); Developed: Licensing, Permits & Inspections: (50%);	2006	\$ 240,000
TATF	541604	Belje Biogas and Composting	Active	CES11 - Investment Support Group I	Croatia		ESS	ESS - Other: Cleaner Technology, Cleaner production assessments: (100%);	2007	\$ 193,000
FIAS	557247	SEE Sub-National Doing Business	Active	CSEBY	Southeast Europe		BEE	Business Enabling Environment - In Development Sub-National: Doing Business 100%;	2007	\$ 380,000

24 Advisory Services assignments in Croatia

\$ 2,587,879

**Table 3: PSD indicators for Country plus comparators (Region and OECD)
Doing Business Report: Croatia received a DB 2008 citation as Second Best Reformer of the Year**

Ease of Doing Business	Doing Business 2008 rank	Doing Business 2007 rank	Change in rank
Doing Business	97	120	23
Starting a Business	93	104	11
Dealing with Licenses	162	167	5
Employing Workers	139	142	3
Registering Property	99	107	8
Getting Credit	48	111	63
Protecting Investors	122	120	-2
Paying Taxes	43	55	12
Trading Across Borders	96	97	1
Enforcing Contracts	45	44	-1
Closing a Business	78	80	2
Starting a Business			
The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.	Croatia	Region	OECD
Procedures (number)	8	8.8	6
Duration (days)	40	26.2	14.9
Cost (% GNI per capita)	11.7	11.1	5.1
Paid in Min. Capital (% of GNI per capita)	18.4	45.3	32.5
Dealing with Licenses			
Shown below are the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.	Croatia	Region	OECD
Procedures (number)	22	24	14
Duration (days)	255	251.3	153.3
Cost (% of income per capita)	722.4	628.4	62.2
Employing Workers			
The difficulties that employers face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.	Croatia	Region	OECD
Difficulty of Hiring Index	61	36.3	25.2
Rigidity of Hours Index	40	51.4	39.2
Difficulty of Firing Index	50	32.1	27.9
Rigidity of Employment Index	50	40	30.8
Nonwage labor cost (% of salary)	17	25.4	20.7
Firing costs (weeks of wages)	39	26.1	25.7
Registering Property			
The ease with which businesses can secure rights to property is shown below. Included are the number of steps, time, and cost involved in registering property.	Croatia	Region	OECD
Procedures (number)	5	6.2	4.9
Duration (days)	174	92.4	28
Cost (% of property value)	5	2.4	4.6
Getting Credit			
Measures on credit information sharing and the legal rights of borrowers and lenders are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.	Croatia	Region	OECD
Legal Rights Index	6	5.6	6.4
Credit Information Index	3	3.4	4.8
Public registry coverage (% adults)	0	2.4	8.6
Private bureau coverage (% adults)	72.4	15.4	59.3

Protecting Investors

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

	Croatia	Region	OECD
Disclosure Index	1	4.9	6.4
Director Liability Index	5	3.8	5.1
Shareholder Suits Index	6	6.3	6.5
Investor Protection Index	4	5	6

Paying Taxes

The data below shows the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

	Croatia	Region	OECD
Payments (number)	28	46.3	15.1
Time (hours)	196	451.5	183.3
Profit tax (%)	11.4	11.2	20
Labor tax and contributions (%)	19.4	28.7	22.8
Other taxes (%)	1.7	10.8	3.4
Total tax rate (% profit)	32.5	50.8	46.2

Trading Across Borders

The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

	Croatia	Region	OECD
Documents for export (number)	7	7	4.5
Time for export (days)	22	29.3	9.8
Cost to export (US\$ per container)	1,200	1,393.40	905
Documents for import (number)	8	8.3	5
Time for import (days)	16	30.8	10.4
Cost to import (US\$ per container)	1,200	1,551.40	986.1

Enforcing Contracts

The ease or difficulty of enforcing commercial contracts is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

	Croatia	Region	OECD
Procedures (number)	38	35.9	31.3
Duration (days)	561	443	443.3
Cost (% of claim)	13.8	22.7	17.7

Closing a Business

The time and cost required to resolve bankruptcies is shown below. The data identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is also shown.

	Croatia	Region	OECD
Time (years)	3.1	3.2	1.3
Cost (% of estate)	15	13.7	7.5
Recovery rate (cents on the dollar)	30.2	28.9	74.1