Public Disclosure Authorized

Report Number: ICRR0024903

1. Project Data

Project ID	Project Name
P172024	HEAL Croatia Project
Country	**Practice Area(Lead)**
Croatia	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-92330	30-Jun-2025	86,114,239.15
Bank Approval Date	**Closing Date (Actual)**	
14-May-2021	30-Jun-2025	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	242,100,000.00	0.00
Revised Commitment	96,098,341.05	0.00
Actual	86,114,239.15	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (page 17) and the Loan Agreement (page 4), the project development objectives (PDO) of the Republic of Croatia Helping Enterprises Access Liquidity Project were "to support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic, enhance access to finance for firms in underserved segments and lagging regions, and strengthen the Croatian Bank for Reconstruction and Development's (HBOR's) institutional capacity as a development bank."

This ICR evaluates this project using the following objectives:

1. To support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic.
2. To enhance access to finance for firms in underserved segments and lagging regions.
3. To strengthen the Croatian Bank for Reconstruction and Development's (HBOR's) institutional capacity as a development bank.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

Yes

d. Components

The project had one component, with two expenditure categories.

Credit Line (EUR 200 million [US$242.1 million equivalent] estimated at appraisal, EUR 100 million [US$96.1 million equivalent] estimated at restructuring, US$86.1 million disbursed by closing) supported the establishment and operation of a credit facility to provide: (a) subsidiary financing to selected participating financial institutions (PFIs) (i.e., commercial banks) for on-lending to private-sector small and medium enterprises (SMEs) and midcap enterprises (MCs); and (b) selective direct full financing or cofinancing (with PFIs) of sub-loans to SMEs and MCs to support working capital needs or financial restructuring, including the settlement of existing obligations to suppliers and financial institutions. Eligible SMEs (employing fewer than 250 workers) and MCs (employing 250 - 3,000 workers) were defined as private enterprises (50 percent private ownership) operating as exporters, and/or located in lagging regions of the country, and/or operating in underserved segments, including women-owned or women-managed firms and young enterprises (with less than five years of operation).

- **Sub-Loans** (EUR 120 million [US$145.2 million equivalent] estimated at appraisal, EUR 60 million [US$57 million equivalent] estimated at restructuring, US$64.2 million disbursed by closing) supported subsidiary financing to PFIs and direct full financing or cofinancing to SMEs and MCs under the Credit Line.
- **Eligible Expenditure Programs** (EUR 80 million [US$96.8 million equivalent] estimated at appraisal, EUR 40 million [US$38.4 million equivalent] estimated at restructuring, US$21.9 million disbursed by closing) also supported subsidiary financing to PFIs and direct full financing or cofinancing to SMEs and MCs under the Credit Line, but would only be disbursed upon the fulfilment by HBOR of performance-based conditions (PBCs), subject to verification by the Bank. The PBCs included: (a) enhancing HBOR’s operability and digitalization through the adoption of credit rating methodologies and credit scoring for private entrepreneurs, as well as the approval of technical specifications for a new core banking IT system; (b) strengthening HBOR’s sustainability and climate change resilience through the adoption of the Implementation Act aligned with OECD recommendations in export financing and the adoption of measures to redesign HBOR’s policies and procedures to address environmental, social, and climate aspects across all financed projects;

and (c) extending the use of EU funds through the submission of completed questionnaires for each applicable pillar to the European Commission for review and further processing.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project was estimated to cost EUR 283 million (US$342 million equivalent) at appraisal. The cost was re-estimated at US$145.4 million at restructuring. The final project cost was US$186 million at closing.

Project Financing. The project was financed by an International Bank for Reconstruction and Development (IBRD) loan of EUR 200 million (US$242.1 million equivalent) to HBOR (as borrower). Half of the IBRD financing was cancelled at restructuring, reducing the IBRD loan to EUR 100 million (US$96.1 million equivalent). The final disbursed amount was US$86.1 million. The repayment of the IBRD loan, as well as the fulfillment by HBOR of all obligations under the loan, was guaranteed by the Republic of Croatia.

Borrower Contribution. The borrower's contribution was estimated at EUR 2.5 million (US$3 million equivalent) at appraisal. Of this, US$2.9 million was disbursed. The borrower's contribution comprised funds from HBOR and the EU and was used to finance activities to complete the PBCs (see Section 2.D), including the development of credit rating methodologies (EUR 850,000), upgrades to the IT core banking system (EUR 300,000), green transition initiatives (EUR 500,000), and the EU Pillar Assessment process (EUR 820,000).

Commercial Financing. In addition to the IBRD loan and the borrower contribution, commercial financing (unguaranteed) of EUR 80 million (US$96.8 million equivalent) was expected at appraisal. Although this commercial financing was also anticipated to be reduced by half to EUR 40 million (US$46.3 million equivalent) following the restructuring, the amount estimated at appraisal was eventually maintained, and the final disbursed amount reached US$97.1 million.

Dates. The project was approved on May 14, 2021, became effective on November 29, 2021, and closed on the original closing date of June 30, 2025.

Restructuring. The project was restructured once on May 22, 2024, with US$64.2 million disbursed (74.6 percent of the final disbursed amount of US$86.1 million). The restructuring: (a) cancelled EUR 100 million of the unwithdrawn loan balance, reducing the overall loan amount to EUR 100 million – demand for working capital loans from the credit facility declined at mid-term as the government's relief policy response to the large liquidity needs anticipated at the onset of the crisis proved to be extraordinarily strong and comprehensive; (b) aligned the results framework with the reduced loan amount by reducing the targets for the output indicator *Amount of lending extended to project beneficiaries* from no less than EUR 200 million to no less than EUR 100 million, the output indicator *Number of financed project beneficiaries* from 150 to 60, the output indicator *Number of jobs supported by the project* from 25,000 to 10,00, and the outcome indicator *Number of firms financed in underserved segments and lagging regions* from 75 to 30; and (c) aligned the results indicators with the World Bank Group (WBG) Corporate Scorecard, by adding the

Number of women jobs supported by the project and *Number of women-owned firms under the project* as output indicators. The PDO remained unchanged.

3. Relevance of Objectives

Rationale

Croatia faced a twin crisis in 2020. The COVID-19 pandemic triggered a severe recession, with GDP contracting by 8.3 percent – around four times the average downturn in the Europe and Central Asia (ECA) region and the third-largest contraction in the European Union (EU) – reflecting the economy's heavy reliance on tourism, which accounted for about one-fifth of GDP. At the same time, two major earthquakes, striking Zagreb in March and Petrinja in September, caused damage and economic losses estimated at EUR 16.1 billion, equivalent to 24 percent of GDP.

The authorities responded to the crisis with aggressive fiscal and monetary measures. The fiscal response, comprising wage subsidies, tax write-offs and deferrals, changes in value-added tax (VAT) rates, the suspension of bankruptcy enforcement procedures, a moratorium on bank loan repayments, and credit lines and guarantee schemes through the development bank and government agencies, amounted to 3.7 percent of GDP. In parallel, the Croatian National Bank (CNB) released substantial additional liquidity (i.e., new liquidity made available beyond normal operations) through direct Kuna liquidity operations, reductions in reserve requirements, government bond purchases, and foreign exchange (FX) interventions. These measures were estimated to have provided EUR 4.0-4.5 billion in liquidity support, around 5.4-9.4 percent of GDP.

The Bank supported the crisis response through three operations. The Crisis Response and Recovery Development Policy Loan, approved in June 2020, amounted to EUR 275.9 million (US$300 million equivalent). The Croatia Earthquake Recovery and Public Health Preparedness Project was also approved in June 2020, for EUR 183.9 million (US$200 million equivalent). This project was subsequently approved in May 2021, with financing of EUR 283 million (US$342 million equivalent).

Binding Constraints and Country Priorities. This project combined a short-term intervention – the extension of liquidity to SMEs and MCs during the crisis – and a longer-term development agenda – the enhancement of access to finance in lagging regions of the country and in underserved segments of the economy, and the institutional strengthening of the HBOR as a development bank.

Both near- and longer-term strategies were relevant to the persistent structural challenges faced by Croatia, according to the *Croatia Systematic Country Diagnostic* (World Bank, 2018), including low productivity growth, weak firm dynamics, institutional capacity gaps, and governance weaknesses.

Both strategies were also relevant to government priorities articulated in the *Croatia 20230 National Development Strategy 2030* (NDS). The NDS focuses on four pillars: a sustainable economy, resilience to crises, green and digital transition, and balanced regional development. The NDS also emphasizes strengthening the capacity of public institutions and maximizing the effective use of EU funds available to

Croatia. The first project objective supports resilience to crises, the second, balanced regional development, and the third, public institutional development.

World Bank Group Country Strategy. The project development objectives were fully consistent with the World Bank Group's *Country Partnership Framework for the Republic of Croatia* (CPF) at appraisal and closing.

- The CPF for FY19-FY24 focused on enhancing public sector performance and institutions, as well as preserving and leveraging natural capital to support low-carbon growth. The partnership strategy initially envisaged a Bank project with HBOR to expand access to finance in lagging regions of the country. The COVID-19 crisis necessitated an adjustment in focus, shifting priorities toward supporting a broader, private-sector-led economic recovery. Accordingly, the project's objectives proved highly relevant both for addressing the immediate impacts of the COVID-19 crisis and for strengthening longer-term economic resilience.
- The CPF for FY25-FY30 emphasizes increased investment, the creation of more productive jobs, and enhanced environmental resilience. The initial project objective of supporting the recovery of private exporters from the economic impacts of COVID-19 was critical during the pandemic, but was fully achieved by closing, and therefore is no longer referenced in this CPF. The remaining objectives of enhancing access to finance in lagging regions and underserved segments, and of enhancing HBOR's institutional development, remain closely aligned with CPF priorities. Overall, the CPF underscores the advancement of reforms needed to foster sustainable, inclusive, private-sector-led growth while strengthening institutions, building administrative capacity, and improving service delivery.

The PDO – to support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic, enhance access to finance for firms in underserved segments and lagging regions, and strengthen the HBOR's institutional capacity as a development bank – was framed at intermediate results level, with the PDO-level indicators defined as the *Number of exporters receiving sub-loans under the project that remain solvent,* the *Number of firms financed in underserved segments and lagging regions*, and, the *Increase in the use by HBOR of EU funds.* This intermediate results level structure is considered appropriate given the crisis context.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic.

Rationale

Theory of Change. A credit line at the HBOR would provide subsidiary financing to PFIs for on-lending to SMEs and MCs and direct full financing or cofinancing to SMEs and MCs for working capital or financial restructuring. By focusing on exporters, the credit line would support their recovery from the economic downturn due to the COVID-19 pandemic, which cut the volume of exports of goods and services by 23 percent in 2000, sent the current account into a deficit of 1.3 percent of GDP, and drove the economy into a -8.3 percent recession.

The results chain is credible, based on economic theory, which posits that supporting bank lending and trade finance – including through export credit agency and development bank interventions, bank recapitalization and liquidity support, and public guarantees for trade finance – is essential for export recovery during economic crises.

- Exporters rely more heavily on bank financing and become more credit-constrained than domestic firms during economic crises (Feenstra, Li, and Yu, 2014, *Exports and Credit Constraints under Incomplete Information: Theory and Evidence from China,* The Review of Economics and Statistics, Vol. 96, No. 4). Their vulnerability stems from longer cash-flow cycles, higher default and enforcement risks, and greater information frictions with banks, which tighten credit access precisely when it is most needed.
- Bank credit supply shocks trigger export collapses and delay recoveries as banks facing capital or balance-sheet stress cut lending and trade-finance guarantees (Chor and Manova, 2012, *Off the Cliff and Back? Credit Conditions and International Trade during the Global Financial Crisis,* Journal of International Economics, Vol. 87, No. 1). Exporters linked to weaker banks lose access to external finance and are forced to reduce export volumes disproportionately, even when foreign demand remains strong.
- Banking recovery plays a critical role in accelerating export recovery, with the health of financial institutions being an important determinant of firm-level exports during crises (Amiti and Weinstein, 2011, *Exports and Financial Shocks,* The Quarterly Journal of Economics, Vol. 126, No. 4). Because exporting is more finance-intensive than domestic sales, exporters contract more during crises and recover more slowly unless access to bank lending, particularly short-term working capital and trade finance, is restored. Bank recapitalization and restored liquidity lead to sharp rebounds in export growth, especially for firms with strong bank relationships.
- These conclusions are reinforced by reviews of policy responses during the Global Financial Crisis and the COVID-19 pandemic, which document that countries that restored bank credit more rapidly also experienced faster recoveries in trade (Auboin, 2021, *Trade Finance, Gaps, and the COVID-19 Pandemic: A Review of Events and Policy Responses to Date*, CESifo Working Paper No. 8918).

The impact of the credit line would be evidenced by the number of exporting firms financed by the project, among other output (intermediate results level) indicators, and by the number of exporters receiving sub-loans from the project that remained solvent, as an outcome (PDO-level) indicator. In particular, the outcome indicator is a valid measure of the resilience of exporters during the crisis, aided in large part by renewed bank lending, according to the underlying theory.

Outputs

- The amount of lending extended to project beneficiaries was EUR 79.4 million by project closing (June 2025), lower than the original target of "no less than EUR 200 million."

- The amount of private co-financing mobilized was EUR 83.9 million or 106 percent of the total volume of lending (EUR 79.4 million), 2.6 times the minimum in the target range of at least 40 percent of the total volume of lending.
- The number of beneficiaries financed by the project was 60 firms, lower than the original target of 150 firms.
- The number of exporting firms financed by the project was 28 firms, or 47 percent of all firms financed by the project (60 firms), almost meeting the target of 30 firms, or 50 percent of all firms financed by the project.
- The number of jobs supported by the project was 7,979, lower than the original target of 25,000.
- The percentage of firms that reported that the project financing reflected their needs was 91.8 percent of all firms surveyed, exceeding the target of 90 percent of all firms surveyed.
- PFI compliance with prudential regulations was 100 percent, meeting the target. Banks that participated in cofinancing in 2024 were compliant with prudential regulations, according to the report *Annual Assessment of Banks 2024* by the Financial Institutions Analysis and Economic Research Directorate of the Croatian National Bank.
- The non-performing loan (NPL) ratio under the project was 1.4 percent, meeting the target that the ratio should not exceed the average for loans to the corporate sector. The average NPL ratio for loans to the corporate sector was 4 percent in the first half of 2025, according to the Croatian National Bank.

Outcomes

- The number of exporters receiving sub-loans from the project that remained solvent was 100 percent, exceeding the target of 90 percent. This was verified using data from the Croatian Financing Agency (FINA), a state-owned institution that provides critical financial, payment, and digital services across the country. FINA tracked whether any supported exporter faced enforcement due to unpaid obligations and found none did.

The efficacy is rated Substantial with moderate shortcomings given the shortfall in meeting the output targets.

Rating
Substantial

OBJECTIVE 1 REVISION 1

Revised Objective
To support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic.

Revised Rationale
Theory of Change. The results chain remained unchanged after restructuring.

Outputs

- The amount of lending extended to project beneficiaries was EUR 79.4 million by project closing (June 2025), lower than the downwardly revised target of "no less than EUR 100 million" (albeit much closer to the target than in the original project).
- The number of beneficiaries financed by the project was 60 firms, equal to the downwardly revised target of 60 firms.
- The number of jobs supported by the project was 7,979, lower than the downwardly revised target of 10,000 (albeit much closer to the target than in the original project).
- All other outputs (targets and results) remained unchanged.

Outcomes. The outcome (target and result) remained unchanged after restructuring.

Revised Rating
Substantial

OBJECTIVE 2
Objective
To enhance access to finance for firms in underserved segments and lagging regions.

Rationale
Theory of Change. A credit line at the HBOR would provide subsidiary financing to PFIs for on-lending to SMEs and MCs and direct full financing or cofinancing to SMEs and MCs for working capital or financial restructuring. By focusing on SMEs and MCs in underserved segments and lagging regions, the credit line would improve access to finance for firms whose already limited access deteriorated further during the crisis.

The underlying results chain linking the credit line to enhanced access to finance for firms in underserved segments and lagging regions is credible and well supported by the academic literature.

- Bank lending channel amplifies financial exclusion in crises (Rivadeneira et. al., 2025, *Credit Supply Shocks During a Non-Financial Recession*, Federal Reserve Bank of Richmond Working Paper Series WP 25-11). Crises restrict firms' access to finance mainly by weakening banks' balance sheets, which leads banks to tighten lending standards and cut credit supply. This bank lending contraction disproportionately harms small, young, and opaque firms that lack access to capital markets, amplifying financial exclusion through higher credit rationing, rejection rates, and worse loan terms.
- Underserved firms experience disproportionately larger credit contractions during crises, with SMEs, minorities, startups, and informal or family-owned firms facing sharper declines in loan approvals as banks' risk tolerance collapses (Harrison et. al., *Why Do Small Businesses Have Difficulty in Accessing Bank Financing?).* These supply-side credit shocks lead to higher firm exits and job losses among financially constrained firms, reinforcing persistent inequalities relative to larger, better-connected firms.
- Lagging, rural, and peripheral regions face sharper credit contractions during crises because they are often served by smaller, locally concentrated banks that retrench more aggressively under stress (Beck et. al., *When Arm's Length Is Too Far. Relationship Banking over the Credit Cycle*). Branch closures, weakened relationship lending, and bank-sovereign stress amplify credit cuts in poorer areas, widening regional disparities in access to finance that often persist even in recovery.

- Policy interventions can partially offset bank lending retrenchment, as unconventional monetary policies ease bank balance-sheet stress while targeted credit programs and guarantees support continued lending. Evidence from the euro area and COVID-19 shows these measures significantly reduced credit constraints for SMEs and underserved firms, especially where banks are the primary source of finance (Wang, 2025, *Bank Financing for SMEs in Times of Crisis: When "Whatever-It-Takes" Confronts "Black Swans"*, Small Business Economics, Volume 65). Overall, crises turn bank lending into a powerful mechanism of financial divergence, deepening both firm-level and regional inequalities. Targeted interventions counter these trends.

The impact of the credit line would be evidenced by the number of women-owned or managed firms financed by the project, among other output (intermediate results level) indicators, and by the number of firms financed in underserved segments and lagging regions, as an outcome (PDO-level) indicator. However, the latter indicator appears closer to an output measure, similar to the count of women-owned or managed firms financed, than to a true outcome indicator reflecting lasting improvements in access to finance or firm performance.

Outputs

- The amount of lending extended to project beneficiaries was EUR 79.4 million by project closing (June 2025), lower than the original target of "no less than EUR 200 million."
- The amount of private co-financing mobilized was EUR 83.9 million or 106 percent of the total volume of lending (EUR 79.4 million), 2.6 times the minimum in the target range of at least 40 percent of the total volume of lending.
- The number of beneficiaries financed by the project was 60 firms, lower than the original target of 150 firms.
- The number of women-owned or managed firms financed by the project was 8, or 13 percent of all firms financed by the project (60 firms), lower than the target of at least 12 firms, or at least 20 percent of all firms financed by the project.
- The number of women's jobs supported by the project was 2,083, exceeding the target of 1,000.
- The percentage of firms that reported that the project financing reflected their needs was 91.8 percent of all firms surveyed, exceeding the target of 90 percent of al firms surveyed
- PFI compliance with prudential regulations was 100 percent, meeting the target. Banks that participated in cofinancing in 2024 were compliant with prudential regulations, according to the report *Annual Assessment of Banks 2024* by the Financial Institutions Analysis and Economic Research Directorate of the Croatian National Bank.
- The non-performing loan (NPL) ratio under the project was 1.4 percent, meeting the target that the ratio should not be more than the average for loans to the corporate sector. The average NPL ratio for loans to the corporate sector was 4 percent in the first half of 2025, according to the Croatian National Bank.

Outcomes

- The number of firms financed in underserved segments and lagging regions that were financed by the project was 32 firms, lower than the original target of 75 firms.

Rating
Modest

OBJECTIVE 2 REVISION 1
Revised Objective
To enhance access to finance for firms in underserved segments and lagging regions.

Revised Rationale
Theory of Change. The results chain remained unchanged after restructuring.

Outputs

- The amount of lending extended to project beneficiaries was EUR 79.4 million by project closing (June 2025), lower than the downwardly revised target of "no less than EUR 100 million" (albeit much closer to the target than in the original project).
- The number of beneficiaries financed by the project was 60 firms, equal to the downwardly revised target of 60 firms.
- All other outputs (targets and results) remained unchanged.

Outcomes

- The number of firms financed in underserved segments and lagging regions that were financed by the project was 32 firms, exceeding the downwardly revised target of 30 firms.

Revised Rating
Substantial

OBJECTIVE 3
Objective
To strengthen the Croatian Bank for Reconstruction and Development's institutional capacity as a development bank.

Rationale
Theory of Change. As Croatia’s national development bank and export credit agency, HBOR’s mandate envisaged it as a principal (though not the sole) financial intermediary for channeling EU funds available to Croatia for national development purposes to final beneficiaries. Following Croatia’s accession to the EU in 2013, the country became eligible for a wide range of EU funding instruments from the EU budget (including equity, loans, guarantees, subsidies, and prizes) to support national and regional policy objectives. To enhance Croatia’s ability to access these funds – around EUR 2.02 trillion was expected to be available to the 27 member states over 2021-2027 – HBOR needed to be a strong, credible, and effective financial intermediary.

Five actions (PBCs) would modernize HBOR's banking operations and digitalization efforts, strengthen its sustainability and climate resilience, and enhance its capacity to leverage EU funds. The results chain linking these actions to the intended outcome – a more capable financial institution – draws less from formal economic theory than from established global practice.

- Formal credit rating methodologies and scoring systems reduce information asymmetries, promote consistent and transparent lending decisions, and support risk-based pricing that lowers borrowing costs for creditworthy firms. They also enable banks to lend profitably to unrated borrowers (especially SMEs), facilitate compliance with supervisory and consumer-protection standards (BIS, 2024, *Basel Core Principles for Effective Banking Supervision*), and contribute to a more stable banking system that supports the real economy (BIS, 2017, *Basel III: Finalizing Post-Crisis Reforms*).
- Modern core banking systems strengthen bank safety and soundness by enabling effective risk management, high-quality risk data aggregation, operational resilience, and reliable regulatory reporting, all of which underpin compliance with prudential and supervisory requirements (BIS, 2024, *Basel Core Principles for Effective Banking Supervision*). From a system-wide perspective, they also enhance supervisory effectiveness, internal governance, financial stability, and the safe adoption of digital innovation, thereby reducing systemic risk and supporting confidence in the banking system.
- The OECD Recommendations on Export Financing provide the core international framework for supporting exports in a way that preserves fair competition and financial stability. They promote the financial sustainability of official export credit support through harmonized premium rates, repayment terms, and risk classifications (OECD, 2023, *Arrangement on Officially Supported Export Credits*); they also set common standards for governance, integrity, and environmental safeguards. Adopting these standards would enhance HBOR's credibility and standing as a reputable international trade finance institution.
- Environmental sustainability, social sustainability, and climate resilience principles, policies, and procedures would help the HBOR align its business operations and corporate decisions to EU and OECD standards. Among the EU's key ESG regulations, the EU Taxonomy Regulation defines what counts as *environmentally sustainable;* the Corporate Sustainability Reporting Directive (CSRD) mandates ESG reporting with standardized metrics; the Sustainable Finance Disclosure Regulation (SFDR) requires ESG disclosures for financial market participants; and the EU ESG Ratings Regulation 2024/3005 regulates ESG rating providers under European Securities and Markets Authority (ESMA) supervision. Among the OECD's, the *Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* requires export credit agencies to assess environmental and social risks before financing projects, while the *Sustainable Lending Practices* provides guidelines for responsible lending.
- The EU pillar assessment procedure is the formal process by which the European Commission determines whether an organization has financial management, control, and governance systems that are equivalent to EU standards and, hence, allow it to manage and disburse EU funds (International Development Law Organization, *TOR for a Pillar Assessment of an Entity Requesting to be Entrusted with the Implementation of the EU Budget under Indirect Management*). The assessment is not a prudential or supervisory review, but a fiduciary assurance mechanism: passing it signals that an institution is trusted to manage EU funds at scale, strengthening its credibility, operational autonomy, and role in implementing EU policy objectives.

The output indicators defined for this objective – total gross loans, net interest income, and return on equity – are standard headline measures of financial performance. However, their use as results indicators raises attribution concerns, specifically whether factors other than the PBCs were more significant drivers of

performance. The outcome indicator – the percentage of EU funds utilized by HBOR – is a more robust measure of the project's impact. By raising HBOR's standards to align with EU requirements, the project would be expected to enhance the institution's ability to access and effectively absorb EU funds.

Performance-Based Conditions

HBOR fully achieved all PBCs. However, disbursements of the IBRD loan linked to the PBCs (see Section 2.D) were lower than planned, reaching only EUR 19.4 million of the EUR 40 million allocated at restructuring. The shortfall reflects the linkage between PBC achievement and loan volumes – HBOR did not meet the revised target of EUR 100 million in sub-loans (see Section - Objective 1).

Enabling the Operability and Digitalization of HBOR

- HBOR adopted credit rating methodologies and credit scoring for private entrepreneurs (PBC 1.1). HBOR applied the evaluation methodology to MSMEs, large borrowers, and for project finance starting in early 2024, adopted a methodology for evaluating leasing companies in May 2024, and adopted a methodology for assigning ratings to banks in May 2025. This achievement was verified by the Bank and enabled the disbursement of EUR 4.4 million from the IBRD loan (44 percent of the allocated amount of EUR 10 million). HBOR
- HBOR adopted technical specifications for the new IT core banking system (PBC 1.2). The Management Board has approved the functional and technical specifications for the new IT core system as the basis for preliminary market research. This achievement was verified by the Bank but did not involve any disbursement from the IBRD loan (the allocated amount was EUR 5 million).

Strengthening HBOR's Sustainability and Climate Change Resilience

- HBOR adopted the implementation acts for the OECD Recommendations on Export Financing in November 2021 (PBC 2.1). The OECD Recommendations constitute *soft law* and are implemented through a combination of EU regulations, which are binding on all EU member states, and national implementation acts, which are binding within each member state. At the national level, Croatia implemented the OECD Recommendations through internally binding ordinances adopted by HBOR, which acts as Croatia's export bank and export credit agency. The HBOR implementation acts consist of: (a) the *Ordinance on the Implementation of OECD Recommendations on Environmental Protection, Social Impact and Sustainable Export Credits*, which implements the OECD Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD/LEGAL/0393) and the OECD Recommendation on Sustainable Lending Practices and Officially Supported Export Credits (OECD/LEGAL/0442). These ordinances apply to export credits and export credit insurance falling within the scope of the OECD Arrangement on Officially Supported Export Credits; and (b) the *Ordinance on the Implementation of the OECD Recommendation on Bribery and Officially Supported Export Credits*, which implements the OECD Recommendation on Bribery and Officially Supported Export Credits (OECD/LEGAL/0447). This achievement was verified by the Bank and enabled the disbursement of EUR 5 million from the IBRD loan (100 percent of the allocated amount).
- HBOR adopted measures to redesign its policies and procedures for addressing environmental, social, and climate aspects across all financed projects (PBC 2.1). With external support from development partners, including the Bank, HBOR undertook several key steps, including: the preparation of a Diagnostic Report; the adoption of a Sustainable Finance Action Plan; the

establishment of a Sustainable Finance Governance and Implementation Framework (including a new dedicated unit and committee); the integration of EU financial instruments linked to sustainable finance; actions to advance climate alignment and green finance; and the strengthening of data infrastructure for sustainable finance. This achievement was verified by the Bank but did not involve any disbursement from the IBRD loan (the allocated amount was EUR 10 million).

Extending the Use of EU Funds

- HBOR, applying as a prospective EU implementing partner, submitted completed questionnaires for Pillar Assessments to the European Commission in November 2022 (PBC 3.1). HBOR submitted completed assessment questionnaires covering the following pillars: Pillar 1 (Internal Control), Pillar 2 (Accounting), Pillar 3 (External Audit), Pillar 5 (Procurement), Pillar 6 (Financial Instruments), Pillar 8 (Publication of Information on Recipients), and Pillar 9 (Protection of Personal Data). This achievement was verified by the Bank and enabled the disbursement of EUR 10 million from the IBRD loan (100 percent of the allocated amount).

Outputs

- HBOR's total gross loans (HBOR loan disbursements) increased from EUR 775 million (HRK 5.77 billion) in the baseline (December 2019) to EUR 1.2 billion by closing (December 2024), achieving the target that gross loans increase by at least 10 percent from 2019 or EUR 84.7 billion. The increase was 55 percent.
- HBOR's net interest income, which was EUR 47.4 million (HRK 353 million) in the baseline, stood at EUR 34.4 million by closing (June 2025), achieving the target that net interest income remains positive.
- HBOR's return on equity (ROE), excluding subsidies, improved from 1.5 percent in the baseline to 7.2 percent by closing (June 2025), achieving the target that the ROE should be at least equal to inflation, to preserve the value of capital. With the cumulative inflation at 1.5 percent for the first half of 2025, the ROE exceeded the target.

Outcomes

- The percentage of EU Funds used by the HBOR increased from 1.1 percent in the baseline (December 2019) to 8.63 percent by closing (June 2015), exceeding the target of 8 percent. The ratio was calculated as the amount EU funding disbursed to HBOR (EU funds allocated at the national level and from special financial arrangements with the European Commission, including centrally-managed EU funds) as a percentage share of total sources of funding at HBOR (the sum of borrowings and debt securities issued by HBOR, capital contributed from the government budget, and EU funding).

Rating
High

OBJECTIVE 3 REVISION 1

Revised Objective
To strengthen the Croatian Bank for Reconstruction and Development's institutional capacity as a development bank.

Revised Rationale
Theory of Change. The results chain remained unchanged after restructuring.

Performance-Based Conditions. The PBCs (targets and results) remained unchanged after restructuring.

Outputs. The outputs (targets and results) remained unchanged after restructuring.

Outcomes. The outcome (target and result) remained unchanged after restructuring.

Revised Rating
High

OVERALL EFFICACY
Rationale
With the degree of achievement of the first objective rated Substantial with moderate shortcomings, the second objective Modest, and the third objective High, the overall efficacy is rated Substantial.

Overall Efficacy Rating
Substantial

OVERALL EFFICACY REVISION 1
Overall Efficacy Revision 1 Rationale
With the degree of achievement of the first objective rated Substantial, the second objective Substantial, and the third objective High, the overall efficacy is rated Substantial.

Overall Efficacy Revision 1 Rating
Substantial

5. Efficiency

Economic Efficiency. The PAD and the ICR did not calculate an economic rate of return (ERR) for the project. The only metric of economic efficiency available, at appraisal and at closing, is the cost of a job supported by a sub-loan extended under the project (i.e., the total amount of loan financing disbursed divided by the number of jobs created or sustained by beneficiary enterprises).

The PAD estimated that the EUR 200 million credit line would directly finance around 150 firms, which would directly hire around 25,000 employees, and support around 100,000 people (assuming an average household size of 4). Moreover, the project would indirectly benefit the suppliers and customers of the beneficiary firms. Both directly and indirectly, the credit line would produce 50,000 jobs and support 200,000 people.

At restructuring, the Project Paper estimated that a reduced EUR 100 million credit line would finance 60 firms and support 10,000 jobs. The estimated cost per one direct job was US$10,000.

The ICR reported that EUR 79.4 million in lending financed 62 firms and supported 7,979 jobs. The actual cost per one direct job was US$9,951.

Neither the PAD nor the ICR presents a benchmark, but a search by this ICR Review yields some comparators: (a) US$500-5,000 in active labor market programs (Rabolino, 2018, *How much does it cost to create a job?*, World Bank Blog); (b) US$20,000+ in SME finance projects in advanced economies (OECD, 2025, *OECD Financing SMEs and Entrepreneurs Scoreboard*); (c) US$10,000-60,000 in capital support and access-to-finance programs in a conflict setting (Barberis, et. al., *Cost-Effectiveness of Jobs Projects in Conflict and Forced Displacement Contexts - Database,* World Bank Jobs Working Paper; Issue No. 72). The US$20,000 per job in the OECD is likely the appropriate benchmark (Croatia is a high-income country in active accession talks with the OECD).. Accordingly, the cost of US$9,951 per job indicates that the project delivered employment outcomes with substantial economic efficiency.

Operational Efficiency. The IBRD loan disbursement of US$86.1 million was 90 percent of the revised commitment of US$96.1 million. The five-year project closed on June 30, 2025.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

	Original	Revised
Relevance of Objectives	High	
Efficacy:	Substantial	Substantial
Objective 1 - To support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic.	Substantial	Substantial
Objective 2 - To enhance access to finance for firms in underserved segments and lagging regions.	Modest	Substantial
Objective 3 - To strengthen the Croatian Bank for Reconstruction and Development's institutional capacity as a development bank.	High	High
Efficiency	Substantial	
Outcome Rating	Moderately Satisfactory	Satisfactory
Amount Disbursed, US$ million, cumulative	64.2	86.1
Disbursement, percent	74.6	25.4
Weight Value	0.746 x 4 = 2.98	0.254 x 5 = 1.52
Total Weights	4.3	
Outcome Rating	Moderately Satisfactory	

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risk to the sustainability of the development outcome achieved by this project is Low.

Institutional Capacity Risk. With its successful completion of the PBCs, HBOR made significant progress in enhancing its institutional capacity as a development bank (see Section 4 - Objective 3). Although the figures are not cited in the ICR, the European Commission approved a EUR 411 million capital increase in HBOR in April 2026 (to be implemented by the government), EUR 278 million of which was earmarked for investments in digital and green transition and EUR 133 million for investments in the defense and security sector, according to the HBOR corporate website.

8. Assessment of Bank Performance

a. Quality-at-Entry

Project Design. The project expertly incorporated both traditional and innovative approaches to support enterprises' access to liquidity during the crisis and its aftermath.

- The IBRD loan was to be solely used for lending to SMEs and MCs. Credit lines were one of the most widely used firm-liquidity instruments in developing countries during COVID-19 (IEG, 2023, *The World Bank Group's Early Support to Addressing the COVID-19 Economic Response April 2020 - June 2021: An Early-Stage Evaluation*) and were especially prevalent in middle-income countries.
- A focus on exporters would address liquidity constraints in the external sector, where the contraction in goods and services exports was three times larger than the decline in real GDP. An additional focus on SMEs and MCs in underserved segments and in lagging regions would address not only crisis-related liquidity constraints but also structural access-to-finance challenges.
- The project introduced PBCs as an instrument of institutional development. Forty percent of the project funds were conditional on the fulfillment of PBCs designed to incentivize institutional capacity reforms at HBOR. Strengthening HBOR's institutional capacity as a financial intermediary was vital to enhancing Croatia's ability to access and deploy EU funds effectively (see Section 4 - Objective 3).

Lessons Learned from Related Bank Operations. The project applied best-practice approaches to provide liquidity to viable firms during the COVID-19 emergency, with a design and eligibility criteria aligned with Bank policy guidance for crisis response. It incorporated lessons from Bank Financial Intermediary Loans in multiple countries and regions. These lessons addressed common challenges, such as weak borrower accountability and capacity, unclear performance indicators, insufficient monitoring of results, limited beneficiary demand, and inflexible project design.

Implementation Arrangements. The implementation arrangements for the project were clearly defined.

- HBOR would maintain a Project Implementation Unit (PIU) responsible for day-to-day implementation of the project, including disbursement, monitoring and evaluation (M&E), reporting, and ensuring compliance with environmental and social (E&S) obligations.
- A Project Operations Manual (POM), acceptable to the Bank, would prescribe the rules, guidelines, procedures, and documents to execute the project, covering, among others, the eligibility, conditionalities, and procedures for subprojects, sub-loans, and beneficiaries.
- PFI Subsidiary Agreements would govern the provision of subsidiary financing to PFIs, under terms and conditions set in the POM, as approved by the Bank. Similarly, Direct Full-Financing or Co-Financing Sub-Loan Agreements would govern the provision of financing of sub-loans to beneficiaries under terms and conditions set in the POM, as approved by the Bank. HBOR, PFIs, and beneficiaries would implement the project in accordance with an Environmental and Social Commitment Plan (ECSP) acceptable to the Bank.
- For PBC-linked disbursements, the Bank would verify that PBCs were met, based on a certification issued by HBOR, which would also send semi-annual Verification Reports to the Bank.

Implementation Risk and Mitigation Measures. Overall project risk was rated Moderate, reflecting both the high demand for credit during the COVID-19 crisis and HBOR's strong experience with Bank-supported financial intermediation projects. The risks would be mitigated by appropriate measures, even as the ratings varied across risk categories.

- The technical design risk was rated Moderate, largely because a substantial share of the IBRD loan depended on HBOR achieving five PBCs, posing potential implementation challenges. These risks were expected to be mitigated through strong institutional commitment and supervisory oversight, complemented by sustained European Commission engagement, technical assistance, and close monitoring of reform progress.
- Macroeconomic risk was rated Substantial due to Croatia's structural vulnerabilities, institutional capacity challenges, and exposure to external shocks despite a generally sound policy framework. Crisis-related uncertainty, weak confidence, and deteriorating firm balance sheets led companies to delay investment and reduced their capacity to withstand further shocks.
- Macroeconomic stability was expected to hold through coordinated government and central bank actions, though the COVID-19 shock could still generate significant socio-economic impacts, particularly under a prolonged crisis. At the project level, risks to beneficiaries would be mitigated through strict financial soundness criteria in selecting PFIs, subprojects, and beneficiaries.

Shortcomings. While the project design was fundamentally sound, it exhibited some minor shortcomings.

- The credit line supported only working capital and financial restructuring loans; a more flexible design would have included investment loans, letters of credit, and partial credit guarantees.
- The PAD stipulated that direct loans could account for no more than 25 percent of total lending and only in lagging regions. This cap effectively constrained HBOR's ability during implementation to extend additional credit to exporters and quasi-exporters. The restriction could not be easily relaxed, as it was not reflected in the POM, where a Bank no-objection decision could have otherwise facilitated a revision of the limit.
- The ESMS was complex and proved administratively burdensome for PFIs, discouraging some from participating in the project. Some procedures were subsequently simplified during implementation.
- The PBC-linked disbursement system allowed only reimbursements. Incorporating an advance payment option would have provided greater flexibility in a crisis context.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision
Implementation Support. The Bank supervised the project closely, engaging frequently with HBOR beyond regular semi-annual missions. It conducted timely support missions, systematically reviewed progress against the results framework, and documented findings through ISRs (eight were prepared over four years) and *Aide-Mémoires* (three were filed), with active input from environmental, social, procurement, and financial management specialists. The Bank provided technical assistance promptly,

particularly on E&S issues, including intensive ESMS training, follow-up workshops, and tailored Do No Significant Harm (DNSH) guidance, alongside compliance manuals.

Adaptation. With the demand for working capital loans declining sharply at mid-term, the Bank approved a restructuring that halved the IBRD loan three years after project approval. Strong government and central bank action, supported in part by the European Commission's Temporary Crisis Framework adopted in March 2020, which relaxed state-aid constraints and authorized subsidized insolvency and investment support through 2023, enabled a faster-than-expected economic recovery.

During restructuring, the Bank considered expanding the eligible uses of project funds to include investment loans, but ultimately decided against it, citing the ready availability of EU funds for such loans. Among other financing instruments, partial credit guarantees had already been excluded at appraisal, as HBOR did not have an appropriate product in place, and they were not reconsidered, given that only one year remained before project closing.

Shortcomings. The Bank's implementation support was critical to project performance; however, earlier and more assertive engagement could have accelerated disbursements by addressing delays related to Subsidiary Financing Agreements and ESMS compliance.

The overall rating of Bank Performance is **Satisfactory**, as there were minor shortcomings in quality at entry and supervision.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The M&E design was broadly sound, with a clear theory of change linking key inputs -- credit lines and institutional reforms -- to expected outcomes, including exporter resilience, SME and mid-cap recovery in underserved segments and lagging regions, and enhanced HBOR funding capacity. The results framework effectively captured both financial performance and policy effectiveness and was well aligned with the PDO. In particular, the inclusion of PBCs to establish and strengthen mechanisms for HBOR's institutional capacity building was highly relevant to assessing progress toward the development bank's institutional development objectives.

Some indicators presented minor issues. It was unclear whether *HBOR's total gross loans* referred to the outstanding stock of loans or to annual loan disbursements, with the latter being the correct interpretation. The *Number of exporting firms financed* was defined as a percentage, even though it would more naturally be reported as an absolute number, requiring readers to calculate the percentage themselves.

The M&E plan also called for the PIU to perform the project M&E function. HBO would submit Project Reports to the Bank within 45 days from the end of each calendar semester. The Bank would assess progress through regular reporting by HBOR and findings from Bank support missions.

b. M&E Implementation

HBOR and the Bank systematically reported progress toward project outcomes. HBOR produced semiannual reports covering PDO indicators, intermediate outcomes, and the status of PBCs. The Bank received comprehensive and timely information, enabling effective oversight through ISRs that tracked indicators, disbursements, PBC implementation, and key challenges. Overall, M&E data was collected and analyzed systematically, supporting sound monitoring of project performance and implementation issues.

c. M&E Utilization

M&E data were effectively utilized throughout implementation to inform project ratings, guide decision-making, and support adaptive management. The Bank maintained close coordination with the PIU, enabling timely responses to implementation challenges, such as delays in loan approvals, which led to a downgrade in project performance ratings starting in July 2022. Regular information exchanges and supervision missions facilitated adjustments to the sub-loan eligibility criteria, including expanded definitions for lagging regions and quasi-exporters, and refinements to E&S assessment tools. These efforts contributed to improved clarity and responsiveness, helping accelerate implementation and address bottlenecks.

The overall quality of the project's M&E system is rated as **Substantial**, reflecting minor shortcomings in design, implementation, and utilization.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards. Environmental risk was assessed as Moderate at appraisal, triggering six Environmental and Social Standards (ESS1, ESS2, ESS3, ESS4, ESS9, and ESS10) due to its support for working capital and financial restructuring for underserved firms. Identified subproject risks – occupational health and safety, dust, water use, and waste management – were considered localized, temporary, and manageable with standard mitigation measures. To ensure risks remained moderate, the sub-loans explicitly excluded high-impact activities such as construction and chemical-intensive operations.

HBOR installed a satisfactory Environmental and Social Management System (ESMS) aligned with the Bank's Environmental and Social Framework (ESF), incorporating updates such as the extended IFC Exclusion List, improved screening procedures, and strengthened staff capacity. These enhancements were

completed within 30 days of project effectiveness and before any disbursements, with PFIs also required to align their own ESMS with project risks. The Bank reviewed initial sub-project assessments, conducted ex-post supervision reviews, and received standardized semi-annual Environmental and Social (E&S) reports from HBOR.

Some challenges arose during implementation related to the complexity and administrative burden of ESMS documentation, which initially discouraged some PFIs and MSMEs from participating in the project. The Bank responded by working with HBOR to provide training and simplify procedures. Overall, the project remained compliant with applicable safeguards policies, and all required mitigation measures were completed.

Social Safeguards. The Bank conducted two rounds of site visits with no major issues reported until a serious incident shortly before project closing. On June 12, 2025, a silo explosion at a final beneficiary's sawmill caused three fatalities; the incident remains under investigation as of October 2025. The incident is managed through the Bank's Environmental and Social Incident Response and Fatality Tracking Systems, with required documentation completed and follow-up actions ongoing through project closing.

b. Fiduciary Compliance

Procurement. Procurement was rated Satisfactory in the last ISR of November 26, 2025.

Financial Management. Financial management systems were deemed adequate throughout project implementation. All financial reporting and audit requirements were met within acceptable standards. Financial management was rated Satisfactory in the last ISR of November 26, 2025.

c. Unintended impacts (Positive or Negative)

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d. Other

Poverty. Significant regional income disparities in Croatia have widened over time, with 12 of 21 counties classified as lagging regions that comprise 36 percent of the population but generate only about 25 percent of domestic output and account for nearly half of unemployment. Access to finance was identified as a major constraint in these regions, particularly for SMEs, severely limiting firms' ability to invest, grow, and create local economic opportunities. To address this, the project prioritized improving access to finance, providing 25 loans totaling EUR 31.5 million to 23 firms in lagging regions.

Gender. The project explicitly targeted women-owned or women-managed firms as eligible beneficiaries, recognizing that women entrepreneurs in Croatia faced greater difficulty accessing finance. Despite ambitions to expand support for women's entrepreneurship and improve gender-disaggregated data, results fell short of targets: only eight loans totaling EUR 6.1 million were granted, representing 8 percent of total loans versus a 20 percent target. All supported firms were SMEs co-financed with partner financial institutions, and one loan of EUR 0.37 million became non-performing.

Private Capital. The project tracked private co-financing as an intermediate indicator, with a target of mobilizing co-financing equal to 40 percent of total lending. By June 2025, PFIs had provided EUR 83.9 million in co-financing against EUR 79.4 million in Bank lending, achieving a 106 percent ratio – more than double the minimum target. Co-financing was broadly defined to include existing or concurrent PFI loans to the same beneficiaries, consistent with the project's focus on working capital complementing investment financing.

Institutional. All project PBCs were highly relevant to strengthening HBOR's institutional capacity and were successfully implemented and verified by the Bank. They addressed core areas including digitalization and operational efficiency, sustainability and climate resilience, and improved access to EU funds through compliance with OECD and European Commission requirements. Collectively, these measures significantly enhanced HBOR's ability to operate more effectively and fulfill its role as Croatia's development bank.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Two lessons are drawn from the ICR, with some adaptation.

Institutional reforms can be effectively incentivized through the use of performance-based conditions in investment projects. In this operation, disbursement of 40 percent of the IBRD loan was contingent upon the fulfillment of five PBCs related to the institutional development of HBOR. HBOR completed all PBCs, implementing key reforms in credit rating and scoring, a new core banking IT system, environmental, social, and climate risk management policies and procedures, export financing in line with OECD recommendations, and EU pillar assessment. Embedding these reforms as disbursement-linked PBCs strengthened HBOR's commitment to modernization and contributed to improved institutional performance.

Liquidity support and access to finance, particularly during crises, can be enhanced through instruments beyond traditional bank lending. In this project, sub-loans to SMEs and mid-caps were limited to working capital and financial restructuring loans. However, instruments such as letters of credit could have supported export finance, while partial credit guarantees could have strengthened SME lending. Incorporating these instruments into the project design might have enabled more effective use of the IBRD loan resources, particularly after demand for working capital loans declined sharply at mid-term.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is candid in its assessment of efficacy, drawing on empirical evidence. The data presented about the outputs and outcomes of the first and second project components (pages 7-10) are fairly detailed. The conclusions about the gains made by the project with institutional reforms under the third project component (pages 10-11) are convincing. The lessons drawn from the project (pages 20-21) are valuable.

a. Quality of ICR Rating
Substantial