1. Operation Information

<table>
<thead>
<tr>
<th>Operation ID</th>
<th>Operation Name</th>
<th>Country</th>
<th>Practice Area (Lead)</th>
</tr>
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<tbody>
<tr>
<td>P173996</td>
<td>Response and Recovery</td>
<td>Croatia</td>
<td>Macroeconomics, Trade and Investment</td>
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**Non-Programmatic DPF**

<table>
<thead>
<tr>
<th>L/C/TF Number(s)</th>
<th>Closing Date (Original)</th>
<th>Total Financing (USD)</th>
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</thead>
<tbody>
<tr>
<td>IBRD-91350</td>
<td>28-Feb-2021</td>
<td>335,532,163.81</td>
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<table>
<thead>
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<th>Bank Approval Date</th>
<th>Closing Date (Actual)</th>
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<td>26-Jun-2020</td>
<td>28-Feb-2021</td>
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<tr>
<th>IBRD/IDA (USD)</th>
<th>Co-financing (USD)</th>
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<td>Original Commitment</td>
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<tr>
<td>Revised Commitment</td>
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<tr>
<td>Actual</td>
<td>335,532,163.81</td>
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

This ICRR covers the standalone Crisis Response and Recovery Development Policy Loan (DPL) to Croatia. The Program Development Objective (PDO) is clearly stated in the ICR and the Loan Agreement. As formulated in the ICR, the PDO was to: Support the Government's efforts to: (i) mitigate the
b. Pillars/Policy Areas

Pillar 1, "Mitigate the economic and social impact of the COVID-19 pandemic."

Pillar 2, "Advance inclusive and sustainable recovery."

c. Comments on Program Cost, Financing and Dates

The DPL (stand-alone) was approved on June 26, 2020 and closed on February 28, 2021. The original commitment of the IBRD loan was US$ 300m, with US$ 335,532.81 disbursed. The loan was disbursed in EUR and the difference reflects fluctuations in the USD/EUR exchange rate change between the signing data and disbursement date.

3. Relevance of Design

a. Relevance of Objectives

The DPL was undertaken in an unprecedented situation and designed as an emergency operation. Croatia is a member of the European Union with associated opportunities for grant funding. Still, the double shock caused by the COVID-19 pandemic and a major earthquake in March 2020 put recent economic and fiscal achievements in jeopardy. These achievements included average GDP growth of 3 percent over the past five years and a budget surplus in the previous three years. The primary focus of the DPL was to help meet the financing needs that had risen to 21 percent of GDP (from 15.7 percent in 2019) and on advancing the structural reform agenda.

The PDO had the following two objectives:

PDO 1: Mitigate the economic and social impact of the COVID-19 pandemic.

PDO 2: Advance inclusive and sustainable recovery.

Both objectives – and the second in particular -- were relatively high level. The first objective sought to mitigate the economic and social impact of the COVID-19 pandemic by strengthening social security mechanisms, access to healthcare and liquidity measures which were all highly relevant due to the severity of the shocks and the need for a speedy response during the beginning of the pandemic. The second objective was excessively broad even in the crisis context and would have benefitted from being narrowed down in line with the scope and ambition of the PAs. For 2020, at the start of the pandemic, the WB staff projected a 9 percent annual decline in Croatia's GDP, a steep decline in tax revenues, a rapidly rising fiscal deficit, and unemployment of more than 12 percent, as well as persistent challenges to inclusion and social protection and high vulnerability to the impacts of climate change. While the macroeconomic situation improved somewhat compared to staff projections and rising unemployment was averted through job retention schemes, GDP declined by 8.1 percent. In addition, the fiscal deficit reached 7.4 percent of GDP. These figures underscored...
the need for taking decisive measures to address the economic and social impact of the pandemic and pave the way for recovery. Despite Croatia's access to EU grants, the depth and multifaceted nature of the shocks justified direct World Bank Group engagement, built on a long partnership with Croatia.

Although the Country Partnership Framework (2019-2024) could not have predicted external shocks of the magnitude faced by Croatia, the DPL was well aligned with its focus areas (public sector performance, low carbon growth, market institutions). The CPF, in turn, had been informed by a 2018 Systematic Country Diagnostic pointing to the development constraints posed by powerful interest groups, the need for improved capability, transparency, and predictability of crucial market institutions, including the regulatory environment and public administration. A significant additional analysis had been carried out in 2019 and 2020, including a RAS Public Expenditure Review and a gender assessment. The ICR states that the DPL is aligned with government strategic priorities and reform programs but does not explain how in any detail.

### b. Relevance of Prior Actions

#### Rationale

| **Objective 1: Mitigate the economic and social impact of the COVID-19 pandemic** |
| **DPL** |
| **PA1** | The Borrower's Croatian Employment Service has adopted and started the implementation of measures to: (i) provide a wage subsidy for three months to (A) employers who continue to employ workers with permanent and temporary contracts, as well as to (B) the eligible registered self-employed; and (ii) provide income support for ‘permanent’ seasonal workers. |
| **PA2** | The Borrower has adopted the amendment to the Law on Voluntary Health Insurance (VHI) to increase access to healthcare for the poorest by raising the eligibility income threshold for complementary VHI to be paid from the state budget in 2020 for household members and individuals living alone respectively. |
| **PA3** | The Borrower has adopted the amendments to the General Tax Law and ordinance on the Implementation of the General tax Laws to temporarily support firms’ liquidity by: (i) abolishing or postponing, as the case may be, payment of income taxes and social security contributions; (ii) providing installment agreements for up to 2 years for payment of the tax and social security contributions; (iii) suspending penalty interest provisions; and (iv) introducing the option to pay any value added tax (VAT) upon collection instead of at the time of issuing the receipt. |
| **PA4** | The Borrower has adopted measures introducing new liquidity financing programs to bolster the liquidity of companies in Croatia affected by the COVID-19 pandemic. |
| **PA5** | The Borrower has adopted the Law on Intervention Measures in Enforcement and Bankruptcy Proceedings During Special Circumstances to modify the insolvency proceedings with the objective of further limiting possible bankruptcies. |

| **Objective 2: Advance inclusive and sustainable recovery** |
| **PA6** | The Borrower has adopted the Law on the National Benefit for Elderly with measures to support the poor and vulnerable elderly population (65+) by granting a new national benefit for the elderly. |
The Borrower has adopted the Law on Climate Change and Ozone Layer Protection to strengthen the policy and accountability framework for low carbon development and resilience to climate change.

The Borrower has adopted the amendment to the Law on Credit Institutions to enable the exchange of confidential information, in line with the EU European General Data Protection Regulation (GDPR).

The Borrower has adopted the amendments to the Common National Rules for use of EU funds to improve governance and management of EU funds and support investments for the recovery period.

### Objective 1: Mitigate the economic and social impact of the COVID-19 pandemic

Overall, the results chain linking objective 1 with PA 1-5 was credible given the crucial importance of jobs and income, affordable healthcare, liquidity, and solvency early on in the pandemic to mitigate its impact, especially on the poorest and most vulnerable, and small and medium-sized enterprises. The measures supported sustain the credibility of the results chain reasonably well especially in the economic area where securing liquidity through tax and soft loans were crucial in the beginning of the pandemic.

PA1 made a credible contribution to objective 1 by protecting incomes through wage subsidies to employers, (including coverage of social security contributions) across different contract types, including self-employed and seasonal workers, in a context where employment was severely under threat by the pandemic. The country’s large tourism sector is particularly vulnerable as many countries had introduced travel bans. Analytical work by the World Bank estimated that more than 20 percent of employees in the economy were likely to lose their jobs, whereas tourism was estimated to lose more than 50 percent of its workers (the DPL was informed by recent and ongoing advisory services and analytics including technical assistance in the consumer protection area and policy dialogue on public wages, insolvency and climate-change). The introduction of wage subsidies early in the pandemic significantly protected employment and contributed to mitigating the pandemic’s social and economic impacts.

**PA1 Rating: satisfactory**

PA2 sought to make a credible contribution to objective 1 by aiming to increase the number of vulnerable people accessing affordable healthcare. This measure aimed to protect the poor who were particularly vulnerable to catastrophic out-of-pocket payments. The PA sought to improve access to health services for the vulnerable by increasing the coverage of the complementary Voluntary Health Insurance (VHI) paid by the state budget which ensures full coverage (covering user charges). This was pursued by increasing the income threshold which had been left at the same level since 2008 resulting in coverage declining from over a million in 2015 to about 650,000 in 2019. The increase in the threshold was modest at only 3 percent against the 2008 level (a period within which consumer prices rose by 16 percent and average gross wage rose by more than 20 percent) but an automatic annual indexation was also introduced. While the Bank had some analytical foundation from a World Bank Health note, the size of the increase relied on government data. The Bank viewed the expenditure as being well targeted as 83 percent would support individuals living in the bottom 40 percent. Due to the pandemic, changes were communicated mainly through the internet, which limited access for vulnerable people, especially among the rural population with low IT skills and access.

**PA2 Rating: satisfactory**
PA3 sought to protect the private sector, which was threatened by business closures as economic activity dropped by easing tax payments temporarily based on amendments to the General Tax law as a way to build up liquidity buffers. Early on in the pandemic more than a quarter of firms reported that revenue had dropped to zero (based on a survey carried out by the Croatian Chamber of Commerce). The measures were targeted on the basis of their revenue drop and the company size, covered income tax, social security and VAT, but the PA is unclearly formulated in terms of whether taxes were abolished or postponed (see table above) and the ICR does not provide clarity on this issue. Protecting the liquidity of firms was relevant in the context of the pandemic but it is not sufficiently well documented that using tax measures to achieve this aim was the most relevant approach.

PA3 Rating: satisfactory

PA4 aimed at protecting the private sector with programs providing guarantees and soft loans to smaller businesses as they were more affected by requirements for collateral. These working capital loans were provided both directly and through commercial banks. The measures were in compliance with a framework for State Aid during the pandemic adopted by the European Commission and managed by the Croatian Bank for Reconstruction and Development and the Croatian Small Business, Innovation and Investment Agency. The World Bank used knowledge generated through a TA on Growth and Jobs in Pannonian Croatia related to financial instruments to help inform the design of the measures managed by the Small Business, Innovation and Investment Agency.

PA4 Rating: satisfactory

PA5 sought to support the temporary suspension of bankruptcies in line with EU practice. Croatia was particularly vulnerable because most bankruptcies resulted in liquidation, and recovery rates are about half the OECD average. Moreover, the share of otherwise viable distressed firms was much larger than during past crises due to the specific features of COVID-19 disruptions. The results chain addressing these vulnerabilities by suspending bankruptcies was explicit and convincing, and the analytical framework based on a World Bank Policy Note on Boosting Croatia’s Economic Resilience prepared in 2020, was robust.

PA5 Rating: satisfactory

**Objective 2: Advance inclusive and sustainable recovery**

Overall, the results chain for the second objective was less convincing and included miscellaneous measures targeting income protection for vulnerable segments of the elderly population, addressing unforeseen negative implications of GDPR regulations affecting MSME access to credit, and the transition towards low carbon growth. At least one of the measures would have fitted better under objective 1 and the connection to advancing the recovery was unclear. Strengthening Croatia’s access to EU structural funds, however, was highly relevant for economic recovery partly because this involved very substantial amounts of funding.

PA6 aimed at supporting legal reform of income protection for vulnerable segments of the growing number of elderly (65+) in Croatia. Reform in this area had been stalled for more than a decade but the pandemic as well as an ageing population and commitments under the European Social Charter reflected in Croatia’s Social Welfare Strategy for the Elderly 2017-2020 gave renewed impetus to this reform. Moreover, the measure had a clearly articulated gender dimension as women are more vulnerable due to many having insufficient insurance records for pension purposes. The PA drew on the Bank’s analysis on pensions, social welfare and poverty, provided in 2019 for the National Development Strategy 2030 and the DPL helped leverage the reform.
PA6 Rating: moderately satisfactory

PA7 targeted legal reforms that would strengthen the policy and accountability framework for low carbon development and resilience to climate change, and thereby contribute toward resource-efficient and low carbon growth. Concretely, it sought to boost financing to meet ambitious emission target reductions by legally requiring proceeds from an auction of emission units to be channeled to climate mitigation and adaptation measures investments. The formulation of the PA makes it difficult to assess the results chain by which it is expected to contribute to meeting the objective. The design of the PA drew on previous engagement with the Ministry of Economy and Sustainable Development (MoESD) and the Environmental Protection and Energy Efficiency Fund (EPEEF) and analytical work in nature protection and waste management as well as a proposed Green Growth DPL (P172265) that would have addressed Croatia’s climate adaptation activities but was eventually not pursued.

PA7 Rating: moderately satisfactory

PA8 sought to strengthen the credit registry through amendments to the Law on Credit Institutions by addressing limitations in the exchange of information that were seen to impact access to finance for MSMEs. The willingness of banks to provide finance had been affected by restrictions in the interbank exchange of confidential credit data on borrowers since the introduction and enforcement of the GDPR. Banks ceased to exchange credit data and historical data was deleted which led to reluctance to lend in the system. Access to finance could be critical for the survival of MSMEs under the pandemic and recovery. Particularly smaller banks were affected by GDPR, reducing their ability to assess clients’ creditworthiness and provide loans and increasing the risks of approving loans. The design of the PA drew on WB TA on Strengthening Consumer Protection Through Structured Creditworthiness (P171378). However, the analytical underpinnings of the TA do not provide a basis to conclude that constraints on the exchange of information were a major factor affecting access to credit. The potential impact of this PA was therefore uncertain although it could be expected to make some contribution to improving access to finance by MSMEs and thereby support the economic recovery.

PA8 Rating: moderately satisfactory

PA9 sought to improve access to EU structural funds by addressing red tape and complexity in managing and accessing the funds by amending a set of "Common National Rules." This was relevant to inclusive and sustainable recovery as it had the potential of unleashing significant amounts of EU funding where Croatia had the lowest rate of spending in the EU. The Bank’s Public Expenditure Review (PER) in Science, Technology and Innovation offered tailor-made recommendations that informed the amendments to the ESIF management framework.

PA9 Rating: satisfactory

Rating

Satisfactory

4. Relevance of Results Indicators
Rationale

Objective 1

RI 1: This RI sought to measure the impact of PA 1 by monitoring the number of workers in tourism. The RI therefore only partly captures the impact of the PA, which targeted a broader range of workers and self-employed for wage subsidy measures. While the ICR argues that tourism employment has strong signaling properties for the entire labor market, there is no evidence presented that confirms a strong correlation of the tourism sector to the other labor categories covered. Furthermore, while the ICR explains the calculation and definition, the source of the data is unclear.

Rating RI1: moderately satisfactory

RI 2: This RI sought to track the impact of PA 2 by measuring the total number of people with complementary VHI instead of considering only individuals eligible because of their income, which would have been more accurate as that was the specific group targeted by the measure. Regardless, the indicator logically reflects reform progress with measurable and available data. The RI alone hence only partly measures the contribution of the PA to the objective, but the data and baseline drawing on data from the Croatian Health Insurance Institute were credible.

Rating RI2: moderately satisfactory

RI 3: This RI sought to measure impacts of both PA3 and PA4 to protect the liquidity of firms in Croatia but. In PA3 tax deferrals were used and PA4 supported the provision of guarantees and soft loans. While the RI used does track overall short term liquidity (outcome), it does not permit an assessment of the relative efficacy of each PA and therefore should have been augmented by additional RIs.

Rating RI3: moderately unsatisfactory

RI4: This RI sought to measure the impact of PA 5 that aimed at limiting the number of bankruptcies. This RI was a reasonable measure of the potential expected contribution of the PA to meet the objective, and the RI baseline and target data was logical, clear and credible. Sources for the data were well established (the central Bank and supreme court).

Rating RI4: satisfactory

Objective 2

RI5: This RI sought to track the impact of PA 6 by measuring the total number of recipients of the national benefit for the elderly. The gender addition of at least 70 percent of the beneficiaries being women was meant to capture how the PA supported women as a more vulnerable group that has insufficient insurance records for pension. The indicator is clear and adequately measures the impact of the PA, and the baseline and target values are clear. The RI was sustained by disaggregated data on age groups and gender disaggregation using data from Central Bureau of Statistics.

Rating RI5: satisfactory
RI6: This RI sought to measure the impact of PA 7 as a result of having strengthened the policy and accountability framework for low carbon development and resilience to climate change through legal reform. As the aims of the PA were likely to be achieved only in the medium- to long-term, the RI chosen measured the share of revenue from the emission trading system allocated to climate-related expenditures which was realistic to be achieved within the short DPL implementation period and for which reliable data was available. The contribution to the associated objectives (and the underlying results chain), however, is difficult to assess given the excessively broad objective.

Rating RI6: Moderately unsatisfactory

RI7: This RI sought to measure the impact of PA 8. Credit registry coverage was used to measure the impact of the amendment to the Law on Credit Institutions to enable the exchange of confidential information in order to reduce risk for Banks and unblock financing constraints. It is unclear the extent to which the indicator captures the desired impact of these legal adjustments because of a lack of clarity on the relative importance of the availability of information as a constraint to access to credit. It is defined as the number of credit bureau (or credit registry, if available) records divided by the country's adult population aged 15 to 64. The baseline and target are clear, but not data sources.

Rating RI7: Unsatisfactory

RI8: This RI sought to measure the impact of PA 9 to improve governance and management of EU funds and support investments for the recovery period. It was measured through a targeted percentage increase in the amount of funds paid out to beneficiaries. The RI was appropriate as it is one of the EU-wide indicators tracking the efficiency of Member States in funds absorption. While convincing in terms of measuring the amount of investments for recovery unlocked, it does not capture improved governance and management of the funds. The data used is credible and well referenced, and both baseline and target are clear and credible.

Rating RI8: Moderately satisfactory

Table on Results Indicators

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<thead>
<tr>
<th>RI description</th>
<th>Associated PA(s)</th>
<th>RI relevance</th>
<th>Baseline (including units and date)</th>
<th>Target (including units and date)</th>
<th>Actual value as of target date</th>
<th>Actual change in RI relative to targeted change</th>
<th>Most recent value available</th>
<th>RI achievement rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1: Mitigate the economic and social impact of the COVID-19 pandemic</td>
<td>RI1: Number of workers in tourism (approximated by NACE2 sector Accommodation and food service activities)</td>
<td>PA1</td>
<td>MS</td>
<td>0% (2019) (115,018 people employed)</td>
<td>At least 50% employed using 2019 data (min. 57,509 people employed)</td>
<td>72.9% (83,806 people employed)</td>
<td>146%</td>
<td>High</td>
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</table>


<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator</th>
<th>Performance Area</th>
<th>Baseline</th>
<th>Target</th>
<th>Achievement</th>
<th>Rating</th>
</tr>
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<tbody>
<tr>
<td>Covered by wage subsidy measure (%)</td>
<td>RI2: Increase in coverage of people with complementary voluntary health insurance paid from the state budget</td>
<td>PA2</td>
<td>MS</td>
<td>666,777 individuals (2019)</td>
<td>594,614 (2020)</td>
<td>As the number decreased by 10.8% rather than increased by 15% the relative change is -22.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PA3</td>
<td>MU</td>
<td>Above 1 (average 2016-2018)</td>
<td>1.21 (2020)</td>
<td>121%</td>
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<tr>
<td></td>
<td></td>
<td>PA4</td>
<td>MU</td>
<td>8,767 cases (2017-2019 average)</td>
<td>4,796 (-46%) (2020)</td>
<td>As the number decreased by 45% rather than increased by 30% the relative change is -158%</td>
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<tr>
<td>Objective 2: Advance inclusive and sustainable recovery</td>
<td>RI5: Elderly population (age 65+) recipients of the national benefit for elderly, of which women (age 65+) (%)</td>
<td>PA6</td>
<td>S</td>
<td>0 (2019)</td>
<td>5,696 (2021)</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>RI6: Share of emission trading</td>
<td>PA7</td>
<td>MU</td>
<td>48.48%</td>
<td>More than 89%</td>
<td>98%</td>
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<tr>
<td>System (ETS) revenues (in the current trading period) allocated to climate related expenditures (%)</td>
<td>(2019)</td>
<td>90 % (2021)</td>
<td></td>
<td></td>
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<tr>
<td>RI7: Credit registry coverage (% of adults)</td>
<td>PA8</td>
<td>U</td>
<td>0% (2021)</td>
<td>80% (2021)</td>
<td>86.3%</td>
<td>108%</td>
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<tr>
<td>RI8: Percent of OP Competitiveness and Cohesion funds paid out to beneficiaries (%)</td>
<td>PA9</td>
<td>MS</td>
<td>26.2% (2019)</td>
<td>Above 35%</td>
<td>50.4%</td>
<td>175.3%</td>
</tr>
</tbody>
</table>

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
Mitigate the economic and social impact of the COVID-19 pandemic

Rationale
RI1 exceeded the target of at least 50 percent of workers in tourism being employed in 2020 with a significant margin as 83,806 or 72.9 percent retained employment in 2020. Retaining employment in the tourism sector was relevant to the objective given the weight of this sector in the economy, but the indicator did not capture the amount of self-employed and 'permanent' seasonal workers still in employment. The efficacy rating is therefore downgraded from high to substantial.

RI2 did not meet the target of increasing coverage for people with complementary voluntary health insurance paid from the state budget by at least 15 percent, as the number actually dropped by 10.8 percent due to an insufficient rise in the income threshold for getting access. In 2021, the number of people with coverage increased slightly compared to 2020 but remained 9 percent lower than in 2019. The efficacy rating is negligible.

RI3 met the target to maintain the liquidity ratio for non-financial companies above 1 with a significant margin as the ratio settled at 1.21 in 2020. This satisfied the target for both PA3 and PA4 as these used the same results indicator. However, as noted above the results chain become unclear given the use of the same
indicator for PA3 and PA4. Furthermore, there were insufficient sources for the data used to measure PA 4. The efficacy rating is hence downgraded from high to **modest**.

RI4 target was significantly met as the number of incoming bankruptcy cases decreased rather than increased from 2019 to 2020. Given the feared impact of the pandemic, the target had been to limit the rise in the number of cases to no more than 30 percent, but the number actually decreased by 46 percent as the suspension of bankruptcy proceedings was prolonged from a three-month to a six-month period in line with the legal amendments. The measures taken as a result of the PA were hence much more effective than expected. The ICR produces additional evidence of the trend of bankruptcies normalized during 2021. The efficacy rating is **high**.

The combined Rating of objective 1 is **moderately satisfactory**.

**Rating**

Moderately Satisfactory

**OBJECTIVE 2**

**Objective**

Advance inclusive and sustainable recovery

**Rationale**

RI5 did not meet the target to ensure that 19,000 vulnerable elderly (age 65+), of which 70 percent should be women became recipients of the national benefit for the elderly. Only 30 percent of the total number was met, but of these, 65 percent were women. The result of the PA fell well short of the target for a number of reasons including the ability of people in rural areas to access information about the opportunity, a complex (online) application process and limited access to bank accounts in the target population. These issues were exacerbated by the pandemic as the level of support that could be provided by organizations and the authorities was restricted. The achievement rating is **modest**.

RI6 narrowly missed the target of 90 percent of revenues from the emission trading system being allocated to climate-related expenditures. With 89 percent of revenues going to climate-related expenditures, 99 percent of the targeted increase was reached, which represented a substantial increase from the baseline. Channeling greater amounts of resources towards climate-related expenditures contributes to the sustainable recovery objective, although minor limitations were associated with the coverage of the indicator. The achievement rating is **substantial**.

RI7 exceeds the target of an 80 percent credit registry coverage, with coverage reaching 86.3 percent from a baseline of 0 percent. Although this represent a significant achievement enabling better possibilities in the banking sector for credit risk management, there were issues with the indicator which did not adequately capture the extent to which access to finance was improved as a result of the increased credit registry coverage. Therefore, it is not clear if the PA actually contributed towards the objective of a sustainable recovery and although the target was reached, its contribution to the achievement of the objective is rated **modest**.
RI8 met the objective of above 35 percent of OP Competitiveness and Cohesion funds paid out to beneficiaries and absorbed into the economy. From a baseline of 26.2 percent, cohesion funds paid out reached 50.43 percent evidencing an effective removal of bottlenecks in the flow of OPCC funds towards the economy. As these funds are substantial (billions of Euros), the PA contributed towards the PDO of sustainable recovery, and the RI was adequate to measure this impact on unlocking major investment resources to the public and private sectors. The achievement rating is **high**.

The combined Rating of objective 2 is **moderately satisfactory**.

### Rating

**Moderately Satisfactory**

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**Overall Achievement of Objectives (Efficacy)**

**Rationale**

Overall, based on the efficacy ratings of the two objectives, the overall achievement of the objectives is rated **moderately satisfactory**.

**Overall Efficacy Rating**

**Moderately Satisfactory**

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**6. Outcome**

**Rationale**

The relevance of the prior actions is **satisfactory** because their combined importance and analytical underpinning credibly contributed towards mitigating the immediate impacts of the pandemic mainly through supporting actions to protect jobs, provide access to affordable healthcare, and secure the liquidity and solvency of MSMEs. The second objective was too broad making it difficult to clearly and credibly link the PAs to achievement of the objective which reduced the relevance rating.

The overall efficacy rating is **moderately satisfactory** mainly as a result of the contribution of the DPO to protect jobs, liquidity, and solvency of MSMEs, which overall compensated for substantially missing the target for access to affordable healthcare. For recovery, the targets for access to EU funds and credit registry coverage were exceeded but in addition to the breadth of the objective, some results indicators did not always allow for linking PAs to achievement of objective. The target for allocation of revenues from the emission trading system was only missed narrowly. The targets for income protection for the more vulnerable segments of the elderly population was missed with a large margin.
The overall outcome rating is thus moderately satisfactory. The results were partially aided by a stronger macroeconomic situation than expected, but the PAs also contributed to the initial bounce back. The shortcomings on the social side were caused by the need to rely on estimates to facilitate a rapid response, for example, in relation to setting the income threshold too low but also made harder to reach due to the restrictions for example in outreach to the targeted population caused by the pandemic.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The main risk to the development outcomes achieved is a reescalation of the pandemic (for example, as a consequence of a mutated virus) and reintroduction of travel restrictions as Croatia remains highly dependent on its tourism sector. Given the stronger relationship with the EU and increased access to funding, Croatia is in a better place to deal with future crises.

Another risk, in the aftermath of the pandemic, concerns the ability of consumers to repay loans and other credits as protective measures (postponing payment obligations, restructuring credit liabilities, granting new loans) are rolled back and the potential impact this could have on the wider financial system. This materialization of this risk depends on the sustainability of the economic recovery and return to the good macroeconomic performance before the pandemic.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

As noted, this DPL was introduced amidst an unprecedented international crisis, but also in a context where the borrower had access to considerable EU support both during and in the aftermath of the pandemic. The recent SCD, CPF, and support for the preparation of Croatia's 2030 National Development Strategy provided the Bank with a good understanding of the country's economy and the development agenda that enabled it to collaborate effectively with other international partners and support Croatia in managing the impact of the crisis and to a lesser extent recovery from the pandemic. In a conscious attempt to embed lessons from previous policy lending on selectivity and political realism, the operation aligned with government's stated priorities articulated in the Program of the Government and more importantly it supported the Government’s targeted intervention package, adopted by the Parliament with broad support from all parliamentary parties. The Bank consulted with all major stakeholders in the process of preparing the DPL. Stakeholders included the Croatian National Bank, the Ministry of Finance, the Ministry of Economy, the Croatian Central Credit Register, and banks.

The first objective was pursued through ambitious but focused PAs. The second objective was formulated very broadly and at too high a level and would have benefitted from a narrower focus more aligned with the
scope and ambition of the PAs. PA2 suffered from a design issue as the income threshold was set too low to achieve the expected outcome and PA6 did not factor in the additional constraints to increase coverage caused by the pandemic.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR does not present concrete evidence of monitoring progress toward targets for results indicators before operation completion. While less critical for stand-alone operations complementary assistance to address limited institutional capacity was not strong enough and resulted in shortfalls in achieving PA2 and PA6 in addition to the design issues mentioned above.

There was good coordination with the European Commission through weekly meetings but also with the European Investment Bank on the liquidity support mechanisms that were central to the DPL. There was also close coordination with the IMF and the Council of Europe Development Bank (CEB).

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

The design was moderately satisfactory.

Implementation was moderately satisfactory.

The Rating of Bank performance is thus moderately satisfactory.

Overall Bank Performance Rating

Moderately Satisfactory
a. Social and Poverty

An unforeseen impact of the national benefit for the elderly (PA6) was that it benefited single person households (about 48 percent of the recipients) more than planned. This was a positive result, as elderly living in single-person households were deemed the most vulnerable group for at-risk of poverty.

b. Environmental

None noted

c. Gender

None noted

d. Other

None noted

10. Quality of ICR

Rationale

The ICR is comprehensive, technically strong, and well referenced to credible sources with robust evidence to support the achievements reported. This is the case both for the background of the country but also in case of justifying the indicators; for example, RI5 uses the Central Bureau of Statistics as well as other internal and external sources to present a range of disaggregated data on age groups and gender disaggregation of relevance to the PA. While the ICR is internally consistent, the ICR is long and does not always read easily, indicating that an editorial review could potentially have made it more concise.

The ICR strikes a fine balance in terms of explaining and justifying the decisions made in putting together the DPL while also candidly outlining shortcomings and areas that could have been improved (for example, in relation to PA2 and PA6 that both missed their targets, and identifying the need for more proactive monitoring.

The ICR presents and reviews PAs and RIs consistently although the assessment of RI relevance could have been more critical. Section II, b, and annex 1 present all data and results chain, linking up evidence in a comprehensive manner and pointing to potential improvements. For example, it points out the need for further analysis of the issues underlying the shortfall of the newly introduced benefit for the vulnerable elderly reaching the intended number of beneficiaries, despite the authorities' strong commitment.
a. Rating

Substantial

11. Ratings

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<td>Quality of ICR</td>
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12. Lessons

The ICR outlines four lessons learned that are consistent with the evidence and findings. An example is the readiness of the Bank to respond to the crisis in Croatia based on a strong partnership with the authorities and a pre-existing analytical foundation. The readiness referred to in the ICR was based on a long-standing relationship with the authorities, a recent Country Partnership Framework that was informed by a Systematic Country Diagnostic and additional analytical work (including RAS based ASA). This enabled the Bank to put together a well-designed emergency operation in only two months, providing a swift response to the unfolding crisis as well as pursuing higher level objectives.

DPLs, even emergency DPLs, should have objectives narrow enough to be able to track progress to targets as a result of the PAs. In the case of this operation, the second objective was therefore excessively broad.

The World Bank can use DPLs to play a constructive and catalytic role in helping clients in higher-income countries access and absorb funds from other sources. Croatia has been a member of the EU for almost a decade but still faced hindrances to adjustment to the requirements of the European single market, and in turn, fully taking advantage of EU funding. The Bank can help unlock significant amounts of funding from the European Structural and Investment Funds for the use of the public and private sector for a recovery.

13. Project Performance Assessment Report (PPAR) Recommended?

No