

Document of
The World Bank

Report No:ICR000035

**IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-44600)**

ON A

LOAN

IN THE AMOUNT OF US\$7.3 MILLION

TO

CROATIA

FOR A

**TECHNICAL ASSISTANCE FOR INSTITUTIONAL AND REGULATORY
REFORM FOR PRIVATE SECTOR DEVELOPMENT PROJECT**

January 31, 2007

**Private and Financial Sectors Development
ECCU5
Europe and Central Asia Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective 01/25/2007)

Currency Unit = Croatian Kuna

Croatian Kuna 1.00 = US\$ 0.175964

US\$ 1.00 = Croatian Kuna 5.683

Fiscal Year

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

APMC	Agency for the Protection of Market Competition
BI	Brodarski Institute
BICRO	Business Innovation Center of Croatia
BRA	Bank Rehabilitation Agency
CARDS	Community Assistance to Reconstruction, Development and Stability
CAS	Country Assistance Strategy
CBS	Central Bureau of Statistics
CEM	Country Economic Memorandum
CMDP	Capital Markets Development Project
CROSEC	Croatian Securities and Exchange Commission
CS	Consultant Services
CSAO	Central State Administration Office
EFSAL	Enterprise and Financial Sector Adjustment Loan
EU	European Union
HITRA	Croatian program for innovative technological development
HRK	Croatian kuna
ICR	Implementation completion report
ISR	Implementation status report
M&E	Monitoring and Evaluation
MIS	Management information system
MOAFWM	Ministry of Agriculture, Forestry and Water Management
MOE	Ministry of Economy
MOELE	Ministry of Economy, Labor and Entrepreneurship
MOF	Ministry of Finance
MOSES	Ministry of Science, Education and Sports
MSES	Ministry of Science, Education and Sports
PAD	Project Appraisal Document
PAL	Programmatic Adjustment Loan
PDO	Project development objectives

PHARE	Pologne, Hongrie Assistance à la Reconstruction Economique
PIU	Project implementation unit
R&D	Research and development
RBI	Rudjer Boskovic Institute
RDI	Research and development institutions
SAPARD	EU's special accession program for agriculture and rural development
SDA	Securities Depository Agency
SGA	State Geodetic Administration
SME	Small and medium-sized enterprises
TAL1	Technical Assistance Loan
TAL2	Technical Assistance Project for Institutional and Regulatory Reform for Private Sector Development
URA	Utilities Regulatory Agency
USAID	United States Agency for International Development

<p>Vice President: Shigeo Katsu</p> <p>Country Director: Anand K. Seth</p> <p>Sector Manager: Gerardo M. Corrochano</p> <p>Project Team Leader: Paula Genis</p>

Croatia
Technical Assistance for Institutional & Regulatory Reform for Private Sector
Development Project

CONTENTS

1. Basic Information.....	1
2. Key Dates.....	1
3. Ratings Summary.....	1
4. Sector and Theme Codes	2
5. Bank Staff	2
6. Project Context, Development Objectives and Design.....	3
7. Key Factors Affecting Implementation and Outcomes	13
8. Assessment of Outcomes	18
9. Assessment of Risk to Development Outcome.....	24
10. Assessment of Bank and Borrower Performance	25
11. Lessons Learned.....	27
12. Comments on Issues Raised by Borrower/Implementing Agencies/Partners.....	29
Annex 1. Results Framework Analysis.....	30
Annex 2. Restructuring (if any)	33
Annex 3. Project Costs and Financing.....	34
Annex 4. Outputs by Component.....	36
Annex 5. Economic and Financial Analysis (including assumptions in the analysis)..	41
Annex 6. Bank Lending and Implementation Support/Supervision Processes.....	42
Annex 7. Detailed Ratings of Bank and Borrower Performance.....	44
Annex 8. Beneficiary Survey Results (if any)	45
Annex 9. Stakeholder Workshop Report and Results (if any).....	46
Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR.....	47
Annex 11. Comments of Cofinanciers and Other Partners/Stakeholders	60
Annex 12. List of Supporting Documents	61
MAP	62

1. Basic Information			
Country:	Croatia	Project Name:	Technical Assistance for Institutional & Regulatory Reform for Private Sector Development Project
Project ID:	P057767	L/C/TF Number(s):	IBRD-44600
ICR Date:	01/31/2007	ICR Type:	Core ICR
Lending Instrument:	TAL	Borrower:	GOVT. OF CROATIA
Original Total Commitment:	USD 7.3M	Disbursed Amount:	USD 7.3M
Environmental Category: C			
Implementing Agencies			
Project Implementation Unit of the MOF			
Cofinanciers and Other External Partners			

2. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	02/11/1999	Effectiveness:	08/03/1999	08/03/1999
Appraisal:	02/11/1999	Restructuring(s):		
Approval:	04/20/1999	Mid-term Review:		
		Closing:	06/30/2003	06/30/2006

3. Ratings Summary	
3.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Low or Negligible
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

3.2 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	Satisfactory
DO rating before Closing/Inactive status:	Moderately Satisfactory		

4. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	41	95
Law and justice	59	5
	Original Priority	Actual Priority
Theme Code (Primary/Secondary)		
Economic statistics, modeling and forecasting	Primary	Secondary
Other public sector governance		Primary
Law reform	Primary	Not Applicable
Legal institutions for a market economy	Primary	Primary
Personal and property rights		Primary
Regulation and competition policy	Primary	Not Applicable
State enterprise/bank restructuring and privatization	Primary	Not Applicable
Technology diffusion		Primary

5. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Shigeo Katsu	Johannes F. Linn
Country Director:	Anand K. Seth	Arntraud Hartmann
Sector Manager:	Gerardo M. Corrochano	Yasuo Izumi
Project Team Leader:	Paula Genis	Gerardo M. Corrochano
ICR Team Leader:	Paula Genis	
ICR Primary Author:	Paula Genis	

6. Project Context, Development Objectives and Design

(this section is descriptive, taken from other documents, e.g., PAD/ISR, not evaluative)

6.1 Context at Appraisal

(brief summary of country macroeconomic and structural/sector background, rationale for Bank assistance)

Political and macroeconomic conditions

In 1998-1999 Croatia faced challenges on several fronts after several years of stable political conditions, reconstruction, and economic growth which had started in mid-90's with the cessation of the armed conflict. *First*, the political forces of the country were split on the need for deeper economic reforms and the approach to reforms (internal or outward orientation). Some expected reforms had been postponed by the Government in the period preceding the parliamentary elections planned for the end of 1999. *Second*, the recession had set in the economy after the monetary policy had been tightened to maintain the macroeconomic stability shaken due to several years of fiscal expansion. *Third*, at the same time, inadequate attention was being paid to structural reforms that were needed to restore the fiscal viability and to improve the private sector development and investment. After a head start in the transition process in the region in 1990, Croatia had fallen behind by the end of the decade and prospects for integration with Europe remained elusive.

Sector conditions

Rehabilitation and privatization of the state-owned banks was progressing. The Government had initiated a banking sector reform in 1994 to rehabilitate and privatize the state-owned banks. The Bank Rehabilitation Agency was set up in mid-90's to manage the restructuring and privatization of the state-owned banks. Of the 9 largest banks, 5 most troubled banks had been earmarked for rehabilitation of which 3 were undergoing it (it had been completed/unnecessary for the other 2). The 3 banks included the following: Privredna Bank, Splitska Bank, and Rijecka Bank. The Government planned the privatization of the majority stake in these banks by mid-1999.

Privatization of the public utilities and development of the regulatory framework had not progressed, as planned in 1996. Since mid-1990's preparation for the restructuring and partial privatization of the public utilities had progressed more slowly than planned. Efforts to move ahead with the restructuring and privatization process at the initially planned pace had been hampered by their political sensitivity, the opposition to the reforms, and their technical complexity.

Privatization of the telecommunications (HT) was most advanced with plans to complete the partial privatization by end-1999 (the Croatian post and telecommunications conglomerate, HPT, was separated into post, HP, and telecommunications, HT, in January 1999). The law for the partial privatization of the Croatian gas and oil conglomerate, INA, was pending approval of the Parliament.

The Government had started the development of a regulatory agency for public utilities, but there had been less progress in developing regulatory rules in each sector. The Government's plans materialized in a draft law prepared by the Office for Restructuring and Economics of State-Owned Enterprises (the ORESE) in October 1998, requiring the establishment of a single multisectoral agency for the telecommunication and energy sectors (the ORESE was a government unit set up in 1993 to supervise performance of the public enterprises and, in particular, to review and analyze their financial performance and to assist in their restructuring). There were expectations that the draft law would be

sent for approval of the Parliament in a couple of months.

At the same time, when the separation of the post and telecommunications took place and the privatization process of the telecommunication advanced, the Government decided to establish a separate regulatory agency for the telecommunications sector. There were plans to prepare comprehensive energy legislation during the second half of 1999.

Privatization of the formally state-owned enterprises was almost complete, but governance problems prevailed. In spite of the fast growing private sector (not originated in privatizations), weak governance of the privatized enterprises, their limited restructuring efforts, and the resulting losses combined with the liquidity squeeze and weak investment climate undermined the enterprise sector performance. *On one hand*, privatization of the original state-owned enterprises was about 90% complete by end-1998 and was expected to be largely completed by mid-1999 in accordance with the 1996 Privatization Law. *On the other hand*, privatization process gave overwhelming preference to manager and employee buy-outs and progressed at a slower rate than at which enterprises were returning to the state ownership.

Progress had been made towards improving the investment climate, but significant challenge remained. Croatia had made significant progress towards putting in place the legal and institutional framework necessary to support a favorable investment climate. It had also developed many relevant institutions. However, much remained to be done to fully put in place all the elements conducive to the enterprise and financial sector development. Especially the judicial system was viewed as ineffective in law enforcement. This hampered the effectiveness of the regulatory institutions' activities, such as the CROSEC and the APMC that had to refer their findings of illegal behavior to the courts for prosecution.

- The Croatian Securities and Exchange Commission (the CROSEC) had been established in 1995 with the passage of the Securities Law to undertake securities regulation. The basic organizational, legal, and regulatory work to establish the CROSEC and the legal analysis required to amend the existing laws concerning securities and investment funds had been completed. However, its implementation capacity needed strengthening to meet the international standards.
- The Securities Depository Agency (the SDA) was established in 1997 and licensed in April 1999 as the central depository, registry, clearing, and settlement agency. Since its establishment, the SDA had been implementing an institutional and infrastructure development plan to provide an initial set of services to its customers. This represented the starting point in the SDA's evolution from a start-up organization to a fully functioning, mature clearing, settlement, and depository agency.
- The Agency for Protection of Market Competition (the APMC) had been established to implement the 1995 Competition Law. The APMC had become operational in 1997, but lacked capital and human resources to implement the Law and to promote awareness of its goals and scope so as to guide the business community's and Government's activities and policies.
- Legal uncertainties concerning the land property rights (notably linked with discrepancies between the land registry and the cadastral registry) and their enforcement through the judicial system constituted a major impediment for the private sector development and new investment. The system of the land registry and cadastral registry was inefficient and split among separate institutions. It was burdened by the unprecedented increase in the number of transactions since

privatization started in 1992 and by the related failure to maintain the link between the land registry and the cadastre systems during the previous time, resulting in significant discrepancies between the official records and the actual state of title on the ground (the Real Property Registration and Cadastre Project, PAD 2002, 5). Cadastral records (particularly maps) were outdated; cadastral offices were short-staffed and in need of modern office and survey equipment; there were delays in conducting property transactions, and their cost was very high (Cadastre Project, PAD 2002, 43). Resulting from such pressing needs, the State Geodetic Administration had started a registry reform.

- As Croatia continued to move forward in its transition to a market economy, it became apparent that the statistical system needed introduction of new data collection methods, improvement of the management of the statistical system to cope efficiently with the new requirements, staff development, and considerable upgrade of the equipment to process, store, share, and disseminate information efficiently. The Government had begun the reform of the statistical system by introducing international classifications and compiling new indicators. The Central Bureau of Statistics was preparing amendments to the Law on Statistics enacted in 1994 to adjust its established systems and procedures to changes in the social and economic conditions in order to improve availability of the data needed for a market economy, as well as for the overall economic management. Continued institutional strengthening was needed to meet the quickly emerging new data needs for the Government's economic management and business community's decisions.

Rationale for the Bank assistance

The TAL2 project was designed as an ancillary and follow-on project to build on and facilitate implementation of other Bank projects related to the private sector development in Croatia . These projects included the following: (i) the Enterprise and Financial Sector Adjustment Loan (the EFSAL, the Board approval in May 1997, extended from June 1999 to December 2001) which was a key element in the Bank's assistance to the Government's program for mass privatization, restructuring, and privatization of public utilities and their regulation, as well as for privatization and reforms in the financial sector; (ii) the first Technical Assistance Project (the TAL1, the Board approval in March 1996, extended from June 1998 to June 2000) which supported the EFSAL; and (iii) the Capital Markets Development Project (the CMDP, the Board approval in February 1996, closed in June 1999).

Given its extensive international experience, the Bank was seen to be in a unique position to facilitate the transfer of learning emerging from the ongoing experience on optimal regulatory policies, enforcement of capital markets, and enhancement of the competition policy.

As such, the TAL2 project was consistent with the strategic country assistance objective of building conditions for sustainable growth articulated in the 1995 and 1999 CASes. The project components responded to specific (1999) CAS objectives aimed at reducing the size of the public sector and increasing its efficiency, improving governance, and creating conditions for a competitive business environment.

6.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

To support improvements in the business enabling environment for private sector growth and, in particular, the following:

- creation of an appropriate regulatory and institutional framework for public utilities;
- further development of the regulatory and institutional framework for market competition;
- further strengthening of the institutional framework for capital market development;
- modernization of the registries system;
- restructuring and modernization of the statistical agency; and
- ongoing efforts to complete the privatization of the three largest state banks.

Progress in achieving the PDO was to be assessed on the basis of the following:

- establishment of a regulatory agency for public utilities and of new legislation in the energy sector;
- improved regulatory and enforcement capacities of the Agency for the Protection of Market Competition;
- improved regulatory and enforcement capabilities of the Securities Exchange Commission and Securities Depository Agency;
- harmonization of the cadastre system to the European coding system;
- preparation of an institutional development plan for the Central Bureau of Statistics; and
- completion of the privatization strategy and due diligence of the three largest state banks.

6.3 Revised PDO and Key Indicators (as approved by original approving authority), and reasons/justification

The PDO was not revised. However, the Bank management approved some changes in the scope of the project and components, and some components were cancelled, revised, or added over time (see the sections 6.6 and 6.7).

6.4 Main Beneficiaries, original and revised

(briefly describe the "primary target group" identified in the PAD and as captured in the PDO, as well as any other individuals and organizations expected to benefit from the project)

The project aimed at improving the key aspects of the institutional and regulatory environment for the private sector development in Croatia. More specifically, the benefits were to include a new regulatory framework for public utilities, improvement of the competition policies, and better enforcement of the securities regulations. The target beneficiary was the enterprise sector at large which was to ultimately benefit from the improved business enabling environment.

The direct beneficiaries of the project included the following: Component 1: the Office for the Restructuring and Economics of the State-owned Enterprises and the Utilities Regulatory Agency (was to be established with the project support), (in consultation with the Ministry of Economy and other affected ministries); Component 2: the Agency for Protection of Market Competition; Component 3: the Croatian Securities Exchange Commission; Component 4: the Securities Depository Agency; Component 5: the State Geodetic Administration; Component 6: the Central Bureau of Statistics; Component 7: the Bank Rehabilitation Agency; and Component 8: the Project Implementation Unit in the Ministry of Finance.

The following new beneficiaries were added to the project through amendments to the Loan Agreement approved by the Bank management in 2001 and 2004: Component 9: the Ministry of Science and Technology (after the 2003 Parliamentary elections – the Ministry of Science, Education

and Sports) and the Ministry of Crafts, Small and Medium Enterprises (after the 2003 Parliamentary elections – the Ministry of Economy, Labor and Entrepreneurship); and Component 10: the Ministry of Economy, Labor and Entrepreneurship, the Ministry of Justice, the Ministry of Agriculture, Forestry and Water Management, the State Office for Public Administration, and the State Office for Strategy and Development

6.5 Original Components (as approved)

Component 1: The regulatory and institutional framework for public utilities: This component was to finance the following: (i) capacity building in a new utilities regulatory agency, which was to be established with the project support, including a resident advisor for the development of detailed regulations, training, and twinning programs for the agency's staff, promotion campaigns, and an information management strategy (with hardware and software) for the establishment of a library; and (ii) advisory services to the Ministry of Economy for preparation of modern comprehensive legislation for the energy sector (covering power, gas, and oil) and for carrying out tariffs and distribution market studies for the gas sub-sector.

Component 2: Strengthening the Agency for the Protection of Market Competition (the APMC): This component was to finance a resident advisor and other advisory services to develop primary and secondary legislation to operationalize the 1995 Competition Law and to design an institutional development plan for the APMC, including the design of recruitment and training programs, the design and implementation of a public relations campaign to encourage business compliance with the Competition Law, and training activities.

Component 3: Strengthening the Croatian Securities and Exchange Commission (the CROSEC): This component was to finance a resident advisor to help strengthen the CROSEC's capacities through continued institutional development and on-the-job training. It was also expected to develop public access to information.

Component 4: Strengthening the Securities Depository Agency (the SDA): This component was to finance a resident advisor to continue institutional development and on-the-job training.

Component 5: Support to the registry reform: This component was to finance advisory services to the State Geodetic Administration to foster the program of modernization and harmonization of the cadastre system with the European coding system.

Component 6: Strengthening of the Central Bureau of Statistics (the CBS): This component was to finance development of an appropriate plan for the statistical system to publish and disseminate data for the policy makers, businesses, and the general public. This was to be accomplished through the following: (i) consultant services to design an institutional development plan for the CBS focused on restructuring the institution and developing a training program for managers in response to the new data collection methods and data flows; and (ii) a resident advisor to assist the CBS to prepare the new system of national accounts, as well as to improve the price statistics.

Component 7: Support to the Bank Rehabilitation Agency: This component was to finance advisory services to continue the ongoing Bank support for bank privatization activities.

Component 8: Support to the Project Implementation Unit (the PIU): This component was to provide advisory services to assist the PIU in the establishment of the financial management system, project management, accounting, and auditing of the project accounts.

6.6 Revised Components

The Bank management revised certain initial project components at the request of the Government in an amendment to the Loan Agreement dated December 20, 2001. The amendment was requested on the basis of availability of Loan funds due to the reduction of the scope of the APMC component and the regulatory and institutional framework for the public utilities component. It increased the Loan financing to goods and training in response to the project beneficiaries' new needs. In the case of the CBS, the changes reflected a shift from carrying out institutional restructuring to meeting specific technical assistance needs. The December 2001 amendment revised the components in the following ways:

Component 1: The regulatory and institutional framework for public utilities: The Loan funds were made available to finance training to the Ministry of Economy.

Component 2: Strengthening the Agency for the Protection of Market Competition (APMC): Advisory services for development of enabling legislation for the 1995 Competition Law, an institutional development plan, and a public promotion campaign were cancelled from the component scope. The component was to finance now the APMC's institutional development in general to cover the actual activities financed by the project. The reduction of the component scope reflected the lack of use of the Loan funds since the project launch and the availability of grant funds which substituted the need for Loan funds since 2001 (see the section 6.7 on the reallocations between the project components).

Components 3 and 4: Strengthening the Croatian Securities and Exchange Commission (the CROSEC) and the Securities Depository Agency (the SDA): The Loan funds were made available to finance goods. In the case of the CROSEC, this made it possible to finance goods for the establishment of the public reference room, as originally planned. In the case of the SDA, the amendment made it possible to finance new needs to upgrade some infrastructure in the SDA.

Component 5: Support to the registry reform: The Loan funds were made available to finance goods and training. The amendment was prompted by the need to begin to establish a system-wide business information system between the central office and the regional offices which had become part of the SGA with the reorganization required by the Law on State Survey and Real Estate Cadastre enacted in March 2000.

Component 6: Strengthening of the Central Bureau of Statistics (the CBS): Consultant services for preparation of a specific institutional development plan and a training program for managers and statisticians were cancelled from the component scope. The component was to finance now the CBS's institutional development in general and to finance a new activity, the preparation of a business entity census, in addition to the initial activity, the preparation of the national accounts and prices statistics. The Loan funds were made available to finance goods for these two specific activities.

Component 8: Support to the Project Implementation Unit (PIU) in the Ministry of Finance: The Loan funds were made available to finance goods and training to support the PIU in project management, including now also advisory services for monitoring.

In addition, the Bank management added two new components to the project through two amendments to the Loan Agreement and expanded the scope of the PIU component (see section 6.7).

6.7 Other significant changes

(in design, scope and scale, implementation arrangements and schedule, and funding allocations)

Changes in the project scope. The Bank management incorporated two new components into the project at the request of the Government, as they were broadly within the project development objective (the Loan amendments dated December 20, 2001 and November 2, 2004). The new components supported the Government's development strategies and the Bank's country assistance strategy. The requests were based on the availability of the Loan funds due to the reduction of the scope of the APMC component and the regulatory and institutional framework for public utilities component. The latter amendment was also made possible later by the availability of undisbursed funds in the first new component 9. The two new components were the following:

Component 9: Support to the Ministry of Science and Technology (after the 2003 Parliamentary elections – the Ministry of Science, Education and Sports) and the Ministry of Crafts, Small and Medium Enterprises (after the 2003 Parliamentary elections – the Ministry of Economy, Labor and Entrepreneurship). This component was to finance advisory services, training, and goods to the ministries and their affiliated agencies for preparing SME/technology studies and specific programs to assist the micro-, small and medium enterprise sector to improve their competitiveness (the amendment dated December 20, 2001). It was a response to the 2000 Government's request for assistance in preparing a possible new project aimed at the development of the SMEs and industrial technologies in line with the Government's increased focus on stimulating entrepreneurship and innovation and making R&D serve the economy. It was also in line with the 1999 CAS element of creating conditions for a competitive business environment.

With regards to the Government's strategies, the new Government had taken some steps to focus on the development of the SMEs and industrial technologies and desired to further develop and expand the available infrastructure and instruments to build a comprehensive national innovation system. These steps included, for example, the following: (i) the establishment of a separate Ministry for Crafts and Small and Medium Enterprises, providing a range of different programs for the provision of credit lines, technological upgrading of enterprises, etc.; (ii) creation of a separate directorate for technology with the Ministry of Science and Technology, focusing its efforts on the companies and activities with higher value added and involving cooperation with the R&D sector; (iii) the launch of the Program of SME's Development for 2000-2004, the Croatian program for innovative technological development (HITRA, April 2001, the Government's first such a policy program), and the Strategy for Development of Science in the Republic of Croatia in the 21st Century (2002) based on the EU model.

From the steps taken by the Government to support the development of the SMEs and industrial technologies, HITRA aimed at establishing an efficient national innovation system, fostering science-industry cooperation, reviving industrial R&D, and encouraging commercialization of research results. The HITRA program provided the basis for requesting Bank assistance. It envisaged creation of a technological institutional infrastructure, such as BICRO (existed since 1998, but needed strengthening and was developing new programs), the Research and Development Technology Institute (ITP) (was to be established), and R&D and technology innovation centers (some existed), as well as creation of stimulating policy measures and programs.

Component 10: Support to the Ministry of Economy, Labor and Entrepreneurship (before the 2003 Parliamentary elections – the Ministry of Economy), the Ministry of Justice, the Ministry of Agriculture, Forestry and Water Management, the State Office for Public Administration, and the

State Office for Strategy and Development. This component was to finance advisory services for the ministries and agencies for analytical and technical work related to the preparation of the proposed Programmatic Adjustment Loan (the PAL) (the Loan Amendment dated November 2, 2004). The Bank and the Government agreed on a list of studies to be financed by the TAL2 project.

The new component was in line with the Government's development strategies and the 2004 CAS, as follows. The newly elected 2003 Government had prepared a development strategy for 2003-2007 with a number of priorities, including rationalization of the public administration, strengthening entrepreneurship and the role of science and new technologies, continuation of the EU accession agenda, and others. Preparation of the proposed Programmatic Adjustment Project started in early 2003, and it was to support the Government's strategy through a policy and institutional reform program across sectors. These reforms were aimed at improving the investment climate, as well as at reducing the size of the public sector and improving its efficiency. As the centerpiece of the Bank's 2004 CAS, the proposed project was fully focused on supporting the EU accession and integration efforts.

Extensions of the closing date and the project implementation schedule. The Bank management extended the original closing date of June 30, 2003 four times, resulting in the closure of the Loan closing date 3 years later than originally planned. The closing date was extended by one year until June 30, 2004 and June 30, 2005 and then by 6 months until December 31, 2005 and June 30, 2006.

The reasons for extending the closing date and the implementation schedule were the following:

- The one-year extension to June 2004 was justified by the continued need to finance the preparation of the SME/technology component which had been incorporated into the project in December 2001. This work had progressed into preparation of a proposed Science and Technology Project (the Board approval in July 2005). The extension kept the Loan financing available for business environment related and micro finance studies for a possible adjustment operation.
- The extension to June 2005 was justified by the continued need to finance the preparation of the proposed Science and Technology Project and the implementation of some pilot applied science projects by the project agency candidates. The extended preparation of the proposed project was caused by the difficulties in building a consensus on the new concept for developing an integrated science and technology policy, restructuring of RDIs, commercialization of research results, etc. The consensus building called for certain requirements in the project design that needed to be met before the project could proceed to the next stage. The difficulties in meeting these requirements upfront led to delays in preparation of the proposed project and, consequently, to the extension of the TAL2 project.
- The extension to June 2005 was also justified by the following additional needs of the beneficiaries of the TAL2: (i) establishment of training centers and a central repository of cadastral data for the SGA, (ii) development of the corporate governance index for the CROSEC, (iii) hardware for the consumer price index data collection for the CBS, and (iv) business environment related studies for preparation of the proposed Programmatic Adjustment Loan (the Board approval in August 2005) incorporated into the project in November 2004.
- The extensions to December 2005 and to June 2006 were justified by the need to support improvements in the public sector management techniques in the MOF and, in particular, in the human resource management and in upgrading some infrastructure in the MOF. These activities

supported the ongoing public sector reform aimed at improving the public administration management and ultimately the quality of public services to the private sector. They also facilitated the country's EU integration process which was making progress. In addition, the Government desired to fully utilize the TAL2 Loan funds, and there were no other investment funds available to finance these needs. The 2004 CAS with the PAL as the centerpiece of this support was fully focused on supporting the EU integration agenda.

Reallocations between the Loan disbursement categories. The Bank management reallocated the Loan funds between the disbursement categories 4 times at the request of the Government to meet the Government's and beneficiaries' evolving needs (see Table 1). This resulted in \$1 million increase in the allocation to goods and in \$0.4 million decrease in the allocation to consultant services compared to the respective original allocations.

Table 1: Reallocations between the Loan disbursement categories (USD)

Categories	Original Allocations (A)	Reallocations				Change (E-A)
		03/14/2001 (B)	12/20/2001 (C)	11/02/2004 (D)	10/31/2006 (E)	
Goods	0.45	0.45	0.60	1.33	1.62	1.17
CS	5.43	5.46	6.08	5.35	5.05	-0.38
Training	0.55	0.55	0.55	0.55	0.51	0.00
Fee	0.07	0.07	0.07	0.07	0.07	0.00
Unallocated	0.80	0.80	0.00	0.00	0.00	-0.80
Total	7.30					

Reallocations between the project components. The Bank management and the Government reallocated the Loan funds between the project components 4 times (see Table 2). The reallocations reflected the performance progress under the original project components and the need to finance new activities and components to support the project objectives broadly.

Table 2: Allocation of the project costs and reallocation of the Loan funds (USD)

Beneficiary	Orig. cost*	Bank Loan	2001	Realloc. +/-	2002	Realloc. +/-	2004	Realloc. +/-	2005	Actual costs*	% of original cost	% of final costs
1. ORASE, URA, MOE	3.9	3.5	2.9	-2.0	0.9	-0.5	0.4	0.0	0.4	0.36	9	4
2. APMC	0.9	0.8	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.04	4	0
3. CROSEC	0.7	0.6	0.6	0.0	0.6	-0.2	0.4	-0.1	0.4	0.38	54	5
4. SDA	0.9	0.8	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.82	91	10
5. SGA	0.2	0.2	0.5	0.0	0.5	0.8	1.3	0.1	1.4	1.65	825	20
6. CBS	0.3	0.3	0.8	0.0	0.8	-0.2	0.6	0.1	0.6	0.68	227	8
7. BRA	0.5	0.5	0.5	0.0	0.5	0.0	0.5	0.0	0.5	0.50	100	6
8. PIU, MOF	0.5	0.3	0.4	0.0	0.4	0.0	0.4	0.5	0.9	1.27	423	16
9. MOSES, MOELE			0.7	2.0	2.7	-0.8	1.9	-0.2	1.7	1.70	NA	21
10. PAL studies						0.9	0.9	-0.4	0.5	0.77	NA	9
Total (w/fee)	8.0	7.3	7.3		7.3		7.3		7.3	8.17	102	100

* This data is from p. 8 of the project appraisal document and includes contingencies. The table in Annex 3 of the ICR is from Annex 3 of the project appraisal document and presents contingencies separately. There is a difference of \$0.2 million in the total project costs between the above table and Annex 3 due to a minor calculation error in the appraisal document.

- The December 2001 reallocation recognized the unsatisfactory performance of the regulatory and institutional framework for the public utilities regulatory component and the APMC component. The allocation to the former was reduced considerably since there had been no progress in using the Loan for the establishment of the utilities regulatory agency(ies) or development of the energy legislation. The allocation to the APMC was reduced to reflect the amount disbursed. There had been no results to use the Loan for the development of primary/secondary legislation for the 1995 Competition Law, the preparation of an institutional development plan, or for a promotion campaign.

The freed funds were reallocated to finance the following: (i) preparation of studies and programs for a possible new SME/technology project under a new component 9 (later, the proposed Science and Technology Project); (ii) establishment of a business information management system for the SGA's central office and regional offices; and (iii) implementation of a business entity census by the CBS.

- The November 2002 reallocation reduced most of the allocation of the public utilities regulatory component due to the lack of using the Loan funds for the agreed activities and the availability of grant funding. Overall the Bank and the Government agreed that the energy regulation issues would be addressed in the context of a possible adjustment operation.

The freed funds were reallocated to the SME/technology component for advancing the preparation of the proposed Science and Technology Project and for implementing pilot applied science projects by the project agency candidates.

- The November 2004 reallocation was made to reflect the actual disbursements under each component, as most of their implementation was being finished. It also reduced the allocation for the proposed Science and Technology Project component due to slower use of funds and expected progress towards meeting the conditions for negotiations and possible availability of retroactive financing under the new project.

The freed funds were reallocated to finance the following: (i) preparation of studies to support the proposed Programmatic Adjustment Loan (the Board approval in August 2005) under a new component 10; and (ii) establishment of a central repository of cadastral data and training centers in the SGA.

- The June 2005 reallocation reallocated uncommitted funds mainly to the PIU component for carrying out the human resource management development and other activities in the MOF to support the public sector reform. This reform aimed at ultimately improving the public sector services to the private sector (it was also supported by the proposed Programmatic Adjustment Loan). The activities also facilitated the EU accession process.

Cancellation of Loan funds. \$7.25 million of the \$7.3 million Loan was disbursed. About \$0.05 million was cancelled.

7. Key Factors Affecting Implementation and Outcomes

7.1 Project Preparation, Design and Quality at Entry

(including whether lessons of earlier operations were taken into account, risks and their mitigations identified, and adequacy of participatory processes, as applicable)

The project rationale. The project rationale was sound as the project was designed as an ancillary and follow-on project to help the Government implement reforms supported by the EFSAL and to sustain the assistance provided to the Government under the CMDP and TAL1 projects. This made the implementation of the TAL2 project subject to the difficulties which the EFSAL had in supporting the politically sensitive and difficult reforms in the restructuring and privatization of public utilities and their regulation.

Assessment of the project design. The broad project development objective was narrowed down into more specific component objectives. They responded to the Government's reform program and to the needs of the beneficiaries supported by the previous Bank projects and new beneficiaries. The design became inevitably complex with the originally 8 beneficiaries/components (the Bank Rehabilitation Agency - the BRA - component was added during negotiations at the request of the Government). This put unrealistic expectations for the project management and coordination capacity of the PIU.

Some lessons learnt were built into the project design to facilitate smooth implementation. For example, the Loan included a \$0.8 million allocation (10% of the Loan) for accommodating new technical assistance needs when priorities would change or when alternative financing would be found. In addition, the Government could reallocate Loan funds between the project components based on a prior approval by the Bank (this did not require any Loan amendment). Retroactive financing was made available for the BRA component to ensure smooth continuation of the financing after the TAL1 and for possible energy legislation contracts.

Some aspects of the project design needed modification to add more flexibility to the project to meet the evolving needs of the Government and beneficiaries. These aspects reflected the Bank practice at the time of project preparation to allow only specific procurement methods based on the initial procurement plan.

Risks and mitigation measures. The project identified many critical risks and incorporated the appropriate mitigation measures into the design of the project components, but underestimated the level of some risks to some extent. For example, the risk related to delayed parliamentary approval of new regulations was rated as modest and the risk related to the creation of a regulatory agency for public utilities and political commitment to the reforms were rated as substantial/modest. When the risks materialized and the circumstances changed, the Loan funds were subsequently not utilized for the appropriately identified risk mitigation measures which had been included into the component design (public information campaigns and seminars to politicians).

The project management and procurement capacity in the beneficiary agencies was not identified as a risk because some of them were expected to have gained some experience during the TAL1. To mitigate any risks, the project did make funding available for the PIU's training to ensure efficient procurement process.

7.2 Implementation

(including any project changes/restructuring, mid-term review, Project at Risk status, and actions taken, as applicable)

The project was not formally restructured. However, the Bank management approved some changes to the project components, reallocations of the Loan funds, and incorporation of two new components (see the sections 6.6 and 6.7). There was no formal mid-term review. The project was not at risk status although it was flagged for slow disbursements.

The below factors affected the project implementation.

Political conditions related to the privatization and restructuring of public utilities and their regulation. Since the project was linked to the EFSAL agenda, it became subject to the high risk posed by the uncertain political environment and the degree of difficulty related to the implementation of the restructuring and privatization of the public utilities.

The 2000 parliamentary elections and the subsequent change of the Government caused delays in meeting the EFSAL conditionalities. These conditionalities related to enactment of regulations providing an adequate regulatory framework for the electricity and telecommunication sectors and establishment of a regulatory authority in these sectors. The delays in meeting them led to the absence of plans for using the TAL2 funds.

The new 2000 Government demonstrated more progress in meeting the EFSAL conditions, and this initiated some discussions of the use of the TAL2 funds. The progress was demonstrated by the following: (i) the Croatian Institute of Telecommunications was established in January 2000; (ii) the Telecommunications Council was established in July 2000; (iii) the Energy Law was enacted and the Energy Regulator Council was established in July 2001; and (iv) the July 1999 Telecommunications Law was revised in August 2001. This progress was found acceptable to meet the respective EFSAL conditions in December 2001, and the implementation strategies outlined in the TAL2 project documents were considered sufficiently flexible to accommodate variations in the Government's policy as to the structure of the public utilities regulatory framework which was implemented (a multi-sectoral agency versus separate agencies) and as to the creation of the agency(ies) preceding the privatization of public utilities.

However, the TAL2 project funds were not used to support the establishment of the regulatory agencies or regulatory development. After progress was made in the development of the energy legislation in 2001, the Bank and the Government discussed specific plans (including draft terms of references for consultancies and development of policies and procedures, internal systems, and some equipment) for utilizing the Loan funds to support the energy regulator, but the discussions did not materialize into project support (see below on the EU and availability of grant funding). After the closure of the EFSAL in December 2001, it was agreed that the energy regulation issues, which the TAL2 was to support, would be addressed in the context of an adjustment operation since it would be a more appropriate instrument to address politically sensitive and difficult reforms.

The EU-Croatia relations and availability of grant funding The parliamentary and presidential elections in January 2000 resulted in a change of the Government and ushered in a new political climate. These changes offered the opportunity for rapid progress in the relationship between Croatia and the EU. Subsequently, the new 2000 Government changed the focus of regulatory and institutional development towards the EU standards in preparation of the desired EU membership, and this affected the priorities which needed to be addressed by the Government. At the end of 2001,

the EU adopted a country strategy for Croatia for the period of 2002-2006. The strategy provided the framework for the EU financial assistance via the CARDS program initiated in 2001.

The launch of the EU accession process mobilized grant funding from the EU and other donors for Croatia. Availability of donor funding reduced the need for Loan funds mainly for the following components:

- *Strengthening the Agency for Protection of Market Competition component (the APMC).* The APMC had access to grant funding from 2001 onwards. Due to the lack of use of the Loan funds since the project launch and availability of grant funding, it was decided to cancel the undisbursed Loan allocation to the APMC in the end of 2001.

The following examples demonstrate the assistance from which the APMC benefited: (i) the EU provided financing to alignment of the Croatian competition policy to the EU standards and strengthening of the implementation of the 1995 Competition Law and Policy; (ii) the Structural Adjustment Loan (the Board approval in December 2001) helped to strengthen the position of the APMC through the amendments enacted in 2003 to the 1995 Competition Law and Policy; and (iii) the Programmatic Adjustment Loan (the Board approval in August 2005) supported by the TAL2 helped the APMC set up the inventory of the state aid available in Croatia applying the EU scoreboard methodology when the APMC was entrusted with the responsibility for approving state aid.

- *The regulatory and institutional framework for public utilities component.* The USAID picked up a number of activities which were planned for financing under the TAL2 to support the new energy regulator. The USAID had been providing technical assistance on legal and regulatory aspects of power reforms and restructuring, including institution building support to the regulatory agencies, throughout the South East Europe since late 1990's. With the desire to join the EU, Croatia became also more involved with the process ongoing in the South East Europe to integrate their energy programs into the EU internal energy market and to develop their regulations to meet the EU directives. In addition to the USAID funds, the EU funds were also available.

In response to the slow use of the Loan funds since the project launch and the availability of the grant funding, the November 2002 reallocation reduced the allocation to this component considerably. It was agreed that the energy regulation issues would be addressed in the context of an adjustment operation rather than through the TAL2. In addition, the Bank carried out constant dialogue with the Government on possible assistance in the energy sector in support of the above regional programs.

- *Strengthening the Croatian Securities and Exchange Commission component (the CROSEC).* The CROSEC received grant funding from the USAID to finance the improvement of a corporate governance codex in Croatia. Initially the terms of reference for this assignment had been discussed with the Bank with the intention to finance it under the TAL2 project.
- *Support to the Ministry of Science and Technology (after the 2003 Parliamentary elections – the Ministry of Science, Education and Sports) and the Ministry of Crafts, Small and Medium Enterprises (after the 2003 Parliamentary elections – the Ministry of Economy, Labor and Entrepreneurship).* While the Ministry of Science, Education and Sports decided to use the Loan funds for developing its technology financing programs under the new component incorporated into the TAL2, the Ministry of Economy, Labor and Entrepreneurship had access to a plenty of

grant funding and other sources for the development of its SME programs. Although the Bank and the latter Ministry discussed some possible activities for financing under the TAL2, these activities did not materialize into project support. Consequently, the new component was designed to help the Government prepare a new project focused only on the science and technology financing issues.

Government commitment to development of the capital markets. The operations of the CROSEC were affected by the constrained financial and human resources. As a Government agency, the CROSEC suffered from the budget cuts carried out in the early phase of the project. In addition to the constrained budget, the enforcement activities of the CROSEC were affected by deficiencies in the legal framework for capital markets. The 2002 Law on Securities Markets addressed the legal weaknesses which had led to the CROSEC's limited powers and ineffective enforcement activities (the Law required compulsory listing of companies issuing shares on public offerings or having more than 100 shareholders and a share capital of at least HRK 30 million, CEM 2003, 99). Overall the capital markets were very much in the developmental stage, and the Government had not made commitment to prioritize capital markets development as an important pillar for the future development of the economy (CEM 2003, 99).

Progress in the reform of the cadastre system. Implementation of the SGA component was initially slow, but picked up after the Law on State Survey and Real Estate Cadastre was enacted in March 2000. The SGA utilized the Loan funds to implement parts of this Law. The Law reorganized the cadastre services to bring the 20 regional offices and 96 branch offices under the SGA's central administration, with the exception of the Zagreb city Cadastre office which remained under the municipality of Zagreb. Later, the use of the Loan funds was guided by the Program of State Survey and Real Estate Cadastre for 2001-2005 approved by the Parliament in July 2001. Finally, the TAL2 project provided funding to specific needs which the Property Registration and Cadastre Project (the Board approval in August 2002) could not finance (including the training centers and the central repository of cadastral data).

Appointment of key staff. The delays in appointing the CROSEC's commissioners and in replacing the management by the Government between 2001 and 2002 were a factor in the slow use of Loan funds. The Bank expressed its concerns about the delays to the Government during the supervision missions.

Efficiency and capacity of the project implementation The number of the project components put additional demands on the capacity of the PIU to manage, plan, monitor, and coordinate the project implementation by the beneficiaries. The project administration and procurement assistance provided by the PIU to the beneficiaries was affected by the lack of adequate and trained staff. Implementation efficiency in some beneficiary agencies was influenced by the necessary time required for learning the Bank procurement procedures. Their project management teams were also constrained by their regular duties, and this – combined with unfamiliarity with the Bank procurement procedures and other circumstances – made it difficult to carry out procurement activities expeditiously and efficiently.

The following examples demonstrate the difficulties faced by the beneficiaries: (i) the APMC prepared procurement documents for selecting an institutional advisor over an extended period of time and eventually cancelled the bid due to the change of circumstances; (ii) the CROSEC initiated the selection of the resident advisor but decided to cancel the bid after evaluation which showed that the bids were of low quality; and (iii) the Ministry of Economy cancelled the procurement of consultant services for a concession study due to unresponsiveness of bids.

From time to time the Bank urged the Government to utilize the Loan funds for training and contracting a procurement expert to assist with carrying out procurement more efficiently. In the end, the Loan funds were reallocated from the slowly disbursing components to more active components based on a dialogue between the Bank and the Government.

Management effectiveness. The SDA's management was highly committed to developing the institution in the long term demonstrated by the use of a resident advisor. This contributed to the success of the component with the highly satisfactory outcomes.

7.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

As far as the Bank's internal reporting was concerned, the M&E design was based on the earlier logistical framework which provided indicators for the CAS goals, project objectives and outputs, but did not show the baseline and the annual targets for the components. The baseline and the end-of-project targets for M&E were introduced internally in the Bank reporting at the end of project life in line with the Bank's revised internal reporting requirements.

During project life, M&E was carried out as part of the regular supervision missions. Annual operating / procurement plans were used to help the beneficiaries plan and use the Loan funds more efficiently, although they had difficulties on the average in delivering them on a timely basis.

7.4 Safeguard and Fiduciary Compliance

(focusing on issues and their resolution, as applicable)

Financial management. All the project audit reports were found acceptable by the Bank. However, there were issues with the frequency and quality of the quarterly project management reporting due to the capacity constraints in the PIU. Training and possibility to hire short-term assistance was made available to the PIU to improve the quality and timeliness of the project management reporting.

The Bank received the quarterly project management reports until 2003 based on the Scala-financial management system which became operational in late 2000 after some delays in the procurement process and installation of the system (this did not affect compliance with the fiduciary requirements since the first project management report was due in May 2001). The Bank received the project management reports for 2003-2005 in early 2006. They had been prepared manually, in Excel, as the Scala system was found inefficient.

While the Bank reviewed the project reports, separate financial management supervision missions were infrequent until early 2006. At that time the Bank carried out an extensive supervision of the project's financial management system and rated it as unsatisfactory because of the following: (i) the reports were produced based on a manual accounting system which increases the risk of errors, (ii) there was no proof of reconciliation of the MOF's accounting data with the project accounting data, and (iii) the reports were produced with a delay and they were somewhat erroneous. The Bank upgraded the financial management system to moderately satisfactory based on the timely receipt and accuracy of the 2006 final project management reports.

Procurement. There were no major issues in compliance with the procurement procedures, but the lack of capacity affected the efficiency of procurement and quality and frequency of the reporting. Procurement training was provided to the PIU staff throughout the project life.

In order to address the ongoing procurement issues, the Bank's May 2002 mission agreed with the PIU on the following: (i) all procurement of goods will be carried out by the PIU instead of the beneficiaries in order to ensure proper procedures and savings from combining procurement packages; (ii) the PIU shall be included as a member of the evaluation committees for procurement carried out by the beneficiaries to ensure that the Bank rules are followed, and (iii) the PIU shall review all documents prepared by the beneficiaries before sending them to the Bank.

The procurement post-review missions (September 2003, April 2005, and May 2006) found that majority of the contracts selected were generally in accordance with the Bank's rules and procedures. These missions also provided guidance to the Borrower on requirements related to maintaining complete procurement records, extending contracts to allow completion of payments and deliverables (October 2003), ensuring competition, and using one fee under one contract (April 2005).

7.5 Post-completion Operation/Next Phase

(including transition arrangement to post-completion operation of investments financed by present operation, Operation & Maintenance arrangements, sustaining reforms and institutional capacity, and next phase/follow-up operation, if applicable)

The sustainability of the project's impact on the institutional capacity is likely given that the current Government is reform-minded and the EU integration process provides the additional, doubtless drive that reforms will be sustained and deepened. All pre-accession financial instruments are available to Croatia to help address the issues on the EU agenda.

In addition to the EU agenda, the following Bank projects, which the TAL2 supported, are helping sustain the institutional capacity of some beneficiaries of the TAL2: (i) the Real Property Registration and Cadastre Project (the Board approval in August 2002) is helping build the capacity of the reorganized SGA to design and conduct a unified national cadastre system in both rural and urban areas, including support to strengthen the cadastre function, to carry out organizational restructuring, and to finance information technology to manage and administer the information system; (ii) the Science and Technology Project (the Board approval in July 2005) is helping strengthen and restructure selected research & development institutions to achieve higher levels of applied research, while maintaining their scientific excellence, and increasing the ability of enterprises to develop, use, adapt, and commercialize technology; and (iii) the Programmatic Adjustment Loan (the Board approval in August 2005) is helping enhance economic growth in Croatia through improving the investment climate and reducing the size and improving efficiency of the public sector.

With regards to the CROSEC, as practiced in many European countries, the Government decided in November 2005 to consolidate the CROSEC with the new Croatian Agency for Supervision of Financial Services together with the Insurance Companies Supervisory Authority and the Agency for Supervision of Pension Funds and Insurance. This became effective in January 2006. The 2002 Laws on Securities Market Law and Takeover of Joint Stock Companies Security are being amended to fully meet the EU standards and are expected to be enacted in 2008.

8. Assessment of Outcomes

8.1 Relevance of Objectives, Design and Implementation

(to current country and global priorities, and Bank assistance strategy)

Overall the project development objective – aimed at improvements in the business enabling environment for the private sector growth – remained relevant. It was reinforced by the Government's

strategy since 2000 for entering the EU with a competitive and growing economy and the institutional capacity to meet the demands of the membership. The project objective remained also relevant to the main goal of the current 2004 CAS which is fully focused on supporting the Government's growth strategy and reform strategy embedded in the EU accession process. Of the specific objectives, the capital market development represented an area of less importance on the Government's EU accession reform agenda, but it was meaningful to continue the institutional building needs that had started during the TAL2.

In order to maintain the relevance, the project design and scope were adjusted within the broad development objective when the circumstances or the Government's and beneficiaries' development priorities and needs changed. For example, the project shifted resources from the public utilities regulation and APMC components to meet the Government's plans to improve competitiveness by increasing and improving technology financing programs and supporting development of linkages between R&D and the industry. The project also shifted resources to the public sector reform in response to the Government's request to improve the quality of public services and to facilitate the EU accession process. Although some of these activities were more distant to the objective of supporting a business enabling environment, they however strengthened the MOF and other organizations, indirectly benefiting the business environment.

8.2 Achievement of Project Development Objectives

(including brief discussion of causal linkages between outputs and outcomes, with details on outputs in Annex 4)

Component 1: The regulatory and institutional framework for public utilities. This component was the key component due to its linkage to the EFSAL agenda and the large original allocation. It failed to support the establishment of the regulatory agency(ies) and the legislation for the energy sector and was substantially reduced in the end of 2002 based on the unsatisfactory performance (see the section 6.7 regarding the reallocations between the project components and the section 7.2 regarding political conditions and the availability of grant funding that affected the implementation).

The studies financed by the project benefited the Government in the following ways:

- (i) Croatia implements the system of natural gas pricing and tariffs proposed by the project-funded consultants in the segment of transport of gas. With regard to the proposed model, it has been implemented and is being used with some modifications as per the initial plan.
- (ii) A workshop on the draft Law of Concessions helped improve awareness of its implications for the economy and stakeholders.
- (iii) A study on constraints to economic growth in Croatia provided background information for preparation of the Programmatic Adjustment Loan (the PAL, the Board Approval in August 2005) on the level of subsidies provided to the Croatian enterprise sector, although it was not used for formulating the cost of doing business benchmarks under the investment climate pillar of the PAL. In addition, this study provided input to developing the Government's industrial policies and sector programs and defining the regulatory reform approach strategy being implemented by the Government.
- (iv) A review of the policy making, policy management, and legislative planning system in Croatia identified weaknesses in the policy-making system of the Government which were then addressed in the Government's Public Administration Reform Strategy. These findings provided input to determination of the benchmarks under the public administration pillar of the PAL.

Component 2: Strengthening the Agency for the Protection of Market Competition (the APMC). This component failed to support the improvement of the regulatory and enforcement capabilities of the APMC on a broader scale. It was cancelled in the end of 2001 based on the unsatisfactory performance (see the section 6.6 regarding revision of this component, the section 6.7 regarding the reallocations between the project components, and the section 7.2 regarding the availability of grant funding that affected the implementation). It supported some staff development.

Component 3: Strengthening of the Croatian Securities and Exchange Commission (the CROSEC). This component improved the regulatory and enforcement capabilities of the CROSEC moderately satisfactorily. It financed the CROSEC's specific short-term implementation needs rather than the initially intended long-term technical and operational assistance. The draft Laws on Securities Market and Takeover of Joint Stock Companies prepared by the CROSEC were evaluated in light of the IOSCO and EU principles. These Laws were adopted by the Government in July 2003 (amendments to the Securities Market Law and to the Takeover Law drafted by the CROSEC are being reviewed and prepared, respectively, and they are expected to be enacted in 2008 fully harmonized with the EU standards). Short-term on-the-job training provided to the CROSEC's four operational divisions helped improve enforcement of the above Laws and their further development. In addition, the public has now access to quarterly financial and corporate data on joint stock companies, financial institutions, and insurance companies through the public reference library (also available on www.crosec.hr).

Component 4: Strengthening of the Securities Depository Agency (the SDA). This component improved the regulatory and enforcement capabilities of the SDA highly satisfactorily. The SDA developed into a profitable clearing, settlement, and depository agency and expanded and improved its operations in line with the international standards. The number of issuers grew from less than 50 in early 2000 to 889 in end-2006. The SDA became a member of the Croatian real time settlement system and reduced its settlement period (to T+3). Its improved operating rules and procedures meet the international standards and partially exceed them.

Component 5: Support to the registry reform. This component met the objectives highly satisfactorily on a considerably larger scale than originally envisioned (see the section 7.2 regarding progress in the reform of the cadastre system). Overall the project helped the reorganized SGA to develop its operations towards the EU standards and to strengthen its business processes and information management and staff skills. In the first phase of the project assistance, the project-funded studies helped define Croatia's geo-information infrastructure based on the European standards and to develop internal regulations referred to in the Law on State Survey and Real Property Cadastre in line with the EU standards. In the second phase, the project helped successfully implement a business information management system in the SGA's central office and 20 regional offices. This resulted in improved efficacy of business processes and in an increased flow of business information. In the third phase of the project assistance, the project enabled the SGA's central office, regional and branch offices have all on-line access to one cadastral database which is also available to the public (www.katastar.hr). In addition, the project equipped a multipurpose multi-media training centre in 5 different regional offices. In 2005-2006 SGA carried out 2300 man-days of training in these centers.

Component 6: Strengthening of the Central Bureau of Statistics (the CBS). This component supported the institutional development of the CBS satisfactorily in accordance with the revised objective approved by the Bank management. The revised objective focused on institutional development in general and on meeting specific implementation goals. The CBS developed the consumer price index in Croatia in line with the international standards and has prepared it since

2004. In addition, the CBS established the first version of a business register based on a one-time pilot economic census of the business entities carried out in 2002 and 2003 with the project support (the CBS developed the required software and obtained data on small businesses). Finally, the project provided IT equipment to carry out labor force surveys supported with the EU funding.

Component 7: Support to the Bank Rehabilitation Agency. This component helped complete the privatization strategies and due diligence of Privredna Bank, Rijeka Bank, and Splitska Bank initiated during the TAL1 satisfactorily. These banks were privatized by the end of 1999. This helped meet the related EFSAL conditionality.

Component 8: Support to the Project Implementation Unit. This component supported the Project Implementation Unit (the PIU) in the Ministry of Finance (the MOF) satisfactorily. In addition, based on the agreement between the Bank management and Government, it helped the MOF strengthen its capacity to support the public sector reform and the EU accession process with the following satisfactory results:

- (i) Prepared a design solution for the integration of the line ministries' financial management information system with the Treasury IT system and the tender documents for procuring the required hardware and software in accordance with the EU Phare requirements. Subsequently, the MOF has submitted the application, and the EU approval is pending. Once implemented, the integrated system will allow faster and less erroneous payments between the ministers, better control and management of the budget planning and execution, and faster and better consolidation of data.
- (ii) Carried out management and human resources development training programs for managers in the MOF. The programs were first directed to the Department of the International Financial Institutions and European Integration (including the PIU of the project) and later to managers in all other departments in the MOF. Almost 100 managers were trained in effective communication, team work, and human resources management. Overall the training was favorably received and led to overall improved communication between departments. In addition, the Department of the International Financial Institutions and European Integration, which received assistance in the first phase, adopted new communication and management practices and initiated performance appraisal of its staff. Planning and implementation of this effort is continuing on a high level in the MOF.
- (iii) Reviewed the institutional structure, operational practices, and legal framework of the deposit insurance system in Croatia and made recommendations for changes in light of the EU requirements. The recommendations that are part of the report are expected to serve as the basis for drafting a new legislative framework under the forthcoming harmonization of the Croatian Deposit Insurance Act with the EU's directives. In addition, the recommendations are expected to be used in creating a new deposit insurance model.
- (iv) Procured the same case management software for the MOF's Foreign Exchange Directorate compatible as is used by the Anti Money Laundering Department. The system is currently in the roll-out phase and is expected to become operational in 2007. It will enable faster and safer case management, quick exchange of information among various departments of the MOF and state administration in general, as well as safer keeping of the collected data.

Component 9: Support to the Ministry of Science and Technology (after the 2003 Parliamentary elections – the Ministry of Science, Education and Sports) and the Ministry of Crafts, Small and Medium Enterprises (after the 2003 the Parliamentary elections – the Ministry of Economy, Labor and Entrepreneurship). This new component supported the Ministry of Science, Education and Sports in the extensive and extended preparation of the Science and

Technology Project with satisfactory outcomes. The proposed project was approved by the Board in July 2005, and the following specific examples demonstrate the benefits brought about by the TAL2 assistance:

- (i) Provided some input to preparation of a technology policy which was further developed and later integrated into the first Science and Technology Policy approved by the Government in May 2006.
- (ii) Helped develop and narrow down the concept and design of the new project and its potential components, as well as the initial procedures.
- (iii) Prompted improvements in the legal framework for venture capital industry to make it more favorable for venture capital funds. Consequently, the new Act of Investment Funds enacted in December 2005 provided favorable conditions for venture capital funds.
- (iv) Identified the potential project agencies/beneficiaries of the new project (the Rudjer Boskovic Institute, the Brodarski Institute, BICRO, and MARIBIC).
- (v) Initiated capacity building and restructuring efforts in some of the potential project agencies on the basis of the business plans initiated or further improved with the project support and provided input to improving BICRO's technology financing programs.
- (vi) Prepared the design of and technical specifications for an MIS for the Rudjer Boskovic Institute, the Brodarski Institute, and BICRO to make it compliant with the international accounting standards. This provided the basis for a follow-up assignment funded under the new project to provide the final design and delivery of the MIS Finance and Accounting Module and the Human Resource Management Module in the Brodarski Institute and BICRO.
- (vii) Designed a local area network for the Brodarski Institute which is now being implemented under the new project.
- (viii) Initially reviewed the business opportunities and markets and the business processes for the Rudjer Boskovic Institute and the Brodarski Institute. In the case of the Brodarski Institute, the review of business opportunities was used as the basis for a best practices business development manual. The review of the business processes led to a realistic business process map in the Brodarski Institute and provided input to the above MIS assignment.
- (ix) Supported the implementation of three applied science projects in the Rudjer Boskovic Institute and one in the Brodarski Institute. For example, one project implemented in the Ruder Boskovic Institute led to development of a commercial prototype, and benefited from a study on commercialization options which led to forming a spin-off company.

Component 10: Support to the Ministry of Economy, Labor and Entrepreneurship (before the 2003 Parliamentary elections – the Ministry of Economy), the Ministry of Justice, the Ministry of Agriculture, Forestry and Water Management, the State Office for Public Administration, and the State Office for Strategy and Development. This component supported the Government in the preparation of the proposed Programmatic Adjustment Loan (the PAL) which was approved by the Board in August 2005 satisfactorily. The studies which were selected for project financing provided input to specific benchmarks under the various pillars of the PAL project or provided background information for its preparation, as follows:

The investment climate pillar of the PAL:

- (i) The two studies related to the SME/export promotional measures and the cost of doing business provided background data on the overall enterprise environment, although not direct input to the benchmarks in this pillar. As a result of the studies, however, efforts were initiated by the Government to streamline and rationalize the SME support programs. The

SME/export promotional measures study was used as the main information source in the development of the first Regulatory Impact Assessment pilot/project that was done for the recent changes in the SME Law approved by the Government.

- (ii) The state aid study assisted the MOF to align collected information on the state aid with the EU state aid guidelines on reporting and monitoring (the scoreboard) and to establish a baseline for the medium-term state aid reduction plan with the annual targets that the Ministry had prepared. The study and inventory was also shared with the APMC which took over the approval of the state aid in 2003. Both the alignment of the inventory with the EU state aid structures and levels and the adoption of the state aid reduction plan were PAL1 prior actions in the investment climate pillar.
- (iii) The agriculture competitiveness study provided input into the strategy for enhancing the agribusiness performance and privatization of agro-kombinats, a benchmark in this pillar.

The governance strengthening pillar of the PAL:

- (i) The study on the methodological framework for functional reviews of organizational structures in the Croatian administrative structures and two related pilots were used to formulate the benchmark in this pillar. The Government adopted the methodology and carried out functional reviews of the remaining state administration based on the review plan provided in the study. The adoption of the methodology and pilots were a PAL1 prior action under this pillar.
- (ii) The study on the civil service sector pay and benefit systems provided input to the new Law on Salaries. Its enactment was a PAL1 prior action under this pillar.

Related to the PAL assistance to the agriculture sector, the project financed the following two additional studies which mutually reinforce each other:

- (i) The ex-ante evaluation of the Agricultural and Rural Development Program for the period of 2005- 2006 drawn by the Ministry of Agriculture. The ex-ante evaluation was required by the EU and formed the basis to receive the SAPARD assistance. The ex-ante evaluation helped Croatia to move to the next phase with the preparation of the SAPARD measures.
- (ii) The environmental assessment for the Agricultural Cohesion Loan (the Board approval in January 2006). This study enabled the Agricultural Cohesion Project to proceed to the project appraisal stage. The assessment is guiding environmental mitigation aspects of the project's investments during the project implementation.

8.3 Efficiency

(Net Present Value/Economic Rate of Return, cost effectiveness, e.g., unit rate norms, least cost, and comparisons; and Financial Rate of Return)

Net present value/economic rate of return and financial rate of return are not applicable.

The project represented a cost-efficient solution to reaching many results achieved with the project support despite the extended implementation period. The project contributed to strengthening institutions when other financing was not available (for example, for the SGA, the SDA, and the CBS). When some components were cancelled as a result of the availability of grant funding or other reasons, the Borrower (in consultation with the Bank) used the freed Loan funds for other improvements in the business environment broadly and for support in the EU accession process. The studies financed under the TAL2 project helped bring about efficiency gains that would not have

materialized or would have materialized with considerable delays without the TAL2 financing (for example, the studies that financed preparation of the two new projects and activities that contributed to the public sector reform and the EU accession process).

8.4 Justification of Overall Outcome Rating

(combining relevance, achievement of PDOs, and efficiency)

Rating: Moderately Satisfactory

The overall outcome rating is moderately satisfactory, based on the above, given that the component objectives were largely met with some shortcomings and the project design was adjusted to meet the evolving priorities and needs of the Government and beneficiaries, as the circumstances changed.

8.5 Overarching Themes, Other Outcomes and Impacts

(if any, where not previously covered or to amplify discussion above)

(a) Poverty Impacts, Gender Aspects, and Social Development

Not applicable.

(b) Institutional Change/Strengthening

(particularly with reference to impacts on longer-term capacity and institutional development)

The project had a strong impact on long-term institutional development in some beneficiary agencies (see the section 8.2). It led to a strongly strengthened depository, clearing, and settlement agency; it strengthened and modernized the cadastre administration undergoing reorganization; it improved provision of information on the economy for the Government's decision making; it contributed to financing implementation of improvements in the public administration; and it enabled the launch of restructuring activities in some project agencies of the ongoing Science and Technology Project.

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)

See the Section 8.2.

8.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

(optional for Core ICR, required for ILI, details in annexes)

Not applicable.

9. Assessment of Risk to Development Outcome

Rating: Low or Negligible

The uncertainties and risks to the development outcome are low given the Government's determination since 2000 to integrate into the EU and to ensure successful conclusion of the accession negotiations and to open to global markets through memberships in international organizations. Even though the reforms could be accelerated in some areas, the EU factor promotes sustainability of project benefits as it guarantees reform motivation for the next several years and beyond until the expected achievement of the EU membership in 2008-2009. In addition, the availability of the EU pre-accession financial instruments will give possibilities for continuing the

institutional building efforts in many beneficiaries of the TAL2.

In addition to the EU factor, some ongoing Bank projects which were supported by the TAL2 can reduce the uncertainties for maintaining the project benefits. These projects include the Programmatic Adjustment Loan, the Real Property Registration and Cadastre Project, and the Science and Technology Project which address some weaknesses in the investment climate and the overall environment for the business sector.

10. Assessment of Bank and Borrower Performance

(relating to design, implementation and outcome issues)

10.1 Bank

(a) Bank Performance in Ensuring Quality at Entry

(i.e., performance through lending phase)

Rating: Satisfactory

The Bank performance in ensuring quality at entry was overall satisfactory. The project components were overall relevant for the Government's development strategy and the Bank's country assistance strategies. The project was prepared in a straightforward manner as its design was mainly built on continuing support provided under other Bank projects (partly due to this reason, it was decided not to have a decision meeting). This also permitted synergy in the use of budget resources during preparation. In addition to supporting other Bank projects, the project added assistance to some new beneficiaries which were seen as strategically important for building a market economy (the SGA, the CBS, and the APMC).

With regards to the implementation arrangements, it was reasonable that the MOF would be in charge of the project management and implementation since the project dealt with issues in many sectors of the economy. However, the large number of components and their political sensitivity put high demands on requiring strong project administration and management and procurement capacity in the PIU to the extent not anticipated.

With regards to the project management reporting system, it was found acceptable at that time that it would be established during the first year of the implementation so that the first project management report would be sent to the Bank in one year after the Board approval.

Since the project supported the EFSAL, its implementation progress depended on the Government's commitment and capacity to carry out restructuring and privatization of the public utilities and their regulation in accordance with the EFSAL's schedule. Based on the lessons learnt, the Bank mitigated any risks related to the change of political conditions or priorities by allowing reallocations between the components based on a prior approval of the Bank.

(b) Quality of Supervision

(including of fiduciary and safeguards policies)

Rating: Satisfactory

The Bank's performance in ensuring quality of supervision was overall satisfactory. The Bank monitored the project implementation and procurement progress through close supervision and regular missions. The Bank discussed with the Government and the beneficiaries their implementation plans and delays and made timely and appropriate suggestions to help resolve identified problems. The suggestions included actions, such as preparation of annual

action/procurement plans, centralization of some procurement work to the PIU, improvement of proactivity of the PIU in procurement, providing adequate staff and training to the PIU.

In addition, the Bank responded flexibly to the emerging needs of the Government and beneficiaries as the circumstances changed by cancellations, reallocations, and incorporation of new components and activities. Although the first reallocation was made only in December 2001, two and a half years after the Board approval, there were good reasons for it. They included, for example, the following: (i) the need to maintain the allocation for the public utilities regulation component due to its linkage to the EFSAL closed with a delay in December 2001, (ii) time required by the new energy regulator established in mid-2001 to make plans, and (iii) ongoing although delayed procurement in the APMC until early 2001.

Performance reporting was of good quality with the focus on the implementation and procurement progress, although it was more limited on the results of the studies financed by the project. Coordination of reporting on and supervision of the new component related to preparation of the Programmatic Administration Loan was more difficult than in the case of the other new component, the Science and Technology Project, because the latter was managed by the same Bank unit as the TAL2. Finally, although the supervision reports discussed the implementation delays thoroughly, the project performance ratings showed satisfactory implementation progress until towards the end of the project life, perhaps reflecting the overall lack of focus on the M&E in the Bank at that time.

Regarding the fiduciary aspects, the Bank carried out more frequent procurement and financial management supervision in the second half of the project life rather than in the first half although the Bank's supervision missions made suggestions to address capacity constraints in these areas frequently since the project launch. The Bank carried out several procurement post-review missions since 2003 in addition to carrying out prior reviews of contracts and addressing procurement issues during regular supervision missions. However, separate post-review missions were not carried out before 2003. The Bank also monitored the extended establishment of the financial management system closely and urged the MOF to expedite it and to take action to ensure sufficient financial management staffing in the PIU when it was short. Although the Bank reviewed the project reports during the project implementation, the Bank's financial management supervision overall was somewhat lacking. In early 2006 the Bank carried out an extensive supervision of the project's financial management system and reviewed the project management reports for 2003-2005.

When the EFSAL was under implementation, the Bank team was able to benefit from synergy in use of the supervision budget and from the expertise of the EFSAL team in supervising the activities related to regulation of public utilities. There was also a good synergy with the Real Property Registration and Cadastre Project. This was demonstrated by the fact that the TAL2 financed activities that helped pave the way for the larger project (reviews of regulations) and institutional development activities that could not be financed by the larger project when it was being implemented.

QSA2 carried out in September 2000 rated the quality of supervision as satisfactory. The QSA2 recognized that the Bank supervision had taken place in a difficult environment given the change of the Government and delays in its decision-making. The QSA2 recommended a follow-up of the effectiveness of public awareness and information campaigns, but these activities became irrelevant as the scope of the components changed. However, the Bank team followed the QSA2's recommendation to request annual action/procurement plans to allow close monitoring of the project implementation.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

Despite the complexity of the design and some shortcomings in supervision of the fiduciary aspects of the project, the Bank performance was overall satisfactory in ensuring quality at entry and taking proactive supervision measures, as described above.

10.2 Borrower

(a) Government Performance

Rating: Satisfactory

The Government was initially committed to the project objectives and, in particular, to those supporting the EFSAL agenda, and was willing to borrow for the identified technical assistance needs. However, the difficulties and delays in the restructuring and privatization process and later the availability of grant funding led to the fact that the Loan funds were not used to support the capacity building of the new regulatory institutions for energy or telecommunication or for the development of the regulatory framework. The limited restructuring and privatization process also delayed development of the capital markets. Later, the EU accession process guided the selection of priorities by the Government in development of the legislation and institutions and decisions to use the TAL2 funds. The Government's commitment to the new activities led to practically full disbursement of the Loan.

(b) Implementing Agency or Agencies Performance

Rating: Satisfactory

Implementing
Agency

Performance

Project
Implementation
Unit of the MOF

The project administration was satisfactory although the complexity of the project presented a constraint to the limited capacity of the PIU. The limited capacity affected its performance in carrying out the day-to-day project management, implementation, and coordination activities among the many beneficiaries. The limited capacity also constrained the performance of the PIU's fiduciary responsibilities. The PIU took benefit of training to strengthen its procurement and financial management skills.

(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

The overall Borrower performance is rated satisfactory, reflecting the performance of the Government and the PIU in the MOF, their commitment to the objectives, and the project management and implementation capacity.

11. Lessons Learned

(both project-specific and of wide general application)

Flexibility in the project design. Flexibility built into the design of complex institution building projects enables efficient and effective adjustments in the project implementation in response to rapidly evolving operational environment and needs of project agencies. The flexibility of the design

built into this project facilitated timely assistance to the Government's and beneficiaries' new priorities, as the circumstances changed with the launch of the EU process. This contributed to practically full disbursement of the Loan. This was achieved through the availability of an unallocated amount and the possibility for the Borrower to reallocate funds between the project components for new needs that demonstrated high performance based on prior approval by the Bank. The amendment to the Loan agreement of this project added later more flexibility by making available a wider range of procurement methods for consultant selection.

Pros and cons of different implementation arrangements. Creating efficient institutional arrangements is a critical factor for implementing a complex technical assistance program and for maximizing its impact. Given the number of the beneficiaries of this project in different sectors in the economy and the project's initial linkage with the EFSAL agenda, it was justified to assign the responsibility for the project management and implementation to the MOF. However, the PIU's limited capacity constrained its project management and implementation work and quality control of procurement. Further, the fact that this project required coordination across several ministries and beneficiaries, involving politically sensitive and difficult areas of reform, put high demands on the authority expected from the entity managing and coordinating the implementation of the project-supported reforms.

Time required for building procurement capacity. The difficulties encountered by the PIU and beneficiaries of this project in procurement suggest that the Bank may underestimate the time and effort needed to familiarize Borrowers with the Bank's procurement rules. In addition to providing a fully functioning PIU, the risk of such difficulties could be mitigated by providing training on project funds, as this project provided for the PIU. It could also be mitigated by agreeing on the main procurement documents for the key assignments during negotiations so that procurement could start immediately after effectiveness. However, advance preparation of the terms of references for key assignments in this project was not sufficient to prevent from inefficient or uncompleted procurement.

Coordination of technical assistance and policy loans and donor assistance. A technical assistance project usually benefits from the complementarities and leverage provided by a multi-year policy program as the combination can lead to broader and longer-term institutional development impact. This may be particularly valuable if the reforms deal with complex and politically sensitive areas. Consequently, technical assistance loans linked to policy loans are affected by the successes and failures in implementation of the related policy loans. This underlines the importance of building flexibility into the technical assistance loans so that the design can be flexibly adjusted to meet the evolving technical assistance needs and timing their implementation consistently with related policy loans so that the support can be ensured.

In the case of the TAL2 project, the Loan funds were kept available for the public utilities regulatory component until closure of the EFSAL despite the lack of progress in using them. After the EFSAL had been closed and grant funding became available with the EU accession process, it was determined best to address the energy regulation issues in the context of an adjustment operation rather than through a technical assistance loan, and the Loan funds were redirected to other uses. This helped practically fully disburse the Loan.

12. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

Comments on the performance rating raised by the Central Bureau of Statistics:

The final ICR was revised to remove performance ratings for the project beneficiaries. Although the agencies that benefited from the project assistance had implementation responsibility for their respective components, the project did not require them to sign project agreements and therefore they were considered beneficiaries.

The Borrower indicated that the Bank's performance was cooperative, although, according to them, the advice was, at times, not always consistent.

(b) Cofinanciers

Not applicable.

(c) Other partners and stakeholders

(e.g. NGOs/private sector/civil society)

Not applicable.

Annex 1. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

To support improvements in the business enabling environment for private sector growth and, in particular, the following:

- creation of an appropriate regulatory and institutional framework for public utilities;
- further development of the regulatory and institutional framework for market competition;
- further strengthening of the institutional framework for capital market development;
- modernization of the registries system;
- restructuring and modernization of the statistical agency; and
- ongoing efforts to complete the privatization of the three largest state banks.

Progress in achieving the PDO was to be assessed on the basis of the following:

- establishment of a regulatory agency for public utilities and of new legislation in the energy sector;
- improved regulatory and enforcement capacities of the Agency for the Protection of Market Competition;
- improved regulatory and enforcement capabilities of the Securities Exchange Commission and Securities Depository Agency;
- harmonization of the cadastre system to the European coding system;
- preparation of an institutional development plan for the Central Bureau of Statistics; and
- completion of the privatization strategy and due diligence of the three largest state banks.

Revised Project Development Objectives (as approved by original approving authority)

The PDO was not revised. However, the Bank management approved some changes in the scope of the project and components, and some components were cancelled, revised, or added over time (see the sections 6.6 and 6.7).

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved regulatory and institutional framework for public utilities (original)			
Value (quantitative or Qualitative)	NA	Establishment of a regulatory agency for public utilities or separate regulatory agencies for public utilities; passage of law for the regulator;		Gas pricing and tariff study; study on constraints to growth and exports, concessions workshop, review of the Croatian

		passage of ancillary legislation		policy making, policy management, and legislative planning system
Date achieved	04/21/1999	04/21/1999		06/30/2006
Comments (incl. % achievement)				
Indicator 2 :	Improved regulatory and enforcement capabilities of the APMC (original)			
Value (quantitative or Qualitative)	NA	Approval of primary and secondary legislation, public awareness campaign, training	Provision of advisory services and training to APMC for its institutional development	Improved staff skills
Date achieved	04/21/1999	04/21/1999	12/20/2001	06/30/2006
Comments (incl. % achievement)	Undisbursed funds reallocated to other components at the Government's request in 12/2001 due to lack of use of funds and availability of grant funding.			
Indicator 3 :	Improved regulatory and enforcement capabilities of the CROSEC and SDA (original)			
Value (quantitative or Qualitative)	NA	Establishment of an information system for market surveillance; training		SDA – self-sufficient, meeting international standards (in part, exceeding them) CROSEC – improved enforcement skills; improved access to public to corporate disclosure information
Date achieved	04/21/1999	04/21/1999		06/30/2006
Comments (incl. % achievement)				
Indicator 4 :	Modernized Cadastre System (original)			
Value (quantitative or Qualitative)	NA	Harmonization of Croatian cadastre coding with the European coding system		Strengthened and modernized SGA
Date achieved	04/21/1999	04/21/1999		06/30/2006
Comments (incl. % achievement)				
Indicator 5 :	Design of an institutional development plan for the CBS (original)			
Value	NA	Adoption of the	Provision of	Strengthened

(quantitative or Qualitative)		institutional development plan by CBS's Board, implementation of a new system of national accounts	advisory services, training and goods to CBS to support its institutional development and to prepare national accounts, price statistics and business census systems	methodologies and information for economic management in the CBS
Date achieved	04/21/1999	04/21/1999	12/20/2001	06/30/2006
Comments (incl. % achievement)	Development of a specific institutional plan cancelled from the component scope. Maintained support to institutional development in general. Added financing a business census.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Not applicable			
Value (quantitative or Qualitative)				
Date achieved				
Comments (incl. % achievement)				

Annex 2. Restructuring (if any)

Annex 3. Project Costs and Financing

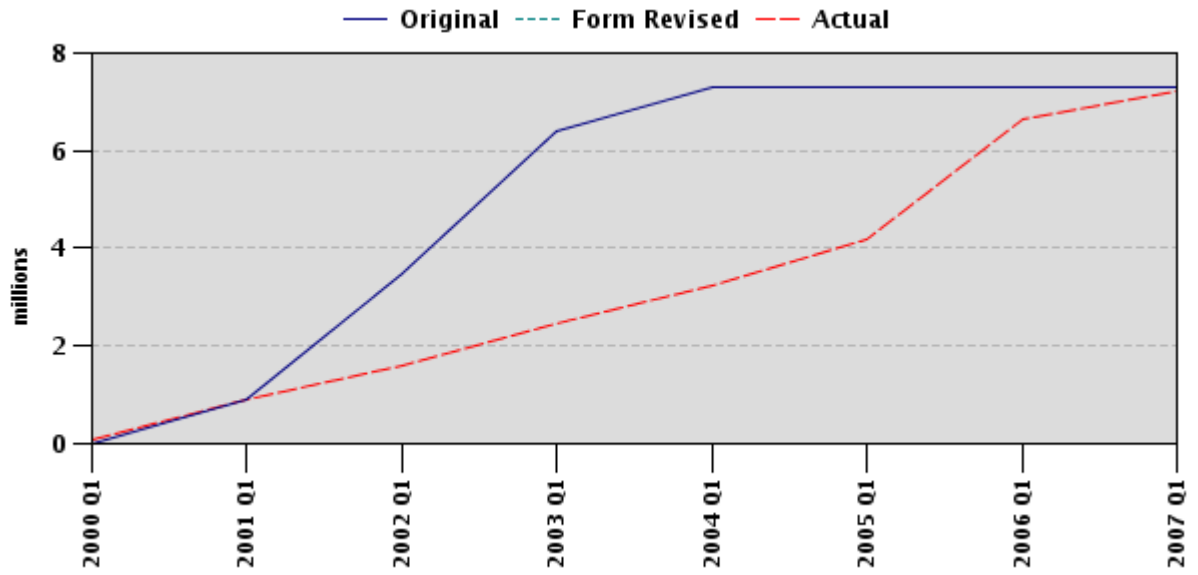
(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD M)	Actual/Latest Estimate (USD M)	Percentage of Appraisal
REGULATORY & INSTIT. FRAMEWORK FOR PUB UTIL	3.30	0.36	10.91
STRENGTHENING OF THE APMC	0.80	0.04	5.00
STRENGTHENING OF THE CROSEC	0.70	0.38	54.29
STRENGTHENING OF THE SDA	0.80	0.82	102.50
SUPPORT TO REGISTRY REFORM	0.20	1.65	825.00
STRENGTHENING OF THE CBS	0.30	0.68	226.67
ASSISTANCE TO THE BRA	0.50	0.50	100.00
PROJECT IMPLEMENTATION UNIT	0.40	1.27	317.50
SUPPORT TO MINISTRY OF SCIENCE AND TECHNOLOGY AND MINISTRY OF CRAFTS AND SMALL AND MEDIUM ENTERPRISES	0.00	1.70	
SUPPORT TO VARIOUS MINISTRIES IN THE PREPARATION OF THE PROGRAMMATIC ADJUSTMENT LOAN	0.00	0.77	
Total Baseline Cost	7.00	8.17	
Physical Contingencies	0.00		
Price Contingencies	0.80		
Total Project Costs	7.80		
Front-end fee PPF	0.00	0.00	0.00
Front-end fee IBRD	0.00	0.00	0.00
Total Financing Required	7.80	8.17	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD M)	Actual/Latest Estimate (USD M)	Percentage of Appraisal
Borrower		0.70	0.92	131.43
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT		7.30	7.25	99.32

(c) Disbursement Profile



Annex 4. Outputs by Component

Component 1: Public Utilities Regulatory and Institutional Framework

- Consultant services (CS) to prepare an economic system of natural gas pricing and tariffs for Croatia and a plan for its smooth implementation, to provide a gas tariff computer model and associated documentation for monitoring and adjusting gas price structures in Croatia and for calculating transmission, storage, and distribution tariffs, including the calculation of tariffs for third party users of gas infrastructure.
- Dissemination workshop to introduce the new draft Croatian Law on Concessions and to discuss its implications for the economy and stakeholders.
- CS to review the policy making, policy management, and legislative planning system in Croatia (including a detailed review of the policy processes in three selected Ministries: the Ministry of Education, the Ministry of Finance, and the Ministry of Justice and the coordination mechanisms at the center of Government) and to make recommendations for implementing improvements.
- CS to review Croatian production/processing industries, to identify major constraints/barriers to growth and exports of Croatian large, mid-sized, and small industrial companies and to recommend administrative, regulatory, and other short-term and mid-term measures, facilitating growth of the Croatian enterprise sector.

Component 2: Strengthening of the Agency for Protection of Market Competition

- Conferences, symposiums, study tour, and forums.

Component 3: Strengthening of the Croatian Securities Exchange Commission

- CS to review the draft Securities and Takeover Laws and to harmonize them with EU and IOSCO principles.
- Short-term CS to provide on-the-job training to the Enforcement Department in supervising the Securities and Takeover Laws, Investment Funds and Stock Exchange, OTC Market, and Securities Depository Agency.
- Short-term CS to provide on-the-job training to the Corporate Finance Department to upgrade inspection and surveillance techniques related to the Securities Act and Takeover Law, including public offering and prospectus issues, private offering, reports of the ownership of the issuer; to the Investment Funds Department to upgrade inspection and surveillance techniques related to the Law on Investment Funds; and to the Market Regulation Department in order to clear-up and upgrade inspection, reporting and surveillance methods related to the Securities Act, including market monitoring, monitoring of the brokerage institutions, and monitoring of the custody institutions.
- Equipment, software, and training to collect data and to provide access to the public to quarterly financial and corporate data of joint stock companies, financial institutions, and insurance companies on the web in a public reference room (www.crosec.hr).
- Hardware and software for business operating systems, CS to design a SW for digital document flow and archival system, office equipment.
- Capital market related and language training, conferences, seminars, forums, study tours.

Component 4: Strengthening of the Securities Depository Agency

- Resident advisor during 1999-2003 to provide technical and operational support to the SDA in implementing its operating plan and strategic objectives.
- Training, conferences, forums, seminars, study tours related to capital markets and development of the institution.
- IT and communication equipment and software, SWIFT interface software and hardware, mailing machine, interactive voice response system.

Component 5: Support to the registry reform

- CS to review the EU requirements for the geographic information system and their implications for Croatia.
- CS to assist with the following: (i) preparation of a proposal for the new official geodetic dates and map projections with special consideration of the establishment of the system and its expenses; (ii) reform of the cadastral system in Croatia; (iii) the fundamental geodetic (net)works; and (iv) the topographic survey and production of state maps. These reports were required to draft the rulebook and documents required by the Law on State Survey and Real Property Cadastre.
- CS to prepare the final design for a SW application for the initial business management system, to implement it, and to provide training (this was extended later to develop a software application for the cadastre data consolidation necessitated by the reorganization of the SGA).
- CS and hardware to establish multi-functional-multimedia training facilities in 5 different locations for the SGA staff, and managers.
- CS, IT, software, and training to establish a central cadastral database which connects all the cadastral offices and branch offices into a network and to provide an Internet browser for users.
- Training of staff (240 members in different locations) in MS office applications.

Component 6: Strengthening of the Central Bureau of Statistics

- CS to assist the CBS in preparing the Consumer Price Index in Croatia by providing the methodology and testing it, developing the software to produce the CPI for the national accounts, training of the CBS staff, and hardware for the effective CPI data collection throughout the country.
- CS to design the methodology for carrying out a pilot economic census of business entities (including large and medium-sized enterprises), to carry it out in 2002 and 2003, and to make recommendations on the basis of the collected data on creating the first version of a business statistics register.
- IT and office equipment for the CBS, as well as lap tops for carrying out labor force surveys and EU household budget surveys in the field.

Component 7: Bank Privatization Unit

- Supplemental financing for the privatization advisory contracts for the three banks, Privredna Bank, Rijeka Bank, and Splitska Bank, initially financed under the TAL1.

Component 8: the Project Implementation Unit

- CS and training for carrying out the TAL2 project audits.
- CS and IT/software for the establishment of the financial management system, office equipment, IT and software.
- CS to help the MOF to prepare project documentation for the integration of the line ministries' financial management information system with the Treasury's IT system and put together the required documentation for submitting an application to the EU Phare for financing the purchase and installation of the required hardware and software.
- CS to assess the financial position of the Croatian Deposit Insurance Fund, to present the best international practices of financial planning in the deposit insurance field, and to assess the overall legal framework, taking into consideration the following: (i) the present stage of development and risks of the Croatian banking system and (ii) the present stage of development and required changes within those elements of the legal and regulatory environment that have a direct influence on the financial position of the Fund and to transfer know-how on risk and financial analysis that is best suited for the aims and needs of an ex-ante Deposit Insurance Fund in a workshop for the Ministry of Finance, the Croatian National Bank, and the Croatian Deposit Insurance Agency.
- CS and training in management and human resources development for the Department for International Financial Institutions and European Integration in the MOF and in strategic management and leadership for the senior management and supervisory cadre in the MOF.
- IT hardware for the MOF's IT Department.
- Case management software for the MOF's Foreign Exchange Directorate to upgrade/ expand the system for case management deployed in the MOF's Anti Money Laundering Department and to enable faster and safer case management, quick exchange of information in general, as well as safer keeping of the collected data.

Component 9: Support to the Ministry of Science, Education and Sports and the Ministry of Economy, Labor and Entrepreneurship

- CS to prepare an assessment of the Croatian research and innovation system and recommendations for further policy making in the fields of technology and innovation and CS for a workshop on technology policy.
- CS for the MSES to prepare a feasibility study on the technology program proposed by the Government and CS to carry out detailed feasibility studies and to prepare business plans for various programs of the proposed Science and Technology Project.
- CS to assess the quality and utility of particular fields of research in selected RDIs against the international standards, to identify potential business opportunities and potential foreign partners for them, and to help build a strategy for their development.
- CS to review the policy and legal issues involved in the science and technology reform process, as well as the institutional structure and autonomy of research and development institutions (RDIs, such as the BI), BICRO, technology centers, and the (then) new Technology Policy and Research Institute, and make recommendations on statutory changes

- or legal and institutional restructuring to ensure improved autonomy of these organizations.
- Institutional advisors for the RBI, BI, and BICRO to help in the change management process and in implementation of the new business plans.
 - CS to assist the RBI, BI, BICRO, and MARIBIC to prepare their business plans (including proposals on the changes in the current legal/operating framework, governance, staffing policies, training and TA plans, etc.) and sound and financially well-established financial analysis for the business plans.
 - Marketing officer and commercial director for the RBI to help the management in transformation process from a dominantly budget-financed RDI to a market oriented RDI for the public and private sector (the "PIU" of the RBI).
 - CS for market research training and study for the RBI and the BI: (i) to identify new business development opportunities, (ii) to train selected staff in the basic techniques of market research and assessment of demand for R&D and technology services, and (iii) to make recommendations on the optimal structure of the marketing/sales and commercial service function with an one-year operating plan.
 - CS for the BI: (i) to design and carry out on-the-job training for selected staff in the techniques of business development and sales and (ii) to prepare a business development and sales plan, procedures, and documents based on the above market research study and business plan.
 - CS for the RBI and BI: (i) to review their commercial and project management business processes and supplementary services to ensure that they operate in line with the international best practice and (ii) to reduce their respective cost bases for their support services and infrastructure to optimal levels in line with the best international practice and the requirements of the business plans.
 - CS for the design of the BI's web-page and local area network.
 - CS to carry out a study for the RBI, BI, and BICRO to recommend changes to their accounting systems based on the international accounting standards and to prepare the functional specifications of the MIS.
 - IT and software for the project agency candidates and the PMU, and office equipment for the PMU.
 - CS for the RBI to prepare feasibility studies and business plans for three individual applied research projects, as well as hardware, software, laboratory equipment, and training for their implementation on a pilot basis.
 - CS for the project management unit of the Science and Technology Project, the establishment of the financial management system, and for the annual audits of the BI, BICRO, and RBI.
 - Study tours, seminars, and conferences for the project agency candidates and the project management unit of the Science and Technology Project.

Component 10: Support to the Ministry of Economy, Labor and Entrepreneurship, the Ministry of Justice, the Ministry of Agriculture, Forestry and Water Management, the State Office for Public Administration and the State Office for Strategy and Development

- CS for the MOE to evaluate the impact of the available SME and export promotion programs/measures and to propose a concept for monitoring and assessing the impact that specific programs have on increasing SME/export growth.
- CS for the MOE to review the aspects of the business environment not covered by other studies and to identify major constraints to growth with the focus on the overall cost of

doing business for operating and start-up businesses and with an analysis of the central and local regulations and practices and their impact on the cost of doing business.

- CS for the Central State Administration Office (CSAO): (i) to develop a methodological framework for the functional reviews of organizational structures and management in the Croatian state administration, (ii) to apply it to two functional review pilots, (iii) to make rationalization proposals on vertical and horizontal cooperation mechanisms between/among the state bodies and county offices in selected policy areas, and (iv) to train local experts in carrying out future functional reviews.
- CS for the CSAO: (i) to assess the current Croatian legislation and practices in the public sector pay and benefit system, (ii) to define the options for reforming this system, and (iii) to assess the fiscal impact of any proposed modifications.
- CS for the MOF: (i) to develop a methodological framework for the analysis of the state aid in Croatia, (ii) to apply this methodology to a review of the medium term expenditure framework 2005-2007 and general government budget outturns for 2003-2004, (iii) to assess the current forms and modes of the state aid, (iv) to draw up rationalization proposals in line with the EU best practice and in full compliance with the State Aid Law, and (iv) to train local experts in carrying out future reviews and analytical work.
- CS for the Ministry of Agriculture, Forestry and Water Management (MOAFWM) to provide strategic directions for enhancing competitiveness in the agriculture and agribusiness sector in Croatia.
- CS for the MOAFWM to carry out an ex-ante evaluation of the Agricultural and Rural Development Program for the period 2005-2006 of the Ministry of Agriculture in accordance with the requirements of the EU SAPARD program.
- CS for the MOAFWM to prepare an environmental assessment on the proposed Agriculture Cohesion Loan financed by the World Bank (Board approval January 2006).

Annex 5. Economic and Financial Analysis (including assumptions in the analysis)

Not applicable.

Annex 6. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/Specialty
Lending			
Gerardo M. Corrochano	Sector Manager	ECSPF	Team leader
Ilene Photos	Operations Officer	TFO	Operations
Supervision/ICR			
Mohini Bhatia	Consultant	EASRE	Consultant
Paula Genis	Operations Officer	ECSPF	Team leader
Vinod K. Goel	Consultant	ECSPF	Consultant
Ekaterina N. Koryukin	Projects Officer	COCP0	Team leader
Arben Maho	Procurement Analyst	ECSPS	Procurement
Mirela Mart	Financial Management Specialis	ECSPS	Financial Management

(b) Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD M)
1	06/30/1999	Satisfactory	Satisfactory	0.00
2	10/05/1999	Satisfactory	Satisfactory	0.07
3	04/12/2000	Satisfactory	Satisfactory	0.74
4	07/18/2000	Satisfactory	Satisfactory	0.84
5	11/21/2000	Satisfactory	Satisfactory	0.99
6	06/22/2001	Satisfactory	Satisfactory	1.35
7	12/11/2001	Satisfactory	Satisfactory	1.74
8	06/10/2002	Satisfactory	Satisfactory	2.04
9	11/18/2002	Satisfactory	Satisfactory	2.46
10	02/25/2003	Satisfactory	Satisfactory	2.81
11	09/23/2003	Satisfactory		3.25

12	04/07/2004	Satisfactory	Satisfactory	3.66
13	11/08/2004	Satisfactory	Satisfactory	4.18
14	04/27/2005	Satisfactory	Satisfactory	4.94
15	10/31/2005	Moderately Satisfactory	Satisfactory	6.68
16	05/12/2006	Moderately Satisfactory	Satisfactory	6.88
17	01/24/2007	Moderately Satisfactory	Satisfactory	7.25

(c) Staff Time and Cost			
Stage of Project Cycle		Staff Time and Cost (Bank Budget Only)	
		No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending			
	FY98		57.05
	FY99		71.62
	FY00	1	9.73
	FY01		0.61
	FY02		0.00
	FY03		0.00
	FY04		0.00
	FY05		0.00
	FY06		0.00
	FY07		0.00
	Total:	1	139.01
Supervision/ICR			
	FY98		0.00
	FY99		17.57
	FY00	19	44.35
	FY01	15	68.72
	FY02	11	99.13
	FY03	13	67.07
	FY04	12	58.46
	FY05	12	73.02
	FY06	15	38.94
	FY07	8	29.50
	Total:	105	496.76

Annex 7. Detailed Ratings of Bank and Borrower Performance

Bank	Ratings	Borrower	Ratings
Ensuring Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Satisfactory	Overall Borrower Performance:	Satisfactory

Annex 8. Beneficiary Survey Results (if any)

Not applicable.

Annex 9. Stakeholder Workshop Report and Results (if any)

Not applicable.

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR



REPUBLIC OF CROATIA
MINISTRY OF FINANCE
Class: 441-01/04-01/16
Reg.No.: 513-14/07-65
Zagreb, January 12, 2007

 **The World Bank**
Resident Mission Croatia

17 JAN 2007

RECEIVED

Mr. Anand K. Seth, Director
South Central Europe
Europe and Central Asia Region
THE WORLD BANK
1818 H. Street, N.W.
Washington, DC 20433
U.S.A.

Subject: TECHNICAL ASSISTANCE FOR INSTITUTIONAL AND REGULATORY REFORM
FOR PRIVATE SECTOR DEVELOPMENT (TAL 2 - Loan No. 4460 HR) -
Contributions of the Borrower to the Implementation Completion Report

Dear Mr. Seth,

Thank you very much for the draft version of the subject report.

Generally seen, the draft Implementation Completion Report (ICR) represents very well all aspects of the Technical Assistance Project design, implementation and close-out.

Our specific contributions to the ICR are given in the attachment to this letter.

We would like to use this opportunity to thank the World Bank's team supporting the project for the cooperation throughout the project implementation.

Sincerely yours,


ASSISTANT MINISTER
Ana Hrastović

Attachment: Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

cc: Ms. Paula Genis, The World Bank
Mr. Herman Wijffels, Executive Director, The World Bank

**Review of the
Technical Assistance for Institutional and Regulatory Reform For Private Sector Development
Project
from the Borrower's Perspective**

1. BACKGROUND

The overall aim of the Technical Assistance for Institutional and Regulatory Reform for Private Sector Development Project (TAL 2) was to support the Government's program of reforms for the private sector development.

In particular, the Government wanted to achieve the following general objectives:

- a. To support development of enabling business environment for private sector growth;
- b. Privatization of public utilities, and
- c. Rehabilitation and privatization of the state-owned banks.

The Technical Assistance Project provided technical assistance, training and equipment. The total cost of the Project was estimated at US\$ 8 million equivalent. The World Bank loan financed US\$ 7.25 million equivalent of the Project costs and the Borrower participated with the local funds corresponding to approximately US\$ 1 million.

2. SPECIFIC COMMENTS OF THE BORROWER ON THE TAL 2 IMPLEMENTATION

When evaluating the TAL 2 Project, it should be noted that the practical objectives of the project were to:

- (i) create an appropriate regulatory and institutional framework for public utilities by establishment of a regulatory agency for public utilities and of new legislation in the energy sector
- (ii) further develop the regulatory and institutional framework for market competition by improving regulatory and enforcement capacities of the Agency for the Protection of Market Competition;
- (iii) strengthen the institutional framework for capital markets development by improving regulatory and enforcement capabilities of the Securities Exchange Commission and Securities Depository Agency
- (iv) modernize the registries system by harmonization of the Croatian cadastre system with the European coding system
- (v) restructure and modernize the Croatian statistical system by preparation of an institutional development plan for the Central Bureau of Statistics ; and

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

employees, there were also judges from the Administrative Court, misdemeanour courts and other specialists from the business community, and

- attendance at the conference of the Italian Competition Agency in Rome, 22.-23.11.1999.

Furthermore, the Agency put forward the proposals for the Project to engage foreign experts as Agency's consultants, to finance IT supply, Agency staff's on-the-job training at the US Department of Justice and Federal Trade Commission, as well as postgraduate studies.

However, for the proposed activities it was not possible to provide financing within the Project, or it was possible under the condition that the initial financing is provided by the Agency while subsequent refund would be provided by the Project funds. Such solution was not feasible due to the lack of initial budget resources of the Agency. Therefore, the termination of this Project component was agreed with the IBRD representatives, which followed in the course of the year 2000.

The Agency, as a Beneficiary of the Project in question, was fully satisfied with the implemented activities. The other proposed activities which were not possible to implement via the Project, the Agency partially or fully realised through subsequent assistance projects (projects under the CARDS programme which provided the financing of the supply of IT equipment, consultancy services, organisation of seminars and international conferences, printing of brochures and participation of the Agency staff at seminars in Croatia and abroad).

2.2.3. STRENGTHENING THE CROATIAN SECURITIES AND EXCHANGE COMMISSION (CROSEC)

This Project component supposed to ensure further institutional development of CROSEC based on provision of advisory services, training and supply of equipment.

CROSEC did not use fully its Project allocated funds due to various reasons.

Consequently, CROSEC met only partially the objectives set by the Project.

2.2.4. STRENGTHENING THE SECURITIES DEPOSITORY AGENCY (SDA)

The original allocation of Project costs for the Component 4 "*Strengthening of the SDA*" was USD 800.000. During the disbursement period from 1999. to 2003. allocated funds covered the consultant services, and after reallocation of available Project funds some additional infrastructure costs, training and conferences.

The consultant services included the following projects:

- A Situation Analysis describing the current condition of the operating plan and strategic objectives;
- A one-year working plan describing the tasks to be executed to achieve the operational objectives;
- A monthly report describing progress against the work plan and, as appropriate, recommendations for changes;
- A building an operational and management process for monitoring the progress towards the objective of being able to accept 10 new securities per month into Depository as a part of routinized operation;
- An analysis of the new issue process with particular reference to the Croatian Privatization Process;
- An analysis of the process for the clearing and settlement of short term paper in Croatia;
- A development of the interface with the Croatian National Bank's RTGS;
- A preparation of the SDA Clearing and settlement system for the cross border trades;
- A technical assistance to the implementation of the T+3 settlement project;

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

- A technical assistance to complete the surveys received by the SDA from various international institutions ensuring that the completion of these surveys is worded in accordance with the needs of the audience for these surveys (i.e. international, institutional investors).

The following hardware, software and office equipment have been acquired by the Loan funds:

- Interactive voice response system;
- SWIFT interface software and hardware;
- IT and communication equipment and software;
- Mailing machine.

The Loan financing included also IT training, conferences, forums, seminars, study tours related to the capital markets and development of the institution.

At the end of the Project, SDA thanks to the Ministry of Finance and to the World Bank for their great support and cooperation which helped SDA to fulfil its important role on the Croatian Capital Market.

2.2.5. SUPPORT TO THE REGISTRY REFORM (SGA)

The State Geodetic Administration (SGA), as one of the initial Beneficiaries of the TAL 2 Project, has used the possibilities offered and applied this funding to the maximum extent possible for carrying out the set objectives that can be retrospectively summed up in three categories as follows:

- Increasing its own capacities and skills,
- Acquiring knowledge on how to adjust its system to the criteria and demands of the contemporary society (EU), and
- Building capacity that will efficiently service the citizens and economy.

Using the possibilities offered, the SGA has already twice enlarged the scope of its activities financed by the TAL 2 Project. Since the afore-mentioned activities represented separate financial and technological assignments, the SGA has divided the implementation of these activities into three stages:

The first stage has encompassed:

- (1) production of the GI study entitled: "An overview of the EU requirements for the geo-information infrastructure in the RoC";
- (2) short-term engagement of several consultants for the purpose of drafting the rulebook and documents of the Law on State Survey and Real Property Cadastre, and
- (3) training and education services for the SGA staff.

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

The second stage has encompassed:

- (4) development of the initial stage of the IT system for the DGU business administration called „Business management system“ (BMS).

The third stage has encompassed:

- (5) DGU training centres set-up and provision of the equipment;
 (6) connection and setup of a central SGA cadastral database and provision of an Internet browser for users.

The following is a breakdown of the results achieved under each component:

Task	Set objective	Implementation
(1) GI study entitled: <i>“An overview of the EU requirements for geo-information infrastructure of the RoC”</i>	Produce a study	Study produced at the satisfaction of the SGA
	Secondary results	Overall assessment of the process initiated by the task realization
	- The Study on the National Spatial Data Infrastructure (NSDI study) produced in 2005. - The Draft Bill on the State Survey And Real Property Cadastre was amended with a chapter on the NSDI in 2006. This draft bill was endorsed by the RoC government and sent into the parliamentary procedure on 21 December 2006.	Excellent

Task	Set objective	Implementation
(2) Engagement of several consultants for the purpose of producing a rulebook and documents pertaining to the Law on State Survey and Real Property Cadastre	Provision of consultancy services and assistance in drafting the rulebook and documents	Five international consultants (from Norway, Germany, Switzerland and Austria) hired. A series of meetings and workshops held, the rulebook and documents prepared
	Secondary results	Overall assessment of the process initiated by the task realization
	- In 2004, the RoC government adopted and passed the Decision on Geodetic Dates and Plane Mapping Projections of the RoC Official Gazette 110/04 and 117/04) - In 2005, the program for introducing official geodetic dates and plane mapping projections was adopted	Excellent

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

Task	Set objective	Implementation
(3) Training and education for the SGA staff	Offer training and education services in management for predefined groups of officials within the SGA	Training carried out, new knowledge obtained
	Secondary results	Overall assessment of the process initiated by the task realization
	<ul style="list-style-type: none"> - until now, the SGA has continued with intensive training programs for its managers and staff - the State budget funds, SB loan funds for the Real Property Registration and Cadastre (RPRC) Project, CARDS EU program and bilateral Croatian-Swedish Capacity Building program funds have been used for training and education - outside contractors estimate that the SGA staff has booked visible progress in acquiring and implementing management skills, accrued capacity of facing the changes and alleviated fears of the unknown - the SGA has been awarded a special mention of the Croatian Business Association for its 10-year management training program as the only State administration body 	Excellent

Task	Set objective	Implementation
(4) SGA business management system (BMS)	Develop the initial stage of the SGA business management system and implement it	The initial stage developed. Part of the model implemented
	Secondary results	Overall assessment of the process initiated by the task realization
	<ul style="list-style-type: none"> - Realisation of the follow-up, second BMS stage is lagging behind - due to unresolved space limitations, the full implementation of the developed system has not ensued 	Good

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

Task	Set objective	Implementation
(5) SGA training centre setup	Set up and equip 5 SGA training centres	Training centres set up and equipped
	Secondary results	Overall assessment of the process initiated by the task realization
	<ul style="list-style-type: none"> - SGA has the capacity to implement the majority of training for its purposes - numerous SGA activities are continually carried out at training centres (not just training and education) - other State bodies use SGA training centres 	Excellent

Task	Set objective	Implementation
(6) Cadastral database and Internet services for the citizens	Connect all cadastral offices and branch offices in Croatia in a network Build a cadastral database Set up a cadastral data browser	All planned activities have been carried out except connecting some far-off branch offices in a network (problems of telephone operator)
	Secondary results	Overall assessment of the process initiated by the task realization
	<ul style="list-style-type: none"> -for the first time, precise statistics on cadastral data in the RoC (estimates missed the mark for 25%) have been obtained - On 8 November 2005, the cadastral data Internet browser www.katastar.hr was launched -On 21 December 2006, 5,710,000 users, or rather an average of 14,000 per day have viewed the cadastre data over the browser 	Excellent

Considering the results in general, the SGA is extremely pleased with the activities carried out and the results achieved, especially their secondary effects, i.e. the follow-up of the initiated activities. It has to be mentioned that the experiences obtained in the implementation of the TAL 2 Loan component have enabled the SGA to acquire basic knowledge on the World Bank projects implementation, management, bidding procedure and the like, which has been of outstanding benefit when launching and breaking-in the Loan for the RRCP Project.

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

2.2.6. STRENGTHENING OF THE CENTRAL BUREAU OF STATISTICS (CBS)

Concerning the implementation of this component the Beneficiary expressed a general agreement with the statements provided by the WB in the (DRAFT) ICR.

However, under POINT 10.2 Borrower, (b) Implementing Agency or Agencies Performance – CBS, the Beneficiary disagrees with the provided wording and suggests modification of the text as follows:

“Satisfactory, given the Project contribution to meeting specific implementation tasks ongoing at that time, due to the fact that the Project support resulted in long term institutional development”.

The reasoning behind is that the Project funding has resulted in establishment of sustainable development of the one of the key macroeconomic indicators – Consumers Price Index and helped in establishment of the basic statistic register – Statistic Register of Business Entities.

2.2.7. SUPPORT TO THE PROJECT IMPLEMENTATION UNIT (PIU)

Under this component the Project funding has been used for the following:

- Training of the PIU staff;
- Provision of the IT equipment for the PIU and the MOF;
- Organizations of seminars on WB procedures for PIUs of the all Croatian WB projects;
- Improvement of the lower and middle management skills within the Ministry of Finance, and
- Various advisory services for the MOF.

The results of the above mentioned activities are considered satisfactory.

2.2.8. SUPPORT TO THE MINISTRY OF SCIENCE AND TECHNOLOGY (STP)

Most definitely, the biggest indirect value generated from the TAL2 Project was use of this funding [within the Science and Technology Project (STP)] for creation of the Science and Technology Policy of the Republic of Croatia 2006 – 2010. This Policy provides the framework for implementation of the STP, and identifies key areas for action leading to sector-wide reforms.

The total expenditures for STP financing from TAL2 was 1.596.785,65 USD.

Expenditures by categories

The expenditures can be subdivided by categories, as follows:

1) SERVICES	1.158.171,92
2) TRAINING & STUDY TOURS	63.784,42
3) GOODS	374.829,31

TOTAL	1.596.785,65
-------	--------------

A quick glance at the above figures reveals a disproportion in favour of SERVICES, which is normal, considering the preparatory nature of the work performed. The Joint Activities performed

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

under this category include services from several R & D experts, engaged in the early stages of the Project preparation. Two major joint activities were MIS design, which was performed for all three Project Agencies (PAs), as well as Business Processes and Support Services Reviews, performed at Rudjer Boskovic Institute (RBI) and Brodarski Institute (BI) by experts from Glocoms, inc.

The MIS design undertaken by the consultants from Deloitte, was a slow process, ending in satisfactory output. The major obstacles were related to the lack of clear ideas from the PAs, difficulties in nominating the responsible contact teams within the PAs, and conflicting interests between the various PAs. To clarify: While BICRO would be satisfied with a basic MIS functionality, given the size of its operation, RBI and BI had much more demanding (though not overlapping) expectations. This resulted in a Final Report which covers well the specification of the MIS elements (according to the TOR), and a disclaimer from the consultants that additional features like Project management, HR management, etc. outlined in the document, lead the implementation process into ERP, which based on lack of input obtainable at the time has not been fully defined. This definition remains to be clarified prior to launching the MIS implementation tender under STP.

The Business Processes and Subsidiary Services Review performed by Glocoms, inc. proved to be an even greater challenge. The sensitive nature of the assignment, as well as serious deficiencies in the work performed by the consultants led to difficulties in implementation. The results obtained in the end were very different: BI, through heroics and personal interest of some staff, achieved much knowledge of Business processes, and were able to come to a realistic process map of the Institute. This did involve a lot of direct work (not just input) from BI, as the consultants simply lacked direct experience in R & D, and based their proposed models on off-the-shelf generic solutions. On the other hand, RBI finally appointed a strong project team which rejected the Final Report submitted by the consultants, as not relevant to the specifics of their internal organization.

The component for TRAINING AND STUDY TOURS is quite low, and such a disproportion (relative to other expenditure categories) should not be perpetuated into STP. It is difficult to comment on the benefits from the various seminars and study tours, as some of them occurred in the initial preparatory phases, when none of the current PMU members were on the project. The one seminar PMU participated in, alongside MSES representatives and beneficiaries, brought disproportionately high benefits vs. costs. Besides learning of best practices from others, the Istanbul conference provided fruitful contacts with top international experts. A select group of these experts participated as speakers in the Technology Policy Workshop in Zagreb. Contacts established at the Conference provided both BICRO and BI with their Institutional advisors. This can truly be considered high ROI!

The GOODS expenditures were mostly related to the RBI pilot projects, as well as some computer equipment for the beneficiaries. More details are provided below.

Expenditures by Beneficiaries

Another possible breakdown of expenditures is by Beneficiaries i.e. Participating Agencies (disregarding joint activities and Operating costs – PMU, etc), as follows:

1) INSTITUTE RUDJER BOSKOVIC (RBI)	465.543,35
2) BRODARSKI INSTITUTE	327.429,40
3) BICRO	114.472,88

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

The following is a breakdown of expenditures versus activities by Project Agencies:

1) RUDJER BOSKOVIC INSTITUTE (RBI)

The most significant part of the overall RBI investment was put into three pilot projects (USD 318,489,09 for goods and related services), of which one was not completed (Small Particle Analyzer), but the two which were fully financed and completed were both judged successful.

One pilot project represents an example of applying fundamental research (Quantum Random Bit Generator), and the project ended with the development of a commercial prototype (including hardware and software development), as well as a study of commercialization options, which lead to forming a spin-off company to exploit the market potential. It is now up to RBI management to provide the support and infrastructure required for succeeding.

The other finalized pilot project was an example of applied science for providing much needed services – an Aquatic Disease Diagnostic centre, with a field lab for collecting specimens from fish and shell hatcheries. The successful outcome of this project is in direct relationship to the clear and uncompromising leadership of the Project Leader.

Other service related expenditures were mostly for the services of the Institutional Advisor and RBI PIU, consisting of Commercial Program Manager and Marketing Officer, both of whom provided service well beyond the scope and obligations of their respective contracts.

2) BRODARSKI INSTITUTE (BI)

Brodarski institute has followed a pattern of slow-starting, and taking time to embark on the right track. This can be substantiated through the choice of Institutional advisor (the second choice proved to be much better than the first).

Of the significant expenditures in Services, following MIS design and Business Processes and Supplementary Services Review (both examined under the Joint Services) the biggest investment was in the Business Development Study, commissioned from Fraunhofer Institute. The study produced is a very valuable basis for the Commercial Dept. within BI, providing not just a best practices manual, but interactive learning for the staff involved. The links forged with Fraunhofer promise further collaborations in the future.

Small in price, but potentially very significant, are the investments in LAN design, to be followed-through in STP with a LAN implementation, as well as design of the WEB pages for the institute. Both applications are moving BI into modern business practices.

The biggest single investment in the Goods category was for the CAD/CAE software package (almost \$70,000). This, along with other software and hardware packages planned under STP, should enable BI to upgrade equipment capacity in fields which are becoming the focus of their new Business Plan.

3) BICRO

As return-on-investment, BICRO obviously yielded the best results, given the institution building which went on, enabling them to participate in STP as the largest and most ambitious component.

The services provided include those of the Institutional Advisor, and services related to the MariBIC and Techno-Park components. BICRO study tours were wisely planned, and enabled connections with TEKES in Finland, which proves to be the best practice model to follow. Goods expenditures were related to computer purchases for the newly engaged staff.

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

CONCLUSION

In conclusion, the above has been a critical review of works undertaken and lessons learned. The process although drawn-out and sometimes frustrating has been very valuable in setting the foundations on which the STP project can grow.

2.2.9. SUPPORT TO THE MINISTRY OF ECONOMY, LABOR AND ENTREPRENEURSHIP (BEFORE 2003 PARLIAMENTARY ELECTIONS - MINISTRY OF ECONOMY), MINISTRY OF JUSTICE, MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT, STATE OFFICE FOR PUBLIC ADMINISTRATION, AND STATE OFFICE FOR STRATEGY AND DEVELOPMENT.

Under this component there were several Beneficiaries that have implemented different reform studies with aim to support preparation of the Programmatic Adjustment Loan.

Implementation of this component can be considered satisfactory.

2.2.10. SUPPORT TO THE BANK REHABILITATION AGENCY (BRA)

The aim of this component was to finalize privatization of the selected banks started under the TAL 1 Project. The privatization was envisaged through the combination of the issuing the new shares and selling of the existing shares by public offering or private placing to the strategic investor to achieve the mentioned shareholders' structure.

Consequently, the initial services were financed from the TAL 1 Project and co-financed by the BRA. The necessary additional funding of 500.000 USD for completion of the process was ensured through the TAL 2 Project.

The BRA expressed its compliance with the WB's wording concerning their activities as presented in the (DRAFT) ICR.

From the Borrower's point of view this component could be considered satisfactorily implemented.

THE KEY POINTS OF THE PROJECT IMPLEMENTATION PROCESS WERE:

- *the World Bank's Task Manager responsible for the Project rendered responsive support in on-going technical and procurement issues throughout the Project. However, the assigned Project Managers were changed, sometimes acting in parallel without clear identification of responsibilities and lacking cooperative attitude towards the PIU;*
- *the cooperation between the Bank specialists, Croatian counterparts and engaged consultants was in principle good.*
- *due to constantly changing Croatian macro-economic situation and re-alignments of the Government's or internal organizations, Croatian counterparts were frequently not able to synchronize objectives of the specific technical assistance with the current Government's policies.*
- *specific consultancy contracts were, as a result, handled on a case-by-case basis between the Agency in charge and the responsible Bank expert, with sometimes*

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

insufficiently elaborated technical basis, which created problems and delays during implementation of the specific consultancy.

- *the appropriate operational feedback, at the Project level, between all parties involved in day-to-day activities was sometimes insufficient, leading to the delays in the Project implementation;*
- *taking the above into account, and under given circumstances, it could be stated that the project was implemented in line with the World Bank's rules and policies, creating a reasonable base for further development of the Croatian economy. Project results will be used, to the extent possible, and as appropriate.*

2.3 Bank performance

The performance of the World Bank's team assigned to the TAL 2 Project, can be described as cooperative, but somewhat incoherent.

3. PROJECT SUSTAINABILITY

Having basically reached its objectives, the TAL2 established the framework for further development of the Croatian economy.

On behalf of the Government it is well understood that additional actions need to be taken, in order to justify the current investment.

4. FUTURE OPERATIONS

Within the action plan to support some of achievements of the TAL 2 Project, the Government in cooperation with the World Bank, has already taken specific steps. The additional Loan has been ensured for further development of the Croatian science and technology. Further on, the TAL 2 Project has also helped in preparation of an appropriate basis for preparation of the Programmatic Adjustment Loan 2.

5. CONCLUSIONS

Summarizing the above comments, the following could be said based on the TAL 2 Project:

- it is essential to have well designed Project Implementation Plan (including detailed descriptions and estimates for each of the project components), as a guideline for each of the parties involved;
- in the projects of similar nature, Croatian counterparts should ensure better alignment of the project aims with the current policies of the Government, and re-alignment of such aims if and when such re-alignment becomes necessary;
- the understanding of the World Bank's team of the local (changing) political and economical circumstances, and the continuity of the World Bank's staff on the project is one of the keys to the success of a project;

Annex 10. Summary of Borrower's ICR and/or Comments on Draft ICR

- election of appropriate individuals for heading specific project components both on the Bank's and the Borrower's sides and clearly set division of responsibility, in the Borrower's scope, are equally important for the success of the project;
- the project management function (PIU) could greatly contribute to the project integration, control and success. Under the current organization of the MOF the PIU was not specifically dedicated to the Project but had also parallel responsibilities for other activities. Within the TAL 2 Project, the PIU was just a service for disbursements of moneys and could not play an active role in the project implementation. Within the scope of its responsibilities, during implementation of the TAL 2 Project, the PIU helped in implementing the World Bank's policies and procedures. Based on collected experience of the PIU, for the future projects the PIU should be more focused to specific project and appropriately staffed and equipped;
- concerning the scope and objectives the TAL 2 Project, it could be stated that in essence it met its intentions. Thus, the end result of the TAL 2 Project could be considered as acceptable. However, the lessons learned from this Project, especially for the Croatian side, represent a valuable asset for implementation of the similar multidisciplinary technical assistance projects.

Based on the above said, the results of the project could be judged as satisfactory.

Annex 11. Comments of Cofinanciers and Other Partners/Stakeholders

Not applicable.

Annex 12. List of Supporting Documents

The Capital Markets Development Project: Memorandum and recommendation of the President (February 1996); Implementation completion report (December 1999); Project status reports

The Country Assistance Strategy/Country Assistance Strategy Progress Report of the World Bank for the Republic of Croatia (April 1995, May 1999, September 2001, November 2004)

The Croatia Country Assistance Evaluation of the World Bank (November 2004)

The Croatia Country Economic Memorandum (July 2003)

The Enterprise and Financial Sector Assistance Loan: Report and recommendation of the President (April 1997); Implementation completion report (June 2002); Project status reports

The Programmatic Adjustment Loan: Program document (August 2005); Supervision mission reports

The Project Performance Assessment Report of the World Bank: EFSAL, TAL2 and CMPD (July 2004)

The Real Property Registration and Cadastre Project: Project appraisal document (August 2002); Project status reports

The Structural Adjustment Loan: Report and recommendation of the President (December 2001); Implementation completion report (April 2004); Project status reports

The Technical Assistance Loan: Memorandum and recommendation of the President (February 1996); Implementation completion report (June 2000); Project status reports

The Technical Assistance for Institutional and Regulatory Reform Project for Private Sector Development: Project appraisal document (March 1999); Project implementation plan (March 1999); Project/implementation status and mission reports

The Energy Community of South East Europe Program: Project Appraisal Document (December 2004)

MAP
