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The World Bank

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Report Number: 61715-HR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

REPUBLIC OF CROATIA

FOR THE PERIOD FY2009 – FY2012

August 22, 2011

Central Europe and the Baltic Countries
Europe and Central Asia Region

Central and Eastern Europe Department
International Finance Corporation

CROATIA GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of August 2, 2011)

US$ 1.00 HRK 5.160

WEIGHTS AND MEASURES
Metric System

ABBREVIATION AND ACRONYMS

AAA	Analytical and Advisory Activities
CEDB	Council of Europe Development Bank
CCPC II	Coastal Cities Pollution Control II
CNB	Croatian National Bank
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
CEFIL	Croatia Export Finance Intermediation Loan
EIB	European Investment Bank
ERP	Economic Recovery Program
EU	European Union
EU-15	EU Member States prior 2004
FBS	Fee Based Service
GEF	Global Environment Facility
GDP	Gross Domestic Product
HBOR	Croatian Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
NPL	Non-Performing Loans
OP	Operational Program
PAL2	Programmatic Adjustment Loan 2
PISA	Program for International Student Assessment
PPP	Public Private Partnerships
R&D	Research and Development
SME	Small and Medium-size Enterprises

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CROATIA

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

On June 24, 2011, the European Council gave the green light for Croatia to become the 28th member state to join the European Union on July 1, 2013. To mark this historic milestone, this Country Partnership Strategy (CPS) Progress Report proposes to sharpen the World Bank's focus on supporting Croatia make the most of its imminent EU membership. The Report also takes stock of achievements since the start of the CPS in FY09. Upon EU accession, Croatia will gain access to substantial amounts of EU Structural and Cohesion funds. Therefore, the Bank envisages a more selective approach to lending and complementarity with EU-financed initiatives. This Report also sets in motion a gradual transition from a project- to knowledge-based partnership with Croatia in the remaining year of the CPS. Increased emphasis will be placed on knowledge products and technical assistance that provide added value in supporting Croatia's EU-related responsibilities and contribute to an enabling environment to absorb EU grant funds.

I. INTRODUCTION

1. This Progress Report reviews the implementation of the FY09-FY12 Country Partnership Strategy (CPS), which was prepared as Croatia was in the midst of EU accession negotiations and prior to the onset of the global financial crisis. Anchored in Croatia's overarching goal of joining the European Union (EU) and accelerating income convergence with EU member states, the CPS consists of four pillars: (i) sustaining macroeconomic stability; (ii) strengthening private sector-led growth and accelerating EU convergence; (iii) improving quality and efficiency in the social sectors; and (iv) increasing the sustainability of long-term development. The CPS envisaged an annual lending of about US$300 million under a base case scenario of investment loans only. Provisions were made for possible development policy lending (DPL) under an alternative scenario that could reach $400 million per year.

2. When the global crisis hit, the CPS' flexible architecture enabled the Bank to adapt its program to support the Croatian authorities with quick-disbursing development policy operations. The Government took steps to strengthen the macroeconomic framework and rein in social spending. As Croatia begins to emerge from the crisis today, the Government's focus is on two priorities: (i) to put the economy on a path towards sustainable growth with long-delayed structural reforms under the Economic Recovery Program; and (ii) to take Croatia to EU membership with a competitive economy.

3. While the CPS' four-pillar framework remains relevant, in view of Croatia's imminent EU entry, the Progress Report proposes to (i) calibrate the CPS framework with a stronger European focus; and (ii) evolve from a project to a knowledge partnership. These modifications will entail adopting a more selective approach to lending and Analytical and Advisory Activities (AAA) products in the remaining year of the CPS, to ensure that they directly support or are aligned with the EU policy agenda. Moreover, to enable Croatia to reap the benefits of EU membership, the Progress Report proposes that future knowledge and advisory services increasingly place emphasis on strengthening the policy framework and institutional capacity to meet EU-related obligations and prepare for the absorption of EU Structural and Cohesion Funds that will be available to Croatia upon entry into the EU.

II. POLITICAL AND ECONOMIC DEVELOPMENTS

4. Public discontent has increased in the face of economic hardship. Despite the Government's determined efforts to fight corruption, including holding senior officials to account, there is widespread perception that corruption remains prevalent. This public discontent comes at a time when the Government is trying to implement difficult reforms under the Economic Recovery Program (ERP) and with parliamentary elections slated to take place in late 2011. There is broad consensus on Croatia's development challenges and national priorities, as presented in the ERP across the political spectrum. However, implementation has lagged and concerted political effort will be necessary to accelerate the pace of reforms.

5. The European Council gave the green light for Croatia to become the 28th country to join the European Union on the target date of July 1, 2013. The EU accession process provided Croatia with a strong incentive to adopt reforms and harmonize its legislation with the EU *acquis communautaire*. On June 30, 2011, Croatia closed the last four policy chapters out of the 35 EU negotiation chapters. Two chapters in particular had posed the biggest challenge─Chapter 23 on judiciary and fundamental rights, and Chapter 11 on competition. The 2010 EU Progress Report emphasized the need to accelerate reform efforts in judiciary and fundamental rights. It called for strengthening the judiciary's independence and efficiency, the fight against corruption and organized crime, competition policy as well as the effectiveness of public administration. Croatia has made important strides over the last year in the fight against corruption, including overhauling the legislative framework, building the capacities of state attorney offices, police forces and the judiciary, as well as prosecuting senior public figures for corruption across many sectors of the economy. Progress on these reforms will continue to be monitored by the European Commission until formal accession.

6. When the CPS was presented to the Board in the fall of 2008, Croatia was enjoying a stretch of strong economic growth averaging four percent over the five years preceding crisis. Growth was driven by a boom in private investments and consumption, fueled in part by large capital inflows**.** Although exports grew significantly, import growth was much stronger, which, together with the deterioration in terms of trade, led to the widening of the current account deficit to nine percent of Gross Domestic Product (GDP) by 2008. While only half of the current account deficit was financed through non-debt creating inflows, external debt soared to 90 percent of GDP.

7. By the end of 2008, the Croatian economy began to feel the negative effect of the global financial crisis. Reduced private capital inflows and external demand aggravated existing imbalances. With a large current account deficit, a high level of external debt, and significant balance sheet exposures to interest and exchange rate risks, market confidence in Croatia deteriorated sharply in early 2009. Financial asset prices collapsed and sovereign spreads shot up, while output contracted by six percent in 2009, led by large drops of domestic demand. Driven by imports decline by more than one-third, the current account deficit nearly halved to five percent of GDP in 2009.

8. Croatian authorities moved swiftly to stabilize the financial sector. The Croatian National Bank (CNB) eased regulatory requirements and ran repo auctions to address liquidity shortages, while intervening on the foreign exchange markets to ease pressure on the local currency. Commercial banks were able to maintain adequate capitalization (at 16 percent in 2009), although credit quality worsened (non-performing loans at 9 percent in 2009) and profitability declined, largely reflecting an increase in provisioning for non-performing loans.

9. As the crisis unfolded, public finances also came under substantial strain. Declining tax revenues led to a series of fiscal policy adjustments to protect macroeconomic stability and ensure regular

debt service. Politically difficult measures on both the revenue and spending sides were implemented, while the social safety net remained protected. These measures included public wage cuts, suspension of pension indexation and the introduction of a solidarity tax. Nevertheless, the headline general government deficit rose to 3.1 percent of GDP in 2009 (including the activation of a guarantee for a state-owned shipyard) and widened further to 4.3 percent of GDP in 2010.[1] By end-2010, public debt with government guarantees surged to 58 percent of GDP. Subsequently, the S&P credit rating agency downgraded Croatia's sovereign credit rating by a notch to BBB- with a negative outlook, reflecting the country's deteriorating fiscal position and weak external funding flexibility.

10. The global crisis exposed Croatia's two key economic vulnerabilities─fiscal sustainability and private sector competitiveness. Given the large share of public spending (at about 43 percent of GDP), particularly in the social sectors and administration, fiscal consolidation continues to be a challenge. High external debt and low export base call for sustained improvements in competitiveness. The economy is characterized by labor market rigidities, ineffective state-owned enterprises (railways, shipyards) that drain the budget and inefficient administration. This limited policy space has compromised Croatia's ability to respond to shocks and further underscores the need to boost competitiveness through structural reforms and fiscal consolidation.

11. The crisis provided impetus for the Government to move ahead with long overdue reforms. In April 2010, the Government launched a comprehensive Economic Recovery Program (ERP). This ambitious program aims at: (i) improving the business environment with the finalization of the privatization agenda, public administration reform and acceleration of judicial reform and anti-corruption efforts; (ii) increasing the contribution of labor to growth by addressing skill mismatches through education reform and advancing the flexibility in the labor market; and (iii) deepening trade integration and supporting innovation. The ERP received broad support from political and social partners, as well as International Financial Institutions (IFIs) who called for swift and steadfast implementation of the program. Implementation, however, has proved more difficult than expected, particularly ahead of the general elections.

12. Prospects for economic recovery remain fragile and slower than expected, suggesting the need to accelerate reforms. The economy started recovering in early 2011, but continues to lag behind those of new EU member states. Growth prospects, estimated at 1 to 1.5 percent for 2011, have been dampened by weak domestic demand on the back of high unemployment rates, banks' risk aversion and uncertainty. Without reforms, near-term growth is expected to remain sluggish—reaching 3 percent by 2015—constrained by poor competitiveness and limited capital inflows resulting from low investor confidence.

13. Croatia has maintained dialogue with the International Monetary Fund (IMF) through Article IV Consultations. The Fund has highlighted risks linked to the high external indebtedness, concerns about the sustainability of public finance and the medium-term growth prospects given deep-rooted structural rigidities and competitiveness problems. The government's goal to reduce the fiscal deficit to 2 percent of GDP by 2013 was seen as broadly appropriate, but would require front-loaded implementation of the ERP's expenditure-saving measures (in particular public sector retrenchment, privatization, pension and health sector reforms), a more flexible wage-setting mechanism, and better targeting of social benefits. Implementation of a consistent set of macroeconomic, structural, and financial sector policies was recommended to ensure sustained growth.

[1] The adjusted fiscal balance that includes pensioners' debt, called shipyards' guarantees and Croatian Highways rose from 2.5 percent of GDP in 2008 to 5.2 percent of GDP in 2010.

III. CPS IMPLEMENTATION AND PROGRESS TOWARD OBJECTIVES

14. The CPS was endorsed by the Board in September 2008, just before the outbreak of the global financial crisis, and served as a relevant framework for Croatia's overarching goal of EU accession. The CPS aimed to support Croatia's efforts to complete the EU accession process and achieve rapid income convergence with EU members in a fiscally, socially and environmentally sustainable manner. The CPS envisaged $300 million of annual lending under a base case scenario of investment loans only. Given the mixed record with past programmatic adjustment loans, provisions were made for possible DPLs, under an 'upside' lending scenario of about $400 million per year. The DPLs would be based on actual performance and in the form of one-tranche operations with a relatively narrow policy agenda. International Finance Corporation's (IFC) strategic focus in Croatia was underpinned by its regional priorities of increasing access and quality of infrastructure services; addressing climate change; and enhancing competitiveness, including supporting South-South investments.

15. The global financial crisis resulted in the use of DPLs and a surge in FY10 lending. At the peak of the crisis in 2009, the Government of Croatia sought Bank financing to help mitigate the impact of the crisis. A $141 million line of credit for exporters through the Croatian Bank for Reconstruction and Development (HBOR) and a $271 million DPL were added to the FY10 program—increasing FY10 lending to $474 million. Moreover, a $213 million DPL—the first in a programmatic series—was added to the FY11 program to support the government's Economic Recovery Program. The DPLs and export credit line were used strategically to complement the investment lending portfolio and to ease the Government's fiscal constraints caused by the crisis. The CPS' flexible approach enabled the Bank to respond quickly to Croatia's evolving financing needs and accelerate much-needed fiscal consolidation and structural reforms.

16. Only half of the envisaged investment lending program was ultimately delivered, due in part to evolving priorities during the crisis (see Table 1 below). Large repeater or additional finance operations such as *Rijeka* Gateway *II* and *Coastal Cities Pollution Control II*, which underpinned the project portfolio, were delivered in the first year of the CPS. Three planned projects—*Disaster Risk Management*, *Irrigation*, and *Education II*—were dropped due to a combination of the Government's fiscal constraints and efforts by the Bank to complement the EU agenda and streamline the portfolio. Moreover, the tentative proposals for lending in railway and energy did not materialize since the Bank ultimately did not engage in these sectors. The Croatian authorities, however, expressed interest in two new repeater projects: the *Integrated Land Administration Systems* project, to continue modernization reforms in land administration supported under the *Real Property Registration and Cadastre* project and the *Science and Technology* project aimed at strengthening institutions to effectively absorb EU Structural Funds. The former was delivered in early FY12, along with the planned additional financing for *Trade and Transport Integration* project. The latter is expected to be delivered in the second half of FY12.

17. The planned AAA program was partially delivered and was driven largely by DPL-related policy dialogue focusing on macroeconomic sustainability, private sector growth, and social sectors. At the height of the crisis, the Bank prepared public sector policy notes which provided timely advice to the authorities, including the *Social Impact of the Crisis*, *Fiscal Responsibility Framework*, and *Institutional Framework and Fiscal Risk Assessment of Public Private Partnerships (PPP).* Like many countries in the region, Croatia's biggest demographic challenge is managing the social and fiscal implications of an aging population. The Bank produced policy notes that addressed long-term care for the elderly and pension reform options and updated the poverty assessment to inform policy measures supported by the programmatic DPL. As part of the dialogue aimed at creating an enabling business environment, the Bank produced strategic AAA on labor markets, follow-up to Doing Business report, and on science, innovation and technology policy. The *EU Convergence Report* was a major work undertaken in this area, engaging policymakers and stakeholders on accelerating growth through greater

labor force participation, productivity, trade integration and innovation. The envisaged AAA in energy and transport did not materialize as dialogue in these sectors did not gain traction, possibly due to the Government's focus on crisis response, but two products on integrated waste management and brownfield redevelopment were delivered. In addition, active policy dialogue in the port sector through investment lending projects resulted in the transformation of the financing mechanisms in Croatia's two largest ports. There remains room for further strengthening the policy dialogue in infrastructure, particularly in water and transport, where the Bank has been active on the lending side.

Table 1: Planned vs. Actual Lending

Planned Lending ($US Million)	
FY09	
• Judicial Reform	35
• Dev. of Emergency Medical Services & Investment Planning	27
• Rijeka Gateway II	130
• Coastal Cities Pollution Control II	90
• Disaster Risk Management	48
FY09 TOTAL	**330**
FY10	
• Education II (or additional financing)	100
• Port Development (or additional financing)	70
• Climate Adaptation/irrigation	100
• Nature Protection	30
FY10 TOTAL	**300**
FY11-12	**(no volume forecast)**
• DPL	
• Railway Developments	
• Energy Generation or Transmission	

**does not include accompanying GEF grant of $6 million.*

Actual Lending ($US Million)	
FY09	
• Dev. of Emergency Medical Services & Investment Planning	28
• Rijeka Gateway II	123
• Coastal Cities Pollution Control II*	88
FY09 TOTAL	**239**
FY10	
• Export Finance Intermediation Loan	141
• Fiscal, Social and Financial DPL	297
• Judicial Reform	36
FY10 TOTAL	**474**
FY11	
• Nature Protection (EU Natura 2000)	29
• Economic Recovery DPL	213
FY11 TOTAL	**242**
FY12	
• Port Development AF (Trade & Transport)	67
• Integrated Land Administration System	24
• Science & Technology Repeater	29
FY12 TOTAL	**120**

18. Project restructurings led to substantial improvements, but the portfolio continues to be hampered by implementation delays. As of end FY11, the portfolio consisted of 14 operations[2] with net commitments of $1.2 billion—compared with 18 projects and net commitment of $1.1 billion at end-FY09. A comprehensive portfolio review in 2008 resulted in the restructuring of 6 out of 15 reviewed projects. This, combined with maturing projects, gradually improved the disbursement ratio from 12.7 percent in end-FY08 to 23 percent in end-FY11. However, the ratio of problem projects stood at seven percent, with one project rated moderately unsatisfactory due to implementation constraints and low disbursements. Moreover, seven projects and one GEF grant were rated moderately satisfactory, reflecting implementation difficulties.

19. The Government of Croatia and the Bank have taken steps to resolve implementation bottlenecks. Annual joint portfolio reviews (JPR) revealed that projects experienced a slow start and low disbursements during the first year of implementation due to poor readiness and capacity. Combined with effectiveness delays and slow decision making, these projects were unable to make up for lost time and required multiple extensions. Recent JPRs have recommended early restructuring of problem projects. Increased focus has been placed on ensuring implementation readiness of new projects, including having

[2] Includes one DPL for $213 million (€150 million).

a monitoring and evaluation framework in place and taking advantage of project preparation facilities. Drawing on lessons of past experience, the Government is now applying a more rigorous implementation readiness and ownership criteria for new Bank projects, similar to those applied to EU pre-accession assistance. These efforts are starting to yield results. Three projects approved in FY10 and FY11[3] have effectively absorbed funds from the project preparation facility. They became effective within three months of approval (compared to the portfolio average of six months), with disbursement levels in line with or exceeding disbursement projections.

Progress toward Pillar 1: Macroeconomic Stability

20. Croatia's progress towards achieving macroeconomic stability slowed down during the crisis when its public finances came under pressure. The fiscal deficit widened from 2.5 percent of GDP in 2008 to 5.3 percent in 2010, and public debt with guarantees reached 58 percent in 2010. The *Fiscal, Social and Financial Sector DPL (FSF DPL)* supported fiscal consolidation efforts and mitigation of the social impact of the crisis. The crisis gave the Government a strong impetus to launch the Economic Recovery Program (ERP) in April 2010,[4] consisting of long-term structural measures to boost competitiveness. The *Economic Recovery DPL (ERDPL)* supported important ERP measures, such as the Fiscal Responsibility Act, which aims to reduce public spending in social sectors and administration by 1 percentage point of GDP per year until fiscal balance is achieved, and a fiscal board to monitor implementation of fiscal rules.

21. The EU accession process was an important driver of public financial management reforms. Croatia closed Chapter 32 of the acquis on financial control. Public sector auditing, accounting and reporting standards have been strengthened, and internal audit and control functions established. The budget execution process has been steadily strengthened through the expansion of the treasury single account. The *FSF DPL* supported the Government's public finance management reforms.

22. The financial sector was also affected by the recession, but the sector overall remained resilient. Non-performing loans rose to 11 percent in 2010 and will require close monitoring. However, the presence of foreign banks and effective policy measures adopted by the Croatian National Bank have ensured adequate liquidity and stability in the sector. With support from the *FSF DPL* and targeted AAA, Croatia formulated a comprehensive regulatory framework for financial institutions, in line with Basel II and through the Credit Institutions Act, Capital Markets Act, and the Consumer Credit Act.

Progress toward Pillar 2: Private Sector-Led Growth and EU Convergence

23. Croatia took concrete steps to create an enabling environment for the private sector, but a substantial agenda remains. Public administration remains costly and bureaucratic, lagging behind EU standards, and comprehensive reforms have faced delays due to opposition from unions. The *ERDPL* supported amendment to the Civil Service Law which strengthens the appraisal system and paves the way for outsourcing. But the Government continues to face a difficult dialogue with unions on civil service pay. Meanwhile, Croatia has moved decisively on judicial reforms, driven largely by EU accession goals. Under the *Programmatic Adjustment Loan 2 (PAL2)*, the Government functionally consolidated the court network and reduced case backlogs. The *Real Property Registration and Cadastre* project reduced backlogs in land registration by 84 percent, and the ongoing *Justice Sector Support* project is supporting the physical rationalization of the court network and improved court management practices. Corporate financial reporting has been enhanced with support from the Bank's Program of Accounting Reform and

[3] Export Finance Intermediation Loan, Justice Sector Support Project and EU Natura 2000 Integration Project.
[4] Headline government deficit widened from 0.9 to 4.3 percent of GDP from 2008 to 2010.

Institutional Strengthening, financed by a multi-donor trust fund, resulting in the EC placing Croatia's public oversight system at par with EU member states.

24. Progress on privatization has been slow and administrative barriers continue to challenge businesses. The Government took measures to liquidate state-owned enterprises—though privatization of shipyards was a difficult hurdle to EU accession—and to eliminate investment barriers in business registration, land acquisition, permits and taxation. The *ERDPL* supported the establishment of a single agency for the Management of State Property to accelerate the privatization of majority state shareholdings. In infrastructure, the Rijeka Port Authority recently concluded the first transaction to secure private investment for Croatia's largest container terminal under the *Rijeka Gateway Program*. The transaction reaffirms international interest in Croatian ports, with two more transactions in the pipeline. R&D spending, critical for Croatia to shift to innovation-driven growth, is low and concentrated in the public sector. The Government is preparing draft laws aimed at promoting collaboration between universities and research institutes and businesses, as well as increasing private sector investments in science.

25. IFC and MIGA activities focused on providing strategic support to enterprises, including through immediate crisis response. During the CPS period, IFC invested $56.4 million in the post-privatization restructuring of a previously state-owned asset, the steel mill CMC Sisak, and supported Agrokor, a Croatian food and retail group, in their €40 million expansion in Serbia. IFC's portfolio reached almost $260 million as of end-June 2011, with focus on investments in agribusiness, tourism and construction materials sectors. In the area of Advisory Services, IFC is working with Agrokor's PIK Vrbovec on identifying areas of energy and water consumption savings, which will ultimately lead to cost savings and climate change benefits. MIGA issued a guarantee of up to $278.6 million for Unicredit Bank Austria's $200 million shareholder loan to its Croatian subsidiary, Zagrebacka Banka. The coverage is for a period up to eight years against the risks of transfer restriction, expropriation, and war and civil disturbance. The MIGA guarantee is part of the World Bank Group's Financial Sector Initiative framework which coordinated international response to the global crisis and is aimed at contributing to stability in Croatia's banking sector by injecting liquidity.

Progress toward Pillar 3: Improving Quality and Efficiency in the Social Sectors

26. Croatia achieved significant progress in reforming its costly social assistance system, benefiting in part from DPLs. Under the ERP, the Government took the first in a series of steps to rationalize privileged pensions**,** but clawing back privileged pensions for war veterans (about 1.5 percent of GDP) remains controversial. In health spending, policy measures were introduced to streamline pharmaceutical spending and to decrease co-payment exemptions. At the same time, income-testing for exemptions were strengthened to ensure exemptions were applied to the most vulnerable. In 2009, during the crisis, the Government simplified the different social protection programs at central and local levels to enhance administrative efficiency. Supported by the *Social Welfare Development* project, the Ministry of Health and Social Welfare adopted a new Management Information System (MIS) to be rolled out in social welfare centers across the country. In addition, a new Social Welfare Law, supported by the *ERDPL*, was introduced to reduce social exclusion and improve targeting and efficiency.

27. In education, the significant reduction in triple-shift schools, supported by the *Education System Development* project, did not translate into improved learning outcomes. Croatia's 2009 Program for International Student Assessment (PISA) scores, while high compared to recent EU entrants such as Bulgaria or Romania, dropped slightly compared to its 2006 PISA scores. The Bank plans to strengthen its policy dialogue with Croatia in education, with a focus on higher education.

Progress toward Pillar 4: Increasing Sustainability of Long Term Development

28. Croatia made steady progress in aligning its environmental agenda to EU requirements. As part of the EU accession agreement, Croatia needs to increase the coverage and quality of waste water services, and to maintain seawater quality along its Adriatic coastline. Under the ongoing *Coastal Cities Pollution Control II (CCPC II)*, the Bank is supporting wastewater investments in 22 coastal municipalities and building capacity to prepare projects to absorb EU funds. Similar investments are also being supported in the inland regions of Croatia. In nature conservation, Croatia will have to meet the requirements of the Birds and Habitats Directives, the EU's main legal instruments for biodiversity protection. The *EU Natura 2000* project will assist Croatia to implement Natura 2000 (EU network of protected areas) objectives in investments and strengthen capacity for EU-compliant reporting and biodiversity monitoring. The ongoing *Agricultural Acquis Cohesion* project supported EU accession negotiations in agriculture with the creation of a Paying Agency and land parcel information system, required by the *acquis*.

29. Croatia has significant regional disparities and has taken steps to resolve them. EU accession process will result in the allocation of large volumes of EU funds to promote development in lagging regions. To prepare for this, the *Social and Economic Recovery* project supported socioeconomic revitalization of disadvantaged and war-affected regions and capacity-building for regional and local authorities for planning and implementing regional development approaches in line with EU principles.

30. Croatia continues to face the challenge of moving toward an energy-efficient, low-carbon economy given its limited natural resources and energy-intensive economy. When it becomes an EU member state, Croatia will be obliged to meet the EU 20-20-20 targets.[5] Under the *Renewable Energy Resources* project, Croatia introduced legislation and regulatory framework that created an enabling environment for renewable energy investments. Similarly, the *Energy Efficiency* project, accompanied by a Global Environment Facility (GEF) grant, supported Croatia's national utility company in financing some $30 million in energy efficiency investments in public buildings, hospitals and universities, and street lighting. A key challenge ahead is to scale up energy efficiency efforts nation-wide including residential buildings, which so far have seen only limited success in reducing their energy consumption.

IV. PROPOSED MODIFICATIONS AND FUTURE PROGRAM

31. The CPS objectives of supporting Croatia's EU accession and income convergence with the EU served as a useful framework for supporting the Government's development goals during the last two years. The CPS' flexible architecture enabled the Bank to adapt its program to respond to the crisis (DPL, Croatia Export Finance Intermediation Loan). The four-pillar strategy remains relevant and will continue to underpin the Bank's engagement with Croatia for the remainder of the CPS period.

32. As Croatia exits from the crisis and prepares for ratification of the EU accession treaty, the CPS will be calibrated to take into account imminent EU membership. Existing and future activities will be aligned to at least one of three distinct criteria that the Bank's regional framework applies in EU member states: (i) supporting policy reforms for the Europe 2020 Strategy and convergence; (ii) supporting strategies and institutions to better absorb EU funds and; (iii) providing selective financing

[5] In 2007, the EU committed to a set of ambitious energy and climate targets of (i) reduction in EU greenhouse gas emissions of at least 20% below 1990 levels; (ii) 20% of EU energy consumption to come from renewable resources; and (iii) 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency

which complements EU financing (see Annex 4 describing how the current portfolio has been aligned to support EU accession). The Bank's role as provider of development finance is increasingly being matched by other sources. Croatia enjoys access to markets and receives financing support from European and international IFIs. More significantly, when Croatia enters the EU, it will receive more than €1 billion in grants annually through the Structural and Cohesion Funds. Through the Instrument for Pre-Accession (IPA), the EC has already allocated approximately €750 million for Croatia for 2007-2011. Croatia's absorption rate of IPA funds currently stands at 43 percent of the 2007-2009 allocation of €315 million. Thus, the CPS will adopt a more selective approach to lending in the remaining year. Focus will be placed on areas where the Bank can provide added value in supporting Croatia's EU-related responsibilities and contributing to an enabling environment to absorb EU grant funds.

33. In the remaining year, the CPS will initiate a transition from a focus on projects to knowledge as a prelude to the next CPS. The current program, which is characterized by a large lending portfolio, will begin to evolve toward a stronger partnership in AAA, focusing on policy challenges and institutional capacity-building related to EU membership. Future AAA will address a combination of structural reforms to boost economic competitiveness and institutional reforms to promote a strong policy framework and strategic investment planning. These reforms are particularly relevant to Croatia's ability to absorb EU funds. The lending portfolio is currently highly diversified, occupying significant amount of administrative resources, leaving limited room for AAA. The proposed transition from projects to knowledge will therefore be important in terms of creating space to undertake more AAA in the future.

34. Total new lending during this CPS period is expected to reach $1,074 million, of which DPLs will account for nearly half of total lending volume. In FY12, the final year of the CPS, two investment projects will exit the portfolio and three operations will be added. The *Integrated Land Administration System (ILAS)* project ($24 million) builds on a previous successful project supporting cadastre and land registry reforms, with co-financing from the EC's CARDS program. The *ILAS* project will support the development of a national spatial data infrastructure in line with the EU's INSPIRE Directive which Croatia must meet as a member state. Additional Financing for the *Trade and Transport Integration* project ($67 million) builds on an existing project aimed at increasing private sector involvement and strengthening the infrastructure capacity in the Port of Ploce, which lies along an important trade corridor. The operation will scale up the bulk terminal currently under construction and cover the financing gap. It is ultimately expected to boost trade with neighboring Bosnia and Herzegovina. A third project, a repeater of the *Science and Technology* project ($29 million), will be delivered in the second half of FY12 and will support Croatia's R&D institutions to prepare for the use of EU Structural Funds.

35. The CPS will also explore opportunities to apply innovative instruments and approaches to support Croatia. Building on the recent strong partnership with HBOR, Croatian Bank for Reconstruction and Development, which has provided important support to the recovery of Croatia's real economy, the World Bank may explore possible limited additional financing and guarantee operations to support HBOR's future bond issuance. Another area of engagement could include deepening the relationship with the World Bank Treasury where Croatia can tap into innovative and customized instruments, such as foreign currency swaps on their bond denomination, to strengthen their debt exposure management.

36. IFC will remain focused on its three regional priorities of improving infrastructure services, addressing climate change and enhancing competitiveness. PPP investments in infrastructure remain challenging, as the sector was not open for private investments until recently. In the past year, the Government opened up some sub-sectors such as ports and airports to various PPP schemes, and IFC will look at opportunities to finance these ventures. In the area of climate change, IFC will continue to work with companies investing in the renewable energy and engage with regulators to promote projects in the

sector. A possible investment in a scrap recycling company is under consideration. In the financial sector, IFC will seek investment opportunities with financial institutions to improve the range of financial products delivered to SMEs, such as climate change-related products and agribusiness lines.

37. The Bank will provide knowledge services to support institution-building and policy reforms. The activities below are envisaged in FY12:

- ***Railway extended policy note*** to identify quantitative and qualitative issues facing the sector.
- ***Education policy note*** on performance-based contracting in higher education, building on the ongoing cooperation in education.
- ***Programmatic Public Expenditure and Institutional Review***, continuing dialogue in this area.
- ***Policy note series*** that will outline the challenges and policy options in key economic sectors for the incoming Government following the general elections at the end of the year.

38. IFC's Advisory Services will continue to focus on PPP advisory in infrastructure and on cleaner production. At least one advisory mandate for PPP-related projects in infrastructure will be explored, possibly with a pilot at the sub-national level. In the area of cleaner production, IFC will work with Agrokor's PIK Vrbovec on identifying areas of energy and water consumption savings, which will ultimately lead to cost savings and climate change benefits.

39. In sum, the proposed modification to this CPS are aimed at laying the groundwork for a strong knowledge partnership with Croatia as a full-fledged EU member state by the time of the next CPS. Croatia's per capita income stands at $13,810, nearly twice the level at which graduation from the International Bank for Reconstruction and Development (IBRD) is addressed. Croatia also has reasonable access to international capital markets. Given its short history as an independent nation, however, it continues to face significant weaknesses in institutional capacity and the challenge of achieving a sustainable economic recovery. Therefore, graduation is considered pre-mature for this CPS period, but will be discussed during the preparation of the next CPS. The knowledge partnership would be expected to continue to address institutional and policy challenges related to EU convergence, an area where the Bank is well placed to provide added value. With the decline in the Bank's administrative resources, it is envisaged that the future partnership with Croatia will evolve into one in which knowledge and advisory services are provided under fee-based service (FBS) arrangements. FBS is emerging as an important business model in the Bank's engagement with EU member states and advanced economies, and it is anticipated that the next phase of partnership with Croatia will increasingly tap into this instrument.

V. RISKS

40. Risks identified in the CPS─external vulnerability, uneven reform performance and weak project implementation─continue to be a challenge. Croatia has so far weathered the crisis, but high external debt and heavy reliance on tourism and Europe's export markets makes the economy vulnerable to a downturn in the Eurozone economies. A slower than projected growth could further strain the fiscal stance, the corporate sector and consequently the commercial banks. This could jeopardize progress towards macroeconomic stability and fiscal sustainability. In the near term, downside risks also arise from high commodity prices and contagion from euro area periphery countries. Macroeconomic stability will require fiscal sustainability, that is, rationalization of public expenditures. Sustained growth will require improved competitiveness. Both require major structural reforms. The above risks are somewhat mitigated by the EC's continued monitoring of Croatia's reform efforts until ratification of the accession treaty and the Government's continued implementation of fiscal consolidation plans.

41. While the pace of reforms has picked up, uneven reform implementation continues to be a concern given the political economy and complexity of some measures. Restructuring of shipyards proved politically difficult to implement under a coalition government, but is being addressed to meet EU state aid regulations. Important steps were taken to scale back privileged pensions, but war veterans' pensions remains a thorny issue. With parliamentary elections scheduled later this year, the window for advancing difficult reform measures will narrow. Public discontent with the Government is already high in the wake of increased unemployment and corruption cases. Any change in government may further delay reform implementations as a new administration comes to terms with a new reform agenda.

42. Progress in project implementation has been uneven, largely due to insufficient preparation resulting in poor project readiness and capacity, and will need to be monitored closely. In recent years, EU accession-related preparations, among other issues, have consumed the time and capacity of Croatia's public administration, affecting the implementation of Bank-financed projects that now rely largely on civil service. To address implementation delays, the Ministry of Finance has taken on a stronger coordination role, and the Joint Portfolio Reviews have become instrumental in identifying and monitoring bottlenecks. A mechanism is now in place for quarterly follow-up of projects experiencing difficulties. It is expected that the proposed modifications in the CPS to gradually transition from a project to knowledge based partnership, and to align Bank activities with the EU policy agenda will strengthen synergies and facilitate management of a smaller Bank portfolio.

Annex 1 Results Framework: Progress towards Achieving CPS results[6]

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
PILLAR I: SUSTAINING MACRO-STABILITY				
• Further fiscal consolidation as per the government's program to reduce general government deficit from 2.3 percent of GDP towards balanced budget by 2010-11. • Improved tax compliance rate from 84 percent in 2007 to 87 percent in 2011. • Programming budgeting improved and performance budgeting piloted.	*Further fiscal consolidation as per the government's program to contain general government deficit from 2.5 percent of GDP in 2008 and its peak of 5.8 percent of GDP in 2011 to below 5 percent of GDP in 2012.* No change No change	• Implementation of select Public Finance Review and Programmatic Public Expenditure Work recommendations. • Tax payers' audits strengthened and tax arrears reduced by 20 percent from HRK 31.8 billion in 2006. • Functional reorganization of CTA introduced. • E-taxation used by VAT tax payers increased from 3 to 20 percent. • Implementation of select Regional Performance-Based Budgeting Work and JPEIR recommendations.	• **Fiscal consolidation:** Revenue fall during the global crisis led deficit to surge to 5.2 percent of GDP in 2010 (from 2.6 percent in 2007). The 2011-13 budget projects fiscal deficit to narrow to 2.4 percent in 2013, led by public spending reduction of over 1 percent of GDP per year. • **Arrears:** reduced by 0.3 percent of GDP from 1.1% in 2007 to 0.8% in 2010. • **Taxpayer compliance rate** increased from 84 percent in 2007 to 89 percent based on the 2008 data survey, • **E-taxation** increased to 7.7% in 2010 since introduction in 2007. • **Budgeting:** 2008 Organic Budget Law introduced medium-term performance budgeting under implementation for the second year.	**Lending - Active** • Revenue Administration & Modernization (FY07) • Economic Recovery DPL I (FY11) **Lending - Closed** • PAL2 (FY07) • Fiscal, Social & Financial Sector DPL (FY10) **AAA** • Public Administration Reform Support TA (FY09) • Institutional Framework & Fiscal Risk Assessment for PPP(FY10) • Fiscal Responsibility Framework (FY11) • Governance Reforms for Competitiveness & Growth (FY11)
• Strengthened regulatory/supervisory framework for banks and non-banks with improved financial stability	No change	• Implementation of select Financial Sector Assessment Program and ROSCs recommendations. • Corporate Governance Codes applied by 50 percent of companies listed at the stock	• **FSAP recommendations**: all addressed. Supervisory frameworks for banking and non-banking institutions aligned with Basel II through implementation of Credit Institutions Act, Capital Market Act and Consumer Credits Act.	

[6] Revised CPS outcomes and milestones are shown in italic text and reflect (i) scaled-back targets due to constraints posed by global crisis on meeting original targets (e.g. PAL2, Fiscal, Social & Financial Sector DPL, Rijeka Gateway Program, Trade & Transport Integration); (ii) projects that were dropped as a result of the crisis (e.g. Natural Disaster Risk Management, Irrigation Development, Education Development II); (iii) the change in design of the associated project (e.g. EU Natura 2000); and (iv) the need to disaggregate outcome indicators according to associated projects (Coastal Cities Pollution Control II, Inland Waters).

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
		exchange.	• **Corporate governance codes:** mandatory for all listed companies introduced through the Capital Market Act.	**Regional AAA** • Performance-Based Budgeting (FY10)
PILLAR II: STRENGTHENING PRIVATE SECTOR LED-GROWTH & ACCELERATING EU CONVERGENCE				
• Government effectiveness improved as measured by WB Governance Indicators from 70 percent in 2006 to over 75 percent in 2011. • Civil service depoliticized. • Improvement in the efficiency of judiciary evidenced by independently verifiable performance indicators, including a steady reduction in court case backlogs.	*Government effectiveness improved as measured by WB Governance Indicators from 70 percent in 2006 to over 72 percent in 2011.* No change No change	• Greater rationalization of public administration functions and structures as per functional review recommendations. • Civil Service depoliticized and new performance-based salary system introduced. • 10 out of 50 courts rationalized. • Zagreb court case backlogs reduced by 40 percent. • Indicators of judicial performance and efficiency identified, adopted and tracked.	• **Public administration reform**: Slow progress with slight increase of government effectiveness index to 70.5. • **Civil service depoliticized** to level of directors (former assistant ministers) following 2007 elections. • **Court Rationalization:** In 2009, 108 municipal courts were rationalized to 67; 114 misdemeanor courts to 63; and 71 state attorney offices to 55. • **Court case backlog:** Case backlog reduced by 23 percent between 2006 and 2009 to 800,000 cases. Approx. 40% of reduction in Zagreb.	**Lending - Active** • Revenue Administration &d Modernization (FY07) • Trade & Transport Integration (FY07) • Rijeka Gateway I and II (FY04, FY09) • Export Financial Intermediation Loan (FY10) • Justice Sector Support (FY10) • Economic Recovery DPL I (FY11) **Lending - Closed** • Real Property Registration & Cadastre (FY03) • Science & Technology (FY06) • PAL2 (FY07) • Fiscal, Social & Financial Sector DPL (FY10) **AAA** • EU Convergence Report (FY10) • Institutional Framework and Fiscal Risk Assessment for PPP
• Increased private sector share in GDP towards 80 percent through continued privatization of the CPF portfolio and accelerated removal of regulatory obstacles and reduction of cost of doing business.	No change	• Implementation of select recommendation of Investment Climate Chapter of EU Convergence Report and the Doing Business Reports. • Tax compliance cost reduced.	• **Private Sector Share of GDP:** increased from 60% in 2006 to 70 percent of GDP in 2010. • **2011 Cost of Doing Business:** Croatia ranked 84, five places up from 97 place in 2008. • **Tax compliance cost:** stands at 0.2% of total taxpayers' revenues in 2010 (baseline).	
• Increased capacity of the Port of Rijeka and Ploce with revenues increasing from $80 million in 2007 to	*Increased capacity of the Port of Rijeka and Port of Ploce with significant private sector investment.*	• *Rijeka Port container (TEU) capacity increased from 150k TEU in 2007 to 250k TEU by 2012 and container traffic increased from 145k TEU in*	• **Rijeka Container Terminal:** physical expansion under way, private capital secured to increase capacity. • **Ploce Port bulk productivity:**	

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
$115 million in 2012 by addressing critical port capacity constraints, with significant private sector investment.		*2007 to 240k TEU in 2012.* • Concession agreement for operations of at least three port terminals in Croatia based on cost recovery/market principles with over $60 million in private investments.	increased from 150 tons/hour in 2006 to 700 tons/hour in 2009. • **Ploce Container Terminal** opened for operation in 2011 with initial capacity of 66 k TEU. • **Concession agreements:** Rijeka's Brajdica Container Terminal extended and majority ownership transferred to international private operator against $38 million of private capital; two agreements signed for new terminals in Ploce in 2010; all concessions on cost recovery basis.	(FY10) • Governance Reforms for Competitiveness and Growth (FY11) • Labor Market Issues in Croatia (FY11) • Science, Technology and Innovation Policy (FY11) • Doing Business follow-up (FY11) • IDF: Enhancing Corporate Financial Reporting (FY11) • MiFID Assessment (FY11) • EU & Croatian Bank Resolution Regimes (FY11) **Regional AAA** • Justice Sector Peer Assisted Learning (FY11) • Innovating through the Crisis (FY11) • Program of Accounting Reform & Institutional Strengthening (REPARIS) (FY09-12)
• Applied research promoted and increased share of R&D spending by private sector from current one-third of total towards the Lisbon agenda target of two-thirds.	*Commercialization of public research results promoted, more private sector innovation generated and increased share of R&D spending by private sector from current one-third of total towards the Lisbon agenda target of two-thirds.* *Research and Development spending as a share of GDP increases to 1.1 percent by 2012.*	• Around 30 R&D institutions' contracts signed with industry. • Around 30 license agreements/spin offs/joint ventures signed or *established patents filed/approved.* • *Volume of private R&D mobilized (through programs supported by Science and Technology Project)* • *SMEs that have new or significantly improved products (innovation).*	• **R&D institutions contracts with industry:** 69 contracts of approx. €11M signed in 2011, up from 2 contracts of €0.5M in 2006. • **License agreements:** 13 license agreements, 5 spin offs/joint ventures of €3.8M in 2011vs. none in 2006; 5 core patents approved and 36 patent applications by technology transfer offices vs. none in 2006. • **Volume of private R&D** mobilized through SME-supported programs doubled from €6.0M in 2006 to €13.7 M in 2011. • **SMEs with new or improved products:** 10.8 percent per EU 2008 Community Innovation Survey (CIS), compared to 7.2 percent in 2006 CIS.	
PILLAR III: IMPROVING QUALITY & EFFICIENCY IN SOCIAL SECTORS				
• Administrative cost of pension funds reduced.	No change	• Administrative cost of pension funds reduced • Implementation of select Public Finance Review recommendations.	• **Privileged pensions** reduced in 2009-2010 by a cumulative 20 percent above a certain threshold. • **Early retirement** decrement doubled except for beneficiaries with more than 40 years of service. • **Administrative costs of second pillar**	**Lending – Active** • Education Sector Development (FY06) • Revenue Administration Modernization (FY07) • Development of Emergency Medical

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
			reduced in 2010 through a reduction of mandatory pension funds' asset management fee from 0.75 percent to 0.65 percent.	Services & Investment Planning (FY09) • Economic Recovery DPL 1 (FY11)
• Improved efficiency of health spending and effectiveness of the EMS system.	No change	• Percent of population exempt from co-payments reduced and the remaining exemptions applied are well targeted. • Reduced response time for EMS intervention at the scene from 17 to 12 minutes, of which 80 percent within 10 minutes in urban and 20 minutes in rural areas. • Regional variation in EMS teams per capita decreases from 0.5 (coefficient of variation) to 0.4 (or 20 percent reduction in the variation).	• **Categorical exemptions**: exempt population reduced by 18.5 percent between 2009-2010. Income-tested exemptions also strengthened in 2009, supported by DPL.	**Lending – Closed** • Pension System Investment (FY03) • Social Welfare Development (FY05) • Fiscal, Social & Financial Sector DPL (FY10) **AAA** • Financing, Providing & Regulating Long-term care for the Elderly (FY11) • Pension Reform Options (FY11) • Poverty Assessment Update (FY11) **Regional AAA** • Long-term Care (FY11)
• Improved student learning and system performance with performance of Croatian pupils at PISA 2009 stable or improved compared to EU average.	No change	• Pre-school, primary and secondary school gross enrollment rates increased from 53, 95 and 87 percent to 60, 97 and 90 percent, respectively. • Triple shift schools eliminated and number of students in single-shift primary schools increased from 13 percent to 25 percent. • National curriculum for primary and secondary education developed and implemented.	• **Pre-school and secondary school gross enrollment rates:** increased from 53 and 87 percent respectively in 2006 to 60 and 88 in 2009. • **Primary school gross enrollment rates** unchanged at 95 percent. • **Number of students in triple shift primary schools** reduced from 9 percent in 2006 to below 2 percent in 2010 while number of students in single-shift schools increased from 12 percent in 2006 to 48 percent in 2010. • **New national curriculum framework** for pre-school, primary and secondary education developed and approved.	
• Improved efficiency and transparency of	No change	• Introduction of new social policy planning methodology	• **New social policy planning methodology**: developed and	

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
social programs.		at county-level. • Electronic national social welfare beneficiaries' registry established and operational. • Social workers' time spent on direct work with client increased from 37 percent to 55 percent. • Deinstitutionalization program continued with the number of persons in residential institutions reduced from 25,543 to 24,700.	implemented in 10 counties • **New social welfare MIS software:** completed, piloted and in use in three pilot counties, to be rolled out after the delivery of IT hardware. • **Social workers' time spent on direct work with clients** increased as a result of the introduction of one-stop-office work model in centers for social welfare and will be further increased after the full roll-out of the MIS. • **Deinstitutionalization:** despite decrease in number of persons in state-owned residential institutions, total number of persons in residential institutions declined only slightly from 25,543 in 2007 to 25,523 in 2009 due to increase in private residential care.	
PILLAR IV: INCREASING SUSTAINABILITY OF LONG-TERM DEVELOPMENT				
• Improved coverage of water and wastewater services in 25 municipalities, contributing to the government's plan to increase it from 75 percent and 44 percent respectively • Improved conservation of biodiversity and management of natural resources, including an increase of protected areas from 11 percent to 15 percent of national territory.	*Improved water supply and wastewater services and flood protection measures in Croatia's inland municipalities.* *Maintained quality of Croatia's coastal waters to meet applicable EU and national standards in participating municipalities.* *Increase in annual capital and other investment expenditure across the parks estate*	• *At least 300,000 people benefitting from improved wastewater services , and additional 100,000 from improved water services.* • Reduced agriculture pollution through adoption of environment-friendly agricultural practices by 40 percent of farmers in select areas of Danube river basin. • *Nature protection project applications made to EU Structural Funds and accepted in the funding pipeline.*	• **Improved coastal wastewater services:** Under CCPCP I, over 220,000 people benefitted from improved wastewater services in coastal area (number of permanent population, number of person served during tourist season is significantly higher). • **Improved inland water and wastewater services:** Under ongoing IW project, 25,000 people already benefitted from improved wastewater services and 10,000 from improved water services. • **Flood Protection:** Under ongoing IW project, retention volume for flood protection increased from 600M m^3 in 2008 to 720M m^3 in 2010, safeguarding the population and property in Sava River Basin.	**Lending – Active** • Inland Waters (FY07) • Agricultural Acquis Cohesion (FY06) • GEF: Agricultural Pollution Control (FY08) • Coastal Cities Pollution Control II (FY09) • EU Natura 2000 Integration (FY11) **Lending-Closed** • Coastal Cities Pollution Control I (FY04) • Energy Efficiency (FY04) • GEF: Energy Efficiency (FY04) • Social and Economic

EXPECTED CPS OUTCOMES	REVISED EXPECTED CPS OUTCOMES	MILESTONES	PROGRESS TO DATE	WB PROGRAM DELIVERED
• Increased coverage in precise weather event now-forecasting (from 30 percent to 80 percent of the territory) and reduced response time to disasters and emergencies.	This indicator was dropped since associated project did not materialize.	• Efficient and properly equipped country early warning system for emergencies and natural disasters. • Proper capacity in place to evaluate and prioritize interventions in forest fire prevention.		Recovery (FY05) • GEF: Renewable Energy Resources (FY05) **AAA** • Integrated Waste Management Facility (FY09) **Regional AAA** • SE Europe Water & Climate Adaptation (FY11)
• Increased irrigated area for farming (increased from 9000 ha). • Implemented framework with incentives for provision of renewable energy and scaled-up roll-out of programs for energy efficiency.	This indicator was dropped since associated project did not materialize. No change	• Flood protection measures on the Sava/Drava/Danube Basin meeting EU directives. • Ready renewable energy projects for 95 MW capacity. • Energy efficiency projects and guarantees covered through ESCO.	• **Famework for RE incentives:** achieved under the RER project. • **Financial closure achieved for 40 MW of RE projects** through HBOR contingent loan facility. Additional 79 MW on track to reach financial closure in 2011. • **HEP ESCO financed energy efficiency investments** totaled US$30 million in Feb 2011.	
• Established capacity to develop a pipeline of high quality regional and municipal-level development projects including for donor financing in 13 counties. • Improved agriculture productivity and further alignment with the EU *acquis.*	No change No change	• Small community infrastructure, income-generation and social inclusion projects implemented in the areas of special state concern (150 projects). • Functional food safety management and control in place, increasing use of integrated approach to sustainable production system aligned with the *acquis.* • Land registration upgraded and integrated with cadastre (5 percent of registry integrated).	• **405 sub-projects completed under SERP:** 125 for social inclusion; 69 for small community infrastructure; and 211 in support of SMEs, crafts and cooperatives) benefitting 84,000 people residing in areas of special state concern; 1,359 new jobs were created and €11 million in additional revenue was generated by the SMEs. • **Alignment with EU's agricultural *acquis*:** payment agency established and land parcel information system developed to improve transparency and accountability in agricultural sector. • **Integrated and upgraded cadastre and land registry data** in 6% of the country.	

Annex 2 CPS Planned vs. Actual Lending and AAA Program

	FY09				FY10				FY11				FY12			
	PLANNED	U$M	**ACTUAL**	U$M	**PLANNED**	U$M	**ACTUAL**	U$M	**PLANNED**	U$M	**ACTUAL**	U$M	**PLANNED**	U$M	**ACTUAL**	U$M
Pillar I - Sustaining Macro Stability																
LENDING					FSF DPL		√	297	ERDPL		√	213				
AAA	PUBLIC.ADMIN. REFORM SUPPORT TA 1/		√		INSTITUT. FRAMEWORK & FISCAL RISK ASSESS. FOR PPP		√		FISCAL RESPONSIBILITY RAMEWORK		√		PUBLIC EXPENDITURE & INSTITUT REVIEW			
					SOCIAL IMPACT OF CRISIS		√		GOVERNANCE REFORMS (COMPETITIVENESS)							
					CONSUMER PROTECTION		√		IDF: ENHANCING CORPOR. FIN. REPORT		√					
									MiFID ASSESSMENT		√					
Pillar II - Private Sector-Led Growth and EU Convergence																
LENDING	JUDICIAL REFORM 3/	35					JUSTICE SECT SUPPORT 2/	36					INTEGRATED LAND ADMIN	24	√	24
					EXPORT FINANCE INTERMEDIATION 1/	141	√	141					TRADE & TRANSPORT AF 3/	67	√	67
	RIJEKA GATEWAY II	130	√	123	PORT DEVELOP AF	70							SCIENCE & TECHNOLOGY	29		
AAA					EU CONVERGENCE REPORT		√		LABOR MARKET ISSUES		√		DUTCH EFO JUSTICE SECTOR SUPPORT			
									DOING BUSINESS UPDATE		√					
									SCIENCE, TECH. & INNOVATION POLICY							
Pillar III- Quality and Efficiency in Social Sectors																
LENDING	DEVELOP OF EMS & INVEST PLANNING	27	√	28	EDUCATION II AF	100	Dropped									
AAA									LONG-TERM CARE FOR ELDERY		√		HIGHER EDUCATION AAA			
									PENSION REFORM OPTIONS		√					
									POVERTY ASSESSMENT UPDATE							
Pillar IV - Sustainability for Long-Term Development																
LENDING	COASTAL CITIES POLLUTION CONTROL II	90	√	88	CLIMATE ADAPT/IRRIG	100	Dropped									
	GEF COASTAL CITIES 1/	6	√	6	NATURE PROTECTION	30					EU NATURA 2000 4/	29				
	DISASTER MANAGEMENT	48			RAILWAY DEVELOP		Dropped									
					ENERGY GEN.TRANSMISS		Dropped									
AAA	INTEGRATED WASTE MGMT (PPIAF)		√		BROWNFIELD REDEVELOPMENT		√						RAILWAY POLICY NOTE			
					TRANSPORT SECTOR REVIEW/CLIMATE		Dropped									
					ENERGY SECTOR		Dropped									

√ Delivered

1/ Unplanned

2/Renamed Justice Sector Support and slipped to FY10

3/Refers to planned Port Development AF moved to FY12

4/Renamed EU Natura 2000 Integration and moved to FY11

Annex 3 Croatia-EU Relations

After six years of demanding and difficult negotiations, the European Council gave the green light at the June 2011 European Summit for Croatia to join the EU as the 28th Member State on the target date of 1 July 2013. The negotiations, which were launched in 2005, were officially concluded on June 30, 2011 with the closing of the four outstanding policy chapters out of a total of 35.[7] The four chapters were Chapter 13 on Fisheries, Chapter 33 on Financial and Budgetary Provisions, Chapter 8 on Competition Policy and Chapter 23 on Judiciary and Fundamental Rights. The EC disclosed in March 2011 that Croatia made considerable progress in meeting these closing benchmarks, and that further concerted efforts are needed in particular regarding the independence and efficiency of the judiciary, the fight against corruption, and the human rights issues. The European Commission will continue to monitor Croatia's reform progress during the ratification process, in particular those related to the judiciary and fundamental rights.

Croatia is preparing for future access to the Structural and Cohesion Funds through implementation of the Instrument for Pre-Accession Assistance (IPA). Croatia has been using IPA[8] – the EU financing program to support the country's preparation for membership, since 2007. More than €1 billion, or on average €150 million a year, has been available to Croatia through IPA for the period 2007-2013. The IPA consists of five components: (i) Transition Assistance and Institutional Building; (ii) Cross-border Cooperation; (iii) Regional Development; (iv) Human Resources Development; and (v) Rural Development/IPARD Program. The broad objectives of these components are to support the accession process and specific benchmarks established under the negotiations[9]; and prepare projects for post-accession funds. The components' different co-financing modalities and programming procedures are intended to reflect similar arrangements to various Structural and Cohesion Funds. Therefore, by using IPA funds, Croatia is building capacities and resources as well as preparing the project pipeline to absorb large volumes of post-accession funds.

In May 2011, overall IPA absorption rate for the 2007-2009 allocation of €315 million[10] stood at 43 percent. This is expected to rise to 70 percent with completion of several larger tenders that are under way. Preliminary results show strong absorption for the Component I (Transition Assistance and Institutional Building), at about 90 percent or €37 million. The absorption rate for the Regional Competitiveness (Component III) is 45 percent. For the Human Resources Development (Component IV), this figure is 71 percent. The IPARD program, which received a €130 million allocation has the lowest absorption rate, at about 10 percent or €10 million. The Rural Development Component or IPARD program has the most complex procedures, and current absorption of funds has not led to improvements compared to the earlier SAPARD funds. However, improvements are expected in 2011 with accreditation of new measures. Low absorption of funds were attributed to the availability of funds provided through national programs, with less complex procedures for similar activities, which will be discontinued, as well as difficult access to loans for farmers. Late contracting remains a concern, in particular now that several yearly allocations are being tendered and contracted in parallel. Late contracting reduces the implementation period until the disbursement deadline, which may affect the quality and absorption of funds. Therefore, a risk of automatic de-commitment of funds (so-called "n+3' rule") remains relevant and requires close attention.

[7] Chapter 35 – Other Issues is not being negotiated.

[8] Overall, before IPA, Croatia has implemented a financial envelope amounting to €550 million, which included the following financial instruments: OBNOVA 1996-2000, CARDS 2001-2004, PHARE 2005-2006, ISPA and SAPARD.

[9] There are also reverse cases where implementation of IPA affects the negotiations process; for instance, one of the closing benchmarks for the Competition chapter has been to tender 80 percent of the amount available under IPA Component III.

[10] Includes the first four components of IPA.

Annex 4 World Bank Support to Croatia's EU Goals

Convergence Between World Bank-Funded Projects and Croatia's EU Accession Agenda (May 2011):
Contribution of Bank-Funded Projects to Croatia's Efforts in Meeting Three Criteria: Political, Economic and Criteria Related to Ability to Assume Membership

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
Ongoing projects					
Rijeka Gateway Program RGI: US$M204.5 (o/w $10.3M cancelled) RGII: US$M122.5	Increase trade competitiveness of Croatia by improving intl. transport chain through Rijeka Port for freight and passenger transport. Port modernization, connecting seaways to European roads and railways corridors, such as corridor V.	-	-	-	-
Education Sector Development US$M85.0	Experience of EU states shows that education is key to strengthen the country's competitiveness and labor force effectiveness. Croatian education benefits from a sector-wide development project focused on strengthening the planning, management and monitoring of education as essential requirements in the context of European knowledge economies.	-	-	-	-
Agricultural Acquis Cohesion Loan US$M30.1	The project will contribute to increased competitiveness of the rural sector in Croatia.	-	Develop sustainable systems and capacities in the Ministry of Agriculture to ensure compliance with the acquis in the rural sector.	Strengthen capacity for the absorption of EU funds through financing the preparation and setting up of the SAPARD Agency institutional arrangement, and	Investments in rehabilitation and equipment of key institutions in the agricultural sector, such as National Veterinary

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
Dutch TF US$M4.7				building the capacity in the Ministry of Agriculture to establish the management and administration system able to address the requirements of the CAP. The project supported the development of Land Parcel Information System thus helping improve transparency and accountability of Government support programs in the agricultural sector.	Institute and its regional offices, Food Safety Agency, Plant Protection Institute, Inspection services, as to ensure that they could be fully functioning at the time of the accession Construction of a GMO laboratory in Osijek for tracing GMO in food stuffs, and support to the Food Agency in Osijek to raise consumer awareness of their rights and issues related to food quality.
Trade and Transport Integration US$M75.3 Co-financed with EBRD and EIB	The project contributes to development of trade along corridor Vc through improving the capacity, efficiency and quality of services at the southern part of the corridor, in particular through the port of Ploce.	-	-	-	-
Inland Waters US$M133.4	-	-	TA component supports institutional strengthening of the Croatian Waters and Ministry of Regional Development, Forestry and Water Management to implement the Water Management Strategy. This will include training on programming for EU funds. The component also includes strengthening of beneficiary water utility companies, which will in turn promote	Preparation of wastewater projects in Krapina-Zagorje county (€M1.3) for financing by the EU structural funds. This includes feasibility studies, design, environmental assessments, and bidding documents, supporting future investments estimated at €M50. A model for the preparation of future wastewater investments for HV is also being financed, as basis for the preparation of	Coverage and quality of water supply and wastewater services in Croatia are below those of EU member states and recent entrants and require improvements to meet standards under the EU Drinking Water and Urban Wastewater Treatment Directives. Project supports investments in water supply, wastewater

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
			better management for the provision of water/wastewater services.	investment packages for EU financing. An €40,000 study financed as basis for a €M1 grant (through IPA Cross-Border Cooperation Program). The grant will be used for revitalization of Vuka river near Laszlovo, to reduce flood risk in the adjacent area.	collection and treatment through 13 sub-projects in the inland part of the country. By 2012, a total of €M 82 will be invested into these activities. The project also supports the flood protection measures that will increase the retention volume for flood protection, and reduce the risk of downstream flood damage, as consistent with the EU Floods Directive objectives to reduce flood risks.
Revenue Administration Modernization US$M68.0 (o/w $34M cancelled)	Increasing the capacity of the tax administration to tackle the tax evasion and increase tax collection capacity; reducing the tax compliance cost which directly reduces the cost of doing business.	Legislative changes introducing the new personal identification number (PIN) will lead to facilitated exchange of tax information among government agencies, one of the issues emphasized in the EU accession discussions	Technical advisory services to develop and implement the Strategic Plan for modernization of the Croatian Tax Administration (CTA), incl. visits to good practice locations, training and strategic planning. Project also supports building institutional capacity, with new organizational and staffing arrangements, guided by an HR strategy, as to further align Croatia with EU procedures and best practices. Support to the CTA's strategic plan for tax modernization helps in harmonization of tax administration policies and	Project will complement the EU support provided through IPA funds (under IPA Component I) focused on strengthening administrative and organizational capacity of CTA	To address the provision of e-tax services and thus improve the client services, as required by the EU, investments in IT management systems are expected. Investments in strengthening the tax audit functions, strengthening the large tax payer's office functions.

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
			operations with the EU accession expectations.		
Agricultural Pollution Control GEF Grant US$M5.0	-	Support the country's efforts to transpose the Nitrate and Water Framework Directives, by increasing the use of environmentally friendly agricultural practices as to reduce nutrient discharge from agricultural sources.	Develop agri-environment measures by establishing and implementing Code of Good Agricultural Practice.	Public information campaign and dissemination of information about the project benefits for possible replication/scale up of activities through IPARD.	The project has a grant scheme to finance sub-projects for variety of sustainable manure management practices to reduce nutrient loads to water bodies, leading to improving appropriate nitrates management, per EU requirements
Regional Neretva and Trebisnjica Croatia: US$M2.0 BH: US$M6.0	-	Maintain and conserve water-dependent ecosystem and biodiversity according to the requirements of the EU Water Framework Directive through improved resource management at Neretva/Trebisnjica river basin at transboundary level through a regional project of Croatia and BH. Preparation of the River Basin Management Plan, supported by the project, is a key element of the environmental acquis.	The project facilitates the institutionalized cooperation on basic natural resources between Croatia and BH thus supporting the territorial cohesion objective, one of the key requirements under the EU Regional Policy. Project supports the establishment of river basin management agencies per river basin, thus implementing the Water Framework Directive (Water Agency for Trebisnjica established in February 2010).	The project will support more efficient irrigation approaches in the Croatian delta and bring the practices more in line with the Common Agricultural Policy.	Reduce water pollution to Neretva and Trebisnjica through high-priority investments in five municipalities and one industrial sector in BH, which includes water infrastructure, such as wastewater technology improvements, or improvements in wastewater collection and treatment. This helps bring the countries better in line with the Directives on Wastewater Treatment and on Nitrates
Development of EMS and Investment Planning US$M28.3	-	-	Institutional support for strategic planning (€M1.9) will, among others, finance building of capacity in the Ministry of Health and Social Welfare for accessing and managing EU funds, through	*See under institutional strengthening*	-

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
			training 30 staff of which 10 train-the-trainers. Preparation of five project proposals are under way for applications to EU structural funds, which could finance infrastructure related to the restructuring of health care facilities, IT upgrades, training of human resources for health, and a variety of e-health initiatives.		
Coastal Cities Pollution Control II Loan amount: US$M87.5 GEF amount: US$M6.4	The project helps protect the quality of the Adriatic Sea, a key objective in the Government's tourism strategy by reducing disposal of untreated wastewater, which has a significant impact on the seawater quality and is a constraint to tourism (Croatia's tourist revenues amount to up to 25% of GDP). Project also contributes the Government's efforts to enhance the effectiveness of public spending by increasing the level of cost recovery from local governments and consumers.	The project will support alignment and implementation of legislation to meet EU Directives (Water Framework Directive and Urban Wastewater Treatment Directive). Specifically, studies prepared under the project will serve as a basis for drafting the secondary legislation.	Institutional strengthening of Croatian Waters (HV) to implement Water Management Strategy and further align the sector to EU accession priorities. Institutional strengthening of participating utilities to improve their financial and operating efficiency. Improve capacity of the Ministry of Environmental Protection and HV laboratories for environmental monitoring and increased focus on EU compliance.	-	In line with goals outlined in the Water Management Strategy, the project supports investments in the wastewater sector, needed to comply with EU Urban Wastewater Directive. The funds are allocated to approximately 30 cities and municipalities along the coast, for construction/extension of sewerage networks, collectors, pumping stations, wastewater treatment plants and submarine outfalls.
Export Finance Intermediation Loan US$M141.2	Medium and long-term funding provided, in line with Europe 2020 Strategy, as to maintain a steady flow of credit to the private sector. This helps enhance Croatia's competitiveness and faster convergence with the EU27	-	-	Indirectly the project helps increase HBOR's ability to possibly act as financial intermediary in transmitting and monitoring the use of EU funds.	-

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
	per capita income levels.				
Justice Sector Support US$M36.3	Judicial performance and efficiency (timeliness and cost) supported through the project are relevant: (i) for convergence of Croatia's justice sector policies and procedures with the EU systems (including mutual recognition of judgments and information-sharing in justice sector); (ii) to improve the country's investment/business climate (e.g., performance of commercial courts); and (iii) to contribute to rapid convergence of country's income levels.	Requirements under the justice sector are part of the Copenhagen (political) criteria. Hence, harmonization of Croatia's justice sector through new legislation and policies aligns the practices and make it more uniform and predictable, leading to more efficient collaboration between EU member states.	Court resource management capacity building through training of court officials, institutional capacity and strengthening of the State Attorney's Offices (SAO), and strengthening the Ministry of Justice management functions, building on earlier EU support. The project also supports strengthening of the justice sector IT systems with focus on statistical and performance monitoring systems for courts and the prosecution. Refinement of case management standards, guidelines and processes also compliments the EU support (IPA Component I).	The resource requirements of the justice sector for modernizing the sector IT and physical facilities (for courts, prosecutor offices, and penitentiaries) is conservatively estimated at more than EUR 100 million. At the request of the Ministry of Justice, the project is providing technical support to improve capacity and increase the possibility of the justice sector to access and absorb post-accession EU structural funds, through financing consultancy (€100,000) for: preparing EU programming documents for structural funds (SF), developing institutional structure for SF management, support for technical aspects for SF projects and programs, as well as developing and conducting relevant training.	Investments in the court network through rehabilitation of courthouses and SAO network, and modernization of the information systems for the courts (upgrade of the Integrated Case Management System) and the SAO offices, will contribute to improvement of efficiency of the justice system.
EU Natura 2000 Integration US$M28.8	-	-	Support to the Ministry of Culture, State Institute for Nature Protection, National and Nature Parks and county public institutions to develop integrated management of EU Natura 2000 sites with other stakeholders – to meet the EU Nature protection legislation (the Birds and Habitats Directive). Develop biological inventory and data	Project is expected to support development of at least 20 project proposals (nature protection project applications) to EU structural funds.	€10.9 million investments in protected areas and national ecological sites to promote Natura 2000 objectives as defined by EU Birds and Habitat Directives. Locally driven investments were proposed using requirements similar to those required by future EU structural funds.

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
			systems to fulfill EU biodiversity reporting requirements. Project is expected to increase capacity (training and consultancy) to respond to EU funding opportunity for nature protection/conservation.		Project will support development of agri-environment and cross-compliance measures focused on biodiversity conservation and Natura 2000 sites (€1 million). Nationwide biodiversity inventory and development of ecological network data system in line with EU INSPIRE Directive (€4.6 million).
Economic Recovery Development Policy Loan US$M213.0	Support to reduced administrative burden and regulatory barriers to business. Project supports speedier enforcement of judicial decisions through the adoption of the new Enforcement, Bailiffs and the new Act on Execution of Cash Assets, flagged by the EU as one of key areas for improvements needed to close the EU negotiations under the Chapter 23 - Judiciary and fundamental rights. Support to improvements in fiscal policy, through new Fiscal Responsibility Law, as well as increased efficiency is social sectors spending will contribute to meeting the EU fiscal deficit targets.	-	Support to more efficient public administration that meets EU standards related to merit and professionalism. Measures under the ERDPL will directly contribute to strengthening the civil servants appraisal system and management mechanisms, through legislative changes and introduction of HR registry for all public sector institutions. Finalization of the reform of the public sector wage system, also recommended by the EU, is currently envisaged to be supported under ERDPL2.	-	-

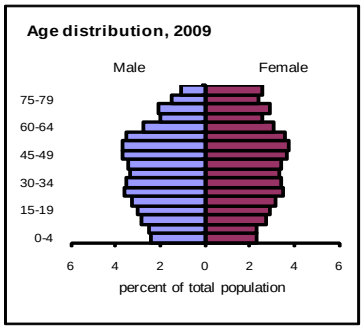
Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
Projects that closed during CPS period					
Social and Economic Recovery US$M45.7	Support to municipalities heavily lagging behind the rest of the country, in improving economic convergence - in line with the EU regional development policies. The project contributes to the reduction of regional disparities.	The project supported development of Regional Development Programs (ROPs) in four counties of special state concern, which were prepared in line with the EU regional development policy requirements.	-	Preparation of ROPs to support the EU Regional Development requirements. ROPs are standard planning instruments for identifying development vision and public investment priorities in a given regional unit and were prepared with the principles of EU structural funds. This contributed to building the capacity for participatory regional development and absorption of pre-accession and accession funds. Additionally, project operation manuals and applications were revised to meet the requirements for the EU pre-accession grant funds.	*See under income convergence*
Science and Technology US$M40.0 (o/w $1.3M cancelled)	The project supports development and financing schemes for innovative SMEs and fosters innovation potential of both public research institutions and the private sector, critical for the country's long-term growth and competitiveness. It reinforces cooperation between universities, research and business, and prioritizes expenditures for greater private R&D investments - in line with the EU innovation agenda	-	The project helped strengthen capacity of Business Innovation Center of Croatia (BICRO), a key government innovation agency that supports knowledge-based SMEs. BICRO is in process of accreditation by the EC as intermediate body for future structural funds on behalf of the Ministry of Science, Education and Sport, as part of the Operational Program on Regional Competitiveness. Project supported integration	Project financed the Manager of IPA Science & Innovation Investment Fund (SIIF) in the Ministry of Science, and served as a model to design €6 million IPA SIIF grant schemes/TA for technology transfer and start-ups. Three STP beneficiary institutions (Rudjer Boskovic Institute and the universities of Zagreb and Rijeka) were awarded funds from SIIF fund on competitive basis. The project also financed the €0.5 million detailed design	-

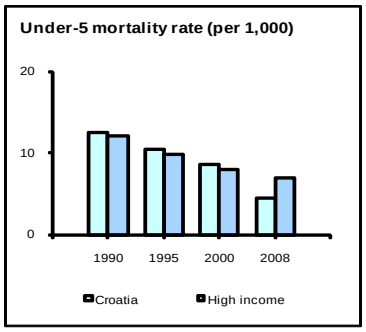
Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
	and Europe 2020 Strategy aimed to ensure the diffusion of technology across the EU.		in European Research Area (ERA) and increasing human capital in science and technology, which is below EU average, through Unity through Knowledge Fund (UKF) that financed joint scientific and technological projects of Croatian scientific institutions with foreign researchers and institutions and the business.	and engineering of the Biosciences Technology Commercialization and Incubation Center-(BioCenter) as part of the preparation of €18 million IPA BioCenter Project, approved by the EU in March 2011. With the project's €4 million invested, UKF projects attracted €9 million of R&D funding from the EU Seventh Framework Program for Croatian partners (total of €60 million approved for FP7 projects). Project also supported €2.8 million UKF application to the EU Marie Curie Co-funding of Regional, National and International Programmes (COFUND).	
Energy Efficiency Loan: US$M5.0 GEF: US$M7.0	-	-	TA for setting up the HEP Energy Efficiency Company (HEP ESCO) and setting up the ESCO model.	Develop pipeline of projects to be financed from other sources, including from EU structural and cohesion funds; the pipeline is currently estimated at about US$M20.	Develop the EE market and demand for EE projects thus helping Croatia attain the country's goals re. Europe's energy policy on 20/20/20 ratios.
Real Property Registration and a follow up project US$M25.7 Follow up project	The project contributed to improving the investment climate and decreasing informality of the economy, prominent topics of the country's EU agenda. Positive impacts on Croatia's convergence made through: reduction of case backlog,	Amendments to the Land Registry Act eliminated the non-adjudicative functions of judges (e.g., land registration and titling, maintenance of the company registry, execution of judgments and similar administrative	-	CAP funds and some other EU programs related to land use (agriculture, nature protection, etc.) require the land users to show their connection to the land through ownership documents, lease agreements, or similar instruments. This requires clear land rights to be	-

Project	Income convergence	Legislation harmonization	Institutional changes and capacity	EU funds absorption	Investments to meet EU requirements
indicative: US$M24.0	increased data consistency between cadastre and land registry, reduced transaction time, all contributing to more efficient real property markets.	tasks), a key source of inefficiency and case backlog in the justice sector (land registration cases alone formed about 50-60 % of the backlog).		determined and registered - which the project is helping to support. The project was co-financed with the EU through three Bank-administered trust funds (€M11.3). A follow up project complements the IPA-planned TA (Component I), with focus on efficiency of business processes, further improvement of investment climate and court rationalization.	
GEF Renewable Energy Resources US$M5.5	-	Key legislation and regulatory framework on RER was introduced and aligned with the EU Directive on Promotion of Electricity from Renewable Energy, creating an enabling environment for investing in RER-based power. The project supported incentives for RER-based power and heat including tariff design, sub-laws on grid-code, licensing and permitting procedures.	The establishment of the Renewable Energy Advisory Facility (REAF) within MoELE and continuous training of the staff led to creation of RER Registry and pipeline, which currently contains more than 300 pipeline projects. The project has been very successful in capacity building activity which is a prerequisite for a successful implementation of EU 20/20/20 strategy for green energy by 2020.	Through streamlining of procedures, forming a technical advisory facility for project preparation and creation of RER Registry, a pipeline of project has been created, of which many of them will seek EU finding.	-
Fiscal, Social and Financial Sector Development Policy Loan US$M296.8	Mitigation measures to address adverse impact of the global crisis through strengthened public finance, social sector resilience and improved efficiency and stability of the financial sector.	Support to legislation harmonization with the EU *acquis* requirements in public procurement system and financial sector system.	Support to financial institutions' regulatory framework through policy measures leading to successful implementation of EU MiFID Directive in non-bank financial institutions and Basel II standards.	-	-

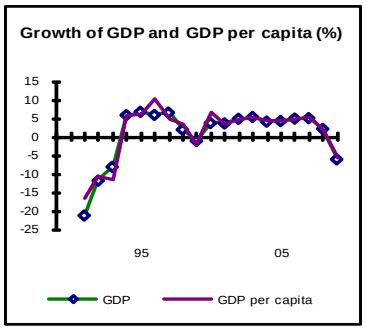
Annex 5 Croatia-at-a-Glance

Key Development Indicators	Croatia	High income
(2009)		
Population, mid-year (millions)	4.4	1,110
Surface area (thousand sq. km)	57	35,527
Population growth (%)	-0.1	0.7
Urban population (% of total population)	*57*	77
GNI (Atlas method, US$ billions)	61.2	42,825
GNI per capita (Atlas method, US$)	13,820	38,596
GNI per capita (PPP, international $)	19,040	37,144
GDP growth (%)	-6.0	0.3
GDP per capita growth (%)	-5.9	-0.4
(most recent estimate, 2003–2009)		
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	..
Poverty headcount ratio at $2.00 a day (PPP, %)	<2	..
Life expectancy at birth (years)	76	80
Infant mortality (per 1,000 live births)	5	6
Child malnutrition (% of children under 5)	1	..
Adult literacy, male (% of ages 15 and older)	100	99
Adult literacy, female (% of ages 15 and older)	98	98
Gross primary enrollment, male (% of age group)	94	101
Gross primary enrollment, female (% of age group)	94	101
Access to an improved water source (% of population)	76	100
Access to improved sanitation facilities (% of population)	99	99





Net Aid Flows	1980	1990	2000	2009 [a]
(US$ millions)				
Net ODA and official aid	–	*0*	66	397
Top 3 donors (in 2008):				
European Commission	–	*0*	12	337
Germany	–	*0*	5	21
Austria	–	*0*	5	9
Aid (% of GNI)	–	*0.0*	0.3	0.6
Aid per capita (US$)	–	*0*	15	90
Long-Term Economic Trends				
Consumer prices (annual % change)	..	*122.6*	4.6	2.4
GDP implicit deflator (annual % change)	..	*99.3*	4.6	3.3
Exchange rate (annual average, local per US$)	..	*0.0*	8.3	5.3
Terms of trade index (2000 = 100)	..	..	100	100



	1980	1990	2000	2009	1980–90	1990–2000	2000–09
					(average annual growth %)		
Population, mid-year (millions)	4.6	4.8	4.4	4.4	0.4	-0.8	0.0
GDP (US$ millions)	..	*18,156*	21,520	63,435	..	0.5	3.8
		(% of GDP)					
Agriculture	..	10.9	6.5	5.4	..	-5.5	2.0
Industry	..	35.8	28.5	26.3	..	-2.2	3.9
Manufacturing	..	29.3	20.3	15.8	..	-3.5	2.6
Services	..	53.4	65.0	68.2	..	2.2	4.2
Household final consumption expenditure	..	52.5	60.4	55.4	..	*1.9*	3.6
General gov't final consumption expenditure	..	36.3	23.8	21.5	..	*2.6*	2.8
Gross capital formation	..	12.4	19.1	27.1	..	*7.2*	9.1
Exports of goods and services	..	27.5	41.7	35.4	..	*6.3*	3.8
Imports of goods and services	..	28.7	45.0	39.4	..	*4.9*	5.7
Gross savings	..	-15.4	18.0	21.5			

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

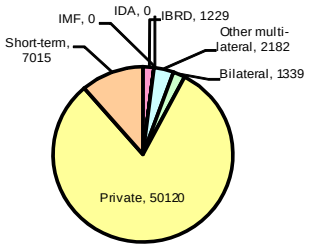
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2009
(US$ millions)		
Total merchandise exports (fob)	4,574	10,736
Total merchandise imports (cif)	7,770	21,025
Net trade in goods and services	-947	-2,274
Current account balance	-533	-3,314
as a % of GDP	-2.5	-5.2
Workers' remittances and compensation of employees (receipts)	641	1,476
Reserves, including gold	3,525	14,896

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	40.0	38.6
Tax revenue	36.5	33.9
Current expenditure	40.7	38.5
Overall surplus/deficit	-3.5	-5.0
Highest marginal tax rate (%)		
Individual	..	45
Corporate	35	20

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,426	61,885
Total debt service	2,037	10,381
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	53.1	97.6
Total debt service (% of exports)	21.4	42.9
Foreign direct investment (net inflows)	1,105	1,645
Portfolio equity (net inflows)	727	374

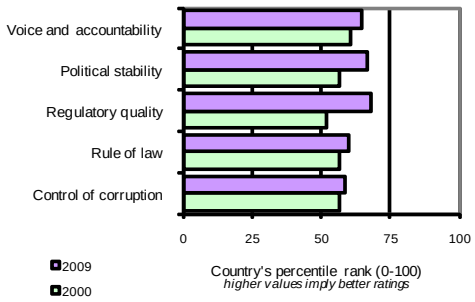
Composition of total external debt, 2009



US$ millions

Private Sector Development	2000	2009
Time required to start a business (days)	–	22
Cost to start a business (% of GNI per capita)	–	8.4
Time required to register property (days)	–	104
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2009**
Legal System	..	*28.9*
Anticompetitive or informal practices	..	*20.0*
Stock market capitalization (% of GDP)	12.7	40.4
Bank capital to asset ratio (%)	11.9	*13.5*

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2008
Paved roads (% of total)	85.4	*89.1*
Fixed line and mobile phone subscribers (per 100 people)	62	175
High technology exports (% of manufactured exports)	8.5	9.1

Environment		
Agricultural land (% of land area)	37	*22*
Forest area (% of land area)	35.3	39.4
Terrestrial protected areas (% of surface area)	..	7.5
Freshwater resources per capita (cu. meters)	*8,491*	8,502
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	4.6	*5.6*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	6.9	*8.0*
Energy use per capita (kg of oil equivalent)	1,760	*2,101*

World Bank Group portfolio	2000	2009
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	421	1,229
Disbursements	52	192
Principal repayments	22	128
Interest payments	19	46
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	55	303
of which IFC own account	46	276
Disbursements for IFC own account	19	63
Portfolio sales, prepayments and repayments for IFC own account	2	38
MIGA		
Gross exposure	52	274
New guarantees	30	279

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. 5/4/11
.. indicates data are not available. – indicates observation is not applicable.

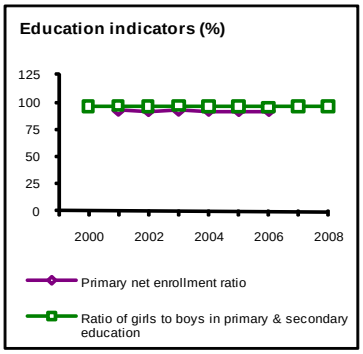
Development Economics, Development Data Group (DECDG).

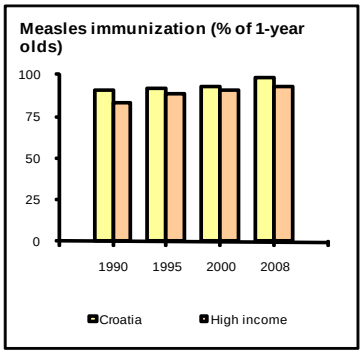
Millennium Development Goals

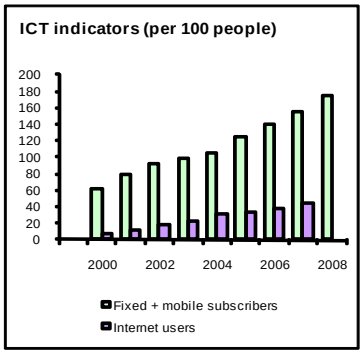
Croatia

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Croatia			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2008**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*<2*	..	<2	*<2*
Poverty headcount ratio at national poverty line (% of population)	..	..	8.8	10.0
Share of income or consumption to the poorest qunitile (%)	..	..	*8.2*	8.4
Prevalence of malnutrition (% of children under 5)	..	0.6	*0.8*	0.6
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	79	*82*	*92*	*92*
Primary completion rate (% of relevant age group)	..	82	92	*102*
Secondary school enrollment (gross, %)	..	81	85	*94*
Youth literacy rate (% of people ages 15-24)	100	100	100	100
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	96	97	96	96
Women employed in the nonagricultural sector (% of nonagricultural employment)	*45*	*45*	45	44
Proportion of seats held by women in national parliament (%)	..	9	23	21
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	13	10	9	4
Infant mortality rate (per 1,000 live births)	11	9	7	5
Measles immunization (proportion of one-year olds immunized, %)	91	92	93	98
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	11	12	7	7
Births attended by skilled health staff (% of total)	100	100	100	100
Contraceptive prevalence (% of women ages 15-49)	..	..	69	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	*0.1*
Incidence of tuberculosis (per 100,000 people)	55	44	36	23
Tuberculosis case detection rate (%, all forms)	80	87	87	87
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	..	95	76
Access to improved sanitation facilities (% of population)	68	61	100	99
Forest area (% of total land area)	31.5	*36.9*	35.3	39.4
Terrestrial protected areas (% of surface area)	..	..	..	7.5
CO2 emissions (metric tons per capita)	5.2	3.9	4.6	*5.6*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	7.1	6.5	6.9	*8.0*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	17.2	27.6	38.9	42.4
Mobile phone subscribers (per 100 people)	0.0	0.7	23.3	132.6
Internet users (per 100 people)	0.0	0.5	6.8	50.5
Personal computers (per 100 people)	*16*	2.1	11.3	*18.0*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 5/4/11

Development Economics, Development Data Group (DECDG).

Annex 6 Selected Indicators of World Bank Portfolio Performance and Management

As of Date 6/30/2011

Indicator	2008	2009	2010	2011
Portfolio Assessment				
Number of Projects Under Implementation [a]	16	17	14	12
Average Implementation Period (years) [b]	3.5	3.9	3.7	4.1
Percent of Problem Projects by Number [a, c]	12.5	11.8	21.4	8.3
Percent of Problem Projects by Amount [a, c]	25.0	15.1	16.5	2.8
Percent of Projects at Risk by Number [a, d]	12.5	11.8	21.4	8.3
Percent of Projects at Risk by Amount [a, d]	25.0	15.1	16.5	2.8
Disbursement Ratio (%) [e]	12.7	22.6	24.3	23.1
Portfolio Management				
CPPR during the year (yes/no)	yes	yes	yes	yes
Supervision Resources (total '000 US$)	1,582	1,642	1,538	1,429
Average Supervision ('000 US$/project)	99	97	110	119

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	28	9
Proj Eval by OED by Amt (US$ millions)	1,352.6	264.7
% of OED Projects Rated U or HU by Number	21.4	11.1
% of OED Projects Rated U or HU by Amt	14.9	1.8

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 7 IBRD and IFC Investment Operations Program

CAS Annex B3 - IBRD/IDA Program Summary		Croatia		
	As of Date 6/30/2011			
Proposed IBRD/IDA Base-Case Lending Program [a]				
Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2009 (actual)	Rijeka Gateway II	122.5	H	M
	Develop. of EMS and Invest. Planning	28.3	H	M
	Coastal Cities Pollution Control II	87.5	H	M
	Subtotal IBRD	**238.3**		
	Coastal Cities Pollution Control II (GEF)	6.4	H	M
2010 (actual)	Fiscal, Soc. and Financ. Sector DPL	296.8	H	H
	Justice Sector Support	36.3	H	H
	Export Finance Intermediation Loan	141.2	H	M
	Subtotal IBRD	**474.3**		
2011 (actual)	Economic Recovery DPL	213.0	H	H
	EU Natura 2000 Integration	28.8	H	M
	Subtotal IBRD	**241.8**		
2012 (plan)	AF - Trade and Transport Integration	67.0	H	M
	Integrated Land Administration System	24.0	H	M
	Science and Technology Repeater	29.0	H	M
	Subtotal IBRD	**120.0**		
	Total FY2009-2012 IBRD	**1,074.4**		

Croatia: IFC Investment Operations Program				
		2009	**2010**	**2011***
Commitments (US$m)				
	Gross	56.4	0.0	0.0
	Net**	56.4	0.0	0.0
Net Commitments by Sector (%)				
	Food & Beverages	-	-	-
	Primary Metals	100%	-	-
	Total	100%	0%	0%
Net Commitments by Investment Instrument (%)				
	Equity	-	-	-
	Guarantee	-	-	-
	Loan	100%	-	-
	Quasi loan	-	-	-
	Risk product	-	-	-
	Total	100%	0%	0%
* As of end June, 2011				
** IFC's Own Account only				

Annex 8 Summary of IBRD Knowledge and Advisory Services

As of date 06/30/2011				
Product	*Completion FY*	*Cost (US$000)*	*Audience* [a]	*Objective* [b]
Completions To Date During CPS Period				
TA for Public Admin Reform Support	2009	50	G/D/B	KG/PS
Waste Mgmt Facility in NW Croatia: private sector participation potential and options (PPIAF)	2009	123	G/D/B	KG/PS
EU Economic Convergence Report	2010	416	G/D/B/PD	KG/PD/PS
Diagnostic Review of Consum Protec & Fin. Literacy	2010	264	G/D/B/PD	KG/PD/PS
Social Impact of the Crisis and Building Resilience	2010	130	G/D/B/PD	KG/PD/PS
Management of Brownfield Redevelopment	2010	234	G/D/B/PD	KG/PD/PS
Instit. Framework and Fiscal Risk Assessm. for PPP (PPIAF)	2010	50	G/D/B	KG/PS
Fiscal Responsibility Framework in Croatia	2011	50	G/D/B	KG/PS
IDF Grant: Enhancing Corpor Financ Report	2011	77	G	KG/PS
Assessment of Croatia's *Markets in Financial Instruments* (MiFID) Directive Implementation	2011	80	G/D/B	KG/PS
Policy Note on Labor Market Issues in Croatia	2011	40	G/D/B	KG/PS
Policy Note on Pension Reform Options	2011	40	G/D/B	KG/PS
Long-term Care for the Elderly	2011	10	G/D/B	KG/PS
Underway				
Policy Note on Poverty Assessment Update	2012	40	G/D/B	KG/PS
Governance Reforms in Support of Competit. & Grow	2012	103	G/D/B/PD	KG/PS/PD
Croatia Science, Technology and Innovation Policy	2012	200	G/D/B	KG/PS
Justice Sector Public Expend & Institutional Review (Dutch Externally Fin. Output)	2012	140	G/D/B/PD	KG/PD/PS
Planned				
The Higher Education TA	2012	100	G/D/B	KG/PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Annex 9 Social Indicators

	Latest single year			Same region/income group
	1980-85	1990-95	2003-09	High-income
POPULATION				
Total population, mid-year *(millions)*	4.7	4.7	4.4	1,116.6
Growth rate *(% annual average for period)*	0.5	-0.5	0.0	0.7
Urban population *(% of population)*	52.3	55.8	57.0	77.3
Total fertility rate *(births per woman)*	..	1.6	1.5	1.8
POVERTY				
(% of population)				
National headcount index	..	..	10.0	..
Urban headcount index	..	..	..	..
Rural headcount index	..	..	..	..
INCOME				
GNI per capita *(US$)*	..	3,530	13,820	37,970
Consumer price index *(2005=100)*	..	81	131	111
INCOME/CONSUMPTION DISTRIBUTION				
Gini index	..	..	23.6	..
Lowest quintile *(% of income or consumption)*	..	..	8.4	..
Highest quintile *(% of income or consumption)*	..	..	..	..
SOCIAL INDICATORS				
Public expenditure				
Health *(% of GDP)*	..	7.0	6.3	6.8
Education *(% of GNI)*	..	..	..	5.0
Net primary school enrollment rate				
(% of age group)				
Total	..	82	92	95
Male	..	..	..	95
Female	..	..	..	95
Access to an improved water source				
(% of population)				
Total	..	..	76	100
Urban	..	..	..	100
Rural	..	..	..	98
Immunization rate				
(% of children ages 12-23 months)				
Measles	..	92	98	93
DPT	..	90	96	95
Child malnutrition *(% under 5 years)*	..	1	1	..
Life expectancy at birth				
(years)				
Total	71	72	76	80
Male	..	69	72	77
Female	..	77	80	83
Mortality				
Infant *(per 1,000 live births)*	17	9	5	6
Under 5 *(per 1,000)*	..	10	4	7
Adult (15-59)				
Male *(per 1,000 population)*	233	21	16	120
Female *(per 1,000 population)*	106	10	6	63
Maternal *(per 100,000 live births)*	..	12	13	15
Births attended by skilled health staff *(%)*	100	100	100	99

CAS Annex B5. This table was produced from the CMU LDB system. 05/11/11

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

Annex 10 Key Economic Indicators

			Actual			*Estimate*		*Projections*	
	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
National Accounts (as % of GDP)									
Gross domestic product[a)]	100	100	100	100	100	100	100	100	100
Agriculture	5	5	4.9	5.2	5.4	6	6	6	6
Industry	29	28	27.5	27.9	26.3	27	28	29	29
Services	66	67	67.6	66.9	68.2	67	66	65	65
Total Consumption	79	78	78	78	77	77	77	77	77
Gross domestic investment	27	29	29	31	27	23	24	25	25
Government investment	5	4	4	4	3.1	2	3	3	2
Private investment (incl. increase in stocks)	23	26	25	27	24	21	21	22	23
Exports GNFS[b)]	42	43	42	42	35	38	41	42	42
Imports GNFS[b)]	49	50	50	50	39	39	43	44	44
Gross domestic savings	21	22	22	22	23	23	23	23	23
Gross national savings[c)]	22	23	22	21	21	22	21	21	22
Memorandum items									
Gross domestic product (US$ mill at current prices)	44,816	49,843	59,319	69,920	63,435	60,830	62,162	65,233	70,000
GNP per capita (US$, Atlas method)	9,730	10,850	12,180	13,720	13,820	13,820	13,690	14,070	14,860
Real annual growth rates (%, calculated from previous years prices)									
Gross domestic product at market prices	4.3	4.9	5.1	2.2	-6.0	-1.2	1.5	2.5	3.0
Gross domestic investment	7.3	13.6	6.2	6.9	-13.5	-11.8	3.2	4.8	6.1
Real annual per capita growth rates (%, calculated from previous years prices)									
Gross domestic product at market prices	4.2	5.0	5.2	2.2	-5.9	-1.2	1.5	2.5	3.0
Total consumption	3.5	3.8	6.3	1.2	-7.1	-0.9	1.0	1.9	2.0
Private consumption	4.0	3.2	6.4	0.9	-8.3	-0.9	1.2	2.5	2.7
Balance of Payments (US$ millions)									
Exports GNFS[b)]	18,881	21,445	25,094	29,623	22,626	24,164	25,605	27,424	29,481
Merchandise FOB	8,960	10,644	12,623	14,460	10,736	12,239	13,083	14,025	15,077
Imports GNFS[b)]	21,702	24,679	29,465	35,007	24,900	24,534	26,653	28,688	30,857
Merchandise FOB	18,301	21,131	25,556	30,416	21,025	20,710	22,657	24,492	26,451
Resource balance	-2,821	-3,234	-4,371	-5,385	-2,274	-370	-1,048	-1,264	-1,377
Net current transfers	1,475	1,390	1,431	1,526	1,450	1,611	1,678	1,731	1,786
Current account balance	-2,555	-3,325	-4,445	-6,251	-3,314	-1,203	-1,990	-2,333	-2,601
Net private foreign direct investment	1551	3200	4713	4696	1645	1190	2150	2460	2761
Net portfolio investments	- 1,508	- 629	34	- 826	374	501	248	266	260
Long-term loans (net)	2,229	3,565	3,783	4,401	1,466	- 1,516	- 1,542	- 1,354	- 1,149
Other capital (net, incl. errors & ommissions)	1,241	- 926	- 3,141	- 2,434	1,131	1,039	841	508	246
Change in reserves[d)]	- 1,022	- 1,727	- 982	391	- 1,363	- 97	204	307	209
Memorandum items									
Resource balance (% of GDP)	-6.3	-6.5	-7.4	-7.7	-3.6	-0.6	-1.7	-1.9	-2.0
Current account balance (% of GDP)	-5.7	-6.7	-7.5	-8.9	-5.2	-2.0	-3.2	-3.6	-3.7
Annual value growth rates (%)									
Merchandise exports (FOB)	9.1	18.8	18.6	14.6	-25.8	14.0	6.9	7.2	7.5
Merchandise imports (FOB)	10.5	15.5	20.9	19.0	-30.9	-1.5	9.4	8.1	8.0
Public finance (as % of GDP at market prices)[e)]									
Overall surplus (+)/ deficit (-)	-3.1	-2.9	-2.6	-2.5	-5.1	-5.4	-5.8	-4.6	-2.9
Current revenues	39.6	40.0	41.1	40.1	38.9	37.9	36.4	36.4	35.9
Current expenditures	35.7	36.3	36.6	36.3	38.5	38.9	37.9	36.8	35.0
Current surplus (+) /deficit (-)	3.9	3.7	4.6	3.9	0.4	-1.0	-1.5	-0.4	0.9
Capital expenditure	6.8	5.7	6.2	6.1	5.4	4.2	4.2	4.1	3.8
Foreign financing	-1.5	-1.2	-0.5	-0.3	2.2	2.3	2.7	2.8	2.6
Monetary indicators									
M4/GDP	58.0	62.7	67.8	65.2	66.6	69.6	72.0	73.4	75.1
Growth of M4(%)	10.5	18.0	18.3	4.3	-0.9	4.4	6.7	7.5	8.2
Private sector credit growth (%)	17.2	22.9	15.0	10.5	-0.6	6.9	9.4	6.4	6.9
Domestic credit / GDP (%)	55.9	63.0	66.2	67.5	69.1	74.0	78.5	79.2	80.1
Price developments									
Real exchange rate (1995=100)[f]	99.9	100.5	99.5	96.0	93.3	93.0	92.8	92.9	93.1
Exchange rate at end year (LCU/US$)[f]	6.2	5.6	5.0	5.2	5.1	5.6	5.6	5.6	5.6
Real interest rates	6.5	6.0	6.6	4.5	8.6	8.5	6.1	5.8	5.9
Consumer price index (% change)[g]	3.3	3.2	2.9	6.1	2.4	1.1	2.7	2.6	2.5
GDP deflator (% change)	3.3	4.0	4.1	6.1	3.3	1.0	1.6	2.9	2.7

a) GDP at factor cost
b) 'GNFS" denotes "goods and nonfactor services"
c) Includes net unrequired transfers excluding official capital grants.
d) Includes use of IMF resources.
e) Consolidated general government.
f) "LCU" denotes "local currency units". An increase in real exchange rate denotes depreciation.
g) Retail price index by 2002; since 2003 CPI

Annex 11 Key Exposure Indicators

Indicator	Actual					Estimate	Projections		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US$m)[a]	30,480	38,545	48,383	55,584	61,885	60,703	61,745	62,521	62,917
Net disbursements (US$m)[a]	3,309	5,424	7,059	9,780	8,441	4,553	1,042	776	396
Total debt service (TDS) (US$m)[a]	4,632	8,275	9,062	8,249	10,381	9,113	11,761	10,997	10,443
Debt and debt service indicators (%)									
TDO/XGS[b]	154.7	174.4	188.5	183.8	267.5	245.7	235.7	222.7	208.3
TDO/GDP	68.0	77.3	81.6	79.5	97.6	99.8	99.3	95.8	89.9
TDS/XGS	23.5	37.4	35.3	27.3	44.9	36.9	44.9	39.2	34.6
Concessional/TDO	1.9	1.5	1.0	0.5	0.0	0.0	0.0	0.0	0.0
Interest payments/GDP	1.8	2.2	2.6	2.7	2.5	2.4	2.6	2.6	2.5
IBRD exposure indicators (%)									
IBRD DS/public DS	5.0	5.0	6.5	7.4	5.6	5.5	4.2	5.2	4.9
Preferred creditor DS/public DS (%)[c]	8.8	9.2	12.0	14.0	10.8	13.4	11.5	13.8	14.7
IBRD DS/XGS	0.5	0.5	0.6	0.6	0.8	0.7	0.7	0.7	0.5
IBRD TDO (US$m)[d]	808	1,031	1,087	1,215	1,229	1,435	1,625	1,716	1,676

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
b. "XGS" denotes exports of goods and services, including workers' remittances.
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
d. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 12 IBRD Operations Portfolio

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 7/6/2011

Closed Projects **33**

IBRD/IDA *	
Total Disbursed (Active)	463.03
of which has been repaid	50.49
Total Disbursed (Closed)	1,162.97
of which has been repaid	764.21
Total Disbursed (Active + Closed)	1,626.00
of which has been repaid	814.70
Total Undisbursed (Active)	537.81
Total Undisbursed (Closed)	2.00
Total Undisbursed (Active + Closed)	539.81

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements [a/]: Orig.	Frm Rev'd
P104749	JUSTICE SECTOR SUPP(	S	S	2010	36.3				34.19736	-0.79859	
P100639	AGRI POLLUTION (GEF)	MS	S	2008			5		3.666877		-0.23312
P091715	AGRIC ACQUIS COHESIO	S	S	2006	30.14				10.72445	7.0804598	3.576155
P102732	COASTAL CITIES POLLUT	MS	MS	2009	87.5				80.59214	13.98728	
P102395	Coastal Cities Pollution Co	MS	MS	2009			6.4		6.112109	2.2121088	
P086671	EDUC SECTOR DEV PRO	MS	S	2006	85				7.89823	1.88429	
P086669	EMS & INVEST PLANNING	MU	U	2009	28.3				27.44748	11.49297	
P111205	EU NATURA 2000	S	S	2011	28.8				27.55678		
P116080	EXPORT FIL	S	S	2010	141.22				33.52341	-25.85401	
P098948	INLAND WATERS PROJE(	S	MS	2007	133.41				88.28477	41.709931	35.46993
P102778	REVENUE ADMIN MODEF	MS	MS	2007	68			34	26.10269	22.026742	-2.47326
P043195	RIJEKA GATEWAY	MS	MS	2004	204.5			10.48322284	49.35872	-5.193052	12.10422
P102365	RIJEKA Gateway II (new F	S	MS	2009	122.5				122.1938	6.903207	
P093767	TRADE & TRANS INTEG	S	MS	2007	75.3				29.93272	15.726911	
Overall Result					1040.97		11.4	44.48322284	547.5915	88.565804	48.44392

Annex 13 IFC Committed and Outstanding Investment Portfolio

Amounts in US Dollar Millions
as of 06/30/2011

		COMMITTED					OUTSTANDING				
FY Approval	Company	LOAN	EQUITY	QUASI-EQUITY*	GT/RM**	PARTICI-PANT	LOAN	EQUITY	QUASI-EQUITY	GT/RM	PARTICI-PANT
1990/ 1998/ 1999/ 2003	Belisce	3.62	0	0	0	0	3.62	0	0	0	0.00
2006/ 2008	Belje	52.11	0	0	0	0	52.11	0	0	0	0.00
2009	CMC Sisak	57.90	0	0	0	0	21.71	0	0	0	0.00
2000/ 2003	E&S Bank	3.86	0	0	0	0	3.86	0	0	0	0.00
2007	GSHR Holding Ltd	39.81	2.73	0	0	27.50	39.81	0.00	0	0	27.50
2005	PBZ	50.66	0	0	0	0	50.66	0	0	0	0.00
2008	PIK Vrbovec	28.95	0	0	0	0	28.95	0	0	0	0.00
2004/ 2005/ 2010	Schwarz Group	19.90	0	0	0	0	19.90	0	0	0	0.00
Total Portfolio		**256.82**	**2.73**	**0**	**0**	**27.50**	**220.63**	**0.00**	**0**	**0**	**27.50**

*Quasi Equity includes both loan and equity types

**Denotes Guarantee and Risk Management Products

IBRD 33394R1

CROATIA

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- SELECTED CITIES AND TOWNS
- COUNTY (ŽUPANIJA) CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- COUNTY (ŽUPANIJA) BOUNDARIES
- INTERNATIONAL BOUNDARIES

JULY 2006