

Croatia

2025 - 2030

Country Partnership Framework



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2025 - 2030

Country Partnership Framework

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European Union Country Management Unit
Europe and Central Asia Region**

**The International Finance Corporation
Europe Region**

The Multilateral Investment Guarantee Agency





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Abbreviations and Acronyms

AI	Artificial intelligence
AROP	At-risk-of-poverty
ASA	Advisory Services & Analytics
CCDR	Country Climate and Development Report
CEB	Council of Europe Development Bank
CEE	Central and Eastern Europe
CEM	Country Economic Memorandum
CLR	Completion and Learning Review
COVID-19	Coronavirus disease of 2019
CPF	Country Partnership Framework
DARP	Distressed Assets Recovery Program
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG REGIO	Directorate-General for Regional and Urban Policy
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
EIB	European Investment Bank
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
EU	European Union
EU27	European Union with 27 Members
Eurostat	Statistical office of the European Union
EV	Electric vehicle
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
GHG	Greenhouse gas
GVC	Global value chain
HCR	Human Capital Review
HDZ	Croatian Democratic Union
IBRD	International Bank for Reconstruction and Development
ICAM	Institutional Change Assessment Method
ICT	Information and communication technology
IDA	International Development Association
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
IPF	Investment Project Financing
MIGA	Multilateral Investment Guarantee Agency
MFF	Multiannual Financial Framework

MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NDS	National Development Strategy
NEET	Not in employment, education or training
NGEU	NextGenerationEU
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
PBC	Performance Based Conditions
PFR	Public Finance Review
PforR	Program for Results
PISA	Programme for International Student Assessment
PLR	Performance and Learning Review
PPP	Purchasing power parity
RAS	Reimbursable Advisory Services
R&D	Research and development
RDNA	Rapid Damage and Needs Assessment
RRF	Recovery and Resilience Facility
SCD	Systematic Country Diagnostic
SG REFORM	Reform and Investment Task Force
SMES	Small and Medium Enterprises
SOE	State-owned enterprise
SORT	Standardized Operations Risk-Rating tool
STEM	Science, technology, engineering, and mathematics
TF	Trust Fund
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and Vocational Education and Training
UN	United Nations
US\$	United States Dollar
WBG	World Bank Group

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The date of the last Performance and Learning Review was March 13, 2023, Report No. 180636.

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FISCAL YEAR

July 1 to June 30



1. Introduction

Over the past decade, Croatia demonstrated significant progress in economic development and improvement in living standards for its citizens. Economic performance during this period—including the country’s strong recovery following its pandemic-induced recession—was underpinned by sound economic management and notable reforms. Growth benefited significantly from the tourism sector rebound, which accounted for 19 percent of gross domestic product (GDP) in 2024. In addition, significant inflows of European Union (EU) funds during 2020–24, cumulatively totaling around 19 percent of 2023 GDP, helped boost public investment and economic growth. Croatia’s growth has contributed to substantial progress in living standards, with GDP per capita in purchasing power parity (PPP) terms increasing from 60.7 percent of the average EU27 level in 2015 to 76.8 percent in 2024.

However, in order to sustain strong growth and progress on shared prosperity and poverty reduction, Croatia needs to tackle several fundamental challenges. First, Croatia needs to increase the overall productivity of its economy by boosting private sector investment, promoting diversification of the economy toward higher value-added sectors, and addressing remaining business environment challenges that reduce dynamism in the market. Second, Croatia needs to contend with demographic challenges that are contributing to shortages of labor with the skills required to sustain growth. Third, as a country with rich environmental endowments that also underpin its large tourism sector, Croatia needs to decouple its growth from environmental pressures associated with water use and air pollution and manage its significant exposure to extreme weather risks. This will require better managing natural resources, reducing pollution, and mitigating environmental and climate risks. Croatia also needs to increase energy efficiency and expand renewable energy sources to reduce risks associated with global energy price volatility and improve economic performance in key sectors. Finally, despite recent progress, further strengthening of institutions is needed to sustain economic and social development and enable Croatia to tackle its development challenges effectively.

Against this background, the World Bank Group (WBG) plans to focus its program on addressing Croatia’s most acute development challenges. This FY25–FY30 Country Partnership Framework (CPF) is designed to help Croatia achieve its development ambitions while addressing frontier development challenges that generate global knowledge. The CPF aims to foster sustainable and inclusive economic growth through two Outcomes: (1) increased investment and more productive jobs and (2) increased environmental resilience (Figure 1). Across all activities of the CPF, strengthening institutions for resilient and inclusive growth will be a priority. The CPF is fully aligned with the WBG Corporate Scorecard, covering three Scorecard Outcome Areas (More and Better Jobs, More Private Investment, and Green and Blue Planet and Resilient Populations) and measured by five Scorecard indicators.

Figure 1: Croatia CPF FY25–FY30



The CPF is based on extensive country diagnostics and is aligned with government priorities and the WBG’s mission of ending poverty and boosting shared prosperity on a livable planet.

It draws on the Systematic Country Diagnostic (SCD) Update 2024, Country Economic Memorandum (CEM) 2023, Public Finance Review (PFR) 2023, Human Capital Review (HCR) 2024, Country Climate and Development Report (CCDR) 2025 (ongoing), as well as the Completion and Learning Review (CLR) of the FY19–24 CPF. The priority areas identified are aligned with the Croatian Government Program 2024–28, National Development Strategy (NDS) of Croatia by 2030, and Croatia’s National Recovery and Resilience Plan (NRRP) 2021–26. The formulation of the CPF benefited from consultations with a broad range of partners and stakeholders.

The CPF program for Croatia is highly selective and focuses on unlocking private financing and developing innovative solutions.

The WBG proposes a selective program with around US\$700 million in International Bank for Reconstruction and Development (IBRD) lending and around US\$1 billion in International Finance Corporation (IFC) financing over the FY25–FY30 CPF period, subject to adjustments through an annual business planning process.¹ Croatia will continue to have access to all WBG instruments, with a flexible “if and then” approach used as a basis for increasing the ambition and scale of the program in line with the country’s demand and commitment. IBRD will support policy reforms and public sector investments to help unlock private and public capital and achieve the CPF outcomes, while in a complementary way IFC and MIGA will help catalyze private sector solutions and capital to achieve these ends. The WBG program will prioritize innovative demonstration projects and investments that can be scaled up using public and/or private financing. The WBG will aim at mobilizing private sector financing through its unique blend of financing and advisory instruments and structuring know-how. To operationalize this approach, under the identified Outcomes, the CPF will utilize one of two filters to select its interventions in Croatia. First, the WBG will choose activities where it will leverage financing, notably capital mobilized from the private sector. Second, it will provide innovative solutions that can help generate knowledge as a global public good, applicable to other countries.

The FY25–FY30 CPF will have a strong knowledge focus and will further strengthen Croatia’s contribution to the global development agenda.

During the previous CPF, the WBG’s global knowledge was used by Croatian authorities to inform the country’s reforms and investment agenda. More importantly, the knowledge generated by the WBG in Croatia proved to be and will continue to be valuable to other WBG clients—from low- to high-income countries—across various regions. For example, knowledge generated from the Croatia public wage work has been shared with nine countries in four different regions, while knowledge generated from Croatia’s innovation work has been implemented in five countries. The CPF will therefore deepen the partnership with Croatia to increase the country’s role as a source of knowledge and experience on development issues, with a focus on global challenges. The CPF will also deepen the WBG’s partnership with Croatia in global development, including through the country’s increased role as an International Development Association (IDA) donor.

Strong partnerships will underpin WBG engagement in Croatia. To increase development impact, the WBG will work in close partnership with other development partners—including

¹ Actual IBRD lending will depend on factors including country and program performance, global economic developments which affect IBRD’s financial capacity and demand by other Bank borrowers.



the European Commission (EC), which provides significant resources to Croatia—and synergistically with international organizations such as the Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and United Nations (UN) agencies, as well as bilateral partners. The WBG will also aim to increase its development impact by working with all relevant stakeholders to achieve targeted results, including private sector, academia, and civil society organizations.

The CPF is consistent with IBRD's graduation policy and reflects IFC and MIGA's evolving additionality. While Croatia's gross national income per capita is above the IBRD Graduation Discussion Income (GDI) threshold, the country needs to tackle several fundamental challenges that require WBG technical and financial support. Croatia has access to capital markets and EU funds, but these will only partially cover its financing needs, and issues ranging from the low administrative capacity of public institutions to internal regulatory barriers and implementation deficiencies, unless addressed, constrain their access and use. More broadly, multifaceted institutional, developmental and sustainability challenges affect Croatia's ability to sustain economic growth and social progress, while its administrative capacity will need to improve to achieve the country's development ambitions and meet global challenges in a volatile geopolitical context. The WBG program in this CPF period is designed accordingly. IBRD aims to strengthen Croatia's institutions, build administrative capacity, and improve public sector service provision and coordination, while advancing foundational reforms and policies needed for sustainable and inclusive private-sector-led growth, as both are required for sustainable IBRD graduation. IFC and MIGA additionality, particularly in providing scarce, riskier, capital and innovative financial products, will be an increasingly important driver for Croatia's future development. The Government has requested continued—yet selective—access to the full range of WBG instruments. Due to the complexity of development challenges that Croatia faces, their multi-sectoral nature, and the need to support further strengthening of institutional capacity as well as coordination among institutions for complex development challenges, the WBG is well placed to support Croatia on its long-term structural transformation and reform agenda.



2.

Country Context and Development Agenda

2.1 Political Context

Croatia's strong reform agenda and robust economic performance have been underpinned by political and social stability over the past eight years. Croatia has benefited from almost a decade of political stability, with the Croatian Democratic Union (HDZ)-led coalition winning a record third consecutive term in the April 2024 parliamentary elections. This political stability has enabled Croatia to complete significant reforms supported by Croatia's membership in the EU (since 2013) and unlocked accession into both the euro zone and Schengen area (since 2023). It has also advanced Croatia's aspirations to join the OECD, currently planned for 2026 or 2027. While the political stability translated into continuous commitment to the reform agenda, frequent cabinet reshuffles affected some line ministries and at times also affected the efficacy and the pace of sectoral reforms.

2.2 Recent Economic Developments

Croatia is a small, open economy that has achieved significant progress in economic development, despite major shocks. Annual GDP growth averaged 2.2 percent between 2003 and 2024, and GDP per capita increased from US\$8,190 in 2003 to US\$23,931 in 2024. However, growth was uneven, and the country was hit by several shocks. The global financial crisis in 2008 led to a six-year recession and was a major setback on Croatia's path to convergence with the EU. More recently, the coronavirus disease 2019 (COVID-19) pandemic in 2020 caused the steepest recession in Croatia's history due to the country's strong reliance on tourism, which contributes close to 20 percent to its GDP. This was exacerbated by higher energy prices beginning in 2021, which affected the cost of energy in Croatia given its heavy reliance on energy imports and led to higher transport and production costs and household expenditures. Nevertheless, the economic recovery was quick thanks to large and responsive fiscal and monetary support schemes, including energy price caps and the inflow of abundant EU funds (in excess of €13 billion or 19 percent of 2023 GDP).

Croatia's membership in the EU since mid-2013 has had a major positive impact on the country's economic growth over the last decade. Access to the single market supported recovery from the recession by allowing Croatian firms to better integrate with European partners, leading to a gradual rise in exports of goods and services from 39 percent of GDP in 2012 to 50 percent in 2024. Almost three-quarters of this growth can be attributed to more intense trade with other EU Member States, especially Central and Eastern Europe (CEE) countries. Absorption of EU funds in excess of €16 billion until 2024 supported domestic demand, especially large public investment but also private investment in productive assets to some extent. Similar benefits are expected until the end of this decade. Namely, the new Multiannual Financial Framework (MFF) as well as the NextGenerationEU (NGEU) program, including the Recovery and Resilience Facility (RRF), give Croatia access to about €20 billion of EU funds over the next five years, an amount equal to one-quarter of the country's GDP in 2024.

Recent GDP growth rates have been robust, supporting Croatia's accelerated income convergence with the rest of the EU, but the country's growth drivers are reaching their potential. Over the last three years, average GDP growth reached 4.8 percent, consistently outpacing average growth in the EU and the euro area. Consequently, the income convergence process has accelerated, and in 2024, Croatia reached 76.8 percent of the average EU27 level of income (in PPP), up from 67.3 percent in 2019. In light of strong growth, a reduction in public debt, and a solid track record in NRRP implementation, all three leading global credit rating agencies increased Croatia's credit

rating in 2024 to above-average credit quality. However, economic growth has become increasingly dependent on consumption and public investment, largely driven by rising wages, expansionary fiscal policy, and the inflow of EU funds. Moreover, the tourism sector—one of the key drivers of economic growth—is showing signs of reaching peak capacity and faces environmental carrying capacity constraints.

Labor market conditions have tightened, and wage growth has been strong amid stagnant productivity, potentially weighing on Croatia’s competitiveness. The employment-to-population ratio for the working-age population (ages 15–64) has been rising and reached 68.3 percent in the 2024, 2.5 percentage points below the EU average. Strong demand for labor in the context of natural population decline, outward migration, and aging has created a significant shortage of labor in almost all economic sectors, only partly mitigated by the strong inflow of foreign workers who now account for almost 10 percent of overall employment. Tight labor market conditions in the inflationary environment have put strong pressures on wages which have been growing rapidly over the last three years, surpassing the rise of prices. At the same time, subdued labor productivity growth in the context of rising wages constrains Croatia’s external competitiveness.

Despite its robust economic performance, sustaining the recent income convergence over the long run is far from certain. In the medium term, economic growth will likely remain robust (Table 1), supported by a strong inflow of EU funds, booming tourism sector, rising employment, and large inflows of workers’ remittances. However, the level of financing from the EU is likely to decline after 2029 as Croatia’s income per capita gap with the EU average continues to narrow. Also critically, long-term growth is expected to be dampened by various structural headwinds, including from unfavorable demographic developments, low labor productivity, and inefficiencies in public institutions. If these structural issues remain unaddressed, the projected pace of growth in the post-2030 period will not be sufficient to reach average EU income levels.

Table 1. Macroeconomic outlook

OUTLOOK	2022	2023	2024e	2025f	2026f	2027f	2028f	2029f	2030f
Real GDP growth, at constant market prices	7.3	3.3	3.8	3.3	3.2	2.9	2.8	2.8	2.6
Private Consumption	6.9	3.0	5.6	3.4	3.0	2.8	2.7	2.6	2.3
Government Consumption	2.2	7.1	4.5	3.2	2.9	2.6	2.4	2.0	2.4
Gross Fixed Capital Investment	10.4	10.1	9.9	7.2	5.7	2.3	3.0	3.0	2.2
Exports, Goods and Services	27.0	-2.9	0.9	1.9	2.3	2.5	2.5	2.5	2.6
Imports, Goods and Services	26.5	-5.3	5.3	3.5	3.2	2	2.3	2.2	2.0
Real GDP growth, at constant factor prices	8.4	3.5	3.6	3.6	3.2	3.0	3.0	2.8	2.7
Agriculture	1.3	2.0	0.4	1.0	1.0	0.80	1.2	1.3	1.2
Industry	5.9	0.6	2.1	2.3	2.3	1.70	1.9	2.0	1.9
Services	9.6	4.5	4.2	4.1	3.6	3.43	3.4	3.1	3.0
Inflation (Harmonized Index of Consumer Price)	10.7	8.4	4.0	3.6	2.4	2.1	2.1	2.0	2.0
Employment (% of Working Age Population)	49.2	49.9	52.3	53.5	54.5	55.3	56.0	56.6	57.0
Current Account Balance (% of GDP)	-3.5	0.4	-0.9	-1.3	-1.6	-1.3	-1.0	-0.3	0.1
Net Foreign Direct Investment (% of GDP)	5.4	1.9	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Fiscal Balance (% of GDP)	0.1	-0.9	-2.5	-2.2	-2.0	-1.9	-1.5	-1.2	-1.0
Revenues (% of GDP)	45.0	45.8	45.7	46.0	45.9	45.0	45.0	44.9	44.9
Debt (% of GDP)	68.5	61.8	59.0	56.5	55.2	54.0	52.4	50.7	49.2
Primary Balance (% of GDP)	1.4	0.4	-1.2	-0.9	-0.8	-0.7	-0.3	0.0	0.3

Sources: Croatian Bureau of Statistics, Ministry of Finance, Croatian National Bank, World Bank forecast.
Notes: e = estimate, f = forecast.



Zagreb Croatia

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Expansionary fiscal policy has been supporting economic growth in recent years, but now gradual consolidation is needed to create fiscal space for large investment needs in the future. The fiscal stance shifted from contractionary in the 2021–22 period to expansionary in 2023–24, reflecting an increase in the public sector wage bill and pensions. While public debt has remained on a downward path and fell below 60 percent of GDP in 2024, it remains vulnerable to adverse shocks. In such a context, consolidation efforts are needed over the medium run to create (1) fiscal space for addressing large investment needs, particularly related to strengthening the Croatian economy’s competitiveness through the adoption of digital and clean technologies and enabling access to lower-cost and sustainable energy sources, and (2) sufficient fiscal buffers to build resilience against shocks. This is even more important given the anticipated decline in the availability of EU funds that currently finance a large part of public investment.

2.3 Poverty, Inequality, and Livability

Croatia has reduced poverty through rising incomes, but the share of the population at risk of poverty remains high. Over the past decade, real per capita household income grew at an average annual rate of 4.7 percent, driving the poverty rate at the upper-middle-income line (US\$6.85 a day at 2017 PPP) down from 8.1 percent in 2012 to 1.9 percent in 2022. Rising food and energy prices in recent years threatened these gains, but government support to households and firms helped mitigate the impact. Despite this progress, 19.3 percent of the population still lives below 60 percent of the median national income, ranking Croatia’s at-risk-of-poverty (AROP) rate as the 7th highest in the EU among member states with available data. Vulnerable groups—including the elderly, low-educated individuals, unemployed, and marginalized communities like the Roma—remain at high risk, highlighting the need for targeted policies.

Although Croatia has made progress on shared prosperity, persistent inequalities across different population groups and areas limit broader economic gains. Croatia has experienced inclusive growth over the past decade, with the real per capita income of the poorest 40 percent growing at an average annual rate of 5.8 percent between 2012 and 2022, outpacing the national average. Croatia’s shared prosperity premium is 0.7 percentage points, the 10th highest in the EU. In 2022, Croatia had less than 2 percent of its population below the US\$6.85 upper-middle-income country (UMIC) poverty line—well below the 5.5 percent average for upper-middle and high-income countries in the Europe and Central Asia (ECA) region. However, Croatia’s at-risk-of-poverty rate was over 3 percentage points higher than the ECA upper-middle and high-income country average. In terms of inequality, Croatia performs better, with a Gini coefficient nearly 1 point below the ECA regional average for upper-middle and high-income economies. Nonetheless, significant disparities persist. Rural AROP rates (25 percent) are twice as high as urban rates (12.3 percent), with nearly half of the country’s poor living in rural areas. Gender gaps further exacerbate inequality, with Croatia ranking 20th out of 27 EU countries in the 2023 EU Gender Equality Index, 9.5 points below the EU average. Women are disproportionately burdened by unpaid care and domestic work and are underrepresented in high-paying sectors where women also earn 13 percent less than men, the wage gap being even larger among individuals with lower levels of educational attainment.

Extreme weather events and a changing climate are increasing risks to lives and livelihoods. Extreme heat events are expected to affect water security, agricultural production, food security,

and heat-related morbidity and mortality rates. With drier and hotter summers, Croatia will be increasingly vulnerable to the risk of droughts and wildfires. The country is also expected to face higher intensities of other disaster events including flooding and strong winds as well as risks from geological hazards such as earthquakes and landslides. These natural and weather-related disasters are expected to affect poor and vulnerable households disproportionately and affect people and assets concentrated in cities and along coastlines. Furthermore, while the country has ambitious plans to switch to a cleaner economy in line with EU targets, those plans could affect poor and vulnerable households—particularly those concentrated in economically lagging regions where poverty levels are above average.

2.4 Main Development Challenges

Croatia has the potential to accelerate sustainable, resilient, and inclusive growth if it can address four main development challenges. Croatia is well positioned to be an advanced economy with increased prosperity for all of its population. It has benefited from strong growth over the last five years, has a rich natural resource endowment, and is strategically located on the Adriatic coast at the crossroads of central and southeastern Europe. To achieve growth that is broadly shared and sustainable, Croatia will need to tackle four major development challenges: (1) institutional gaps and inefficiencies in the public sector; (2) low private sector dynamism, productivity, and investment; (3) rapid demographic change leading to labor and skill shortages while straining social service delivery; and (4) environmental sustainability and disaster and climate vulnerabilities.

2.4.1 INSTITUTIONAL GAPS AND INEFFICIENCIES IN THE PUBLIC SECTOR

Croatia has made significant progress in strengthening its institutions and improving public sector efficiency, creating a strong foundation for future reforms. The pace of institutional reforms gained renewed momentum in the 2020s, propelled by commitments under the NRRP and aspirations for OECD membership. Notable examples include the public sector wage reform, which has aligned Croatia with good practices across regions, and improvements in several key justice indicators such as reductions in the backlog of old cases and disposition times. Nonetheless, there is a need to further strengthen governance structures in multiple areas where performance indicators lag behind EU averages, including with respect to regulatory quality, control of corruption, and rule of law. Inefficiencies in public service provision have diminished trust in the state at both the national and local levels, making it more challenging for the government to advance the structural reforms needed to propel Croatia's competitiveness and growth.

Strengthening cross-government coordination and administrative efficiency will be vital for Croatia to tackle its next generation of challenges and to increase the overall effectiveness of structural reforms. While the Government's capacity for strategic planning and public policy making has improved (as demonstrated by Croatia's positive reform performance under the NRRP), policy implementation is held back by weak cross-government coordination and insufficient administrative capacity. Fragmentation among ministries, agencies, and local governments leads to delays in decision-making, inconsistent policy execution, and duplication of efforts, undermining the impact of reform initiatives. This lack of coordination is particularly

evident in areas requiring multi-sectoral collaboration, such as strengthening the investment environment, modernizing public administration, and environmental protection.

Limited institutional and financial capacity at the level of local government contributes to inefficiencies in public service delivery. Croatia's administrative-territorial structure is characterized by many small local government units with limited collaborative arrangements in place, affecting economies of scale for public services and reducing the capacity to make strategic infrastructure investments and attract private investors. The challenges of fragmentation are compounded by capacity constraints at the local government level, lack of clear delineation of responsibilities between different levels of government, and insufficient fiscal capacity.

Despite recent progress in the commercial justice system, significant room remains to improve performance and public confidence by increasing efficiency, reducing transaction costs, and lowering uncertainty for investors. While the Croatian justice system has made improvements in reducing the length of proceedings and backlogs, legal processes remain protracted and inefficient compared to those in other EU member states. This creates barriers to business growth, investment, and economic competitiveness. Prolonged times to resolve cases and a broad lack of trust in the judiciary create uncertainty in contract enforcement, raise transaction costs for investors, and are cited as important impediments to investments in Croatia. Delayed conflict resolution particularly affects smaller and younger firms, reflecting in part the limited use of mediation and arbitration and reducing market contestability. Challenges in the justice sector stem from cumbersome administrative procedures, gaps in management skills among justice officials, lack of digitalization, and inadequate infrastructure that lacks modern judicial standards and energy efficiency. Uncertainties in land rights and lengthy processes for land transactions also affect the investment climate and impinge on land markets and land use planning.

Finally, despite improvements, the governance framework for state-owned enterprises (SOEs) in Croatia needs further modernization. SOEs play a significant role in the country's economic activity and public service provision, particularly in the energy and transport sectors. Improving their governance framework could strengthen financial outcomes and operational performance, reduce fiscal costs, increase innovation and productivity, and encourage SOEs to play a more prominent role in climate action. These reforms would in turn facilitate and foster private investment. A new SOE law aimed at strengthening SOE corporate governance, along with subsequent regulations, is expected to be adopted in 2025. It has the potential to establish clearer criteria for the state's participation in commercial activities, create a more centralized coordination of SOE ownership functions, and align Croatia's SOE governance with OECD standards. However, full implementation will require substantial effort and commitment in the upcoming years.

2.4.2 LOW PRIVATE SECTOR DYNAMISM, PRODUCTIVITY, AND INVESTMENT

Productivity in Croatia remains weak—a reflection of low private investment, a skewed composition toward lower-productivity sectors, and a limited footprint in regional value chains. Total factor productivity of the Croatian economy increased by 11.2 percent in the

period between 2004 and 2023, compared to an average of 30.3 percent in CEE peer countries.² Over the past five years, private sector investment has averaged 16.3 percent of GDP, below the EU27 average of 19 percent. Croatia's average net foreign direct investment (FDI) inflows of 2.4 percent of GDP between 2011 and 2020 were lower than the region's average of about 5 percent. Economic activity and investment are concentrated in industries with lower value-added such as tourism and traditional services, while higher-productivity sectors, such as information and communication technology (ICT), high-tech manufacturing, and knowledge-intensive services, account for a lower share of the economy. This weak and narrowly focused investment constrains the diffusion of technology and innovation, hampering total factor and labor productivity growth and economic competitiveness. In addition, limited integration into global and regional value chains restricts the transfer of advanced technology and know-how, exacerbating productivity gaps within sectors.

Firm and market dynamism is constrained by the rigid business environment. While the composition of economic activities explains part of the productivity gap, market inefficiencies and frictions reflecting barriers to competition play a more significant role. With one of the lowest firm densities per capita in the EU, market dynamism remains subdued, reflecting obstacles to the efficient reallocation of resources toward more productive enterprises. A rigid business environment—shaped by cumbersome insolvency procedures, restrictive regulations in professional services, barriers to services trade, and bureaucratic complexities—allows inefficient firms to persist due to weak competitive pressures. Encouragingly, firm entry has increased in recent years, although rising markups over the past decade show the potential for addressing remaining constraints to meaningful competition.

Despite notable progress in lowering administrative and regulatory burdens, firms continue to face cumbersome regulations and market entry restrictions. Croatia has adopted business regulations that follow international practices, for example in advancing digital services for standard government procedures, further digitalizing business permitting, and establishing the START (Plus) platform for online business registration and licensing. However, incomplete or ineffective implementation has resulted in burdensome regulations in practice. Entrepreneurs still face duplicative business registration processes, making market entry more difficult. Notably, Croatia has fewer female entrepreneurs than male entrepreneurs (7.8 percent compared to 16.0 percent in 2023), and female entrepreneurs often lack access to systematic support such as skills development, entrepreneurship, and financial training as well as suitable financial products.

Public investment in research and development (R&D) has increased, but it needs to be accompanied by further private investment in research, deeper industry-science linkages, and strengthened managerial capabilities within firms. Gross investment in R&D improved from 0.95 percent of GDP in 2018 to 1.39 percent in 2023 but was below the EU average of 2.22 percent in 2023 and also below the averages for middle-income and upper-middle-income countries based on 2021 data. The research system lacks the capacity to produce cutting-edge and proprietary knowledge from R&D, reflecting gaps in both human and physical capital. Despite ongoing reforms, research excellence is underdeveloped, and knowledge transfer to the private sector is weak, limiting commercialization and the diffusion of innovation. Firms

² European Commission Directorate General for Economic and Financial Affairs' AMECO database



lack the managerial capabilities necessary to integrate new technologies and innovate. The innovation pipeline is also constrained by a gap in public and private funding that is particularly pressing for young, dynamic firms, who are less likely to access private finance and to receive EU funds, thus limiting economic dynamism.

Financing options for Croatian firms are limited, restraining investment and innovation.

Croatian firms rely less on external financing than their EU peers and have lower levels of capitalization, limiting their growth potential. The financial market remains heavily dominated by banking finance which is often inaccessible to younger and smaller firms that lack collateral or credit histories, creating barriers for entrepreneurship, particularly among vulnerable groups. Capital markets in Croatia are among the smallest in the EU, and the limited availability of capital makes it difficult for start-ups, small and medium-sized enterprises (SMEs), and young and innovative firms to secure the risk financing needed to bring innovations from concept to market.

2.4.3 LABOR AND SKILLS SHORTAGES

Labor and skills shortages have become a major constraint to raising labor productivity and to achieving sustained and accelerated long-term growth and job creation.

The share of managers complaining about labor shortages has been on the rise since 2016. In 2023, over 30 percent of managers in the manufacturing and services sectors and over 50 percent of managers in construction identified labor shortages as a critical factor limiting their business growth. Businesses struggle to find workers with the necessary skills to raise their productivity and compete in an increasingly digital and globally integrated economy. According to the Global Competitiveness Report, Croatia ranks 128th out of 144 countries in the skills of the current workforce. These skills challenges have contributed to low labor productivity: in 2022, labor productivity per employed Croatian per hour was only 78 percent of the EU average, making Croatia's labor productivity among the lowest in the EU.

A key factor behind the labor and skills shortages has been demographic change, which has also contributed to other pressing development challenges.

Due to low birth rates and high outmigration, Croatia's population is rapidly shrinking and aging. The population shrank from 4.3 million in 2002 to 3.9 million in 2022 and is expected to decline further to 3.3 million by 2050. Moreover, by 2050, approximately one-third of the population will be age 65 or above. In addition to being a key factor behind labor and skills shortages, demographic change also presents Croatia with other development challenges such as providing better-quality yet affordable health care and long-term care services for an aging population and improving the equity and fiscal sustainability of the pension and social assistance systems. Poverty rates are noticeably higher among the elderly (56.4 percent in 2021) than among the population as a whole (18.1 percent).

Increasing labor force participation and managing the need for migrant labor will be critical to addressing labor market shortages.

First, labor force participation rates are low, including among women, older workers, and disadvantaged groups such as Roma. The participation of women ages 20–64 in the labor market in 2024 was the 5th lowest in the EU at 74.1 percent, below the EU average of 75.3 percent. Underlying factors include the relatively generous early retirement options in the pension system and the gaps in provision of long-term care which contribute to many Croatians—especially women—leaving the workforce to provide care for

elderly family members. Second, while Croatia has recently experienced a significant inflow of foreign workers which has helped relieve acute labor and skills shortages, developing a more systematic strategy for leveraging labor mobility to address shortages remains a work in progress.

In addition, significant room remains to further improve the quality, relevance, and efficiency of Croatia's education, training, and active labor market programs to increase the productive potential of the labor force. Although Croatian students fare well on knowledge tests like the Trends in International Mathematics and Science Study (TIMSS) assessments, further emphasis on foundational skills, better school management practices, and updated teaching methods and curricula are needed to address the consistent underperformance in the Programme for International Student Assessment (PISA) real-world application tests, especially in mathematics. The situation is exacerbated by relatively low tertiary education attainment, quality, and relevance. The share of individuals ages 25–34 with tertiary education credentials in Croatia was 35.5 percent in 2022, compared to the OECD average of 47 percent. The overall share of Croatians with tertiary education and the share of science, technology, engineering, and mathematics (STEM) graduates are below the EU averages, particularly among women. In parallel, the proportion of young people ages 15–29 not in employment, education or training (NEET) at 11.8 percent in 2023 is above the EU average. Croatia also has further room for Technical and Vocational Education and Training (TVET) and active labor market programs to promote employability, especially among excluded or disadvantaged groups.

Labor and skills shortages have been further exacerbated by labor mobility constraints related to the lack of affordable housing, especially in thriving areas. Since 2015, house prices have increased by 80 percent, surpassing household income growth, so housing has absorbed an increasing share of household income. Low tax rates on short-term rental income, lack of recurrent taxes on immovable property, government mortgage loan subsidies, and strong foreign demand have all resulted in rising prices and a lower supply of residential housing. The lack of affordable housing has been particularly acute in thriving regions, hindering the internal mobility of workers and exacerbating the labor and skills shortages in those regions.

2.4.4 ENVIRONMENTAL SUSTAINABILITY AND DISASTER AND CLIMATE VULNERABILITIES

Croatia's economic competitiveness is increasingly linked to how well it manages its natural resources and assets. This is particularly the case for the country's large tourism sector, which is based on the quality of its natural environment. Croatia faces increasing environmental degradation and natural resource depletion resulting from waste and air pollution, marine litter, overfishing, extensive tourism, and coastal developments. This is compounded by insufficient management and protection of natural resources, high water losses, poor waste management practices (including reliance on sanitary landfills and pervasive illegal dumping), and relatively low levels of recycling and circularity. A 2021 World Bank study estimated the annual cost of environmental degradation to be about €150 million per impact area addressed, with the costs related to tourism alone estimated at about €55 million.

Compounding this, Croatia is susceptible to a variety of weather-related hazards as well as earthquakes, which pose additional risks to its economic and social resilience. Over the past decade, disasters have had significant physical, social, and financial impacts. Between 1980–2020, Croatia incurred total losses of €2.86 billion due to weather- and climate-related

extreme events.³ Overall, Croatia is relatively more vulnerable to changing climate patterns than the average high-income country and most EU countries, while being relatively less ready to face the consequences.⁴ The 2020 earthquakes further highlighted Croatia's disaster vulnerability, including for public infrastructure and residential buildings, with reconstruction and recovery needs estimated at €25.9 billion. This series of events highlighted institutional capacity constraints related to disaster and climate resilience and preparedness. Croatia is one of the EU countries most affected by wildfires, ranking 4th in terms of annual average burned areas (as percentage of total country area), with major fire seasons in 2017 (67,666 ha burned) and 2022 (149 fire incidents).

To ensure disaster preparedness and increase disaster resilience, Croatia needs to implement a broader disaster risk financing and insurance strategy. Croatia has relatively low levels of insurance to protect against disaster risk such as floods and earthquakes, so its population and businesses are generally less resilient. While the government has prioritized disaster risk financing—including with a new law being put in place to require landlords to have property catastrophe insurance—insurance penetration continues to be below 50 percent for all perils.⁵ This leaves the financial burden associated with post-disaster recovery to individuals. Furthermore, to finance expenditure after a disaster, Croatia utilizes budget reserves and does not have a fiscal strategy dedicated to disaster risk, which places a significant burden on the budget.

Croatia will also need to further prepare its economy and businesses for increasingly stringent environmental regulations, energy price volatility, and an overall shift in global markets toward sustainability. As an EU member state, Croatia has committed to contributing to the EU's collective 2030 emission reductions target and its 2050 carbon neutrality target. While Croatia's greenhouse gas (GHG) emissions are below the EU average and only slightly above the worldwide average, the economy's emissions-intensity (emissions per unit of GDP) is higher than the EU average. As of 2022, energy was the largest contributor to Croatia's gross GHG emissions (43 percent) followed by the transport sector (27 percent), so these sectors require particular attention.⁶

To increase its economic resilience, Croatia needs to maximize its renewable energy potential and further diversify its energy mix. Croatia's energy mix in 2023 included 71 percent fossil fuels and 27 percent renewables. Croatia's energy self-supply has been declining since 2015 and dropped below 45 percent in 2023. As a result, the country's reliance on imported energy is growing. Although national strategies set an objective for self-supply capacity of over 55 percent by 2030, the growth in self-supply will largely depend on the further development of renewable energy sources. Barriers to accelerating renewables include limited private sector investment, insufficient investment in the grid, challenging administrative procedures, and a regulatory gap for grid connection of renewables. Strategies to manage the impacts of major energy infrastructure investments on future tariff increases on end-consumers are also

³ Škrinjarić, T. (2023). What Are the Short- to Medium-Term Effects of Extreme Weather on the Croatian Economy? *Croatian Economic Survey* 25, no. 1 (June): 33–78.

⁴ Notre Dame University (2024): ND-GAIN Index.

⁵ European Insurance and Occupational Pensions Authority Dashboard - Dashboard on insurance protection gap for natural catastrophes.

⁶ Government of Croatia (2024): National GHG Inventory Report. The energy sector covers all activities with combustion from stationary, and fugitive emissions from fuels (that is, emissions that escape during extraction, processing, or transportation of fossil fuels), minus fuel combustion in transport, which are reported separately here.

insufficient and pose a major obstacle to unlocking much-needed grid investments. At the same time, Croatia aims to become a regional energy hub and reduce its energy import dependence. Yet without faster and more significant progress in renewable energy development, continued reliance on imported fossil fuels and hydropower may expose the country to energy security vulnerabilities and potential price shocks.⁷

Croatia can lower its emissions intensity by improving its energy efficiency. On the energy demand side, buildings consume about 40 percent of total energy in Croatia (largely for heating/cooling). While energy efficiency improvements can bring cost savings along with reduced emissions, Croatia is significantly behind in matching the REPowerEU ambitions for renewable heating⁸, and its building renovation rate lags its targets, as well. Croatia's transport sector has the lowest share of renewables among EU countries as well as one of the lowest electrification rates.

⁷ Fossil fuels accounted for 71 percent of Croatia's total energy supply in 2023, and hydroelectric power accounted for 43 percent of gross electricity supply.

⁸ REPowerEU is an EU plan aimed at reducing Europe's dependence on fossil-fuel and accelerating the transition to green energy.



3.

Country Partnership Framework: Selectivity and Ambition

3.1 Selectivity Filters

The CPF is anchored in Croatia’s development goals and priorities as reflected in government strategies. The NDS 2030, adopted in 2021, outlines a vision for Croatia based on four development pillars: (1) sustainable economy and society, (2) resilience to crises, (3) green and digital transition, and (4) balanced regional development. The Government of Croatia 2024-2028 Program sets five priority areas: (1) successful Croatia (competitive economy, education, science, and digital society); (2) vital Croatia (quality of life and demographic renewal); (3) fair Croatia (transparent institutions and more accessible healthcare); (4) sustainable Croatia (green transition); and (5) sovereign Croatia (secure borders and modern army). The Croatian NRRP, backed by €10 billion of EU financing from 2021 to 2026, supports the furthering of several of these objectives with a focus on enhancing the economy’s resilience and recovery from recent crises and accelerating the transition to a more sustainable, low-carbon, and climate-resilient economy while maximizing the benefits of the digital transformation.

The CPF is structured around the key development challenges that must be addressed to deliver higher, more inclusive, and more sustainable growth, as identified through WBG analytics and consultations with partners. The CPF is informed by analytics undertaken by the WBG (including core diagnostics such as the SCD, CEM, PFR, HCR, and ongoing CCDR) and by partners (including the EC, OECD, and national think tanks). There is broad agreement among stakeholders on the development challenges identified by the analytics, as reflected in consultations undertaken for the SCD and CPF with government, private sector, civil society, and academics. The analytics and consultations underscored the need to address the four broad development challenges discussed in Section II. They also pointed to additional areas requiring policy change and public investment, including agriculture and irrigation, improved rail and logistics infrastructure, and health care reform. While all of these challenges impede Croatia’s growth, the WBG program under this CPF will be highly selective in line with the WBG’s comparative advantage and in complementarity with programs supported by other partners.

The core selectivity criteria were applied to determine the Outcomes that this CPF will target. First, the CPF outcomes contribute to the WBG’s goals of reducing poverty and boosting shared prosperity on a livable planet. Second, the selected Outcomes are aligned with Croatia’s national strategic priorities as articulated in its NDS and five-year Government Program. Third, the new CPF capitalizes on the WBG’s comparative advantages and key corporate priorities, including jobs, environmental sustainability, gender, and mobilization of private capital through the One WBG approach. During the CPF preparation process, from the long list of priority areas for addressing Croatia’s development challenges, the aforementioned selectivity criteria were used to determine the key Outcomes and activities for this CPF.

As a second tier of selectivity, two filters will be applied to prioritize the most impactful activities contributing to each CPF Outcome. A benefit of the WBG program in Croatia is its ability to generate cutting-edge solutions in a high-income country with relevance to the WBG’s full membership. Also, the WBG country program will be modest in size relative to the needs of Croatia. Given these considerations, any activity undertaken under the CPF must meet at least one of the two filters: (1) it develops innovative solutions that can generate a global public good through knowledge spillovers to other WBG countries, and/or (2) it leverages financing to provide additionality and maximize development impact, through mobilizing private capital

and/or leveraging partner financing (including the substantial EU financing available for Croatia in the short to medium term).

Applying a One WBG approach ensures an efficient use of resources and more impactful engagements. This is particularly relevant in a country like Croatia, where the economy's size and the number of innovative sectors and firms are limited, making it more challenging and less attractive to private capital than other countries despite the availability of funds in the region. The IBRD lending and knowledge program, along with IFC advisory interventions, will aim to promote a more conducive business environment for IFC investments across a broader range of firms and sectors, and raise the visibility of Croatia in the areas of innovation and clean value chains. Meanwhile, IFC will work on upstream engagements, deepening capital markets and mobilizing private capital for more impactful projects. This will be complemented by credit enhancement guarantees from the Multilateral Investment Guarantee Agency (MIGA) through the WBG Guarantee Platform to facilitate cross-border investment and secure competitive funding for strategic sectors and projects.

The CPF incorporates several strategic design elements. These elements have been informed by lessons learned from implementation of the previous CPF.

- **Focus on results.** A greater focus on outcomes will enhance the impact of the WBG program and better capture its results. To this end, the CPF uses indicators that the program will contribute to and indicators that can be attributable to the program. Using indicators that the WBG will contribute to is appropriate given the extent to which the program uses advisory work and leverages partner resources to achieve results. In addition, to the extent possible, the program will use result-based modalities, including Investment Project Financing (IPF) with Performance-Based Conditions (PBC)⁹, which were successful under the previous CPF in both delivering on reforms while also strengthening institutional capacity.
- **Engage programmatically.** The CPF builds on existing successful programmatic engagements, such as in the areas of land administration and R&D, and seeks to develop new ones. Sustained programmatic engagements, combining analytical and advisory products with financing products, have been effective to date. This approach has also been useful in addressing institutional capacity constraints.
- **Capitalize on knowledge.** As with the previous CPF, the WBG's knowledge program continues to be a fundamental element under this CPF. The WBG's analytical and advisory work, particularly through Reimbursable Advisory Services (RAS), can be highly effective in supporting the reform agenda in a high-income country such as Croatia, as also widely recognized by stakeholders in the recent Country Opinion Survey (Box 1).
- **Leverage partnerships.** Partnership will be critical for success. In an EU member state such as Croatia, close partnership with the EC, in particular, has been critical to providing additionality and achieving impact. Partnership has led to joint understanding and coordinated policy dialogue on priority areas. In addition, WBG advisory services can

⁹ Until 2020 referred as IPF with Disbursement-Linked Indicators.

support Croatia to achieve EU-aligned reform priorities, while WBG financing can be used to complement and leverage EC financing or pilot approaches and reforms that can be scaled up using national and EC financing (Box 2).

- **Deliver One WBG solutions.** The One WBG approach will be applied through more intensive common planning and upstream collaboration among IBRD, IFC, and MIGA and closer joint work by sectoral teams.

Box 1 Knowledge Focus of the CPF in Croatia

Under this CPF, the WBG will build on its impactful knowledge program as recommended by the CLR. Analytical and advisory work under the previous CPF, mainly through the RAS instrument, has successfully supported the delivery of reforms and institutional capacity strengthening and is highly valued by stakeholders as evidenced in the Country Opinion Survey. Support at the strategic level, for example, was provided through a RAS that helped develop Croatia's NDS 2030 and through a series of technical assistance engagements that helped develop and deliver select reforms under the NRRP. One of the key NRRP reforms — bringing about transparency, simplicity, and equity of the pay system for 250,000 employees of the civil and public services — was delivered with the extensive assistance provided under the Bank's Reforming the Public Sector Wage Setting Mechanism RAS (Public Wage RAS). The RAS program in Croatia also supported other key areas such as development of lagging regions; agriculture; circular economy; pensions; competitiveness; science, technology and innovation; deinstitutionalization; and long-term care. An assessment of the RAS program's effectiveness using the World Bank's Institutional Change Assessment Method (ICAM) highlighted the effectiveness of the program in achieving results and supporting institutional change. Nine out of the eleven RAS activities completed were rated either 5 or 6 on a 6-point scale, with 5 denoting that the RAS successfully informed institutional change that had already started, and a 6 denoting that the RAS successfully informed institutional change that had already led to confirmed benefits and results.

Box 2 Partnership for Impact with the European Commission

The WBG program under this CPF will continue to leverage partnerships, particularly with the EC, to maximize development impact. A close partnership with the EC was essential for the successful delivery of the last CPF, with the World Bank's targeted interventions supporting the Government's key reforms and helping to unlock or leverage a much larger amount of EU funding. In 2021, the WBG provided additionality through advisory services and analytics

to the Government as inputs to the process of meeting Croatia's specific NRRP milestones in the areas of education, innovation, public wage reform, macro-modelling, pensions, and water losses, tied to over €1 billion from the RRF, as well as to help the Government meet the enabling conditions set by the EC to unlock the European Social Fund Plus (ESF+) and European Regional Development Fund (ERDF) funding allocated to Croatia for the period 2021–2027 in the areas of deinstitutionalization, long-term care, poverty measurement, and innovation. After the 2020 earthquakes, the World Bank helped draft the two Rapid Damage and Needs Assessments (RDNAs) used by the Government to apply for more than €1 billion in grants from the EU Solidarity Fund, from which the bulk of public buildings reconstruction was financed.

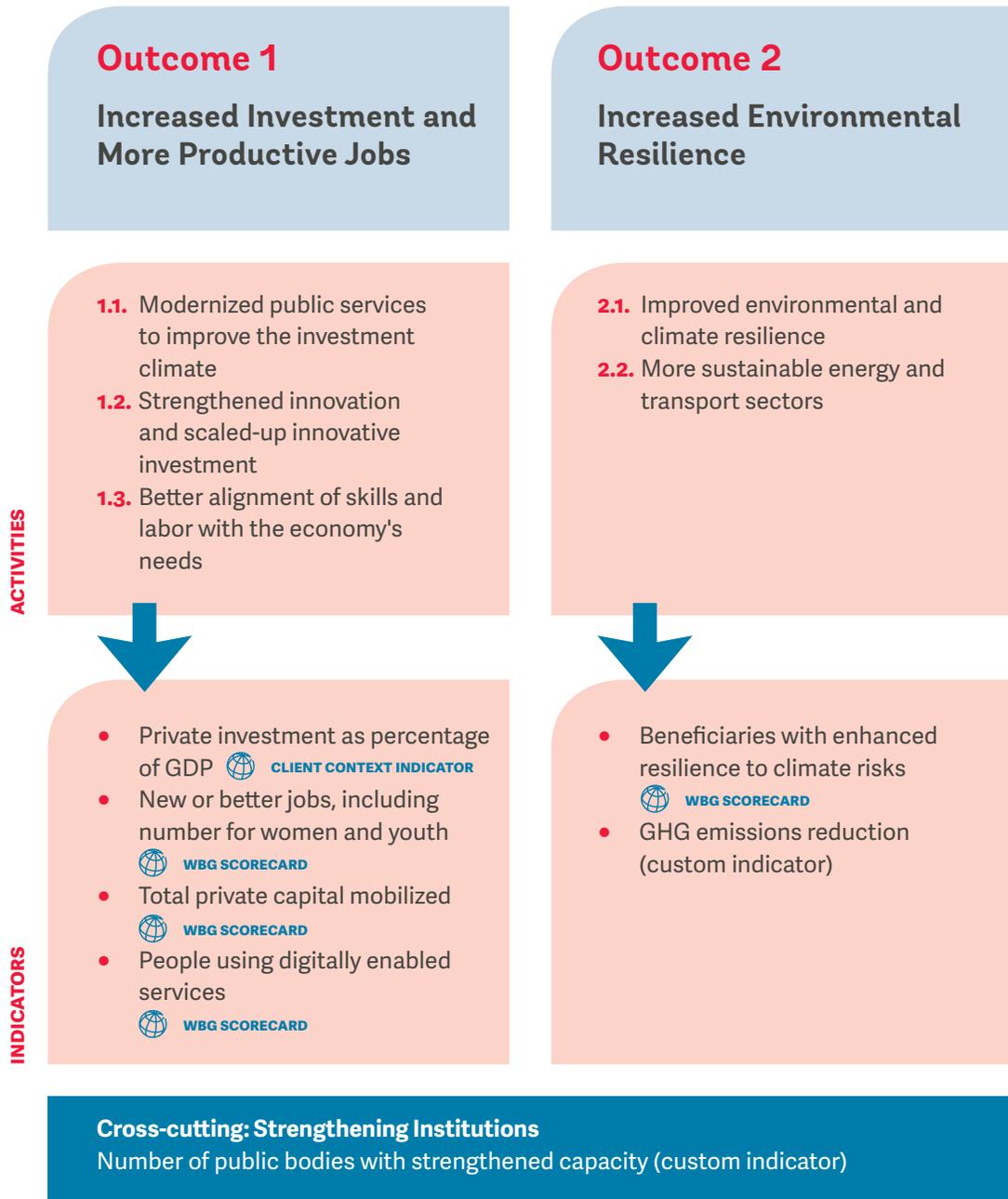
The WBG program will also partner with the Government and the EC to combine multiple WBG and EU instruments to synergistically support reforms and increase the effectiveness of public funds. For example, the ongoing “Digital, Innovation and Green Technology” IBRD lending operation provides additionality by linking reforms under the NRRP with advanced soft infrastructure to raise the impact of investments under EC Cohesion Funds, while providing financing grants and infrastructure to support pre-commercial digital and green research, development and innovation. Advisory services advance and deepen reforms on performance-based funding committed under the NRRP and propagate global knowledge through evaluations, while IFC advisory services will support SMEs in adopting digital and new technologies.

The close partnership with the Government and the EC will also allow WBG projects to pilot reform approaches that can subsequently be scaled up using national and EC financing. For instance, the ongoing IBRD education project will continue assisting the Government in the design, implementation, and evaluation of a pilot of a whole day school model in 62 demonstration schools. The learning acquired and capacity built through the pilot will then leverage national and EU funding to scale up the whole day school model to the national level, covering a total of 310,000 primary school students.

3.2 Country Partnership Framework

The CPF's overall aim is to foster sustainable and inclusive economic growth in Croatia. To do so, the CPF focuses on supporting the achievement of two Outcomes: (1) increased investment and more productive jobs, and (2) increased environmental resilience. To achieve the first Outcome, activities will focus on modernizing public service delivery, strengthening innovation and scaling up innovative investment, and better aligning skills and labor market needs. To achieve the second Outcome, activities will focus on improving environmental and climate resilience and increasing the sustainability of the energy and transport sectors. Progress toward the two Outcomes will be monitored and assessed against six outcome indicators, as shown in Figure 2. The strengthening of institutions is a cross-cutting objective that is incorporated under both Outcomes 1 and 2 and will be assessed against a customized indicator.

Figure 2: Croatia CPF FY25–FY30



3.2.1 CPF OUTCOME 1: INCREASED INVESTMENT AND MORE PRODUCTIVE JOBS

The CPF aims to increase investment in a manner that raises productivity and generates more productive jobs. This Outcome is linked to the Corporate Scorecard Outcome Areas *More and Better Jobs* and *More Private Investment*. In order to achieve this outcome, this CPF will aim to spur investment in more innovative and higher value-added sectors reliant on higher-skilled labor, including through improved business environment and services, proactive

mobilization of foreign and domestic direct investment, deeper diffusion of existing technologies, and better alignment of skills and labor with the economy's needs. This will be achieved through: (1) modernizing public services to improve the investment climate, (2) strengthened innovation and scaled-up innovative investment, and (3) better alignment of skills and labor with the economy's needs. The progress toward the Outcome of increased investment and more productive jobs will be tracked by four indicators, of which three are corporate scorecard result indicators: private investment as a percent of GDP (WBG client context indicator), number of new or better jobs (WBG scorecard result indicator), total private capital mobilized (WBG scorecard result indicator), and people using digitally enabled services (WBG scorecard result indicator).

Modernized public services to improve the investment climate

To achieve Outcome 1, the CPF aims to modernize select public services that are critical for improving the investment climate. Despite progress in recent years, further improvements are essential for businesses to invest or reinvest more efficiently. Croatia has an opportunity to attract greater investment and private capital by strengthening foundational elements to improve the investment climate—namely, by modernizing its institutional framework to enhance coordination, facilitating and better using advanced technology, and improving the user-centric design of services to support the private sector. Strengthening these areas will unlock efficiencies and foster a more business-friendly environment, advancing opportunities for productivity- and job-enhancing investment.

The WBG will use a programmatic approach to foster an increase in investment by dynamic firms by strengthening the enabling environment for domestic investment and FDI. Enhancing the business environment to boost investment, business dynamism, global value chain (GVC) integration, and knowledge-intensive FDI is key to closing Croatia's productivity gap with leading EU states. Strengthening the regulatory framework to enhance competitive pressures will be vital for a level playing field, especially as SOEs remain more prevalent in Croatia than in most EU countries. IBRD and IFC will engage in a program to support the policy efforts in investment promotion through investments, technical assistance, and capacity building activities. The program will focus on improving the investment climate by supporting regulatory reform and strengthening institutional coordination to reduce procedural burdens for investors while supporting proactive outreach to attract investors. IBRD and IFC will explore opportunities at the sector and policy levels to advance the implementation of SOE corporate governance reforms aimed to further improve operational performance, reduce fiscal risks, and attract private investment, in line with the OECD accession-driven SOE governance reform.

The WBG will continue its focus on addressing inefficiencies in the justice sector and in land administration. Since the justice sector continues to be a major impediment to the business climate and increased investment, IBRD will support improvements in the justice and land sectors in a programmatic fashion through two ongoing projects, a planned justice sector review, and a possible further project in the outer years of the CPF, building on the progress made in these areas through the existing partnership with the Government. In the justice sector, IBRD will support procedural and structural reforms to increase judicial efficiency in order to advance digitalization and shorten dispute resolution times, while also supporting consolidation of court services. Improved court facilities will enhance the overall functioning

of courts (digitalization, operations, safety) and address the needs of women, children, and victims of gender-based violence accessing the justice system. IBRD, together with IFC, will also work on early identification of and support to firms in distress in order to reduce insolvency procedures and alleviate the burden on the judicial system. Land transaction processes will be streamlined and accelerated to optimize land administration in support of business efficiency and spatial and investment planning, reducing a key impediment to the investment climate at both the national and subnational levels.

WBG support for the digitalization of public services will be fundamental to strengthening the investment climate for businesses, while also providing better services for the public.

Despite significant investments in digital infrastructure, Croatia ranks second to last in government-to-business digital services and third to last in government-to-citizen services among EU member states. These rankings reflect deep-seated inefficiencies that continue to hamper private sector competitiveness and investment potential. Continued digitalization of justice and land processes and services will be essential for more efficient and transparent service delivery and higher labor productivity and is a core element of the WBG's support to these sectors. In addition, through advisory services and financing, IBRD will support the strengthening of strategic leadership for digitalization, delivery of user-centric services for businesses and citizens, and harnessing of emerging technologies such as artificial intelligence (AI) for the digital transformation of public service delivery.

Strengthened innovation and scaled-up innovative investment

Leveraging the One WBG approach, the CPF aims to strengthen innovation and scale up innovative firms. Croatia has a pressing need to boost private sector investment, which is currently focused on less productive sectors, disproportionately directed to tangible rather than intangible capital, and not sufficiently focused on innovation. CPF interventions will support the entire business development journey, from the generation of ideas and prototyping to commercialization, scale-up, and potential investments in those with commercial promise. The CPF will leverage the strengths of each WBG institution to provide targeted support in various stages of the innovation and business cycle. This One WBG approach aims to build a deeper and larger pool of productive and innovative businesses that could be integrated into regional and European value chains and benefit from larger market opportunities. It advances this CPF's effort to support the evolution of Croatia's growth model while generating knowledge spillovers for the rest of the world.

IBRD will continue its programmatic engagement in support of innovation. The innovation agenda has been supported by RAS engagements and lending operations to advance reforms and investments in R&D—including research excellence, industry-science collaboration, and technology transfer. Further engagements (IBRD lending and RAS) will be developed to close funding and knowledge gaps in applied research, creation of proprietary knowledge, business innovation, technology adoption, and support to young and dynamic firms. A new lending operation would focus on complementing EU funds, incentivizing their effective absorption, and crowding in private capital to develop early-stage innovation projects that can advance and scale up through financial instruments. At the same time, the CPF will provide IFC advisory services, together with IBRD, to improve managerial capabilities and facilitate access to high-quality business advisory services. This will help firms adopt new technologies and



become more energy efficient. Lessons learnt from these engagements will also provide useful experience and insights relevant for other countries interested in strengthening innovation and scaling-up innovated investments.

To support the commercialization and scale-up of innovative ideas and firms, the WBG will offer innovative financial structures. Complementing IBRD's work on developing the innovation pipeline, IFC will provide long-term capital and leverage existing capital for some of these innovations. Firms will be able to access funds through IFC-supported private equity/venture capital or other IFC-mobilized funds focused on sustainable and clean technologies. IFC would explore participating in corporate bonds and provide equity in growth firms, as well as targeted funding through financial intermediaries via sustainable bonds and risk-sharing facilities to support SMEs and underserved segments. IFC and IBRD will also explore opportunities to support the largest institutional investors in Croatia (pension funds, insurance companies), since they are key participants in the capital market and can promote further private capital mobilization.

Better alignment of skills and labor with the economy's needs

The WBG will help improve the quality, relevance, and efficiency of public and private education, training, and active labor market programs to better align labor supply with labor market needs. IBRD and IFC will work on complementary interventions related to improving the productive potential of the labor force by improving skills. IBRD will continue to support strengthening children foundational skills to better prepare them to meet evolving labor market needs through ongoing support of the whole day school reform, as well as through a potential follow-up project. Through the transition from half-day to full-day schools, the project will also allow for increased labor force participation among women, many of whom otherwise may not be able to work due to childcare requirements. In addition, IBRD will support the Government's efforts to further improve the quality, relevance, and efficiency of higher education offerings and training and active labor market programs through a combination of advisory services and possible financing. To complement these initiatives, IFC will work directly with the private sector to establish upskilling programs for employees in supported firms and sectors, particularly for those willing to embark on green and digital investments. In addition, IFC and IBRD will implement a technical assistance program to enhance managerial capabilities, helping firms retain and attract talent and boost employee productivity.

The WBG will also support the Government's efforts to increase labor supply and better manage internal and international labor mobility, primarily through analytical and advisory instruments. The WBG will build on the analytical support provided under the last CPF on how to make better use of the existing productive potential of the labor force—especially among youth, women, and the elderly—and increase the talent pool through international and internal labor mobility. Priority issues under the new CPF will also include improving the long-term care system to allow for higher female labor force participation and improving support for the elderly (including pensions and healthcare) in a way that improves health and wellbeing and incentivizes labor market participation among this group. The WBG will also continue its advisory services and analytics on international labor migration to help ensure that foreign workers with appropriate skills can help fill labor shortages. Finally, the WBG will look into addressing constraints to internal labor migration, such as the lack of affordable housing in parts of the country with higher growth potential.

3.2.2 CPF OUTCOME 2: INCREASED ENVIRONMENTAL RESILIENCE

The CPF aims to help Croatia become more resilient and environmentally sustainable. This Outcome is linked to the Corporate Scorecard Outcome Area *Green and Blue Planet and Resilient Populations*. It aims to support the government in accompanying economic growth with reforms and measures that will make Croatia's growth more resilient. To do so, WBG engagement will focus on (1) improving environmental and climate resilience and (2) making the energy and maritime transport sectors more environmentally sustainable, cost efficient, and affordable for people and business. Progress on this outcome will be tracked by two indicators: number of beneficiaries with enhanced resilience to climate risks (WBG scorecard result indicator) and percentage of GHG emissions reduction (custom result indicator).

Improved environmental and climate resilience

The CPF will focus on addressing Croatia's environmental and climate resilience, critical to the country's sustainable growth. Croatia's growth, particularly of its tourism sector, relies heavily on its exceptional natural resource endowment. Yet Croatia's environmental resources and rich biodiversity are threatened by over-use, urban and coastal developments, land use change, pollution, and lack of adequate management of resources such as water and waste. Environmental degradation in Croatia is estimated to account for 2-3 percent of GDP, with a significant share stemming from the tourism sector. Based on the latest statistics, waste produced in coastal counties exceeded the national per capita average by 43 percent in 2024 due largely to tourism. About 50 percent of water resources extracted in Croatia are lost due to pipe leakage and poor management, increasing the risk of water shortages. Croatia also fares poorly relative to the rest of Europe on the circularity of its economy, with close to 60 percent of its municipal waste being disposed in landfills,¹⁰ well above the 10 percent EU landfill target. Croatia's geographical location and climate make it highly susceptible to a variety of hazards, including geological, hydrometeorological, and weather-related events as well as wildfires.

The WBG will support the increased financial and environmental sustainability of local government investments, contributing to sustainable economic growth and improved quality of life for residents. Both water and waste utilities are the purview of local governments, which lack adequate resources for some of the large capital investments required to stem water losses and better manage waste. The WBG will support the development of financing instruments to leverage private and public financing to improve financial and environmental sustainability across municipalities, including in poorer regions. The WBG will provide assistance to local governments and their utilities to access financial markets to enable increased investments and the implementation of environmental strategies at the local level. IFC will build on its success in supporting the issuance of the first Sustainability-Linked Bond for a municipal utility in the domestic capital market, which increased financing to improve municipal waste management and to develop renewable energy. IFC will also explore innovative financing options to promote resilience, along the lines of its "blue" loan which developed a sustainable tourism venture while supporting maritime and coastal conservation.

¹⁰ Eurostat, 2022. Municipal waste by waste management operations.

The CPF will strengthen Croatia's disaster preparedness and response capacities. IBRD will aim to improve national preparedness and response capacities to ensure that the country can effectively manage and recover from disasters. The program will promote integrated solutions for clean and resilient infrastructure, ensuring that new investments are environmentally sustainable and capable of withstanding climate- and disaster-related shocks. Raising public awareness about disaster risks and resilience strategies will be another critical component, empowering communities to take proactive measures. The program will build on WBG analytics and advisory services that have provided recommendations on strengthening financial resilience and on enhancing risk management and emergency response. The Government may also utilize other crisis financing options available through the WBG's Crisis Preparedness and Response Toolkit. WBG support in this area will be aligned with the National Disaster Risk Management Strategy and will leverage to the extent possible the limited resources available for this agenda from other partners.

More sustainable energy and transport sectors

The CPF focuses on making the energy and maritime transport sectors more environmentally sustainable, targeting a reduction in net GHG emissions. The CPF focuses on sectors that are critical to Croatia's competitiveness and are likely to increase their environmental footprint when the economy grows. Croatia's GHG emissions intensity is significantly higher than the EU average, with the transport, energy, manufacturing, and buildings sectors being the largest emitters. As the economy expands, energy consumption and transport services will rise, necessitating action to reduce GHG emissions and pollution from these sectors. Advancing the transition to cleaner energy resources and promoting sustainable transport will offer important opportunities for creating more productive jobs in multiple fields which will require a more skilled workforce, in alignment with Outcome 1.

The WBG will support the development of sustainable solutions and a cleaner energy sector. The WBG will leverage and combine IBRD's deep global sector knowledge with IFC's experiences in structuring complex sustainable financing and potentially with MIGA's guarantees to provide solutions in this space. An important focus for both reducing emissions and making the energy system more sustainable will be strengthening the grid. While IFC explores financing of the grid, IBRD could offer advisory services to improve the tariff system for transmission and distribution to recover the costs of network investments required to scale up renewable generation and support electrification while addressing the needs of vulnerable and low-income households. IFC will support utility-scale renewable generation projects and battery storage and, jointly with IBRD, will explore support for geothermal energy, an untapped resource. IFC will prioritize direct investment in companies investing in energy efficiency, renewable energy, decarbonization of hard-to-abate industries, and green buildings. IFC and IBRD will support SMEs in their efforts to switch to cleaner and sustainable energy sources through financial intermediaries by extending financing and mobilizing private capital through capital markets. To complement this effort, MIGA will explore opportunities to provide credit enhancement guarantees to improve financing terms for priority public sector renewable energy or climate-focused projects, primarily at the subnational and SOE levels, leveraging foreign private financing resources.

The CPF will also support sustainability in the transport sector. Building on a long engagement in Croatia's transport sector focused on public roads and rail, IBRD and IFC are jointly

exploring the possibility of providing advisory services and financing to improve the operational efficiency, corporate governance, and carbon footprint of ferry operations that connect Croatia's islands to the mainland (which is also important for the tourism sector and people mobility). In the longer term, MIGA may engage in port infrastructure as Croatia expands and introduces renewable energy technologies in the ferry sector. IFC will also work on municipal transport with the City of Zagreb to decarbonize its waste vehicles fleet and explore ways to support the electrical vehicle value chain through investments in key infrastructure and components ventures.

3.2.3 STRENGTHENING INSTITUTIONS: A CROSS-CUTTING AREA

Strengthening institutions will be embedded across the program and will be a cross-cutting area under both Outcomes targeted by the CPF. The CPF will continue to address some of the remaining institutional gaps that Croatia faces as the country increasingly targets more complex development challenges. These challenges tend to be cross-sectoral and thus cross-institutional in nature and require not only stronger individual institutions but also enhanced institutional frameworks and coordination. Under Outcome 1, institutional capacity development will be done through: (1) increasing the Government's capacity for more efficient and effective digital and justice service delivery for businesses and citizens, (2) improving the innovation ecosystem by strengthening supporting institutions, and (3) increasing the effectiveness of higher education services to better serve labor market needs. Under Outcome 2, WBG interventions will focus on: (1) improving the sustainability and efficiency of local governments' planning and execution capacity to advance infrastructure investments, (2) strengthening civil protection institutional capacity for improving disaster and climate resilience, and (3) improving the governance and effectiveness of the energy and maritime transport SOEs. Progress in institutional strengthening across the CPF outcomes will be measured by an indicator for the number of public bodies with strengthened capacity to implement their objectives thanks to regulatory, efficiency, or capacity gains as a result of WBG technical assistance or lending operations.¹¹

3.3 Implementing the CPF

The CPF will be guided by its results focus, with flexibility for adjustments as needed to further the objective of achieving results. The enhanced results focus of this CPF will require adjustments during implementation to ensure that good progress is made toward achieving the Outcomes. To this end, a business implementation planning exercise will be undertaken annually. An "if and then" approach will be used to annually assess and adjust the instrument mix, as well as the precise scope and scale of engagement within each of the two Outcome areas to ensure that CPF efforts are focused on where there is greatest scope for reforms and results. For example, IBRD engagement in the energy efficiency and transmission sectors could start with analytics and policy dialogue in the short term then expand through IBRD lending and IFC financing to support the government's reform and investment program.

¹¹ This indicator is based on the EC Guidance on Indicators of Public Administration Capacity Building (2014). The indicator captures a positive change in the situation or capacity of public body related to its processes, organizational structure, and resources (e.g. introducing new working methods, procedures, management/IT systems, better interaction between institutions and with stakeholders, improved delivery and quality of services, integration of services, e-government, etc., improving administrative structures, and better resource management).

The annual business implementation planning exercise will be aligned with the annual Joint Portfolio Review undertaken with the Government. Annex 1 lists two projects which are slated for delivery over the next two years. The annual business implementation planning exercise will be used to agree on the lending pipeline for the latter years of the CPF. A mid-term Performance and Learning Review (PLR) will be developed should there be any important shifts in the program focus and the results framework.

A selective and strategic knowledge program will anchor the CPF. In line with the WBG Knowledge focus and building on the achievements and lessons from the previous CPF, the foundation of this CPF will be a knowledge program which includes analytical and advisory work. The knowledge program will have an advisory focus aligned with supporting reforms aimed at achieving the proposed CPF outcomes and results. In particular, the selectivity filters will be applied to RAS engagement to support implementation of reforms and develop institutional capacity. While it delivers on reforms and outcomes, the RAS program will help Croatia achieve the institution building and reform program required to unlock EU financing, in turn helping to unlock private capital. In addition to its largely demand-driven advisory program, the WBG will also continue to finance forward-looking, agenda-setting analytics. Through its analytical program, the WBG will further its policy dialogue and advocacy and provide global expertise in critical areas where, in the WBG's assessment, further government action is needed. Emphasis will be placed on broader stakeholder engagement by convening events and discussion aimed at raising awareness and developing consensus and coalitions to support CPF outcomes.

The WBG will make efforts to ensure optimization of the potential for knowledge spillovers from Croatia to the rest of the world. Croatia's knowledge program will also support the WBG's broader knowledge objectives. In supporting a high-income country to design innovative development solutions, the Croatia program will generate knowledge relevant to client countries across the income spectrum that will need to find development solutions to emerging challenges (such as aging and declining populations) or use new approaches (such as more intensive big data, administrative data, and AI solutions). The knowledge program is aligned with global challenges related to digitalization and energy. Partnerships will be leveraged more intensively to jointly build knowledge in addressing complex development challenges and to disseminate knowledge—including working closely with EU institutions, think tanks, and civil society organizations.

The lending program will be selective. As in the last CPF, the lending program will remain small and selective, with total IBRD lending of around US\$700 million over the six-year period (in the absence of any possible emergency/crisis lending), subject to adjustments through the annual business planning process. To maximize impact with modest financing, investment projects will be selected and designed with a view to serving as innovative demonstration projects that will be used to take interventions to scale using public (internally and externally sourced) and/or private financing. The program will also seek to utilize results-based instruments such as Program for Results (PforR) and IPF with PBC, the latter having worked well in Croatia to support institutional strengthening in addition to reforms. The advancement of new reform-based instruments in the EU further opens the opportunity for the IPF with PBC portfolio in Croatia to leverage significant funds and align reforms synergistically, strengthening scale-up potential and raising the ambition of the overall reform program. The IFC lending program is planned at US\$1 billion and will rely heavily on mobilizing private sector financing. It is aligned with IFC's increased focus on being more present in smaller economies. IFC and MIGA will focus on

additionality, supporting projects that need a blend of innovative financial instruments and structuring know-how. IFC and MIGA will also seek to bring innovative lending and guarantee operations which can have a demonstration effect on the market and incentivize additional financing from private sources.

A joint WBG country program management team will seek synergies to respond to potential opportunities using the suite of WBG instruments. The WBG will focus on delivering joint programs in specific areas where there is scope for substantial synergies, including in innovation and maritime transport. The IFC will also complement IBRD engagements through advisory and upstream services and by supporting consultations with the private sector to ensure that IBRD engagements (for example, in the area of public service delivery to improve the investment climate) are well-aligned to the needs of firms. IBRD policy dialogue and projects will seek to maximize IFC's and MIGA's leveraging of private sector solutions and capital to achieve CPF outcomes.

Partnerships will be leveraged to support achievement of the CPF's Outcomes. The largest share of finance for development in Croatia comes from the EU and private sector. Croatia will have access to significant financing from the EU over this CPF period, so the WBG program will strategically leverage this EU financing toward achieving CPF results. This will call for close continued partnership with the EC (Box 2), including through the next multiannual financial period (2028–2034) which will offer additional opportunities to align reforms and investments for scale and mobilize private capital. The WBG will continue to consult and work regularly with relevant EC Directorates—in particular, Directorates General for Regional and Urban Policy (DG REGIO), for Employment, Social Affairs and Inclusion (DG EMPL), for Economic and Financial Affairs (DG ECFIN), and the Reform and Investment Task Force (SG REFORM)—to achieve the defined CPF outcomes. This will include annual consultations with the EC. The WBG will also work closely with and coordinate with other international financial institutions (IFIs), particularly the IMF, CEB, EIB, EBRD, OECD, and UN agencies, as well as bilateral partners. With the private sector, IFC will partner with the key institutional players and commercial banks on the market to complement their activities as well as to maximize demonstration effects by bringing them alongside its investments. On the knowledge agenda, IBRD will partner with the EC as well as with several universities and other stakeholders to generate knowledge and undertake joint events that increase the visibility and dissemination of WBG knowledge work and expand the reach of stakeholder engagement in Croatia and beyond.



4. Managing Risks

The overall risk to achieving the proposed program objectives is assessed as MODERATE (Table 2). The Political and Governance risk is rated as low given the record of political stability. All other risk categories using the Bank's Standardized Operations Risk-Rating Tool (SORT) are rated as moderate. Given that WBG interventions are highly selective and focused, the approach to risk mitigation will be tailored to the respective activities and coordinated among the WBG institutions. To address the risks to technical design, project complexity and timelines will be better calibrated to institutional realities with an increased emphasis on building institutional capacity. To address risks to institutional capacity for implementation and sustainability, the CPF aims to address institutional capacity as a cross-cutting theme, including through the design of investment projects and through advisory and analytical work. To mitigate any stakeholder risks, projects and analytic and advisory work that support reforms will include support to stakeholder engagement and consultation.

Table 2. Risks to the Croatia CPF FY25–30

RISK CATEGORY	RATING (H, S, M, L)
1. Political and Governance	L
2. Macroeconomic	M
3. Sector Strategies and Policies	M
4. Technical Design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	M
6. Fiduciary	M
7. Environmental and Social	M
8. Stakeholders	M
OVERALL RISK	MODERATE

Note: H=High, S=Substantial, M=Moderate, L=Low

Annex

Croatia CPF FY25-30

Results Framework

CPF Outcome 1

Increased Investment and More Productive Jobs

INDICATOR 1.1: Private investment as a percentage of GDP (WBG client context indicator)	Baseline [2023]: 19% ¹² ; Target [2030]: Contribution
INDICATOR 1.2: New or better jobs, of which women and youth (WBG scorecard result indicator)	Baseline [2024]: 0; Target [2030]: TBD at Year-1 BP Revision after methodology has been created
INDICATOR 1.3: Total private capital mobilized (WBG scorecard result indicator)	Baseline [2024]: 0; Target [2030]: US\$600 million
INDICATOR 1.4: People using digitally enabled services ¹³ (WBG scorecard result indicator)	Baseline [2024]: 0; Target [2030]: 2,000,000 people
CROSS-CUTTING INDICATOR: No. of public bodies [ministries, agencies, or SOEs] with strengthened capacity to implement their objectives thanks to regulatory, efficiency, or capacity gains as a result of WBG technical assistance or lending operations ¹⁴ (custom result indicator)	Baseline [2024]: 0; Target [2030]: 5 (total for Outcomes 1 and 2)

INTERVENTION LOGIC: Productivity and investment in Croatia are impeded by a cumbersome investment climate, lagging innovation and financing for firms, and lack of labor with appropriate skills. The WBG program aims to address these issues by increasing private investment as a percentage of GDP (indicator 1.1) and private capital mobilized (indicator 1.3), with a view to creating more productive jobs (indicator 1.2), including through a more skilled and productive workforce. Increased digitalization, as measured by people using digitally enabled services (indicator 1.4), will improve the efficiency and access of public service delivery to improve the business climate.

WBG INTERVENTIONS: All WBG interventions under Outcome 1 aim at **increasing private investment as a percentage of GDP** (WBG client context indicator) and **creating new or more productive jobs** (WBG scorecard result indicator). To this end, the CPF is comprised of the following activities: (1) Support to strengthening the investment climate will focus on enhancing policies and institutions to promote investment, improving the effectiveness, efficiency, and accessibility of critical services for the investment climate—that is, justice sector and land

¹² Source: Eurostat.

¹³ Measured as the number of unique users benefiting from new or enhanced digital government services.

¹⁴ This indicator is based on the EC Guidance on Indicators of Public Administration Capacity Building (2014). The result captures a positive change in the situation or capacity of public body related to its processes, organizational structure, and resources (e.g. introducing new working methods, procedures, management/IT systems, better interaction between institutions and with stakeholders, improved delivery and quality of services, integration of services, e-government, etc., improving administrative structures, and better resource management).

administration—and enhanced digitalization of public service delivery to enhance timeliness and confidence in business processes. Thus, this program will also increase the number of people and businesses that **use digitally enabled services** (WBG scorecard result indicator). A programmatic approach will build on two ongoing projects, to be complemented by advisory services and two or potentially three pipeline projects over the CPF period; (2) Increased financing to foster innovation and dynamic firms is an area supported jointly by IBRD and IFC to strengthen the innovation ecosystem, close funding gaps in applied research, creation of proprietary knowledge, and business innovation, while also supporting enhanced technology adoption and financing at the firm level, thereby **increasing private capital mobilized** (WBG scorecard result indicator). The programmatic engagements related to strengthening the innovation pipeline and to facilitating innovative investments in this area will build on one ongoing RAS and one ongoing project, with follow-on RAS activities and one pipeline project envisioned for the outer CPF years. IFC and IBRD will work jointly on the advisory program. With linkages to the IBRD investment, IFC will promote financing options for more innovative and younger firms, as well as technology adoption of firms and their integration into clean value chains; (3) Support for better alignment of skills to match labor market needs will build on the current strong analytical and advisory program focused on human capital and the labor market, including long-term care and managing migration, as well as the ongoing lending engagement on education. In addition to reinforced analytical and advisory engagement, a potential IBRD pipeline project in education would strengthen skills aligned with the needs of the job market. All interventions contribute to the **strengthening of public bodies' capacities** (cross-cutting custom result indicator) in their respective areas.

PARTNERSHIPS: The WBG and EC are aligned in supporting this priority Outcome with coordinated policy dialogue and financing, particularly in innovation, FDI for regional integration in GVCs, labor, education, and skills. For financing, IFC will partner with local commercial banks and institutional investors. In the area of labor mobility, the WBG is coordinating with CEB and exploring joint financing possibilities. For capacity building of firms, the WBG will coordinate with EBRD.

LESSONS LEARNED, RISKS AND MITIGATION: Areas where institutional change and strengthening are needed (justice, FDI, R&D, skills) require sustained engagement and can benefit from a sustained programmatic approach. Enhancing productivity requires facilitating entry of productive firms, support to firms for technology adoption, and strengthening of managerial skills and will benefit from a concerted and joint IBRD-IFC program. Policy reversal or weakening reform momentum risks will be mitigated by the strong results orientation of WBG interventions and by development of a broader stakeholder coalition on key reforms and programs.

KEY ONGOING ENGAGEMENTS (PROJECTS AND KNOWLEDGE SERVICES):

Modernized public services to improve the investment climate

- Justice for Business (IBRD lending)
- Integrated Land Administration and Justice Services Project (IBRD lending)
- Public Expenditure Management Strengthening Program (IBRD ASA)
- Distressed Assets (DARP)
- EOS Matrix (IFC)

Strengthened innovation and scaled-up innovative investment

- Digital, Innovation, and Green Technology Project (IBRD lending)
- Helping Enterprises Accessing Liquidity in Croatia (IBRD lending)
- Strategic Partnership for Research, Innovation and Growth (IBRD RAS)
- Erste bank sustainable bond—green mortgages (IFC)
- OTP bank sustainable bond – SMEs climate financing (IFC)
- Regional tech focused private equity and venture capital funds benefiting Croatia (IFC)
- Firm managerial capabilities and technology adoption (IFC-IBRD advisory)

Better alignment of skills and labor with the economy's needs

- Towards sustainable, Equitable and Efficient Education (IBRD lending)
- Improving Employment, Human Capital and Social Safety Nets (IBRD ASA)
- Strengthening Long-Term Care Provision (IBRD RAS)
- Human resource policies and practices in the hospitality sector (IFC)

PLANNED NEW ENGAGEMENTS (PROJECTS AND KNOWLEDGE SERVICES):

Modernized public services to improve the investment climate

- Justice Sector Review (IBRD ASA)
- Public Sector Employment (IBRD RAS)
- Early Warning Tools for SMEs (IBRD RAS)

Strengthened innovation and scaled-up innovative investment

- Innovation ecosystem, funding, and institutional capacities (IBRD RAS activities)
- Growth and Jobs Report (IBRD ASA)
- Private equity and venture capital investments (IFC)
- Enhancing competitiveness and investment (IBRD-IFC ASA/lending)
- Thematic bonds and innovative instruments (e.g. risk sharing facilities) (IFC)
- Invest in pension funds and insurance companies (IFC)
- Guarantees through the WBG platform to complement IBRD and IFC engagements in the strategic areas (MIGA)

Better alignment of skills and labor with the economy's needs

- Higher education, technical and vocational education and training, and active labor market programs (IBRD ASA)
- Managing migration (IBRD ASA)

FORWARD LOOK (beyond the first 24 months):

Education (IBRD lending); Justice for Business II (IBRD lending); Digital Project (IBRD lending); Innovation project (IBRD lending); Competitiveness and Jobs (IBRD lending and ASA, IFC investments); Investment in affordable housing (IBRD, IFC, CEB).

CPF Outcome 2 Increased Environmental Resilience

INDICATOR 2.1: Beneficiaries with enhanced resilience to climate risks (WBG scorecard result indicator)	Baseline [2024]: 0; Target [2030]: 1,300,000 people
INDICATOR 2.2: GHG emissions reduction (custom result indicator)	Baseline [2024]: 0; Target [2030]: 20%
CROSS-CUTTING INDICATOR: No. of public bodies [ministries, agencies, or SOEs] with strengthened capacity to implement their objectives thanks to regulatory, efficiency, or capacity gains as a result of WBG technical assistance or lending operations (custom result indicator)	Baseline [2024]: 0; Target [2030]: 5 <i>(total for Outcomes 1 and 2)</i>

INTERVENTION LOGIC: To be sustainable in the long run, Croatia's growth must be accompanied by measures that limit environmental impacts and build resilience to climate- and disaster-related shocks. The WBG program will enhance resilience to environmental risks by strengthening climate and disaster risk preparedness, as measured by the **number of beneficiaries with enhanced resilience to climate risks** (indicator 2.1) and by reducing the GHG emissions in the two largest emitting sectors, namely energy and transport as measured by **reduced GHG emissions** (indicator 2.2). The design of these interventions reflects the CCDR's findings.

WBG INTERVENTIONS: The first set of interventions aims to improve the environmental and climate resilience of Croatia, **increasing the number of beneficiaries with enhanced resilience to climate risks** (WBG scorecard result indicator). (1) The WBG will support national action plans and sustainable and resilient municipal water and waste management services, including by supporting local governments and utilities to access capital markets and innovative financing through a potential pipeline Municipal Development project. IFC will also explore innovative financing options for the private sector that will support conservation and sustainability. (2) To achieve this outcome, through ongoing advisory work to be followed by a potential pipeline project, IBRD will support national preparedness and response capacities, strengthen financial resilience, and raise public awareness to respond to disaster impacts. The second set of interventions aims to strengthen environmental sustainability by **reducing GHG emissions** (custom result indicator). To this end, the CPF focuses on the two largest GHG emitting sectors: energy and transport. (1) Decarbonization of the energy sector will be supported upstream through IBRD technical and policy dialogue in areas such as diagnosing and helping address barriers to renewables scale-up and by direct and indirect IFC investments in energy efficiency and renewable energy projects and the strengthening of the electricity grid to scale up renewables generation and deliver clean electricity to customers. Targeted WBG financing is possible in areas requiring concessional finance, including development of geothermal for district heating, and support to housing renovation where there is potential to leverage EU or national funds. Indirect investments will include support from IFC through financial intermediaries to support SMEs. These efforts can be complemented by a program of IBRD and IFC advisory services on transmission and distribution tariffs that recover costs while balancing

cost recovery between renewable generators and end-consumers. (2) Decarbonization of the transport sector will be supported by joint IBRD-IFC engagement aimed at improving the efficiency, governance, and environmental sustainability of the ferry sector, which will include advisory services and financing. There is potential for complementary MIGA to support port infrastructure improvements to facilitate the transition. IFC will also support the development of electric vehicle (EV) value chains by investing in battery production, EV charging stations, and green hydrogen. All interventions contribute to the **strengthening of public bodies' capacities** (cross-cutting custom result indicator) in their respective areas.

PARTNERSHIPS: The WBG and development partners, in particular the EC and other IFIs, are aligned in this priority Outcome with coordinated policy dialogue and financing, particularly in the areas of reducing the environmental footprint of Croatia's largest emitting sectors, supporting municipalities to address environmental challenges such as water loss, and strengthening the country's climate and disaster resilience. Private sector players, including banks, have incorporated environmental sustainability as their core strategic focus and would be key partners in achieving the objectives under this outcome area. On both the disaster and resilience agenda as well as on the ferry sector, the World Bank's advisory work is supported by a bilateral donor (Japan).

LESSONS LEARNED, RISKS AND MITIGATION: With Croatia hit by earthquakes and a pandemic during the last CPF period, this CPF will focus on the resilience agenda supporting preparedness. The CLR noted the challenges in gaining sufficient political support for comprehensive cross-sectoral reforms related to the sustainability and resilience agenda and recommended a more targeted approach. This CPF has therefore identified targeted engagements in preparedness and resilience and in the energy and transport sectors where they can be most impactful. The CCDR is providing valuable analytical input for continuing the policy dialogue in the area of environmental resilience and decarbonization and for identifying critical areas for public and private investment.

KEY ONGOING ENGAGEMENTS (PROJECTS AND KNOWLEDGE SERVICES):

Improved environmental and climate resilience

- Earthquake Recovery and Public Health Preparedness Project (IBRD lending)
- Reducing Water Losses (IBRD analytics)
- Sustainable Tourism in Croatia (IBRD ASA)
- Zagreb Holding waste management advisory + carbon credits (IFC)
- TRP Green Europe Advisory (IFC)

More sustainable energy and transport sectors

- Country Climate and Development Report (IBRD and IFC ASA)
- Energy (IBRD ASA)
- Schwarz green industrial and retail distribution—regional (IFC)
- Zagreb Airport Equity (IFC)
- RBA bank Sustainable bond—SMEs climate and social financing (IFC)
- Erste bank green bond—green buildings/housing (IFC)
- ALD leasing—green vehicle fleet—global (IFC)
- Adris sustainable tourism—blue/green/sustainable linked loan (IFC)
- Blue finance opportunities regional upstream (IFC)

PLANNED NEW ENGAGEMENTS (PROJECTS AND KNOWLEDGE SERVICES):

Improved environmental and climate resilience

- Municipal Development Project (IBRD lending)
- Zagreb Holding green loan—waste management and clean energy (IFC)
- Blue financing for coastal water and maritime protection (IFC)
- Financial institutions blue financing to support water supply and ocean friendly projects (IFC)

More sustainable energy and transport sectors

- Green and Efficient Ferry Sector (IBRD and IFC lending)
- Energy utility (transmission service operator) and renewable energy generation financing (IFC and IBRD ASA)
- Manufacturing and services decarbonization—green/sustainable financing (IFC)
- Debt and Equity investments in sustainable tourism (IFC)
- Financial institutions green/sustainable financing for renewable energy, energy efficiency, green buildings (IFC)
- Invest alongside the electric vehicles value chains (IFC)
- Potential credit enhancement through the WBG Guarantee Platform, on loans for eligible SOEs investing in energy sector (MIGA)

FORWARD LOOK (beyond the next 24 months):

Preparedness and resilience (IBRD lending); Water Loss and Non-Revenue Water Reduction (IBRD ASA/lending); Energy policy/tariff on renewables scaling (IBRD ASA); Marine and Environmental Protection (IBRD ASA/lending).



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