

Document of  
The World Bank

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IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON

ECONOMIC RECOVERY DEVELOPMENT POLICY LOAN

(US\$213 MILLION EQUIVALENT)

TO

THE REPUBLIC OF CROATIA

October 15, 2015

Macroeconomics and Fiscal Management Global Practice (GMFDR)  
Central Europe and Baltics Country Unit (ECCU5)  
Europe and Central Asia Region (ECA)

## Croatia - Government Fiscal Year

January 1 – December 31

### CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 4, 2011)

US\$ 1=HRK5.216

### WEIGHTS AND MEASURES

Metric System

### ABBREVIATION AND ACRONYMS

CFAA	Country Financial Accountability Assessment	HRMIS	Human Resources Information Management System
CGG	Consolidated General Government	HWVs	Homeland War Veterans
CNB	Croatian National Bank	IBRD	International Bank for Reconstruction and Development
CPS	Country Partnership Strategy	ICR	Implementation Completion and Results Report
CROSTAT	Croatian Statistical Bureau	IMF	International Monetary Fund
DPL	Development Policy Loan	INTOSAI	International Organization of Supreme Audit Institutions
EBRD	European Bank For Reconstruction and Development	LFS	Labor Force Survey
EC	European Commission	MoF	Ministry of Finance
ERP	Economic Recovery Program	MP	Member of the Parliament
ERDPL	Economic Recovery Development Policy Loan	NATO	North Atlantic Treaty Organization
ESA	European System of National and Regional Accounts	PAL	Programmatic Adjustment Loan
EU	European Union	PAYG	Pay As You Go
EUROSTAT	European Statistics	PFR	Public Finance Review
FDI	Foreign Direct Investment	PFM	Public Finance Management
FIA	Financial Impact Assessment	PIT	Personal Income Tax
FINA	Croatian Financial Agency	PPP	Public Private Partnership
FMIS	Financial Management and Information System	R&D	Research and Development
FRL	Fiscal Responsibility Law	SHI	Supplemental Health Insurance
FPB	Fiscal Policy Board	SAO	State Audit Office
FPC	Fiscal Policy Committee	SME	Small and Medium Enterprises
FX	Foreign Exchange	SOE	State Owned Enterprises
GDP	Gross Domestic Product	SIGMA	Support for Improvement in Governance and Management
HBS	Household Budget Survey	SWDP	Social Welfare Development Project
HRK	Croatian Kuna		



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<b>A. Basic Information</b>			
Country	Croatia	Program Name	Economic Recovery Development Policy Loan
Program ID	PE-P122221	IBRD-80630	Not Applicable
ICR Date	October 15, 2015	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	Government of Croatia
Original Total Commitment	EUR150 million (US\$213 million equivalent)	Disbursed Amount	US\$217.13 million
<b>Implementing Agencies:</b> Ministry of Finance (MOF)			
<b>Cofinanciers and Other External Partners:</b> None			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	12/20/2010	Effectiveness:	06/15/2011	
Appraisal:	03/21/2011	Restructuring(s):	None	
Approval:	05/05/2011	Mid-term Review:	None	
		Closing:	12/31/2011	

### C. Ratings Summary

<b>C.1 Performance Rating by ICR</b>	
<i>Outcome:</i>	Moderately unsatisfactory
<i>Risk to Development Outcome:</i>	Substantial
<i>Bank Performance:</i>	Moderately unsatisfactory
<i>Borrower Performance:</i>	Moderately satisfactory

<b>C.2 Detailed ratings of Bank and Borrower Performance (by ICR)</b>			
Bank	Ratings	Borrower	Ratings
<i>Quality at Entry:</i>	Moderately unsatisfactory	<i>Government:</i>	Moderately unsatisfactory
<i>Quality of Supervision:</i>	Moderately satisfactory	<i>Implementation Agency:</i>	Moderately satisfactory
<i>Overall Bank Performance:</i>	Moderately unsatisfactory	<i>Overall Borrower Performance:</i>	Moderately satisfactory

### C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Not applicable		Not Applicable

### D. Sector and Theme Codes

	Original	Actual
<b>Sector Code (as percent of total Bank financing)</b>		
Central government administration	56%	56%
Compulsory pension and unemployment insurance	22%	22%
Compulsory health finance	11%	11%
Other social services	11%	11%

	Original	Actual
<b>Theme Code (as percent of total Bank financing)</b>		
Debt management and fiscal sustainability	34%	34%
Administrative and civil service reform	22%	22%
Regulation and competition policy	22%	22%
Health system performance	11%	11%
Improving labor markets	11%	11%

### E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Cyril E. Muller	Philippe Le Houerou
Country Director:	Jean-Francois Marteau	Peter Harrold
Practice Director:	Satu Kahkonen	Satu Kahkonen
Country Manager	Carlos Pinerua	Hongjoo Hahm
Task Team Leader	Sanja Madzarevic-Sujster	Sanja Madzarevic-Sujster
ICR Team Leaders:	Sanja Madzarevic-Sujster/Simon Davies	
ICR Primary Author:	Sudhir Chitale	

## F. Results Framework Analysis

### Program Development Objectives (PDOs):

The Program Development Objective (PDOs) of the Economic Recovery Development Policy Loan (ERDPL) is to support economic recovery, and specifically the Government's efforts to: (i) enhance fiscal sustainability through expenditure-based consolidation; and (ii) foster private sector growth.

#### (a) PDO Indicator(s)

The policy and results matrix were designed for a programmatic series of two loans, however the series was discontinued following a change in government and delays in implementing reforms underpinning the second operation.<sup>1</sup> ERDPL2 was subsequently approved as a stand-alone operation in 2014. This ICR evaluates expected outcomes as articulated in the original Policy Matrix, which was designed to cover the series. Despite changes in reporting methodologies in 2013, all fiscal indicators in the ICR follow the methodology officially used for reporting at the time of ERDPL negotiations (the IMF GFS1986 methodology).<sup>2</sup>

	Baseline Value (from approval documents)	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Values Achieved at Completion or Target Years	
	2010	2011		2010	2011
<b>Indicator 1</b>	General Government spending as percent of GDP.				
Value	43.2	42.1	NA	44.1	43.8
<b>Comments</b>	<b>Target not achieved.</b>				
<b>Indicator 2</b>	Public sector wage bill as percent of GDP.				
Value	10.7	10.5	NA	10.9	10.9
<b>Comments</b>	<b>Target not achieved.</b>				
<b>Indicator 3</b>	Total public health spending as percent of GDP.				
Value	6.9	6.5	NA	6.9	7.2
<b>Comments</b>	<b>Target not achieved.</b> Health spending increased by 4.7 percent in nominal terms over 2010-11, but largely due to a more accurate definition of arrears after the general elections in late 2011.				
<b>Indicator 4</b>	Social benefit spending as percent of GDP.				
Value	2.6	2.5	NA	2.4	2.4
<b>Comments</b>	<b>Target achieved.</b>				
<b>Indicator 5</b>	Pension spending as percent of GDP.				
Value	10.5	10.2	NA	10.6	10.5

<sup>1</sup> A programmatic series is considered to have lapsed 24 months after the Executive Directors approval of the previous operations in the series.

<sup>2</sup> National accounts data have been retroactively harmonized in October 2013 in accordance with the ESA2010 methodology to include informal economy, among else, which also led to a change in the baseline data. Furthermore, labor force participation rate also changed retroactively in 2014 due to harmonization of labor force survey sample weights with the revised population and the 2011 census data.

	<b>Baseline Value (from approval documents)</b>	<b>Original Target Values (from approval documents)</b>	<b>Formally Revised Target Values</b>	<b>Actual Values Achieved at Completion or Target Years</b>	
<b>Comments</b>	<b>Target not achieved.</b> As the recession deepened, the inflow of pensioners accelerated so that in 2011 the number of pensioners grew by 1.8 percent. Still, nominal pension spending declined by 0.2 percent by 2011, but due to further GDP decline in 2011 it did not lead to larger relative decline of pension spending.				
<b>Indicator 6</b>	Labor force participation rate (15-64)				
Date	2009	2011		2009	2011
Value	62.4	63	NA	65.6	64.1
<b>Comments</b>	<b>Target not achieved.</b> As the recession deepened, the number of active labor force has declined by 2.7 percent over the 2009-2011 period. The number is very close to the inflow into the pension (inactivity) over that period. Changes to the labor force survey sample weights revised the baseline indicator as well.				
<b>Indicator 7</b>	Institutions (Score in Global Competitiveness Index)				
Date	2010-11	2011-12		2010-11	2011-12
Value	3.6	3.7	NA	3.6	3.7
<b>Comments</b>	<b>Target achieved.</b>				
<b>Indicator 8</b>	Private sector's share in the GDP (percent).				
Date	2009	2011		2009	2011
Value	70	72	NA	70	72.9
<b>Comments</b>	<b>Target exceeded.</b>				

**(b) Intermediate Outcome Indicator(s)**

Not Applicable

**G. Ratings of Program Performance in ISRs**

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
	June 02, 2011	Satisfactory	Satisfactory	\$217.13

**H. Restructuring (if any)**

Not Applicable





## 1. Program Context, Development Objectives and Design

1. **This is an ICRR that evaluates the Economic Recovery Development Policy Loan (ERDPL) operation for Croatia.** The ERDPL was designed as the first in a programmatic series of two Development Policy Operations. However, the series was discontinued following delays in implementing reforms and a change in Government.<sup>3</sup> ERDPL2 was processed as a stand-alone operation<sup>4</sup> in 2014. The ERDPL was approved on May 5, 2011, became effective and disbursed fully in one tranche on June 15, 2011, and was closed on December 31, 2011. This ICRR evaluates progress achieved on outcome targets articulated in the original ERDPL Policy Matrix, which covers expected outcomes in 2011 and 2012.

### 1.1 Context at Appraisal

2. **The ERDPL was appraised in early 2011, against the backdrop of three major trends facing Croatia.** **First**, the Croatian economy, underpinned by the European double-dip recession and debt crisis, was facing sharply falling output, rising poverty, unemployment and growing fiscal imbalances. **Second**, there was an ongoing process of EU accession, which dominated policy formulation and implementation, and **third**, the political situation was in a state of flux. The ruling coalition was fast losing popularity and facing elections towards the end of 2011, which resulted in change of government. These trends made it particularly challenging for the Government to implement reforms envisaged under the ERDPL series.

### The Economic Situation

3. **The global financial crisis severely affected the Croatian economy beginning 2009.**<sup>5</sup> Prior to the crisis the Croatian economy grew by 4.3 percent per year in real per capita terms over 2001-2008. This growth was, however, based on cheap capital flows creating credit, consumption and real estate booms that could not be sustained. As a result, total investment fell from about 31 percent of GDP prior to the crisis to only 21 percent by 2010. FDI inflows, another major driver of growth, which amounted to nearly 7 percent of GDP per year, prior to the crisis, fell sharply to 3 and 2.1 percent of GDP in 2009 and 2010, respectively. Consequently, in 2009, at the time of preparation real GDP fell by six percent and was expected to fall by another 1.2 percent in 2010.<sup>6</sup>

4. **The fall in GDP was accompanied by a sharp deterioration in public finances.** As tax revenues declined, despite cost cutting measures, the general government deficit widened from 2.5 percent of GDP in 2008 to 5.4 percent of GDP in 2010, and was expected to widen further to 5.8 percent of GDP in 2011. As a result of these deficits, public debt (including guarantees) increased from 42 percent of GDP in 2008 to about 58 percent of GDP by 2010. This increase in turn was reflected in the rise in interest payments from 1.8 percent of GDP in 2008 to 2.2 percent of GDP by 2010.

5. **The economic crisis was also reflected in a significant adjustment in the external accounts.** The current account deficit fell from 8.9 percent of GDP in 2008 to only 2 percent of GDP in 2010. However, this was mainly because of a fall in domestic demand led by job losses and lower incomes and was reflected in a fall in imports by nearly one-third over 2009-2010. The export growth – mainly growth in tourism receipts was maintained. In parallel, the FDIs were cut by two-thirds, suggesting larger risk

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<sup>3</sup> According to BP8.60 a programmatic series is considered to have lapsed 24 months after the Executive Directors approval of the previous operations in the series. However, this series was discontinued late on March 9, 2014, at the time of the consideration to appraise ERDPL2.

<sup>4</sup> A separate ICRR covers the ERDPL2 operation.

<sup>5</sup> The main channels of contagion between Croatia and the Eurozone are trade and financial flows. About half of Croatia's trade is with the Euro area, mainly Germany and Italy, and the Euro area accounts for three fourths of FDI flows into Croatia.

<sup>6</sup> However, subsequent harmonization with the ESA2010 in 2013 led to real GDP downward revisions to 7.4 percent decline in 2009 and 1.7 percent decline in 2010.

aversion by foreign investors. By end-2010, the external debt-GDP ratio reached 100 percent and the debt-service-exports ratio at 40 percent (Table 1).

6. **To support currency stability and domestic liquidity, during 2009 and early 2010, the central bank** abolished administrative measures implemented in the pre-crisis period, lowered the reserve requirement (to a still high 13 percent) and increased the kuna share in obligatory reserves. This had released liquidity equivalent to 8.5 percent of GDP preventing pressures on local currency depreciation. However, the private sector deleveraging continued due to the weak recovery of domestic demand. In November 2010, Croatia's sovereign rating was cut by S&P to BBB- with a negative outlook. Subsequently, in March 2011, the Government renewed the bond issue at the US market for USD1.5 billion at a 10-year maturity with the spread 350 basis points over the benchmark which compares with 124 basis points received in 2008.

**Table 1. Croatia - Key Macroeconomic Indicators at the Appraisal (percent of GDP)**

Indicators	Actual			Estimate	Projected
	2007	2008	2009	2010	2011
<b>National Accounts</b>					
Real GDP growth	5.1	2.2	-6.0	-1.2	1.5
Total Investment	29.4	30.7	27.1	23.4	24.2
Gross National Savings	22.1	21.2	21.5	21.5	21.0
Foreign Savings	7.5	8.9	5.2	2.0	3.2
<b>Public Sector</b>					
Primary Balance	0.0	-0.8	-3.1	-3.2	-3.3
Interest payments	1.8	1.7	2.0	2.2	2.5
Fiscal Balance	-1.8	-2.5	-5.0	-5.4	-5.8
<b>Balance of Payments</b>					
Trade Balance	-21.8	-22.8	-16.2	-13.9	-15.4
Current Account Balance	-7.5	-8.9	-5.2	-2.0	-3.2
FDI	7.9	6.7	2.6	2.0	3.5
<b>Debt</b>					
Gross External Debt	81.6	79.5	97.6	99.8	99.3
Public Debt (incl. guarantees)	41.5	42	50.2	57.9	60.7
Gross Internat. Res. (in mths of imports of GNFS)	5.6	4.4	7.2	6.9	6.3
<i>Memo items:</i>					
GDP (US\$ millions)	59,319	69,920	63,435	60,830	62,162
Inflation (p.a., %)	2.9	6.1	2.4	1.1	2.7
Debt service to export ratio	36.1	27.8	45.9	37.7	45.9
Exchange rate HRK:US\$ (p.a.)	5.37	4.93	5.28	5.50	5.55

Note: USD terms derived. Fiscal Balance includes consolidated general government adjusted for the pensioners' debt repayment and Croatian Highways based on GFS86 methodology. For comparison, headline general government deficit based on the national methodology amounts to 4.6 percent of GDP in 2010.

Source: Program Document ERDPL.

7. **The decline in output led to a significant increase in poverty putting further fiscal strain on Croatia's social benefit system.** Poverty incidence increased from 13.3 percent in 2008 to 16.6 percent in 2011. Unemployment, the principal determinant of poverty, rose from 8.6 percent in 2008 to 13.7 percent in 2011, with youth unemployment reaching 50 percent. Poverty would have surely increased even more without the Government's efforts to protect social benefits and old age pensions during the crisis. The consumption incidence analysis reported in the Program Document for the operation indicates that although the overall consumption declined by 4.6 percent between 2008 and 2011, the consumption of the bottom 40 percent declined relatively less--by 3.5 percent.

## The EU Accession

8. **Addressing the impact of the global financial crisis on the economy, while managing a complex EU accession process, was particularly challenging.** By late 2010, Croatia had closed all 35 negotiations chapters with the EC<sup>7</sup>; however, several chapters continued being monitored for a full enforcement of the *acquis*. Nevertheless, Croatia was expecting to join the EU by July 2013. The EU accession had three implications for the policy makers in Croatia. **First**, the Governments' own reform program had to be harmonized with a number of EU mandated reforms in the areas of state aid, labor regulation, VAT payments, judiciary, fundamental rights, fight against corruption and organized crime. This also had some short-term costs in 2010 and 2011 like an absorption of state guarantees issued to shipyards amounting to 3.2 percent of GDP as part of their restructuring plan accepted by the EC. In addition, the adoption of the EU directive on working hours and overtime payments for health workers would raise wage costs in the health sector. **Second**, the EU accession process placed heavy time demands on the government managerial levels and absorbed significant public administration resources. **Third**, Croatia was preparing its institutions and capacity for absorbing significant EU funds. Namely, nearly 2.6 percent of GDP on average per year would be available for Croatia in the form of structural and cohesion funds to spend over 2014-2020<sup>8</sup>. To be accredited for absorption of these EU resources it was necessary to increase staffing in selected departments within the Government, which increased wage costs in the short run.

## The Political Situation

9. **Politically, in 2011, Croatia was in a state of flux.** The ruling center-right coalition led by the Croatian Democratic Union (HDZ) was fast losing popularity and was beset by corruption scandals. There were impending elections at the end of 2011, and it was most likely that a center-left coalition led by the Social Democratic Party (SDP) would win the majority<sup>9</sup>. The task team was aware that designing the operation across a change of Government was risky. To begin with there would be a natural loss of momentum for reform when there is a change in Government. In addition, the center-left coalition would be less enthusiastic about the much-needed reforms of the social benefit system, labor market and administrative reforms.

## The Government Response

10. **Thus, in the run up to appraisal, during 2010-11, the Government was struggling with a shrinking economy, harmonizing policies with the EU and implementing unpopular policies in the face of impending elections.** The HDZ Government did not waiver from pursuing the reforms needed for the EU accession. The Government was also aware that the reforms behind the EC *acquis*, needed to be accompanied with structural reforms to strengthen the competitiveness of the economy. To this end, one year into the recession, in April 2010, the Government announced a comprehensive Economic Recovery Program (ERP). The ERP which benefited from the intense engagement of Bank staff through ongoing analytical work and informal policy notes, had the following objectives: (i) securing macroeconomic stability through social sector, public administration and state aid reforms; (ii) improving the business environment with the finalization of the privatization agenda, acceleration of judicial reform and the anti-corruption efforts; (iii) increasing the contribution of labor to growth by addressing skill mismatches through education reforms and advancing the flexibility of the labor market; and (iv) supporting knowledge-based and sustainable long-term growth. While there was a broad support for the ERP from political and

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<sup>7</sup> Candidate countries have to accept the *acquis* before they can join the EU and make EU law part of their own national legislation. Adoption and implementation of the *acquis* are the basis of the accession negotiations.

<sup>8</sup> The analysis of fiscal implications of joining the EU is available in the 2014 PFR "Effective Utilization of EU Funds".

<sup>9</sup> Indeed, as anticipated a coalition government led by the Social Democratic Party (SDP) took power in December 2011.

social partners, as well as the international community, the implementation of the ERP during most of 2010, proved to be challenging. There were slippages in two main areas: (i) labor unions opposed to labor market reforms before job creation prospects pick up, and (ii) pensioners were opposed to the pension reform that would reduce privileged benefits and extend retirement dates. It was in support of the structural policies included in the ERP that the Government approached the Bank for the ERDPL operation.

## **Bank Response**

11. **The Bank's response to the challenges faced by the Government was in line with the Country Partnership Strategy (CPS) for FY09-12, presented to the Board in September 2008.** The strategic priorities of the CPS were aligned with the strategic priorities of the Government. Within the framework of the CPS, the ERDPL operation was at core the Bank's assistance to the Government in responding to the crisis. The ERDPL was to be complemented by other Bank lending operations focused on building institutions in land administration and spatial data infrastructure, trade and transport, judicial reform, export finance, and science and technology. The Bank also had a strong Economic and Sector Work (ESW) Program that provided the analytical underpinning for the ERDPL. The ERDPL drew on the following studies:

- Restructuring Public Finance to Sustain Growth and Improve Public Services - Public Finance Review (PFR, February 2008).
- Regional Study on Performance Based Budgeting (October 2008).
- Croatia's EU Convergence Report – Reaching and Sustaining Higher Rates of Economic Growth (June 2009).
- Social Impact of the Crisis and Building Resilience (July 2010).
- Policy Notes on fiscal responsibility, pensions and labor market: This analytical work on labor market issues, fiscal responsibility framework and pension sector reform was carried out in real time and guided the ERDPL design. In addition, the Policy Notes was a useful instrument to engage the new Government that came into power in late December 2011 and guided many of their new policy initiatives as well as supported the ongoing and planned reform program.

## **The ERDPL Operation**

12. **The ERDPL responded to the Government's request to support the ongoing reform effort to address the economic slowdown and resulting fiscal vulnerabilities.** At appraisal, the Government requested a two-operation programmatic series--ERDPL and ERDPL2. A series (rather than two separate one-tranche operations) was considered appropriate because the reforms being implemented were medium-term in nature. The two-phase reform program outlined in the first, but implemented over two operations, would provide the task team with a framework to engage in a policy dialogue with the Government after the first operation was presented to the Board. A two-operation series was also preferred to a single two-tranche operation because it gave the task team flexibility to reformulate elements of the second phase of the reforms in response to changing economic and political situation without these reforms being agreed to as legal conditions. The ERDPL was presented to the Board in May 2011 and the ERDPL2 was expected to be presented to the Board in early 2012. In retrospect, the anticipated timing of the ERDPL2 proved optimistic. Many key reforms were delayed as a result of the continued economic recession and a change in the Government. Consequently, the series lapsed and was discontinued; and ERDPL2 was presented as a stand-alone operation in May 2014.

13. **The financing provided by the ERDPL, amounting to EUR150 million was modest.** Financing provided by ERDPL (\$213 million equivalent), amounted to only 1.5 percent of the overall financing needs

of the economy in 2011 (or around 6 percent of the public sector needs)<sup>10</sup>. In 2011, Croatia had external reserves of about \$11.2 billion amounting to about 7 months of imports. Throughout the recession, Croatia retained access to the commercial Euro market (albeit at higher cost) and during 2010 and 2011, Croatia issued nearly US\$3.75 billion of Eurobonds in the commercial market. The Government thus saw the real value of the operation, not just in terms of the financing, but in the value of the Bank's analysis and policy advice, and its signal of support for Croatia's structural policies at a time the country was presenting its reform efforts to the IMF, EU and approaching the market for commercial loans and bonds<sup>11</sup>. In the same vein, Croatia's development partners also drew comfort from the Bank's support of the country's reform agenda<sup>12</sup>. This also explains the very active engagement with the Government between the two operations described in Section 2.2.

### **Relationship with IMF and other Development Partners**

**14. During the formulation and implementation of ERDPL Croatia had no IMF program, but regular consultations with the Fund continued as part of the annual Article IV process.** The IMF and the Bank collaborated closely to support the Government in expenditure-led fiscal consolidation, improving tax administration and strengthening competitiveness, by exchanging views on the relevant legislative proposals, peer reviewing the Program Document, carrying out regular meetings at the time of staff visit (November 2010) and the Article IV missions (April 2010 and April 2011), as agreed under the Joint Management Action Plan on Bank-Fund collaboration from September 2010. The IMF provided policy advice and analysis through its surveillance and technical assistance on monetary and exchange rate policies, tax policy, financial sector stability and the external sector. For the ERDPL, the IMF provided an assessment letter, which supported the structural reforms being pursued by the Government and supported by the Bank operation.

**15. The Bank closely cooperated with the European Commission (EC) throughout the formulation and implementation of ERDPL.** The objective of the World Bank support, as outlined in the CPS 2009-12, was to facilitate the successful integration of Croatia into EU. In line with this objective, the reform areas supported by the ERDPL were aligned with the areas covered by the EU *acquis* and concerns raised by the EU 2010 Progress Report for Croatia. The reforms for improvements in management of public sector human resources and the support for the speedier enforcement of judicial decisions through the adoption of the new acts on Bailiffs and on Execution of Cash Assets; both included in the ERDP series also support Government efforts in meeting the EU *acquis* criterion under the relevant Chapters.

#### *1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)*

**16. At appraisal, there was a broad consensus on Croatia's development objectives.** These were contained in the ERP prepared by the Government, the EU 2010 progress report and the IMF Article IV report and were consistent with the PDOs of the ERDPL to: (i) enhance fiscal sustainability through expenditure-based consolidation; and (ii) foster private-sector growth. The key indicators set to monitor achievement of these PDOs were set for the programmatic series with the expected outcomes as follows<sup>13</sup>:

- General Government spending reduced from 43.2 percent of GDP in 2010 to 40.9 percent of GDP in 2012;
- General Government wage bill reduced from 10.7 percent of GDP in 2010 to 9.9 percent of GDP in 2012;

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<sup>10</sup> Total financing requirements include current account deficit, principle repayments and a provision for increase in official reserves.

<sup>11</sup> For instance in the RFP for the Eurobond issued in 2012, the Government points out that the structural reforms are being supported by a Bank operation.

<sup>12</sup> This point was made by the EC representative at the ERDPL2 ROC.

<sup>13</sup> The ERDPL Policy Matrix contained the expected outcomes for 2011 as well. These were presented in the section F.

- Total public health spending reduced from 6.9 percent of GDP in 2010 to 6.2 percent of GDP in 2012;
- Social benefit spending reduced from 2.6 percent of GDP in 2010 to 2.3 percent of GDP in 2012;
- Pension spending reduced from 10.5 percent of GDP in 2010 to 9.7 percent of GDP in 2012;
- Labor force participation rate (15-64) increased from 62.4 percent in 2009 to 64 percent in 2012;
- Institutions score (from Global Competitiveness Index) increased from 3.6 in 2010-2011 to 3.9 in 2012;
- Private sector share in GDP increased from 70 percent in 2009 to 75 percent in 2012;
- Research and development spending increased from 0.8 percent of GDP in 2009 to 1.1 percent in 2012.

1.3 *Revised PDO and Key Indicators, and reasons/justification*

Not applicable.

1.4 *Original Policy Areas Supported by the Program*

17. **The policy areas supported by the ERDPL were grouped according to the PDOs.** Each of the policy areas contained measures, which constituted prior actions for the ERDPL as per the legal documents, as well as outcome indicators to measure progress of the reform program. Since the ERDPL was a one-tranche operation, from a strictly legal point of view, all prior actions were met before the loan was submitted to the Board. Table 2 presents the summary of prior actions and the progress on implementation of the policies. The impact of the measures implemented under the ERDPL, and the progress on outcome indicators is discussed in Section 3.2, on “achievement of program development objectives”.

<b>Table 2. Policy Matrix and Results</b>			
	<b>Medium-Term Objectives</b>	<b>ERDPL Prior Actions</b>	<b>Results/Implementation Experience by ICR</b>
<b>COMPONENT 1: ENHANCING FISCAL SUSTAINABILITY THROUGH EXPENDITURE BASED CONSOLIDATION</b>			
1)	A more credible transparent and sustainable fiscal policy.	Introduced temporary fiscal rule through enactment of the Law on Fiscal Responsibility; and established the Fiscal Responsibility Board (FRB) through Government Decision.	<b>Strengthened.</b> FRB changed to Fiscal Policy Committee (FPC) and is now located outside the MOF in the Parliament for greater independence. Temporary fiscal rule was harmonized with the EU’s Excessive Deficit Reduction Procedure (EDP) after accession.
2)	Fiscally more affordable public administration that meets EU standards related to merit and professionalism.	Strengthened the appraisal system and disciplinary measures for civil servants. Established the HRMIS through enactment of the Law on Registry of Public Employees.	<b>Implemented.</b> A strengthened appraisal system in place and the more objective appraisal has been implemented. HRMIS, central payroll system, was implemented across the government and has helped achieving savings. Loyalty bonuses have been abolished to reduce the wage bill, while basic wage remained frozen throughout the ICR date.
3)	Increased efficiency of health financing	Streamlined co-payment exemptions, reduced drug costs through the adoption of two ordinances, and launched hospital network rationalization through the adoption of the Public Health Insurance	<b>Strengthened.</b> Reduction of copayments’ exemption by 21 percent and reduction of drug costs. Under the ERDPL2, standardization of medical and orthopedic equipment as well as centralized public procurement was introduced, while by the time of ICR, a

<b>Table 2. Policy Matrix and Results</b>			
	<b>Medium-Term Objectives</b>	<b>ERDPL Prior Actions</b>	<b>Results/Implementation Experience by ICR</b>
		Network revision.	performance-based contracting was introduced in hospitals. <b>Reformulated.</b> Hospital consolidation in Zagreb municipality was reversed by the new Government. Hospital consolidation is now being carried out under a comprehensive master plan, supported by the Bank's Health PfR operation.
4)	Cash social benefit spending contained, spending focused on best-targeted programs, and the administrative system rationalized.	Adopted the Social Welfare Strategy and submitted the draft Social Welfare Act to Parliament aiming at: rationalization of Social Welfare Centers, linking social allowance to the poverty line, and strengthening the targeting through means testing.	<b>Reformulated.</b> Government is redesigning the social welfare network supported by Bank results-based operation. The linking to the poverty line was reversed as relative poverty line declined during the crisis. <b>Implemented.</b> To date four benefits have been consolidated into a Guaranteed Minimum Benefit (GMB) that uses means-tested targeting. The MIS system enables better control over the error and fraud.
5)	Improved fiscal and social sustainability of the pension system.	Reduced privileged pensions by 10 percent. Increased the minimum service to one parliamentary term for pension eligibility and increased retirement age for Government Officials, MPs and Constitutional Court Judges. Equalized retirement age for men and women at 65, and doubled the early retirement penalty. Reduced administrative costs in funded pension pillars through HANFA Decision.	<b>Strengthened,</b> except for the reversal of the Constitutional Court Judges pension rules as the Constitutional Court rendered the ruling to reinstate their privileges. Under the ERDPL2, the retirement age increased further to 67 years, government officials' pensions abolished and privileged pensions further reduced.
<b>COMPONENT 2: FOSTERING PRIVATE SECTOR GROWTH</b>			
6)	Increased labor market flexibility and incentives for active job search	Reduced unemployment benefit and its duration. Reduced pre-retirement unemployment benefit duration to five (5) years.	<b>Strengthened.</b> Under the ERDPL2, both firing (in particular for collective dismissals) and hiring costs were reduced, while the flexible types of contracts were liberalized.
7)	Reduced administrative and regulatory barriers to business	Accelerated enforcement of commercial dispute resolutions through the enactment of the Laws on Enforcement, Bailiffs and the Execution of Cash Assets.	<b>Reformulated.</b> Introduction of Bailiffs was abolished by the new government under the justification of adding an additional layer in the settlement process. The execution of non-cash assets was brought back to the court system but has been strengthened significantly with e-auctions carried out for movables and immovables. <b>Strengthened.</b> Execution of cash asset



Table 2. Policy Matrix and Results			
	Medium-Term Objectives	ERDPL Prior Actions	Results/Implementation Experience by ICR
			now directly entrusted to FINA with a universal registry of all cash accounts proved to be successful in collecting claims and writs execution. Bankruptcy system and business registration were further simplified and strengthened, while the issuance of the construction permit got simplified and less costly, as supported by the ERDPL2.
8)	Reduced state involvement in the enterprise sector through privatization or liquidation of state-owned enterprises	Strengthened institutional framework for management and privatization of state property through the enactment of the Act on State Property Management; and sold/liquidated shares and stakes in at least 100 state-owned companies.	<b>Strengthened.</b> By ICR, close to 360 SOEs liquidated or privatized, including shipyards, state insurance company and tourism.
9)	Strengthened innovation framework		<b>Implemented.</b> Under the ERDPL2, performance-based financing was introduced in higher education and science which also increased active mobilization of private sector and EU financing and commercialization of innovation.

1.5 *Revised Policy Areas*

Not Applicable.

1.6 *Other significant changes*

None.

**2. Key Factors Affecting Implementation and Outcomes**

2.1 *Program Performance*

18. Following the effectiveness of the ERDPL operation, the entire amount of US\$217 million was drawn in a single tranche in June 2011. Most of the policy reforms initiated in the ERDPL were implemented as intended. In a few areas, however, the institutional reforms have been reformulated and strengthened in light of new information and considerations of the new government. These changes and the progress on achieving outcome indicators are discussed in detail in Section 3.2.

2.2 *Major Factors Affecting Implementation*

19. **Since the ERDPL was a single tranche operation based on prior actions, much of the preparation work was carried out in 2010 and 2011 prior to Board approval in May 2011.** Implementation of the operation thus involved working closely with the Government during 2010-11 to implement policy and institutional reforms initiated by the ERDPL and defining the specifics of the second phase of reforms which would constitute prior actions for ERDPL2. As discussed below, the Bank presence in the field, and the strong analytical basis helped implementation of the operation:

- **Bank presence in the field.** ERDPL program was well linked to key areas of the Bank’s engagement in Croatia, such as the Health and the Social Sector operations both of which extended the institutional

reforms launched by ERDPL. In addition, the presence of the TTL in the field, helped lay the basis for the design, fast processing and implementation of the ERDPL operation.

- **Good analytical basis.** The implementation of ERDPL was facilitated by the extensive analytical work. The inputs provided by the Bank's team to Government in formulating policies in health, social benefits reform and pensions were informed by work on the ongoing Public Finance Review (PFR). In addition, the staff prepared special policy notes on the fiscal responsibility frameworks, pension system sustainability and reform options and on labor market which helped formulate reforms in these areas.

20. **However, there were a number of factors also listed below which adversely affected the progress towards reaching the outcome targets for 2011 and 2012 set in the ERDPL:**

- **The macroeconomic situation** proved to be difficult (see the discussion in Section 3.2). With the resulting fiscal squeeze, and increases in poverty and unemployment it was difficult to implement reforms which essentially cut back on entitlements even if they were largely targeted to upper income groups. While there were no major reversals in reforms there were delays in implementing reforms in the area of means-testing in determining social benefits, privilege pension reform, and labor reforms to lower layoff costs.
- **Change of Government.** The period after the approval of ERDPL was a period of political transition and uncertainty. ERDPL was presented to the Board in April 2011 and there were elections in December 2011, which the ruling party lost. While the new Government was fully supportive of the ERDPL reform effort, and committed to the EU accession process, there was some reform inertia. Moreover, the new Government wanted more consultations on some of the pension reforms, means testing and labor laws to build consensus with its coalition partners. This resulted in delays in implementation of reforms in these areas<sup>14</sup>. In the case of the pension reform, the initial reform proposal has been softened, thus limiting their fiscal impact in the long term.
- **Resistance by labor unions.** Some of the reforms, especially in the labor market were strongly opposed by the trade unions. During 2011, the trade unions ran a signature campaign for a referendum against the labor law reform included as part of the ERP and ERDPL2. This delayed the proposed reduction in the layoff costs, but also hiring costs, thus delaying the improvement of the employment protection flexibility in the short term, affecting adversely firm restructuring, but also job creation, labor force participation and consequently the progress towards reaching the outcome targets set in the ERDPL. However, these reforms have since been implemented.
- **EU negotiations.** During 2010 and 2011, the Government was heavily engaged in the EU accession process. While most of the reforms needed for the EU accession process were consistent with those supported by the ERDPL operations, the government focus and capacity was largely absorbed by reforms that deal with the rule of law, judicial efficiency and the state aid to state-owned companies (namely shipyards). Further, to prepare for the successful absorption of EU funds (around EUR11 billion from 2014-2020 in structural and cohesion funds) the government had to increase staffing in selected departments within the Government, as mandated by the accreditation auditors, which increased wage costs in the short run. In addition, the adoption of EU directive on working hours and overtime payments for health workers would raise wage costs in health sector and consequently adversely affected the progress towards reaching the outcome targets set in the ERDPL.

### 2.3 *Monitoring and Evaluation (M&E) Design, Implementation and Utilization*

21. **Monitoring and Evaluation.** Within the Government, the Ministry of Finance was responsible for implementing some of the ERDPL supported reforms as well as coordinating reforms with various ministries and agencies. The Bank team, led by the TTL in Zagreb, monitored and followed up on progress. This approach worked well and there was continuous tracking of reforms and outcome indicators reported

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<sup>14</sup> These will be discussed in the context of the ICRR for ERDPL2 operation.

in ISR and four Aide Memoires submitted as part of the ERDPL2 preparation between October 2012 and February 2014, including eight reviews of the draft legislation and their impact assessment.

22. **Design.** The results framework for assessing program outcomes served its purpose of ensuring adequate monitoring and reporting of reform outcomes. However, in several cases, design of the outcome indicators did not adequately capture the underlying policy effort by the Government.

- Almost all the indicators ranging from progress on wage bill reduction to privatization were set as a share of GDP. These were set in anticipation of a resumption of GDP growth beginning 2011<sup>15</sup>. When, contrary to these expectations, GDP shrank over 2011-12, as the debt crisis deepened in the EU and the external demand for Croatian exports declined, the outcome indicator understated the underlying reform effort in all cases. For example, even when the Government was able to reduce total public sector wage bill in real terms by 4.2 percent over 2010-12 (or nominal terms by 1.2 percent), as a percent of GDP the reduction was far below the target<sup>16</sup>.
- In some cases, the link between the reform measure and the output indicator was very tenuous. For example, in privatization, the prior action involved privatizing 100 state-owned companies and this was followed up by privatization of over 200 enterprises over 2012-13. However, it is very difficult to link this action with an outcome target of an increase in the share of the private sector in GDP; for the latter depends on several exogenous factors outside the influence of policies supported by ERDPL.
- Outcome indicators in the Policy Matrix were set with the assumption that the next phase of ERDPL2 actions would be implemented in 2012. For example, on labor market participation, delays in implementation meant progress towards the outcome indicators stalled (with the results only visible in 2014 and 2015).

#### 2.4 *Expected Next Phase/Follow-up Operation*

23. After the ERDPL was presented to the Board, the broad reform program remained unchanged and work continued on ERDPL2. However, a number of policy reforms underpinning the ERDPL2, such as the broadening of means testing for social assistance programs, indexation freeze for privileged pensions, increase in early retirement penalty and amendments to the labor law to lower layoff costs were delayed. Not only were these reforms difficult to implement when the economy was shrinking, but the new Government, which came into power in December 2011, sought further consultations with major stakeholders to garner public support for these reforms. As a result of the delays, the two-operation programmatic series was discontinued, however Bank support for the reform agenda carried through until the ERDPL2 was presented as a stand-alone operation in May 2014.

### 3. **Assessment of Outcomes**

#### 3.1 *Relevance of Objectives, Design and Implementation*

**Rating: Moderately satisfactory**

24. **Relevance:** There was a consensus among Croatia's main external stakeholders (IMF, EU) that the two objectives of the ERDPL--fiscal consolidation and creating conditions for private sector growth--were, and remain, highly relevant. The subsequent economic developments in 2011-14 exposed Croatia's fiscal vulnerability and further reinforced the relevance of the objectives. An assessment of the design and implementation is given in Sections 2.2 and 2.3.

#### 3.2 *Achievement of Program Development Objectives*

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<sup>15</sup> The resumption of growth in 2011 was expected by all international partners (EC, IMF, World Bank, EBRD) as well as the consensus forecast.

<sup>16</sup> In recognition of this problem, the output indicators were changed in ERDPL2.

**Rating: Moderately Unsatisfactory**

25. **Macroeconomic Framework.** The medium-term macroeconomic framework was considered adequate for the ERDPL approval based on the officially available statistics and information at the time. The medium-term fiscal framework clearly aimed to tame the public debt growth and reduce fiscal deficit. Macroeconomic developments, however, since 2011 show that in retrospect, Bank staff (other development partners and the Government counterparts) was optimistic in its assessment of the prospects for the Croatian economy (Table 3). At appraisal, staff expected the Croatian economy to grow steadily starting in 2011. Subsequent revisions in GDP, as part of the national accounts harmonization with the ESA2010<sup>17</sup>, showed that growth in 2010 itself was significantly lower than was estimated in early 2011 (-2.3 vs -1.2) and the economy continued to shrink by varying degrees over the next four years. In the external accounts, the ERDPL projections at appraisal were also optimistic. Actual total FDI inflows over 2010-2012 were two percentage points of GDP lower than projected at appraisal and foreign debt was higher. As the domestic demand remained depressed, the current account deficit was lower, mainly on account of sharply lower imports reflecting lower consumption as a result of job losses and lower incomes. Clearly, prolonged recession combined with major statistical adjustment of fiscal and national accounts made the ex-post assessment of the macro performance difficult.

**Table 3. Croatia--Macroeconomic Projections at Appraisal Vs Outturn**

	2010	2011	2012	2010	2011	2012
	Est.	Proj.	Proj.	Act.	Act.	Act.
	Projections in ERDPL PD			Actual Outturn		
<b>National Accounts</b>						
Real GDP Growth (%)	-1.2	1.5	2.5	-2.3	-0.2	-1.9
Total Investment	23.4	24.2	24.9	20.9	20.5	19.1
<b>Public Sector<sup>1/</sup></b>						
Revenues, % of GDP	37.8	36.3	36.3	38.3	38.6	37.9
Expenditures, % of GDP	43.2	42.1	40.9	44.1	43.8	42.0
o/w Interest Payments, % of GDP	2.2	2.5	2.5	2.2	2.6	3.0
Fiscal Balance, % of GDP	-5.4	-5.8	-4.6	-5.8	-5.2	-4.1
Fiscal Balance with shipyards, % of GDP				-5.8	-7.1	-4.1
<b>Balance of Payments</b>						
Imports Growth, %				-2.5	2.5	-3.0
Exports Growth, %				6.2	2.2	-0.1
Current Account Balance, % of GDP	-2.0	-3.2	-3.6	-1.1	-0.8	-0.1
FDI, % of GDP	2.0	3.5	3.8	2.1	2.6	2.7
<b>Debt</b>						
Foreign Debt, % of GDP	99.8	99.3	95.8	104.2	103.7	103.0
Public Debt (incl. guarantees), % of GDP	57.9	60.7	62.1	60.4	64.6	68.0
<b>Memo Item</b>						
EU GDP Growth <sup>2/</sup>	1.8	1.7	1.9	2.1	1.7	-0.5
Germany	3.6	2.6	1.9	4.1	3.6	0.4
Italy	1.3	1.0	1.3	1.7	0.6	-2.8
GDP (HRK Billion)	334.6	345.0	347.3	323.8	328.7	328.6
<i>Source:</i> ERDPL Program Document, MoF, CNB, CROSTAT						
1/ Fiscal data presented using the GFS86 methodology which includes debt payments of pensioners and Croatian highways, before changes from late 2012						
2/ EU forecasts from Spring 2011.						

<sup>17</sup> National accounts data have been retroactively harmonized in October 2013 in accordance with the ESA2010 methodology which also led to a change in the baseline data.

26. **The fiscal outturns over the years show a similar pattern.**<sup>18</sup> After a sharp deterioration in the fiscal deficit in 2011 to 7.1 percent of GDP (also due to assumption of 1.8 pp of GDP in shipyards' debt), the fiscal deficit in 2012 was reduced through fiscal consolidation efforts to 4.1 percent of GDP. Overall, deficit to GDP ratio was higher in the 2010-2011 period than initially estimated, largely due to the one-off adjustment of spending due to assumption of the shipyards' guarantees in October 2012. Public debt to GDP ratio continued growing as fiscal deficit remained high and as nominal GDP stagnated in the 2010-2012 period.

27. **Optimism for the prospects for the Croatian economy was in line with the optimism for the prospects for EU in general.** As indicated above, the Bank projections along with the EC projections, expected resumption in growth in 2012 and 2013 in the Eurozone, and in particular Germany and Italy – Croatia's main trading partners. In reality, the growth in EU and Italy was negative and near zero in Germany. The European Economic Forecast from Spring 2011 also envisaged a recovery for Croatia in 2011-2012 at 1.1 and 2.0 percent. Still, it noted that within Europe, sovereign-debt tensions continued to loom large in several countries, but has not concluded that this would impact growth trajectory in the coming years.

28. **The continued recession in the Eurozone and in turn, in Croatia, presented special challenges in formulating, implementing and monitoring the ERDPL reforms.** **First**, faced with falling employment and rising poverty it was difficult for the Government to implement parts of the fiscal consolidation program that were principally aimed at cutting back on entitlements (albeit for the higher-income groups) and imparting flexibility to the labor market by lowering the costs of layoffs, but also for hiring. As discussed in detail below, it is to the credit of the Government that many of the difficult decisions like roll back of privileged pensions, rationalization of copayments in health and a reduction of unemployment benefits were implemented. At the same time, it was difficult to achieve reductions in public sector employment and public sector wages and some of the labor market reforms slipped to 2013 and were eventually achieved. **Second**, almost all the outcome indicators were linked to GDP developments. When GDP is falling, these indicators do not necessarily measure progress on reforms. The discussion below therefore looks at trends in other variables, in addition to movements as a share of GDP, to assess the outcome of the Government's reform efforts.

### **Achieving the Individual PDOs.**

#### ***Component 1. Enhancing Fiscal Sustainability through Expenditure-Based Consolidation.***

##### **(1) A more credible, transparent and more sustainable fiscal policy**

##### ***Rating: Moderately Satisfactory***

29. **Croatia has in the past introduced several formal and informal fiscal rules, but their enforcement has been weak.** To supplement existing rules and further promote long-term fiscal sustainability, transparency and fiscal discipline, the ERDPL supported two *prior actions*. **First**, the Parliament enacted a Fiscal Responsibility Law (FRL) in November 2010. The law introduced two fiscal rules: temporary and permanent. The temporary expenditure-based fiscal rule aimed to reduce a general government spending by one percentage point of GDP per year until the primary balance reached equilibrium or is positive. After that the permanent rule that aimed to "sustain long-term cyclically-adjusted primary balance" starts to operate. **Second**, the Government established a Fiscal Policy Board (FPB) in March 2011 to monitor the implementation of new fiscal rules and ensure their credibility by highlighting any deviations from targets in real time and recommending corrective actions to remedy those.

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<sup>18</sup> All fiscal indicators in the ICR follow the methodology officially used for reporting at the time of ERDPL negotiations (the IMF GFS1986 methodology), while subsequent revisions to fiscal statistics to harmonize its coverage and reporting with the ESA2010 led to a revision of the results matrix in the ERDPL2.

30. **Implementation experience and outcome targets:** The effectiveness of the FRL and the FPB as instruments for bringing about fiscal discipline is evolving and is influenced by three factors. **First**, the experience of neighboring countries (like Poland, Hungary or Serbia) indicates that the effectiveness of institutions which are designed to operate as fiscal watchdogs take a long time. It takes time to build the institution, staff it appropriately and develop procedures for their interaction with the Parliament, the Government and the public. **Second**, both the FRL and FPB were reformulated and further strengthened since the ERDPL was presented to the Board<sup>19</sup>. The FPB, created in March 2011, was located in the Ministry of Finance and was chaired by the Minister of Finance. While this had many advantages such as access to information and thinking within the Ministry of Finance, there was a public perception about its lack of independence as a fiscal watchdog. In response, in late 2013, with Bank support, the Government reconstituted the FPB as the Fiscal Policy Committee (FPC). The FPC is now chaired by a Member of Parliament and the Chairman of the Parliamentary Committee for Budget and Finance. The FPC members are appointed by the Parliament, but to ensure the continuity, the members have largely remained the same. The FPC as constituted addresses the main weaknesses of the FPB. The FPC, being created by the parliament is expected to be more independent, it will also receive administrative and financial support, its mandate now includes forming an independent opinion on the macroeconomic and fiscal medium-term frameworks, and it issues regular public statements. **Third**, the institutional arrangements of the FRL and the FPB/FPC had to be harmonized with and to some extent were overshadowed by the ongoing EC negotiations. The FRL needed to be tweaked to be consistent with the EU council directive on the requirements for budgetary frameworks for EU member states. Moreover, since early 2014, Croatia is under the EU's Excessive Deficit Procedure (EDP) with its own fiscal targets<sup>20</sup> and surveillance mechanisms.

31. The FRL, the FPB and now the EDP are institutional arrangements to control the fiscal deficit. If the fiscal rules contained in the FRL were implemented as planned, as per the ERDPL outcome targets public spending was projected to fall from 43.2 percent of GDP in 2010 to around 40.9 percent of GDP by 2012--a reduction of 2.3 percentage points of GDP over two years. This target was only partially achieved for two reasons. **First**, there was a revision in national accounts, which resulted in changes to the nominal GDP and therefore the new values on the public expenditures as a shares of GDP are not strictly comparable to the ones set in the Program Document. Nevertheless, the data indicate that over 2010-2012, the public expenditures as a share of GDP were reduced by 2 percentage points against 2.3 percentage points of GDP targeted under the ERDPL indicating a move in the right direction. **Second**, as discussed above, the expenditure reduction targets were set with the expectation of recovery of growth in GDP starting 2011. However, GDP fell in 2011 and 2012. Therefore, although the Government was able to reduce spending by over 9 percent in real terms over 2010-12, as a share of GDP, spending got reduced by only 2 percentage points – short of the outcome target in the PD.

**Table 4. Outcome Vs Targets on General Government Spending**

	2008	2009	2010	2011	2012	% Change
	Act.	Act.	Act.	Act.	Act.	2010-12
General Govt. Spending (HRK bn)	148.2	151.4	144.5	145.7	139.0	-3.86
GDP Nominal (HRK bn)	347.7	331.0	328.0	332.6	330.5	0.74
General Govt. Spending (Real Terms, 2008 base year)	148.2	147.8	139.6	137.5	126.9	-9.11
General Government Spending (% of GDP)	42.6	45.7	44.1	43.8	42.0	-2.0
Outcome Targets ERDPL1	42.2	43.9	43.2	42.1	40.9	-2.3

Source: MOF, Bank Staff Estimates

<sup>19</sup> This strengthening was planned at the time of formulation of ERDPL as a prior action for ERDPL2.

<sup>20</sup> Under the EDP, Croatia will need to bring fiscal deficits down to Maastricht criterion by 2016.

## (2) Public administration reform

*Rating: Moderately Unsatisfactory*

32. **The broad objectives of public administration reform were to reduce the total wage bill, which at 11 percent of GDP in 2010<sup>21</sup> was high compared to EU peers, while improving the efficiency of service delivery.** Reduction in the wage bill was to be achieved by a combination of a reduction in the public sector employment and restraint on wages while the efficiency of the public service was to be improved through targeted administrative reforms. The ERDPL supported *prior actions* in two areas. **First**, the Government amended the Civil Service Act to strengthen the appraisal system and disciplinary measures. These amendments allowed automatic dismissal for unsatisfactorily performing staff who could, under the old system, underperform for two years before being subject to disciplinary measures. **Second**, the Government established the Human Resource Management Information System (HRMIS) and created a registry of public employees.

33. **Implementation experience and outcome targets.** The revised appraisal system has been difficult to apply. The new system involves a cultural change, challenges long entrenched ways of doing things and has to contend with a highly unionized public sector. A discussion with the Government officials engaged in implementing the new appraisal system indicated that while the new appraisal system has been de jure operational, in reality since 2010, only one person was dismissed for underperformance, while the grading of civil servants is mostly lumped around grades 3 and 4, away from 5 on a scale of 1 to 5. The HRMIS, central payroll system and the employment registry have proved to be useful. These systems have uncovered large differences in wage settings for same jobs across public sector which is helping harmonize wages and generate savings. The estimated savings from the introduction of the central payroll registry is around 0.2 percent of GDP per year in terms of administrative and wage costs.<sup>22</sup>

34. As indicated below, in Table 5, the measures implemented by the Government have resulted in a reduction in the wage bill, but at a lower rate than envisaged under the ERDPL. Over 2010-12, the total wage bill, as a share of GDP declined by 0.2 percentage points of GDP against a reduction of 0.8 percent of GDP targeted in the ERDPL. The main reason behind this weaker progress is the Government's inability to control public sector employment<sup>23</sup>, which increased by nearly 1.6 percent, while the Government held the line on the average nominal wage rate resulting in a fall in the average real wage rate of public sector employees by nearly 8 percent. Discussions with Government officials indicated that it was very difficult to move aggressively on the employment front in a situation where the total employment was falling.

**Table 5. Outcome Vs Targets on General Government Wage Bill**

	2008	2009	2010	2011	2012	% Change
	Act.	Act.	Act.	Act.	Act.	2010-2012
Public Sector Wage Bill (HRK Billion)	31.6	35.1	35.8	36.2	35.4	-1.17
Public Sector Employment (persons)	290979		288095		292763	1.62
Wage Rate Nominal (HRK '000 p.a.)	108.7		124.3		120.9	-2.74
Real Wage Bill (HRK bn in 2008 prices)	31.6	34.3	34.6	34.2	32.3	-6.56
Real Wage Rate (2008 base year)	108.7		120.0		110.4	-8.05
Wage Bill as a share of GDP	9.1	10.6	10.9	10.9	10.7	-0.21
Outcome Targets ERDPL1			10.7	10.5	9.9	-0.80

Source: MOF and WB Staff Estimates, Croatia Public Finance Review 2014

<sup>21</sup> The methodology used is GFS86, the same as the one available at the time of the ERDPL preparation. It has the same general government coverage and does not include employers' contributions for civil servants.

<sup>22</sup> Croatia Second Economic Recovery Development Policy Loan, April 2014.

<sup>23</sup> The employment freeze was renewed only in 2014 through the new Decision on Public Sector Employment Ban.

### (3) Increased efficiency of health financing

*Rating: Moderately Unsatisfactory*

35. **Croatia has relatively good health outcomes, but they come at the cost of high spending amounting to 7 percent of GDP in 2010—one of the highest in EU.** In addition, the sector has been dealing with constantly high health sector arrears of about 1 percent of GDP in 2009. The objectives of the program supported by ERDPL were to increase the efficiency of health financing while maintaining the quality of core health services. Towards meeting these objectives, the ERDPL supported three sets of prior actions.

- *Streamlined Co-payment Exemptions.* The main innovation to rationalize copayments was to reduce the number of exempt categories based on entitlements and introduce an income test to families for eligibility for publicly financed Supplementary Health Insurance (SHI). This was expected to reduce the exempt population by around one-third by mid-2011, thereby resulting in savings. From end-2009 until end-2012, the number of exempt persons from paying copayments was reduced by 23 percent.
- *Pharmaceutical Spending Rationalization.* The key to contain the spending on pharmaceuticals was to control the rise in volumes of drugs being sold. Towards this, the Government introduced two ordinances which: (i) established the criteria for wholesale pricing and reporting wholesale prices of medicines, and (ii) established the criterion for inclusion of drugs in the positive drugs list (drugs that are fully reimbursed). In addition, the Government also increased the transparency of the process, implementing a national ethical marketing practices rule for pharmaceutical companies, extended the list for innovative drugs and cleared arrears on prescription medicines in 2010. The stock of arrears indeed declined by 2010 by 0.3 percentage points of GDP (Table 6).
- *Hospital Sector Consolidation.* In June 2010, the Ministry of Health and Social Welfare consolidated nine state-owned hospitals into four. This consolidation was expected to result in annual savings of HRK300 million after five years as a result of reduction in staff, and reduction in the number of hospitals' board directors. The savings achieved were to be used to further reduce outstanding liabilities as well as to invest in service improvements.

**Table 6. Health Sector Arrears**

	2009	2010	2011	2012
Health sector arrears, % of GDP	0.81	0.53	0.63	1.13
Overall health sector debt, % of GDP	2.79	2.85	3.16	3.48
Hospitals	0.47	0.45	0.52	0.67
Other health institutions	0.12	0.08	0.07	0.10
Health Insurance Fund	0.21	0.01	0.05	0.36

36. **Implementation experience and outcome targets.** Of the three sets of policy measures supported by the ERDPL as prior actions, the rationalization of copayments exemptions and pharmaceutical spending have been successfully implemented. Bank staff analysis<sup>24</sup> indicates that as a result of the introduction of the income test for copayments replacing categorical benefits; by end-2012, over 520,000 people had been taken off the exemption list. The program of hospital rationalization through consolidation of nine state owned hospitals to four, however, faced stiff resistance from the local government (city of Zagreb) and the hospital rationalization program was reformulated. The Government has adopted the National Hospital Master Plan in 2014, which implementation along with other initiatives to improve the quality and efficiency of health services are being supported by a Bank Program-for-Results operation<sup>25</sup>.

<sup>24</sup> Annex II ERDPL2 World Bank Preparation Mission Aide Memoire, 2014

<sup>25</sup> Implementation of the key elements of the Hospital Master Plan is one of the results indicators of the Health operation.



**Table 7. Outcome Vs Targets on Public Health Spending**

	2010	2011	2012	% Change
	Act.	Act.	Act.	2010-2012
Total public health spending (HRK)	22789	23857	25176	10.5
Public health spending (in 2008 prices)	22012	22527	22990	4.4
Public health spending (% of GDP)	6.9	7.2	7.6	0.7
Outcome Targets ERDPL1	6.9	6.5	6.2	-0.7

Source: MOF and WB Staff Estimates, Croatia Public Finance Review 2014

37. As indicated in Table 7, the outcome indicators for health were not achieved. Over 2010-12, health spending as a percent of GDP increased by 0.7 percentage points against a reduction of nearly 0.7 percentage points targeted under the ERDPL. Over the same period, health spending grew by nearly 4.4 percent in real terms. Government officials indicated that there are two possible reasons for these trends. First, there was a decline in real GDP during 2010-2012 against a small growth projected at appraisal that reduced the collected health insurance contributions and led to a further growth in arrears over the period 2010-2012. Second, implementation of reforms for hospital services, the largest cost driver, was delayed.

#### (4) Social benefit reform

##### *Rating: Moderately Satisfactory*

38. **The social assistance system in Croatia covers most of the poor and vulnerable population, is generous, and is relatively well targeted.** At the same time it is costly, complex and plagued by administrative inefficiencies. In 2010, Croatia spent 2.9 percent of GDP on social assistance benefits<sup>26</sup>. This is the highest among other transition economies, except Bosnia-Herzegovina and Hungary. The overall spending mix is biased towards categorical programs, with means-tested programs playing a marginal role accounting for only 10 percent of total social benefit spending in 2010 or around 0.3 percent of GDP. Administration of the many social assistance benefits is fragmented and inefficient, with over 80 cash and in-kind benefits for relatively small target groups. They are administered at various levels of government, by six line ministries and their subordinated agencies. Each of these agencies has its own office network across Croatia. This fragmented administration creates costs for beneficiaries applying for benefits at multiple agencies, and augments the risk of error and fraud in the social assistance system.

39. **The objective of ERDPL-supported reforms was to reduce the complexity and administrative inefficiencies of the social welfare system, and to achieve a reduction in the social benefit spending as a share of GDP.** Towards this objective, ERDPL supported the adoption of the *Social Welfare Strategy 2011-2016*, and a new *Social Welfare Law*, as prior actions. Under these laws, the Government legislated reforms in two key areas. **First**, the Government adopted a Master Plan for Social Welfare Institutions, the key objectives of which were to improve administrative efficiency and reduce social exclusion. An important provision of the Master Plan was to rationalize the 86 Social Welfare Centers into 21 county level centers that would cover all back-office functions, leaving only front-office functions with the local level branches; this rationalization would have produced administrative costs savings. In addition, the social allowance program (the social assistance program for the poor) was linked to the poverty line to protect its generosity and its impact on poverty<sup>27</sup>. **Second**, the Government took the decision to expand means-testing instead of income-testing to a larger number of social assistance programs (not only to the social allowance program). This expansion was to be implemented by 2012 once the adequate infrastructure was in place (e.g. the Personal Identification Number, and the income and asset cards were fully deployed by the tax administration).

<sup>26</sup> Excluding child tax credit which is estimated to be about 0.5% of GDP.

<sup>27</sup> Lack of indexation of the social allowance program was responsible for the deterioration of the generosity and coverage. To maintain the program coverage, the threshold should have been indexed with inflation and the poverty line.

40. **Implementation experience and outcome targets.** The new Government which came into power in December 2011 reformulated the decision to consolidate 86 service delivery centers into 21, fearing that the measure would reduce the quality of service delivery for beneficiaries. Instead, the new Government focused on consolidating the formulation of social assistance policy under one ministry; deploying a Management Information System (MIS) to process applications for cash social welfare programs; establishing the one-stop-shop for all cash social benefits; and consolidating some of the social assistance programs with the social allowance program (using means-testing to determine eligibility for benefits):

- **First**, social assistance policy was centralized under a new ministry, the Ministry of Social Policy and Youth. This created the precondition for both policy and administrative consolidation for social assistance programs.
- **Second**, the Ministry deployed an MIS. This made it easier for beneficiaries to receive benefits at the county offices by significantly reducing the number of documents they need to produce, and help prevent errors and fraud.
- **Third**, the Ministry introduced the Guaranteed Minimum Benefits (GMB) program, supported by the ERDPL2, which has consolidated four different social benefit programs<sup>28</sup> and adopted means testing for eligibility.

41. The delivery of the social benefits is now planned to be consolidated by delivering them through a chain of one-stop shops (OSS), which will consolidate the administration of all major social assistance benefits under one network (GMB, child allowances, birth grants, and maternal/paternal allowances for uninsured beneficiaries). The Government’s plan for creating the OSS network is being supported by the Bank’s Social Protection System Modernization Project.

42. While there has been progress in the institutional reforms as indicated above, this did not result in a reduction in the social benefit spending as targeted. As indicated in Table 8 below, the actual reduction in the social benefit spending over 2010-2012 has been modest – only 0.1 percentage point of GDP against the outcome target of 0.3 percentage points as set in ERDPL. A large part of this difference can be attributed to the continued recession and the increased number of social welfare beneficiaries. However, in real terms, the overall social benefit spending declined by nearly 8.4 percent indicating a substantial effort by the Government at containing the cost pressures.

**Table 8. Outcome Vs Targets on Social Benefit Spending**

	2008	2009	2010	2011	2012	% Change
	Act.	Act.	Act.	Act.	Act.	2010-12
Soc. Ben. Spending (HRK Billion) 1/	8.3	9.1	9.4	9.6	9.1	-3.2
Social Benefit Spending in Real Terms	8	9	9	9	8	-8.4
Social Ben. Spending (% of GDP)	2.4	2.8	2.9	2.9	2.8	-0.1
Outcome Targets ERDPL1			2.6	2.5	2.3	-0.3

Source: MOF and Bank Staff Estimates

1/ Does not include Child Tax Allowance amounting to roughly 1% of GDP p.a.

## (5) Improving pension system equity and financial sustainability

**Rating: Moderately Unsatisfactory**

43. At about 10.6 percent of GDP in 2010, the overall spending on pensions in Croatia was one of the highest in the region. Moreover, given the ongoing demographic change, the fiscal sustainability of the pension system has been fragile. To improve the equity and financial sustainability of the pension system,

<sup>28</sup> These are: the social allowance program, the extended unemployment benefit, the homeland war veterans’ benefit and the disabled WWII support allowance.

the ERDPL supported the following prior actions, through amendments to the Obligatory Pension Insurance Act: (i) Reducing privileged pensions for those earning above the HRK3,500 threshold by 10 percent; (ii) Increasing the minimum service of Members of Parliament (MPs) to a full parliamentary term to be eligible for pension; (iii) Increasing the retirement age for Government officials, MPs, constitutional court judges, closer to the general PAYG system; (iv) Raising the statutory retirement age for women from 60 to 65 in 3-month increment until 2030, thereby making it equal to men; (v) Doubling the early retirement penalty and introducing late retirement bonus of 1.8 percent. Additionally, in order to reduce the administrative cost of the second pillar pension funds, HANFA, the pension regulatory authority, reduced the mandatory pension funds' asset management fees from 0.75 to 0.65 percent in December 2010. These were the first attempts to stabilize the sector financially, but also in terms of equity concerns since the launch of the multi-pillar system in 2001.

**Table 9. Outcome Vs Targets on Pension Spending**

	2008	2009	2010	2011	2012	% Change
	Act.	Act.	Act.	Act.	Act.	2010-12
Pension spending (HRK Billion)	32.8	34.4	34.8	34.8	35.1	1.0
Pension Spending (2008 prices)	33	34	34	33	32	-4.5
Pension Spending, % of GDP	9.4	10.4	10.6	10.5	10.6	0.0
Outcome Targets ERDPL1			10.5	10.2	9.7	-0.8

Source: MOF and World Bank Staff Estimates

44. **Implementation experience and outcome targets.** While the measures implemented above have made primarily privileged pensions less generous and encouraged pensioners to stay longer in the labor market, it has not had the anticipated impact on the total pension spending in the short term. However, these measures were implemented along with a resumption of pension indexation from March 2012<sup>29</sup>, which added to the outlay on pensions. As indicated in Table 9, the total pension spending as a share of GDP has remained at about 10.6 percent over 2010-2012 against the target of a reduction of about 0.8 percentage points over the same period. The lack of progress in reducing pension expenditures as a share of GDP could be attributed to the resumed indexation, but also to the large inflow to pension before the new stricter rules for early retirement kicked in<sup>30</sup>. The pension spending, however, declined in real terms by nearly 4.5 percent over 2010-12 indicating an effort at controlling pension spending.

## ***Component II: Fostering Private Sector Growth***

### **(6) Improving labor market flexibility and incentives for labor force participation**

***Rating: Moderately Unsatisfactory***

45. **In Croatia, the unemployment rate of 12 percent in 2010 was well above the EU average.** There was a broad agreement that the employment protection legislation is strict and hampers job creation, except with trade unions which are largely represented by the public sector unions. Moreover, every employer had to deduct nearly 40 percent of gross wages for a variety of social insurance payments, thereby substantially increasing the cost of formal employment. The reforms of the labor market supported by the ERDPL, focused on improving the flexibility and improving the incentives for labor force participation. The ERDPL supported *two prior actions* which were tackled through the amendments to the Law on Employment Mediation and Unemployment Benefits, passed in November 2010. The amendments: (i) reduced the benefit replacement rate from 50 to 35 percent after 3 months of unemployment (the benefit replacement rate was 70 percent of one's previous wage during the first 3 months of unemployment); and (ii) the duration of pre-retirement unemployment benefit was limited to 5 years from unlimited duration for men with 32 years of service and women with 30 years of service. The first measure was meant to strengthen

<sup>29</sup> Pension indexation was suspended in 2011-12 in response to the economic crisis.

<sup>30</sup> Only in 2010 after the announcement of reform measures there was an increase of new early retirement benefit users by 75 percent (or over 21 thousands) compared to 2009.

job search incentives for the unemployed, while the second one is intended to limit early retirement and encourage economic activity among older workers.

46. **Implementation experience and outcome targets.** Feedback from the employment bureau indicated that it was too early to tell if the measures implemented above have resulted in higher labor market participation. In fact, to unlock the demand for labor and job creation in a situation of economic recession, the rigidity of the labor legislation should have been addressed before the incentives for job search. As trade unions opposed the labor legislation changes, including through mobilizing collection of signatures for a referendum against the labor law changes, a digression to unemployment policy was the only policy tool left to the government. Moreover, the reforms supported by the ERDPL were only a first cut of a deeper reform of the labor market, which included stronger policies to increase flexibility of employment especially lowering the layoff costs, supported under the ERDPL2.

**Table 10. Outcome Vs Targets on Labor Force Participation**

	2008	2009	2010	2011	2012	%
	Act.	Act.	Act.	Act.	Act.	Change
Working age population (15-64 in '000)	2875	2874	2873	2870	2857	-0.6
Labor force (15-64 in '000)	1890	1886	1871	1841	1825	-2.5
Unemployment rate	8.7	9.4	11.9	14.0	16.3	4.4
Labor force participation rate	65.7	65.6	65.1	64.2	63.9	-1.2
Outcome Targets ERDPL1		62.4		63	64	1.6

Source: CROSTAT and Bank Staff Estimates

47. As indicated in Table 10, the labor market participation rate declined from 65.6 in 2009 to 63.9 in 2012 against a targeted increase of 1.6 percentage points<sup>31</sup>. As the recession continued and the unemployment rate almost doubled since 2008, people were pooling out of the labor force and creating pressure on the pension system. Approximately, the same increase in the number of pensioners at 2.5 percent was registered as the decline in the labor force from 2010 to 2012.

#### (7) **Reduced administrative and regulatory barriers to business**

**Rating: Moderately Satisfactory**

48. **The regulatory framework governing the private sector was seen as cumbersome in Croatia.** The World Economic Forum Global Competitiveness Index persistently identified inefficient Government bureaucracy as the most problematic factor for doing business. The reforms supported by the ERDPL mainly addressed the enforcement of judicial decisions<sup>32</sup>, specifically the complex, inefficient and lengthy procedures, which delayed issuance of writs of execution by courts, and favored debtors. As *prior actions* for the ERDPL:

- New Acts on Enforcement and on Public Bailiffs were enacted in November 2010. These acts aimed to establish a new, accelerated system for the enforcement of judicial decisions. A key efficiency-enhancing provision was that it sought to decrease the length of the enforcement procedure outside of judiciary through the institution of public bailiffs whose task would be to enforce judicial decisions on enforcement over movables and immovable assets;
- A new Act on Execution of Cash Assets enacted in July 2010 also sought to significantly improve the speed and reduce the cost of complying with writs of execution over cash assets. Previously, the system for Execution of Cash Assets was ineffective as there were no appropriate tools to gain

<sup>31</sup> Both the baseline and outturn numbers have changed in 2013 to reflect the harmonization with the census population and sample weights. This, however, does not change the outcome.

<sup>32</sup> A number of other judicial reforms such as strengthening the bankruptcy system, rationalizing the court network, reducing case backlogs and enhancing enforcement were also implemented in the context of the closure of the Chapter 23 of negotiations with the EU.

relevant information about debtors' cash and deposit accounts (of natural persons) within adequate timeframe. Almost 645,000 payment orders were lying unexecuted by end-2010. Effective January 1, 2011, the new procedure centralized enforcement against debtors' cash and deposit accounts in financial and credit institutions through FINA which enforces the writ of execution by direct debit from the debtor's accounts in banks.

49. **Implementation experience and outcome targets:** The reforms to accelerate the implementation of the enforcement over the cash assets have been successful. FINA, supported by the database of debtors' cash and deposit accounts, has been able to speedily settle cash payment orders once courts passed the writ against cash assets. As a result, the numbers of unexecuted cash payment orders have been reduced from 645,000 in end-2010 to 145,000 by end-2012. The success of FINA in settling cash orders (which account for 80 percent of the unsettled writs) has prompted a reconsideration of the role of public bailiffs by the new government elected in December 2011. Before public bailiff system became operational, the execution of non-cash assets had been reverted to the court system with technical support by FINA (operating the electronic auctioning system), while the institution of a public bailiff was seen redundant.

50. The measures implemented by the Government during 2010-11 in the context of the ERP and the measures supported by the ERDPL were expected to improve the Institutions score in the Global Competitive Index from 3.6 in 2010 to 3.9 in 2012. Against this target, the actual index fell marginally from 3.6 in 2010 to 3.5 in 2012. However, progress was captured in other relevant indicators such as Doing Business. The performance of Croatia on the Doing Business distance to frontier score suggests continuous improvement since 2010 from 60.9 to 62.3 in 2012 (and further to 65 in 2015). Further, the judicial reform in the meanwhile was on track as indicated by the large reduction in the settlement of unexecuted cash orders, and a reduction of case backlog by one third.

**Table 11. Outcome Vs Targets on Investment Climate and Private Sector Growth**

	2009	2010	2011	2012	% Change 2010-12 <sup>1/</sup>
<b>Actual Values</b>					
Institutions Score in Competitiveness Index	3.7	3.6	3.6	3.5	-0.1
Private Sector Share in GDP	74.2	76.6	76.4	76.4	2.1
Doing Business (distance to frontier score)		60.92	61.1	62.32	1.4
<b>Outcome Targets Set in ERDPL1</b>					
Inst. Score in Comp. Index		3.6 <sup>■</sup>	3.7	3.9	0.3
Private Sector Share in GDP	70		72	75	5.0

1/ The change for private sector share in GDP reflects 2009-2012.

Source: WEF, Doing Business, CROSTAT and Bank Staff Estimates

**(8) Reduced state involvement in the enterprise sector through sale or liquidation of state owned enterprises.**

**Ratings: Moderately Satisfactory**

51. The Government significantly strengthened the institutional framework for management of state property and privatization with the enactment of the Act on Management of State Property in December 2010. The Act merged two institutions managing state property (The Croatian Privatization Fund and the Central Office for Management of State Property) into a single Agency for the Management of State Property (AUDIO)<sup>33</sup>. The law no longer permitted installment payments for shares sold, and prescribed an

<sup>33</sup> Currently as per the strategy for management of state assets adopted in 2013, the numbers of "strategic" companies – companies which are not to be privatized have been reduced from 63 to around 50 and are to be managed by the State Office for the Management of State Properties (DUUDI). The non-strategic companies which are to be actively privatized are managed by the Agency for State Asset management (AUDIO). As per end February 2014, there were

immediate purchase of shares within the period of six months. The new Law also envisaged additional models of state asset sale (responding to takeover bids, recapitalization through initial public, private offers and direct negotiations) to complement existing models (auctions at the Stock Exchange, public invitation to tender). Facilitated by the new Act and additional models of asset sale, as a prior action, the Government had sold or liquidated at least 100 state owned companies by the appraisal.

52. **Outcome indicators.** As indicated in Table 11 above, the Government had targeted the share of private sector to increase from 70 percent in 2009 to 75 percent in 2012. This target was only partially met. The share of private sector in the economy increased by only 2.1 percentage point over 2009-2012, against the ERDPL target of 5 percentage points. However, the new institutional framework boded well for the period of growth recovery when the increased investors' interest for the state-owned assets recovered. In the period 2011-2015 the government has sold or liquidated its portfolio in 359 companies, some of which were supported by the ERDPL2 operation.

### 3.3 *Justification of Overall Outcome Rating (Combining Relevance, Achievement of PDOs)*

#### ***Rating: Moderately Unsatisfactory***

53. **On the basis of relevance, impact of the policies supported by the ERDPL and an analysis of the outcome indicators, the performance of the ERDPL operation is rated moderately unsatisfactory.** The two objectives of the ERDPL, enhancing fiscal sustainability through expenditure-based consolidation and fostering private sector growth were and remain highly relevant.

54. **Overall, as a result of the policies supported by the ERDPL, the Government has better control over the expenditure policy, through the creation of the FPC, introduction of the HRMIS to control the wage costs, reduction of privileged pensions, better targeted social benefits and health insurance entitlements.** The policies supported as part of ERDPL constitute a structural reform of the high spending sectors and will result in sustainable savings over the medium term. Similarly, in the private sector, the labor reforms have introduced incentives for the active job search and a large number of public enterprises have been privatized<sup>34</sup>. In addition, the reduction of regulatory barriers, enforcement of judicial decisions have already improved the business environment and the private sector is in a much better position to respond to the recovery of the regional economy.

55. Based on the discussion in Section 3.2, out of the eight policy areas included in the ERDPL, the outcomes of four are rated moderately satisfactory (MS), and the outcome of four, related to improving the efficiency of health financing, public administration, pension and labor, are rated moderately unsatisfactory (Table 12). None of the reform measures in terms of their substance supported by ERDPL have been reversed (there were policy reformulations of the consolidation of the network of centers for social welfare and the enforcement) and the institutional framework in each of the reform area is much stronger as a result of the operation.

56. **The progress on the outcome indicators set in ERDPL was disappointing.** Out of eight outcome indicators set in the operation, the outcomes of five did not meet the numerical targets set in the Program Document. Of these five, outcomes in two policy reform areas have moved in the right direction i.e. have been partially met, while the outcome indicators in three areas have stayed the same or worsened. In several areas reform delays and sequencing of policies precluded meeting the results indicators, which were designed to evaluate a programmatic series. In addition, outcome indicators may not adequately capture the underlying reform effort by the Government due to the following reasons:

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still 573 companies (down from 733 one year ago) with some form of state ownership. However only in about 46 of these, the Government has a majority stake. From mid-2013 AUDIO has been legally replaced by the Center for Restructuring and Sale (CERP).

<sup>34</sup> From 2013, also five state-owned shipyards and the Croatian Insurance Company.

- Most of these indicators were set as a share of GDP. Since over 2010-12, real GDP fell and the nominal GDP stagnated, the outcome indicators as set are not a good indicator of the underlying reform effort. In four policy areas - General Government spending, spending on pensions, social benefit and the wage bill, the Government was able to achieve substantial real reductions in spending, even though as a share of GDP these outcomes fell short of the targets set due to a stagnation in nominal GDP.
- In the case of labor market reforms the policies included in the ERDPL affected only a small segment of the sector while the outcome indicator – labor force participation rate is determined by policies outside the coverage of the ERDPL such as the overall macro situation and job losses.

**Table 12. Summary of Ratings and Outcome Indicators**

Policy area - Outcome Indicators		2010	2011	2012	Change	
		Base year			2010-2012	
<b>Component 1 -Fiscal consolidation</b>	<b>Rating 1/</b>	<b>Outcome Indicators</b>				
General Government spending as a % of GDP	MS	Target	43.2	42.1	40.9	-2.3
		Actual	44.1	43.8	42.0	-2.0
Public sector wage bill as % of GDP	MU	Target	10.7	10.5	9.9	-0.8
		Actual	10.9	10.9	10.7	-0.2
Total public health spending as a % of GDP	MU	Target	6.9	6.5	6.2	-0.7
		Actual	6.9	7.2	7.6	0.7
Social benefit spending as a % of GDP	MS	Target	2.6	2.5	2.3	-0.3
		Actual	2.9	2.9	2.8	-0.1
Pension spending as a % of GDP	MU	Target	10.5	10.2	9.7	-0.8
		Actual	10.6	10.5	10.6	0.0
<b>Component 2 - Private sector development</b>						
Labor force participation rate (15-64)	MU	Target	62.4	63	64	1.6
		Actual	65.1	64.2	63.9	-1.2
Institutions (Score in global Competitiveness Index)	MS	Target	3.6	3.7	3.9	0.3
		Actual	3.6	3.6	3.5	-0.1
Private sector share in GDP	MS	Target	70	72	75	5
		Actual	74.2	76.4	76.4	2.1
Source: Bank Staff Estimates						
1/ MU: Moderately Unsatisfactory, MS: Moderately Satisfactory						

3.4 *Overreaching Themes, Other Outcomes and Impacts (if any, where not previously covered or to amplify discussion above):*

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

57. **Although the ERDPL-supported reforms aimed at fiscal consolidation through reducing entitlements, an analysis carried out by the ERDPL team<sup>35</sup> showed that the impact of the ERDPL reforms on poverty was negligible.** This was because the policies were designed to minimize the impact on the poor while reducing the total entitlement. For example: (i) health copayments exemptions exempted poor adults (earning less than HRK1,516 per month), (ii) cut in privileged pensions did not affect lower income pensioners, (iii) social welfare reform was pro-poor since the benefit was now indexed to the poverty line and reforms protected funding and facilitated access to the means-tested programs<sup>36</sup>, and (iv) in all privatizations the interests of workers were protected. Although the relative poverty increased initially

<sup>35</sup> Through a model specifically developed for this purpose.

<sup>36</sup> In general, the move from income to means testing for determining benefits pursued by the Government is pro-poor.

in 2010 to 20.6 percent (from 18 percent in 2009), the careful design of the ERDPL program, prevented a further rise in poverty during 2010-12 (when it reached 20.5 percent) despite continued recession, job losses and increasing unemployment.

(b) *Institutional Change/Strengthening (particularly with reference to impacts on longer term capacity and institutional development)*

58. **Almost all the policy areas supported in the ERDPL involve institutional strengthening.** These include: the FPB (now Fiscal Policy Committee) to act as a fiscal watchdog, implementation of HRMIS, a payroll system and a new appraisal system in controlling public sector wage costs, the introduction of MIS in Social Welfare system, progress on hospital consolidation in health, a new system to settle cash writs and a reform of the institutions engaged in privatization.

(c) *Other Unintended Outcomes and Impacts (positive and negative):*

NA

3.5 *Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops (optional for Core ICR, Required for ILL, details in annex:*

NA

#### **4. Assessment of Risks to Development Outcome**

**Rating: Substantial**

59. **At appraisal, risks to development outcomes were deemed significant.** The first risk pertained to a possible worsening of the external environment and a prolonged recession in Croatia. In retrospect, this risk materialized as the EU economies did not recover in line with expectations, and as a result Croatia suffered a continued recession and growing unemployment. However, the main impact of the economic risks was not on reversal of policy reforms or a change in the “content” of the reform agenda but on speed with which these policies could be implemented. These included a number of policy reforms underpinning the ERDPL2, such as the broadening of means testing for social assistance programs, indexation freeze for privileged pensions, increase in early retirement penalty and amendments to the labor law to lower layoff costs. As a result, approval of ERDPL2 reforms were delayed and the programmatic series lapsed. However, continued support for a medium-term reform agenda finally led to the ERDPL2 approval and the subsequent recovery from six years of recession.

60. **The second risk related to the political environment.** At appraisal, Croatia had a coalition Government with a slim majority in parliament. There were impending elections at the end of 2011, and it was most likely that a center-left coalition led by the Social Democratic Party (SDP) would win the majority - which is what happened. The task team was aware that designing the operation across a change of Government was risky. To begin with, there would be a natural loss of momentum for reform when there is a change in Government. In addition, the center-left coalition would be less enthusiastic about the much-needed reforms of the social benefit system, labor market and administrative reforms. The commitment to join the EU which ran across party lines helped maintain the momentum of reforms, especially the fiscal and judicial reforms mandated by the EU *acquis*. On structural reforms supported by the ERDPL operations, while there was no change in the content, there were delays, as the new Government wanted more consultations with major stakeholders for reforms in pension and labor markets.

#### **5. Assessment of Bank and Borrower Performance**

##### **5.1 Bank Performance**

(a) *Bank Performance in Ensuring Quality at Entry (i.e., performance through lending phase)*

**Rating: Moderately Unsatisfactory**



61. Strong efforts were made by the Bank team to design a robust program, based on considerable analytical work. The ERDPL program was: (i) aligned with Government's reform program; (ii) consistent with the higher-level objectives of the CPS and the CPS Progress Report; and (iii) focused on key reform areas (see section 2.2 and 2.3 factors affecting implementation and monitoring).

62. Results framework was designed for the programmatic series and as such had aligned the target indicators along the policies sequenced across two operations. In light of the economic and political risks, the Bank considered a stand-alone operation; however, given the medium-term reform agenda identified, the Government felt strongly that a programmatic series was the best instrument to achieve results.

63. The outcome indicators could have been better designed to capture the real extent of the policy effort of the operation in a difficult context—referring in particular to the indicators linked to GDP. This lesson learned was addressed in developing the outcome indicators for ERDPL2.

*(b) Quality of Supervision*

**Rating: Moderately Satisfactory**

64. Since the ERDPL was considered the first of a two part programmatic series, the supervision of the operation was continuous and was combined with the preparation of ERDPL2. It was very useful for the implementation of the operation that the TTL was stationed in the country. Since the ERDPL operation was based on prior actions, which were implemented before the ERDPL was approved by the Bank's Board of Directors, much of the subsequent supervision consisted of tracking the progress of the reform program ensuring that there was no backtracking and tracking progress in achieving the outcome indicators. Since the Government saw the real value in the operation, and in the policy advice that came with it (see discussion in paragraph 13) supervision of the operation was particularly intense. Bank staff were consulted and provided formal and informal inputs on almost all laws and regulations supported by the operation during 2011-13. Some of this work has been formalized in the Public Finance Review prepared in 2014. As to informal advice, we have detailed letters signed by senior management commenting on the draft Act on State Asset Management (February 2011), the Strategy and the draft Social Welfare Act (April 2011) and on the Fiscal Responsibility Act (November 2013).

65. While the delays in the ERDPL2 preparation occurred in late 2012, and continued during much of 2013, the Ministry of Finance repeatedly insisted, including through the direct communication with the Bank management, on retaining the programmatic series as the reform leverage tool within the Cabinet. At the time of ERDPL2 appraisal, there was recognition that the series had in fact lapsed, and ERDPL2 would proceed as a stand-alone operation. The ERDPL2 policy actions followed the initial policy matrix as set in the ERDPL.

*(c) Justification of Rating for Overall Bank Performance*

**Rating: Moderately Unsatisfactory**

66. On the basis of ratings for the quality at entry and quality of supervision, the overall Bank performance is rated moderately unsatisfactory.

*5.2 Borrower Performance*

*a) Government Performance:*

**Rating: Moderately Unsatisfactory**

67. As discussed in Section 1, the Government was struggling to maintain the momentum for reforms in the face of a declining economy, the demands of the EU accession process and political changes. The Government was able to implement prior actions for ERDPL during the crisis period of 2010-2011. Clearly, during the pre-election period, the Government was focused on the reforms needed for EU accession that contributed to the successful closing of negotiations for the EU accession in July 2013. Fiscal consolidation

efforts and support to the economic recovery were of secondary importance. To some extent, delays were justified given the new Government's efforts to build consensus around critical reforms.

*(b) Implementing Agency Performance:*

**Rating: Moderately Satisfactory**

68. The MOF assumed overall responsibility for coordinating the implementation, monitoring and evaluation of the Policy Matrix and was ultimately responsible for reporting progress and coordinating actions among other concerned ministries and agencies. It also ensured that the broader consultation with stakeholders took place. Data availability and quality for monitoring and reporting progress toward the PDO's and results indicators was adequate.

*(c) Justification of Rating for Overall Borrower Performance:*

**Rating: Moderately Satisfactory**

69. On the basis of ratings for the Government and Implementing Agency performance, the overall Borrower performance is rated Moderately Satisfactory.

## **6. Lessons Learned**

70. The ERDPL operation confirmed general good practice lessons such as: work closely with the Government and other development partners, support the Government's program based on a strong analytical foundation, work closely with sector specialists and focus on a few achievable objectives that have the greatest impact. In evaluating implementation and outcomes, two lessons in particular have been identified to inform future development policy lending operations in Croatia:

- **Be aware of the risks in embarking on a programmatic two-loan series in an uncertain macroeconomic and political environment.** As discussed in Section 2.3 (and to be further discussed in the ICRR for ERDPL2), many of the second phase reforms, especially those related to cutting back entitlements, were delayed because of the continued economic decline, loss of reform momentum following a change in government and further stakeholder consultations needed to build consensus. These delays led to a lapse in the series, and the subsequent processing of ERDPL2 as a stand-alone operation. While the Program Document for ERDPL had highlighted these risks, supervision of the first operation, while simultaneously preparing the second, provided the Bank teams with a framework to work closely with the new Government and maintain the support for reforms<sup>37</sup>. Feedback from Government officials indicate that this was a valuable role<sup>38</sup>. In retrospect, the "lesson" is the value of working within the framework of a series, while being aware of the risks and prepared to change course if necessary – as was done in this case.
- **Moderate ambition in identifying outcome targets.** The outcome indicators in ERDPL were set a macro/sector level and linked to outcomes rather than outputs. In retrospect, this proved ambitious. As discussed in Section 2.3, evaluation of outcome indicators faced three problems: (i) most outcome indicators were set as a percent of GDP and understated the policy effort when nominal GDP stagnated (wage bill control, pensions); (ii) in some cases (labor reforms) the link between the outcome indicators and underlying reform measures was very tenuous; and (iii) in some cases (doing business reforms), outcome indicators were set for the entire sector (Institutions score) while the reforms supported by ERDPL affected only a small segment of the sector. The outcome targets of the ERDPL2 reflect this lesson, for example, outcome targets have been set as declines in real terms rather than declines in the share of GDP. In the absence of better indicators, teams should be able to use relevant indicators such as the Doing Business indicator, which would

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<sup>37</sup> It is difficult to say if there would have been further delays in the absence of the Bank involvement.

<sup>38</sup> Which, as discussed in Section 1, is modest in relation to the overall needs of the economy.

have measured with more precision the actions supported by the ERDPL—at the time of preparation the team was advised not to use this indicator.

**7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

(a) *Borrower/Implementing Agencies:*

(b) *Cofinanciers: None.*

(c) *Other partners and Stakeholders (e.g. NGOs/private sector/civil society):*

## Annex 1. Bank Lending and Implementation Support/Supervision Processes

### Task Team members

Names	Title	Unit	Responsibility/ Specialty
Sanja Madzarevic-Sujster	Task Team Leader, Sr. Economist	ECSP2	Macro/Fiscal
Emilia Skrok	Sr. Economist	ECSP2	Macro/Fiscal
Matija Laco	Economist	ECSP2	Macro/Fiscal
Kari Hurt	Sr. Operations Officer	ECSH2	Health
Jan Rutkowski	Lead Economist	ECSH2	Labor
Zoran Anusic	Senior Economist	ECSH2	Pension
Ivan Drabek	Sr. Operations Officer	ECSH2	Social Welfare
Amitabha Mukharjee	Lead Public Sector Specialist	ECSP4	Justice
Kirsten Burghardt Propst/Julie Rieger	Country Lawyer	LEGLE	Legal
Natasa Vetma	Sr. Environment		Safeguard
Lamija Marijanovic	Financial Management Specialist	ECSO3	Financial
Antonia Viyachka	Procurement Specialist	ECSO3	Procurement
Dubravka Jerman	Program Assistant	ECCHR	Admin
Danijel Nestic	Consultant	ECSP2	PSIA

### Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending/Supervision</b>		
ERDPL	36.53	150,041.06

## Annex 2. Borrower's ICR



REPUBLIC OF CROATIA  
MINISTRY OF FINANCE

Class: 441-01/10-01/44  
Reg. No.: 513-06-05-15-71  
Zagreb, September 18, 2015

The World Bank Office Croatia  
Mr. Carlos Piñerúa, Country Manager

**Subject: Croatia: Economic Recovery Development Policy Loan (Loan No. 80630-HR)  
Implementation Completion and Results Report – Borrower's Comments**

Dear Mr. Piñerúa,

Thank you for the draft Implementation Completion and Results Report (ICR) dated July 8, 2015 on Economic Recovery Development Policy Loan (ERDPL), as well as the revised draft ICR dated August 31, 2015 with modified ratings.

In order to be consistent, we have submitted the draft ICR dated July 8, 2015 to the ministries/agencies included in the ERDPL for review and comments.

As result of this process we would propose clarifications and changes outlined below and which should be reflected in the final ICR.

Croatian Pension Insurance Institute, in principle, does not have major comments on the draft ICR, but offered clarification on the movements of expenditures for pensions in BDP for the period 2010 – 2012 and according to them this clarification should be included in the final ICR.:

One of the main reasons for the increase of pension users and related expenditures for pensions in the period 2010-2012 are measures implemented in aforementioned period and, at the first place, equalization of legal age for men and women pensioners, as well as considerably more rigorous penalization of early retirement. These measures have positive long-term impact on movement of the number of pension users and pension expenditures. However, in the short-term they have caused increase of pension users and subsequently, increased pension expenditures, since significant number of users decided to retire before entry into force of new legal regulations. These new regulations are more unfavorable than the earlier existing ones (in 2010 there were 21,140 new early retirement users, representing increase by 75% as compared with 2009).

Pensions adjustment implemented in 2012 affected increase of pension expenditures, but it was necessary to preserve pensioners life standard. Namely, although pensions were adjusted in 2012, share of an average pension in net salary decreased by 1% by comparison with 2010 (2010 – 40.53%, and 2012 – 39.53%).

In addition, very important reason why the share of pension expenditures in the BDP did not decrease in line with the plan lies in the fact that the BDP stagnated in nominal values in that period (in 2009 – 330,966 billion kunas and in 2012 - 330,456 billion kunas). In the case that the BDP was increasing as it was planned than, the share of the pension expenditures in BDP would be much lower.

State Office for the Management of State Properties (Državni ured za upravljanje državnom imovinom – DUUDI) offered following clarification:

In the period from 2011 to 2015 the Restructuring and Sale Center (Centar za restrukturiranje i prodaju - CERP) sold/ liquidated the portfolio of 359 companies (this number includes sales, squeeze outs, takeovers, bankruptcies, liquidations). The CERP's portfolio is also continuously increasing in a way that the state acquires ownership as a creditor in the process of pre-bankruptcy settlements, bankruptcies with restructuring, additional capitalization of the companies, as well as based on the termination of contracts in repayment with minority shareholders. (on June 30, 2015 CERP has in repayment 4,365 contracts in repayment that were concluded with minority shareholders by CERP's legal predecessors and those contracts are related to 267 companies).

The Ministry of Public Administration offered the following comments which should, as well, be introduced in the final ICR:

On the page 18 of the draft ICR, in the section related to the measure 2. Public Administration Reform, we suggest to add the information that during the implementation of this measure in relation to the decrease of the number of employers in the public services, the Government of the Republic of Croatia adopted the Decision on Prohibited New Employment of Civil Servants and Employees in the Governmental Bodies, Expert Services and the Offices of the Government of the Republic of Croatia (Official Gazette no.153/09) This Decision was superseded with a new Decision on Prohibited New Employment of Civil Servants and Employees in the Governmental Bodies, Expert Services and the Offices of the Government of the Republic of Croatia (Official Gazette no. 114/4) and Decision on Prohibited New Employment of Civil Servants (Official Gazette no. 114/14 and 32/15).

The ERDPL's design, in terms of policy reforms, remained relevant across two governments as well as challenging external environment Croatia has faced since 2010. Consequently, we are glad that the Bank did not discontinue the ERDPL series earlier, as this has allowed us to keep the momentum and also successfully implement the ERDPL2 reforms.

What is important, is that none of the reform measures in terms of their substance have been reversed and that the institutional framework in each of the reform area is much stronger as a result of the operation. To name the few: creation of the Fiscal Policy Committee is helping us address the European

Commission's request to have a strong fiscal watchdog, introduction of the Human Resources Management Information System through a central payroll system is delivering savings on the wage costs at the time of fiscal restraint, while the reduction of regulatory barriers has already improved the business environment and the country is finally growing after six years of recession.

Throughout the recession, Croatia retained access to the commercial borrowing and the real value of the operation was in the analysis and policy advice that came with it. Moreover, the Government also saw the Bank's operation as a stamp of approval for Croatia's structural policies when Croatia presented its reform efforts to the International Monetary Fund (IMF), European Union (EU) and approached the market for commercial loans and bonds.

The Bank presence and the extended support throughout the policy design and implementation phases, combined with the technical assistance program is very much appreciated.

We find the development policy loans for Croatia, as an EU member state, a useful instrument to support the implementation of the reforms outlined in the National Reform Program. We hope that the Bank will continue to support our future operations and contribute to continuity and long term sustainability of the Government Reform Program.

Sincerely,



Cc: Mr. Frank Heemskerk, Executive Director, the World Bank

### **Annex 3. List of Supporting Documents, and Persons Interviewed**

#### **Documents**

EIU Croatia country Reports for June 2011, June 2012, June 2013 and June 2014.

IMF. Article IV consultation Reports for 2012, 2014 and Selected Issues November 12, 2012.

World Bank (2008). “Croatia: A Public Finance Review; Restructuring Public Finance to Sustain Growth and Improve Public Services”, Report No. 37321.

World Bank (2012). “Croatia Policy Notes: A Strategy for Smart, Sustainable and Inclusive Growth” Report No. 66673-HR.

World Bank (2011). “Croatia: Program Document of Economic Recovery Policy Development Loan” Report No. 58266-HR.

World Bank (2011). “Croatia: Program Document of the Second Economic Recovery Policy Development Loan” Report No. 66405-HR

World Bank (2013). “Country Partnership Strategy for the Period FY14-FY17”. Report No. 77630-HR

World Bank (May 2014). “Croatia: A Public Finance Review; Restructuring Spending for Stability and Growth).

World Bank (April 2014). “Croatia: Program Appraisal Document for a Loan for Improving Quality and Efficiency of Health Services Program for Results”, Report No. 83881-HR .

World Bank (2014). “Croatia: Project Appraisal Document for Social Protection System Modernization Project”, Report No.PAD-950.

World Bank (December 2013). “Regular Economic Report” Issue No. 28

#### **Persons met**

**Ministry of Construction and Physical Planning:** Mr. Danijel Mestric, Assistant Minister

**Ministry of Finance:** Mr. Maroje Lang, Assistant Minister; Mr. Mladen Duliba, Head of Sector; Ms. Ivana Jakir-Bajo, Head of Sector

**Ministry of Social Policy and Youth:** Ms. Maja Sporis, Deputy Minister, Mr. Hrvoje Sadaric Assistant Minister

**HZZO:** Mr. Sinisa Varga, Director

**Ministry of Health:** Mr. Marijan Cesarik, Deputy Minister

**Fiscal Responsibility Council:** Mr. Srdjan Gjurkovic, President of the Financial and Central Budget Committee of the Croatian Parliament; Mr. Ante Zigman, Representative of the Croatian National Bank; Mr. Danijel Nestic, Representative of the Economic Institute; Mr. Vjekoslav Bratic, Representative of the



Public Finance Institute; Mr. Sasa Drezdic, Representative of the Faculties for Economics; Ms. Vesna Kasum, Representative of the State Audit Office; Ms. Natasa Zunic-Kovacevic, Representative of the Law Faculties.

**Ministry of Public Administration:** Mr. Ranko Lamza, Assistant Minister; Mr. Tomislav Micetic, Secretary General

**Ministry of Labor and Pensions Systems:** Ms. Tatjana Dalic, Assistant Minister; Ms. Mirjana Radjenovic, Assistant Minister; Ms. Marina Kasunic-Peris, Assistant Minister

**Ministry of Science, Education and Sports:** Mr. Sasa Zelenika, Deputy Minister; Ms. Kristina Ferara Blaskovic, Head of Sector; Mr. Luka Juros, Head of Department

**Ministry of Justice:** Mr. Damir Kaufman, Secretary General

**Former Minister of Finance:** Ms. Martina Dalic, MP

**CERP,** Ms. Biserka Sostaric, Director

**AIK:** Ms. Sladjana Miocic, Deputy Director

**Independent Unions:** Mr. Kresimir Sever, President

# Annex 4. Country Map

IBRD 33394R1

