



1. Project Data:		Date Posted : 02/25/2004	
PROJ ID: P008334		Appraisal	Actual
Project Name: Croatia Coastal Forest Reconstruction and Protection Project	Project Costs (US\$M)	67.3	56.67
Country: Croatia	Loan/Credit (US\$M)	42.0	38.77
Sector(s): Board: RDV - Central government administration (90%), Forestry (10%)	Cofinancing (US\$M)	14.3	7.62
L/C Number: L4119			
	Board Approval (FY)		97
Partners involved : Hrvatske Sume (Croatian Forests), Netherlands, WWF	Closing Date	06/30/2002	06/30/2003
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2. Project Objectives and Components

a. Objectives
The main objective was to restore and protect forest land in the coastal zone of Croatia in order to enhance landscape and recreation values of the region and thereby contribute to restoring tourism to its pre-war level by:

- restoring the environmental role of coastal forests destroyed by the war
- addressing the problem of forest fires in coastal areas
- developing the knowledge base for improved management and protection of coastal forests .

b. Components
The original components were:

(1) Coastal forest reconstruction (\$7.7 actual; \$11.9 at appraisal): Rehabilitating 4,500 hectares of public forests and 500 hectares of private forests affected by war activities along the coast; reconstructing the nursery in Zadar to grow seedlings to be utilized in reforestation programs; and reconstructing the arboretum in Trsteno .

(2) Forest fire management (\$47.0 actual; \$47.9 at appraisal): Improving fire management for coastal forests through fire prevention, pre-suppression, and suppression activities . Prevention activities included a public awareness campaign and roadside forest clearing and thinning . Pre-suppression activities included weather forecasting equipment and completing a network of fire-fighting roads. Suppression activities included a comprehensive telecommunications system to improve coordination of fire -fighting activities, aerial fire-fighting equipment (including one new seaplane), and terrestrial fire-fighting equipment. The purchase of the seaplane (which cost \$25 million compared to the appraisal estimate of \$26 million) was the largest single project expenditure .

(3) Provision of support services (\$2.0 actual; \$7.5 at appraisal): Provision of a Geographic Information System (GIS), a research program, technical assistance to Hrvatske Sume (HS) to restore its profitability, and technical assistance for project management and monitoring .

All three components were revised somewhat during implementation in response to the changing policy and institutional environment in Croatia . None of the revisions required Board approval, since they were consistent with original project objectives:

- A higher than expected rate of natural regeneration of burnt forest reduced the need for reforestation activities on public lands. This led to greater emphasis on cleaning and thinning activities in burnt out areas that were regenerating naturally, and on rehabilitating private forests .
- The Government of Croatia decided after the 2000 elections to decentralize institutional responsibility for fire suppression activities from the Ministry of the Interior to local governments . This resulted in canceling the

purchase of the telecommunications equipment and GIS system . Funding was reallocated to support the establishment of a Regional Fire Management Center in Split, its training center, and its outreach activities to improve fire-fighting coordination and capacities under the new framework .

- The Government of Croatia adopted a strategy in 2000 to encourage the privatization and re-structuring of all state-owned companies, including HS . This led the project to provide technical assistance for the preparation of a comprehensive plan for the strategic development and restructuring of HS as a limited liability company . To complement this process, the project also provided technical assistance to prepare a National Forest Policy and Strategy that would provide an enabling framework for forest sector reforms and develop National Standards for sustainable forest management .
- The research program was cancelled when the Forest Research Institute lost five of its scientists in a traffic accident . Some of these funds were reallocated to the restructuring study of HS .

c. Comments on Project Cost, Financing and Dates

US\$ 3.23 million of the Bank's \$42 million commitment was cancelled due to cancellation of some activities . The Government of Croatia financed \$10.3 million compared to the appraisal estimate of \$11.0 million . HS provided co-financing of \$7.1 million compared to the appraisal estimate of \$14.3 million . The WWF/World Bank Alliance and the Netherlands provided co-financing of \$0.5 million . The project closed one year later than originally planned because the Government of Croatia decided to go ahead with reforming HS and asked for the Bank's continuing assistance .

3. Achievement of Relevant Objectives:

The project rehabilitated 4,523 ha. of public and private coastal forests through reforestation, clearing, and thinning . The project raised public awareness of fire risk and prevention measures, and improved both national and local capacity to prevent forest fires under the new decentralized arrangements . The revisions to the various project components and subcomponents provided what was initially a very technically oriented project with a broader enabling policy and institutional framework, while taking into account the changing political, economic, and social climate in Croatia .

However, the project had a number of shortcomings (see 5 below), and was adversely affected by the overall post-war sociopolitical climate in Croatia, which made decision-makers less open to institutional changes and reform . The project performed poorly until President Tudjman died in December 1999 and the coalition of six moderate parties won their landslide parliamentary victory in January 2000 .

The evidence presented in the ICR that coastal tourism has recovered to its pre-war level -- a major project objective -- is incomplete . The project worked closely with the Institute of Tourism, which produced several well recognized reports on the impact of the project's coastal activities on the restoration of tourism, and the actual numbers of tourist overnight stays, provided by the Institute, were used to prepare the project's summary economic analysis .

4. Significant Outcomes/Impacts:

The program to involve private landowners in the restoration of degraded and abandoned forest and agricultural land was so successful that it was expanded from the Dubrovnik area to include private forest owners all along the coast and on coastal islands . Over 2,200 private landowners received project funds to clean overgrowth and agricultural waste, plant young olive trees, and otherwise restore 1,085 hectares of abandoned land (compared to the appraisal target of 500 hectares) . This program was also instrumental in encouraging the return of persons displaced during the war, and increasing local awareness of fire risks associated with abandoned land .

The project purchased a weather forecasting system for the State Weather Bureau to improve fire prediction, funded the construction of nine look-out towers and related equipment, and funded construction of 198 km. of new fire-fighting roads and reconstruction of 431 km. of existing roads .

After the decentralization of institutional responsibility for fire suppression activities from the Ministry of the Interior to local governments, many local fire brigades were under-funded and ill-equipped to take on responsibilities for fire suppression, maintenance of fire equipment, and coordination of activities at local, regional, and national levels . There was a decreased capacity for coordinated fire response and poor communication between local fire fighting authorities . The project was instrumental in reestablishing coordinating and fire management responsibilities under the new institutional arrangements .

The project adopted a participatory approach towards preparing the National Forest Policy and Strategy and National Standards for sustainable forest management that have become a best-practice model in transition economies for encouraging policy reform, development of standards, and institutional restructuring . The Forest Strategy, which was adopted by the Government of Croatia in July 2003, has become the principle document for the forest sector development in the next ten years .

5. Significant Shortcomings (including non-compliance with safeguard policies):

Quality at entry seems to have been unsatisfactory . Not until implementation did the broader need become apparent

for policy and institutional reform in the forestry sector (p. 12). The coastal forest reconstruction component seems to have been designed without knowing the rate of natural regeneration and therefore the need for manual reforestation on public lands (p. 3), and the forest fire management component seems to have been designed without an adequate analysis of what was the major cause of forest fires (p. 7). The objectives were also so broad that even the significant changes in project components and sub-components could be considered consistent with project objectives .

Much of even the reduced degree of manual reforestation that did take place on public lands was unsuccessful due to poor seedling stock and unusually dry weather . Only 35 percent of the seedlings planted survived .

The public awareness campaign only partially achieved its objectives . Targeted initially at tourists, it was redirected at local residents when surveys revealed that 70 percent of fires were caused by local residents and only 2 percent by tourists. The Government of Croatia is now seeking more funding to expand these programs among coastal communities.

The Bank's insistence that the borrower use a competitive procurement method in procuring the seaplane in 1999, despite the fact that there was only one global supplier of the seaplane (Canadair), led to unnecessary delays in procurement. This was particularly detrimental in 2000 when extremely dry and windy weather resulted in one of Croatia's worst fire seasons, causing three times the amount of damage (37,000 hectares) than occurred during the war.

The restructuring study of HS was strongly supported by the Government, but only half-heartedly embraced by HS. In particular, HS seems to maintain a limited understanding of its role in managing a public good, and continues to see forest resources as a private asset, rather than a public asset . HS tends to focus on its traditional role as forest manager, rather than integrating its functions with the needs of the community, to address concerns like fire prevention, forest recreation for tourism, etc.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	The project had some significant shortcomings (see 5 above). OED rates outcome moderately satisfactory (a rating which does not exist under the ICR's 4-point scale) when the project achieved most of its major relevant objectives efficiently but with significant shortcomings.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	Marginally so. Good supervision after 2000 and positive responses to the borrower's requests to help improve the overall policy and institutional framework for forest management in Croatia made up for low quality at entry and poor supervision during the first two years .
Borrower Perf .:	Satisfactory	Satisfactory	This improved significantly after the government changed in 2000. The performance of the Ministry of Agriculture and Forestry and the Ministry of the Interior was highly satisfactory after that time.
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(1) It is important to seize the window of opportunity presented by changed political circumstances to support broader policy and institutional reforms in the sector . Doing so transformed what was initially a very technically oriented investment project project into a broader policy and institutional reform project .

(2) It is important to take a flexible approach to designing and implementing project components in the rapidly changing policy and institutional environments in post-conflict, transitional economies like Croatia .

(3) It is important to have strong stakeholder agreement for structural reforms, especially among the leadership of institutions that are undergoing reform.

8. Assessment Recommended? Yes No

Why? The ICR also makes some significant claims from which lessons can be learned. The restructuring model for HS "can be regarded as a best practice model in Europe, similar to successful examples in Latvia, Austria, Hungary, Ireland, and Germany." (p. 6.) "The National Standards for forest management are in line with international best practice approaches and will boost Croatia's access with certified products to environmentally sensitive markets in Western Europe and North America." (p. 6.) "The participatory approach Croatia undertook to prepare its forest policy and strategy and forest standards was a best-practice example." (p. 13.)

9. Comments on Quality of ICR:

The ICR contains a number of weaknesses:

- The evidence that coastal tourism has recovered to its pre-war level -- a major project objective -- is incomplete. (The TTL acknowledges that some of this information was dropped during the final editing of the ICR.)
- The restructuring model for HS is regarded as best practice (p. 6), yet, this has only been half-heartedly embraced by HS (p. 10) -- apparently for political reasons associated with the 2003 elections.
- The Bank's performance during supervision is rated "highly satisfactory" even though it was unsatisfactory during the first two years of project implementation (p. 11.). (The TTL admits that the highly satisfactory rating was a mistake.)
- The cost of the coastal forest reconstruction component should be \$ 7.23 in the last table in Annex 2 (p. 19), not \$7.70 million.

A meeting with the TTL also showed that this project had an extremely rich experience which is having positive impacts on other forest projects in the ECA region. But this experience did not come through in the ICR.