COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)

Appraisal Stage

Report No.: 114426

Date Prepared/Updated: 31-Mar-2017

I. BASIC INFORMATION

A. Basic Project Data

Country:	Croatia	**Project ID:**	P163833
		Parent Project ID :	
Project Name:	Modernization and restructuring of the road sector		
Region:	EUROPE AND CENTRAL ASIA		
Estimated Appraisal Date:	13-Mar-2017	**Estimated Board Date:**	28-Apr-2017
Practice Area (Lead):	Transport & ICT	**Lending Instrument:**	Investment Project Financing
Borrower(s)	Ministry of Finance		
Implementing Agency	Ministry of Sea, Transport and Infrastructure (MSTI)		
Financing (in USD Million)			

Financing Source	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development (Loan)	23.32
International Bank for Reconstruction and Development (Guarantee)	370.7
European Bank for Reconstruction and Development	265
Private Commercial Sources (TBD)	
Financing Gap	0.00
Total Project Cost	1083.32

Environmental Category	B-Partial Assessment
Decision	The review did authorize the team to appraise and negotiate
Other Decision (as needed)	
Is this a Repeater project?	No
Is this a Transferred project? (Will not be disclosed)	Yes

B. Introduction and Context

Country Context

Croatia is a high income country located at the crossing of several main European transport corridors. The country's most important industries are tourism and, to a lesser extent, pharmaceutical and metal industries, which all rely on good connectivity. The steady increase in industrial production, construction and chemicals sectors boosted Gross Domestic Product (GDP) in the period from 2003 until the global economic crisis of 2008. GDP per inhabitant, measured in Purchasing Power Standards (PPS), rose from 56 to 63 percent of the European Union (EU) average by 2008. During 2001-2008, Croatia also undertook a large road network expansion, with over HRK 57.6 billion (EUR 7.7 billion) of investment in motorways aimed at fully integrating the Croatian territory after independence, spurring industry growth and tourism, and integrating the Croatian network into the broader European network.

Since the global economic crisis, the Croatian economy deteriorated substantially and only started to recover in 2015. GDP is expected to grow annually by an average 2.7 percent from 2017-2019. The main growth drivers are expected to be personal consumption, given the labor market recovery as well as personal income tax reform, and investments, underpinned by EU funds.

The adverse economic situation until 2015 has led to a substantial increase in poverty, compared to the pre-crisis levels. With the growth and labor market recovery, both poverty and unemployment fell to 8.8 percent and 13.8 percent, respectively. While unemployment declined from 16.3 percent a year earlier, it remained higher than the Eurozone average and the third highest in the EU. The fall was triggered in part by migration outflows to Western Europe and adverse demographics.

Since 2008, the public debt almost doubled to 86.7 percent of GDP, of which the road sector debt amounts to 11 percent of GDP, reflecting mostly the government guarantees given to support the build out of the motorway network. The European Commission (EC) opened an Excessive Deficit Procedure (EDP) in January 2014 and recommended corrective measures that have only been partly implemented so far. The EC review of December 2016 strongly recommended the implementation of major reforms in public administration, public financial management, social sectors, and State-owned Enterprises (SOE) governance. As a result of this overall situation, debt-financing costs remain unfavorable, some 75 - 100 basis points above its Central European peers, with Croatian issues not having tenors beyond 10 years in domestic and international bond markets. Credit rating agencies continue to maintain their ratings at 'BB', two notches below investment grade.

As part of the government's fiscal tightening measures, SOEs suffering from weak profitability and high indebtedness are expected to accelerate reform and to redirect capital investment funding sources to EU funds where possible. While the recession led to a defensive fiscal consolidation and restructuring of the corporate sector, resulting in around 120,000 job losses, state companies have not followed at the same pace. The main SOEs receiving subsidies and investment transfers and guarantees are roads and railways SOEs. Transport SOE reforms are needed in order to: (i) adjust the level of service to correspond to demand and (ii) adjust the companies' cost structure to make them efficient and sustainable.

Sectoral and Institutional Context

The road network is arguably the largest infrastructure asset of the country, is well developed and carries more than 75 percent of the transport demand. Motorway density is high by EU standards. The modal split of inland public transport in 2015 indicates that 72.9 percent of freight and 70.6 percent of passengers were transported by roads. When individual transport is added, more than 90 percent of trips are taken by road. In 2016, the Croatian road network comprised 26,954 km of classified roads, which includes motorways (1,420 km - including planned sections), state roads (7,098 km), county roads (9,499 km) and local roads (8,937 km).

The Ministry of Sea, Transport and Infrastructure (MSTI) formulates road sector policy and regulations and monitors implementation. MSTI has arrangements with a number of SOEs that manage the construction, maintenance and operations of various networks. The Roads Act provides the legal and regulatory framework for the road sector, and defines the road classifications, operating standards, financing, and legal status. All public roads are classified as a public good under the ownership of the Republic of Croatia.

The motorway network is managed by four entities: publicly-owned Croatian Motorways (HAC) and *Autocesta Rijeka - Zagreb* (ARZ), and concessionaires *Bina-Istra and Autocesta Zagreb Macelj* (AZM). HAC is a limited liability company for the management, construction and maintenance of 926 km of motorways. ARZ started operations in 1998 as a shareholding liability company for the construction and management of 187 km of motorway. HAC-ONC (Croatian Motorways Maintenance and Toll Collection), was formed in 2012 on a non-competitive basis to perform routine maintenance and toll collection activities for HAC (beginning operations on April 16 2013). Similarly, the ARZ subsidiary, ARZ-ON, was formed to perform regular maintenance and toll collection for ARZ motorway sections. ARZ-ON was merged with HAC-ONC on January 31 2013. The relationships between HAC-ONC and HAC/ARZ are determined by respective four-year contracts expiring in 2018.

State roads are managed by Croatian Roads (HC), established in 2001 as a legal successor to the Croatian Road Authority. HC is a limited liability company for managing, constructing and maintaining the state road network. County roads and local roads are public goods owned by the Republic of Croatia and managed by county road authorities (*Zupanijske uprave za ceste* or ZUC) Financing of county and local roads is partly by HC and partly through the proceeds from vehicle registration.

The government intends to reduce the fiscal support it provides to the roads sector, currently around 0.9 percent of GDP per annum. The Government also supports road sector investments through state guarantees of loans. Inadequate corporate governance, poor investment and financing decisions, together with overstaffing and inefficient maintenance practices, amplify the problem. Government is committed to restructuring the operations and financing of road sector SOEs, aiming to put the sector on a financially sustainable path over the medium term and reducing state support.

Between 1997 and 2015 HC, HAC, and ARZ (the Road Sector SOEs) developed their networks using commercial loans and financing from International Financial Institutions, all fully guaranteed by the Government. In 2014, the debts of HAC and ARZ were consolidated into the general government debt, and by the end of 2016, government guarantees had been issued covering some 72 loan facilities, and the combined outstanding debt amounted to the equivalent of EUR 5.2 billion. The debt situation is such that it hampers the capacity of the sector to invest in asset management.

A Letter of Sector Policy (LSP), approved on March 16, 2017 proposes a set of reforms to put the sector on a financially sustainable path and reduce the need for state support. The Government LSP represents a clear commitment to: (a) optimize the debt of the road sector; (b) control investments, particularly in state roads, to limit debt and to focus spending on EU funded projects; (c) achieve a sustainable financing model through modernization of the companies; and (d) restructure the road sector by improving supervision and planning, controlling public investment, and increasing governance and operational efficiency by establishing KPIs, staff rationalization, outsourcing and setting appropriate standards to maintenance works.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The objective of the Project is to strengthen the institutional effectiveness, enhance the operational efficiency and increase the debt service capacity of Croatia's road sector.

D. Project Description

The Project supports the implementation of measures contained in the LSP, and aims to improve the institutional effectiveness, operational efficiency and debt service capacity of the Croatian Road Sector, through a combination of public investment controls, operational improvements, debt optimizing and credit enhancement measures.

The Project is expected to put Road Sector SOEs in a position that allows them to access commercial finance,

The Project scope has three components. The first two components are supported by the IBRD loan. The third component relates to provision of an IBRD project guarantee to re-profile some of the existing sector debt, and benefits from an existing EBRD loan contributing to HAC debt refinancing.

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Component Name:
Component A: Institutional strengthening and Sector Reforms
Comments (optional)
The objective of this component is to establish an institutional framework for the road sector built upon: strong planning and oversight by the MSTI; transparent governance arrangements based on KPI's; and a coordinated investment and financing plan for all road sector agencies. This component will finance consultancy services, institutional strengthening and capacity development.

Component Name:
Component B: Operational Restructuring of Road Sector SOEs
Comments (optional)
This component will finance development and implementation of management tools for revenue enhancement and cost rationalization, required to improve operational and financial sustainability of the Road Sector SOEs.

Component Name:
Component C: Debt Optimization
Comments (optional)
A project guarantee will be provided in the amount of EUR 350 million, expected to support optimization and re-profiling of existing debt. The commercial financing mobilized through the guarantee is expected to increase the tenor and potentially reduce the interest rate on road and motorway companies' debt, thereby matching liabilities more closely to asset life, reducing annual debt service and increasing the sustainability of sector debt.

E. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project does not include any new physical investment or civil works. Nevertheless, the beneficiaries of this Project, the Road Sector SOEs, manage and maintain the whole road network over the territory of the Republic of Croatia. A portion of the roads that these companies are operating are passing protected and Natura 2000 sites, as Croatia's Natura 2000 covers 36.5 % of the country's land area making it 2nd largest network in the EU countries. Large parts of the motorways are built in karst areas, geology which is extremely permeable (with reduced filtration) and present important water catchment supplying central Croatia and the Adriatic coast with drinking water. This all together emphasizes the importance of good environmental management in the roads sector, and of good road infrastructure operation and maintenance practices. Some equipment (to be located in existing buildings owned by the companies) will be purchased as part of the project, but civil works are not expected to be involved in their installation.

Under component B, the development of systems to manage assets and the development of system to respond to new EU directives for HAC and ARZ, are expected to have a positive impact on the environmental and social compliance of the companies.

Component B will finance labor restructuring that is likely to result in staff reductions. This part of the restructuring will also benefit from EBRD funding. This process will be carried out in accordance with applicable national labor and employment laws, collective agreements and good international practice The model of restructuring of the three roads sector companies is still under consideration. After the model for roads sector companies restructuring is determined, it will be possible to estimate the number of workers to be retrenched. The companies will rely, to the extent possible, on the voluntary separations of employees with incentive severance payments. However, involuntary staff reductions may occur as well. Since the number of affected workers and models of retrenchment are not known at this stage of project preparation, the companies prepared a retrenchment framework. It includes a social assessment and outlines the principles and protection mechanisms for potentially affected workers as provided by labor and social protection legislation, and applicable collective agreements. Once the number of affected workers, options for severance payment and models of retrenchment are known during project implementation, each roads company will prepare a retrenchment plan, acceptable to the Bank.

Component C focusing on HC, HAC/ARZ debt restructuring seeks to increase the company's working capital and is not linked to any specific investment.

F. Environmental and Social Safeguards Specialists on the Team

Jelena Lukic (GSUGL)

Natasa Vetma (GEN03)

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III. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	No new physical investments or civil works are planned under the project therefore the proposed activities are not expected to have any significant negative or irreversible

		environmental impact. The project will support the overall Croatian road sector operations performance, more specifically, reinforce the institutions and planning functions, support improvement of operations efficiency and financially restructure the road sector. A preliminary environmental and social analysis of the companies was conducted prior to Appraisal. The analysis focused on the environmental and social management systems (ESMSs) and recognized efforts in establishment of voluntary environmental management systems like: ISO 14001 and OHSAS 18001 in the roads companies. A general compliance of companies' practices with the national environmental regulation was also noted. However, scattering of environmental functions and low number of environmental staff led to the conclusion that companies would benefit from additional soft measures such as capacity building to strengthen environmental performance and integration to business processes. Some of the Road Sector Companies, like HC, would also benefit from building a platform for a comprehensive voluntary ESMS. It was noted that land acquisition is carried out in compliance with national laws related to expropriation. The Croatian expropriation law, which addresses only the case of acquisition of privately owned land by the State in the public interest, is in many respects equivalent to WB OP 4.12 policy. There are some exceptions such as limited provisions for public consultation and participation and there is no specific reference to restoration of income/livelihoods, or provision for collecting data needed to anticipate or monitor livelihood impacts. There are also some exceptions to the requirement that compensation be paid prior to land being taken. Furthermore, neither the Expropriation Law nor any parallel legislation provides for compensation or resettlement assistance in the case of acquisition of land that is being occupied or used by people who are not legally registered landowners. Land acquisitions are carried out by the legal department at companies.

		For the above reasons and to comply with good practices, the companies will be asked to prepare a representation of their overall environmental and social management system and environmental compliance in the form of an Environmental and Social Compliance Report (ESCR). The project will support labor restructuring which will likely lead to retrenchment. The scale of retrenchment cannot be estimated at this stage, prior to finalization of the restructuring of the roads companies. An umbrella retrenchment framework was prepared by the companies jointly during project preparation, laying out good practice principles and procedures required by the Labor Law and applicable collective agreements to be followed during possible retrenchment implementation. The principles and procedures included in the framework would serve as a foundation for the preparation of any retrenchment plans carried out during project implementation. Each company that would carry out retrenchment activities would inform the Bank about the anticipated workforce reduction and prepare a Retrenchment Plan, acceptable to the Bank.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
Environmental Assessment OP/BP 4.01 is triggered under the project, as the umbrella

Safeguards policy for the reason that the Road Sector SOEs are performing various building, maintenance and roads assets operations of different size and scope that are impacting environment and might have adverse environmental impacts. These planning and maintenance activities are not directly subjects of the Project, however, as the Project is looking to reinforce the institutions and planning functions, support improvement of operations efficiency and financially restructure the road sector, looking into environmental performance presents a good practice. As part of the project preparation, a basic environmental and social analysis of the Road Sector SOEs, with a strong focus on existing Environmental and Social Management Systems (ESMSs), was carried out. Certified voluntary EMSs in all companies, with the exception of HC, were identified as well as WB SG compliance work within the Rijeka Gateway Project (for HAC and HC), indicating that all are generally in compliance with the national environmental regulation. Lack of capacity has especially been noticed in HC. The analysis identifies areas of improvement for all Road Sector SOEs. As a conclusion the following soft measures are recommended, but are not limited to: improving structuring and positioning of environmental departments, capacity building, enhance integration of environmental procedures in the overall business processes and decision-making, improving environmental information dissemination and communication. In order to address identified environmental issues, the Road Sector SOEs will prepare an Environmental and Social Compliance Report (ESCR) to assess companies' ESMSs and performance. The ESCR will serve to identify in details the measures needed to address conclusions of the initial environmental and social analysis. The recommendations will be disclosed and discussed with the companies, and an agreed Action plan with timeframe and estimated cost for its implementation will be developed. The agreed plan will be a subject to supervision and reporting.

There may be some equipment purchase under the Component A and B, however, no civil works is required for their installation. Operational restructuring support under the same components may require addressing compliance concerns related to occupational hazard, health and safety or environmental requirements. In this case, if they have not already been addressed by the ESCR, they can be further assessed in additional, specialized, studies.

The main social risk of the project is associated to labor restructuring of HAC and ARZ, and related potential workforce reductions. This social risk and impacts associated with potential retrenchment are covered under the umbrella OP 4.01 policy. As No civil works are envisaged, OP 4.12 was not triggered. The process of retrenchment will be governed by national labor and social protection laws, applicable collective agreements, and good international practice. National legislation and collective agreements provide sound protection of workers and include definition of collective dismissal, formula for the calculation of severance pay, options for selection criteria and provide additional protections for affected workers such as unemployment benefits, health insurance and job search and career counselling support. Applicable collective agreements provide the option to design voluntary incentive severance package. The terms of these packages including selection criteria and size of the severance pay are to be negotiated with the Works Council. The National Labor Law and Collective agreements have provisions for the mandatory consultations with workers' representatives (Works Council and unions). In instances of collective dismissals the Croatian Employment Service needs to be informed and consulted

upon. The scale of potential retrenchment cannot be estimated at this stage of the project, prior to finalization of the restructuring of the roads companies. An umbrella retrenchment framework was prepared laying out good practice principles and procedures required by the Labor Law and applicable collective agreements to be followed during retrenchment implementation. The principles and procedures included in the framework will serve as a foundation for the preparation of retrenchment plans during project implementation. When retrenchment modalities and number of affected workers become known during project implementation, each company, which will carry out retrenchment, will inform the Bank about the anticipated workforce reduction and will prepare Retrenchment Plan, acceptable to the Bank. The EBRD loan will fund the voluntary separation. The terms of voluntary separation are to be negotiated between the companies and workers' representatives (Works Council and unions). In instances when voluntary separations do not meet labor restructuring targets, the companies will need to carry out involuntary separations (collective dismissals). The IBRD loan would finance involuntary severance pay and mitigation measures such as career counseling and training. Both World Bank and EBRD expect to see a formal retrenchment plan ahead of implementation. EBRD and World Bank requirements for the content of the retrenchment plan, including the retrenchment framework, are consistent. The Bank will coordinate with EBRD the preparation of the retrenchment plans.
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The project will not support any new physical investments therefore no new direct or indirect impacts to the environment are expected. Maintenance and regular operations of HAC, HAC-ONC, ARZ, HC such as minor repairs, winter maintenance (e.g. roads deicing), storm water management, waste management, etc. which can potentially have a negative environmental impact will be financed from the Road Sector SOEs' own funds. Related sustainability concerns and procedures for their environmentally sound management, mitigation and abatement of negative effects as well as compliance with the national environmental regulation will be discussed in the ESCR.
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
The project excludes new physical investments and civil works. The project is comprised mostly of TA and guarantee scheme for the existing loans. For HAC and ARZ the most intensive physical investment period was between 2000 and 2010 when most of the motorway Zagreb – Rijeka and Zagreb – Split were built. The WB environmental team considered Audits for each of the large investments undertaken in this period, however, the first Environmental Act in independent Croatia was put in place in 1994 while EIA legislation (Environmental Impact Assessment Regulation) was enacted in 1997. The EIA procedures were harmonized with the EU legislation and standards in this period through projects of approximation of Croatian environmental legislation to EU Acquis. Today Croatia has adequate environmental controls, and its legislation and regulations are closely aligned with EU directives. Also, Croatia has adopted relevant EU guidelines for

integrating environmental assessments into project planning and programming and the EU Environmental Liabilities Directive setting out liability for damage to properties and natural resources. However, the proper implementation of these controls on the ground remains critical including transparency in reporting any relevant environmental and social issues with adequate proposal for feasible mitigations. Consequently, the project design will support promoting and implementing adequate policy guidelines linked to companies' environmental and social management systems including transparency and disclosure. In terms of social risk of retrenchment, the Retrenchment Framework includes consideration of alternatives to retrenchment. The Framework lays out measures which have been implemented in the past to avoid retrenchment, and legal limitations to implement measures such as reduced work hours or salary reduction. All companies have implemented a hiring freeze since April 2013. In instances when a company needs to hire new employee, this decision needs to be approved by the government. Reduction of work hours as a mitigation measure could only be achieved after consultation with the Works Council and agreement with the individual workers involved. Such forms of flexible working are not, however, common in Croatia which has among the lowest rates of part-time work in the EU. Internal transfer to other job positions and redeployment of workers is a measure which HAC ONC uses in its operations to reduce its operating costs during summer season and increased demand in the Toll Department. Transfer of workers to other public companies is challenging to implement given that many state-owned companies in Croatia are currently undergoing a similar process of workforce restructuring. Natural attrition provides limited options as a small number of workers will be able meet legal requirements for retirement i.e. about 0.5 to 2 % of all employees in the roads sector companies. Applicable national regulation and collective agreements provide for a possibility of early retirement. The employees are offered monetary compensation to pay for the pension contributions for the number of years until they meet the legal requirement for the full pension. The law allows a maximum number of five years of pension contributions to be "purchased" in this manner. This option is voluntary and will be considered during retrenchment process depending on the profile of the positions which would be defined as redundant. HAC ONC, which has the highest number of employees, applied retraining of workers as a mitigation measure in the past. Workers were retrained for the occupations of driver of a motor vehicle and fireman.
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Prior to appraisal the Road Sector SOEs prepared and disclosed ToR for the ESCR in English and Croatian language. The Road Sector SOEs will prepare an Environmental and Social Compliance Report (ESCR) to assess companies' ESMSs and performance, one year into the Project effectiveness. The report will be structured around four major themes: (a) organization and operability of established environmental management systems of the Road Sector SOEs for overall environmental protection; (b) environmental performance and assurance of environmental regulations compliance for planning and construction activities; (c) compliance with environmental regulation and standards of (road) infrastructure

maintenance and other regular operational activities; and (d) practices in land acquisition and involuntary resettlement for overall Companies' activities and its compliance with national and EU legislation. Based on the conclusions of the report, areas for improvement and related measures for each of the companies will be identified and an Action Plan for their implementation will be agreed with the Road Sector SOEs. The agreed plan will be a subject to supervision and reporting. WB environmental specialist will supervise the implementation of agreed recommendations. The progress will be reported (commonly by the Companies) through the regular project implementation reports. The project will also support variety of other maintenance and operations programs through technical assistance. The Road Sector SOEs and Bank staff will ensure that the relevant environmental and social concerns are addressed in line with national standards and Safeguard policies provisions are applied as usual for TA operations, i.e. through incorporating safeguards related considerations as appropriate in the TORs of the respective studies. A working group composed of the representatives of the Road Sector SOEs has been set for this purpose. The working group, with the support of the WB environmental Safeguards Team, prepared the ToR for the ESCR, and will prepare the ESCR. Capacity of the Road Sector SOEs can be assessed as mostly adequate for preparing the ESCR: each Agency has at least one person or entire department designated for environmental protection. During the past decade, HAC, ARZ and HC have conducted extensive national and EU investment programs, which indicates there is, in general, extensive knowledge in project management which includes experience in environmental management and compliance monitoring. Some companies have successfully implemented WB safeguards as part of the category A Rijeka Gateway Project. HAC has experience with carrying out retrenchment in 2013. Croatian Labor Law and other relevant social protection laws, provide for protection of workers in instances of collective dismissals. The existing collective agreements contain provisions on workers' protections, including the minimum requirement for the amount of severance payments. Each company has legal, human resources and finance departments, which will be responsible for the implementation of staff reductions. There is a Works' Council in every company, which is to be consulted prior to conducting any collective dismissals. After the completion of roads sector companies restructuring, the companies which will carry our workforce reductions, will prepare the retrenchment plans, based on the principles and procedures laid out in the Retrenchment Framework. The Framework includes legally available modalities for voluntary and involuntary retrenchment and required procedures to be followed, as well as good international practice such as company level grievance mechanism. The Bank will ensure that retrenchment plans are consistent with the Retrenchment Framework and that the process is carried out in a socially responsible manner. Labor restructuring shall be conducted in consultations with workers' representatives.
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The MSTI, HC, HAC, HAC ONC and ARZ are key Road Sector SOEs for the project.

ToR for the ESCR were completed, in English and Croatian language, before the project appraisal and were disclosed at Road Sector SOEs' web pages on March 13, 2017. A call for public commenting was issued. Received comments will be addressed in the finalized ToR for the Report if relevant. The ESCR will be finalized within the first year of Project implementation. The draft ESCR together with the Action plan will be disclosed, again at web pages of all Road Sector SOEs, in English and Croatian language, together with call for comments remaining accessible to the public for at least two weeks. Upon the disclosure, the Companies will organize a consultation meeting for the interested public. The approach to the consultation process will be proactive aiming at involvement of broad scope of stakeholders: environmental and nature protection NGOs, citizens' groups and more. Invitations will be sent for identified interested or potentially affected groups. The ESCR will be considered final with the incorporated expressed public concerns and attached minutes of the meetings of the consultations.

The MSTI engaged with unions on the subject of the Letter of Sector Policy including labor restructuring. The Draft Retrenchment Framework was discussed with the roads sector restructuring working group on human resource modernization during project preparation. The ESCR ToR mentions that labor restructuring will be done separately from the ESCR based on retrenchment framework.

After the operational restructuring of the companies, the impacts on labor restructuring will become known. At that stage, companies which will implement workforce reduction will prepare company specific retrenchment plans and carry out consultations with workers' representatives and other stakeholders such as Croatian Employment Service.

It is estimated that the timeline for retrenchment plans preparation and carrying out consultations with key stakeholders is three months. During retrenchment plan preparation, companies will consult with worker representatives (Works' Council) on the program of voluntary separations, on the eligibility criteria for voluntary separation, and if applicable, on the collective dismissals process including the selecting criteria. These consultations are legally required by the applicable labor law and collective agreements.

Under the Labor Law (2014), consultation with the company's Works Council is required throughout the process of retrenchment. Information submitted to the Works Council in writing must include the reasons for projected redundancies; the total number of employees within the company; the total number and categories of employees most likely to be made redundant; the selection criteria for choosing them; the amounts and formulae for calculating severance and other payments; and the measures taken to mitigate the effects of redundancy. Consultation with the Works Council should also look to explore and explain all options and proposals that could avoid the need for dismissals. Collective agreements require the explicit approval and cooperation of the Works Council in order to decide what criteria (and under what weightings) workers may be scored under a process of collective redundancy.

As per the Labor Law an employer must notify the Croatian Employment Service (HZZ) of its retrenchment decisions and enable the service 30 days to review its plans. During this time, HZZ has the power to postpone the process for up to 30 days more in order to mitigate the negative circumstances of the retrenchment or explore such avenues further.

In addition, the companies will make further efforts to ensure that the unions and affected employees receive timely and clear information about the retrenchment process, preparation of retrenchment plans and corresponding alternatives throughout the process. All consultations with Works Council and unions will be documented.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	08-Mar-2017
Date of submission to InfoShop	13-Mar-2017
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	
Croatia	13-Mar-2017
*Comments:*Website of Roads sector companies	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP/BP/GP 4.01 - Environment Assessment						
Does the project require a stand-alone EA (including EMP) report?	Yes	[X]	No	[]	NA	[]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes	[X]	No	[]	NA	[]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes	[X]	No	[]	NA	[]

The World Bank Policy on Disclosure of Information						
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes	[X]	No	[]	NA	[]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes	[X]	No	[]	NA	[]

All Safeguard Policies						
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes	[X]	No	[]	NA	[]
Have costs related to safeguard policy measures been included in the project cost?	Yes	[X]	No	[]	NA	[]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes	[X]	No	[]	NA	[]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes	[X]	No	[]	NA	[]

V. Contact point

World Bank

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VII. Approval

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