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PROJECT PERFORMANCE ASSESSMENT REPORT

CROATIA

ENTERPRISE AND FINANCIAL SECTOR ADJUSTMENT LOAN
(L4159-HR)

ENTERPRISE AND FINANCIAL SECTOR TECHNICAL ASSISTANCE PROJECT
(L3989-HR)

CAPITAL MARKETS DEVELOPMENT PROJECT
(L3999-HR)

July 9, 2004

Country Evaluation and Regional Relations Group
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Kwachas (K$)

1996	US$1.00	K$5.434	2000	US$1.00	K$8.277
1997	US$1.00	K$6.101	2001	US$1.00	K$8.340
1998	US$1.00	K$6.362	2002	US$1.00	K$7.869
1999	US$1.00	K$7.112			

Fiscal Year

January 1 – December 31

Abbreviations and Acronyms

BRA	Bank Rehabilitation Agency
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CMDP	Capital Markets Development Project
CNB	Croatian National Bank
CPF	Croatian Privatization Fund
CROSEC	Croatian Securities Commission
EBRD	European Bank for Reconstruction and Development
EFF	Extended Fund Facility
EFSAL	Enterprise and Financial Sector Adjustment Loan
FRY	Former Republic of Yugoslavia
FSAP	Financial Sector Assessment Program
FSOEs	Formerly Socially-owned Enterprises
GDP	Gross Domestic Product
GOC	Government of Croatia
HEP	Croatian Power Company
HPT	Croatian Postal and Telecommunications Company
HT	The Formerly State-Owned Telecommunications Branch
HZ	Croatian State Railway Company
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IMF	International Monetary Fund
INA	State Oil Company
LRSE	Law on the Rehabilitation of Selected (Public) Enterprises
MOF	Ministry of Finance
NGO	Nongovernmental Organization
OED	Operations Evaluation Department
ORESE	Office for Restructuring the Economics of State-owned Enterprises
PAL	Programmatic Adjustment Loan
PBZ	Zagreb Private Bank
PEs	Public Enterprises
PIFs	Privatization Investment Funds
PPAR	Project Performance Assessment Report
PSD	Private Sector Development
SAA	State Audit Agency
SAL	Structural Adjustment Loan
SAO	State Audit Office
SDA	Securities Depository Agency
TAL I	Enterprise and Financial Sector Technical Assistance Project

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OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to evaluate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldBank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. *Possible ratings*: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

Ratings and Responsibilities

Performance Ratings

	Region	*OED*	
	ICR	***ICR Review****	***PPAR***
Enterprise and Financial Sector Adjustment Loan L4159-HR)			
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Modest	Substantial	Modest
Bank Performance	Satisfactory	Satisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory
Enterprise and Financial Sector Technical Assistance Project (L3989-HR)			
Outcome	Satisfactory	Highly Satisfactory	Moderately Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	Modest
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory
Capital Markets Development Project Credit (L3999-HR)			
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Sustainability	Likely	Uncertain	Unlikely
Institutional Development Impact	Substantial	Modest	Modest
Bank Performance	Satisfactory	Satisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate OED product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Staff*	*Appraisal*	*Completion*
Enterprise and Financial Sector Adjustment Loan (L4159-HR)	Task Manager	Olivier Godrón	Albert Martinez
	Division Chief/Sector Director	Michel Noel	Paul J. Siegelbaum
	Country Director	Hans Apitz (Acting)	Andrew Vorkink
Enterprise and Financial Sector Technical Assistance Project (L3989-HR)	Task Manager	Ilene Photos	Ilene Photos
	Division Chief/Sector Director	Michel Noel	Paul J. Siegelbaum
	Country Director	Christine Wallich (Acting)	Arntraud Hartmann
Capital Markets Development Project (L3999-HR)	Task Manager	Hiran Herat	Hiran Herat
	Division Chief/Sector Manager	Michel Noel	Ilham Zurayk
	Country Director	Christine Wallich (Acting)	Julius Varallyay (Acting)

Preface

This Project Performance Assessment Report (PPAR) covers the following operations:

- The **Enterprise and Financial Sector Adjustment Loan** (*EFSAL*, Loan 4159), for US$95 million equivalent, approved on May 13, 1997. A first tranche (US$46 million equivalent) was released upon effectiveness on November 5, 1997, and a second tranche (US$36.9 million equivalent) on December 18, 2001. The project was closed on December 31, 2001, 30 months later than originally planned.

- The **Enterprise and Financial Sector Adjustment Technical Assistance Project** (*TAL I*, Loan 3989), for US$5.0 million equivalent was approved on March 26, 1996, became effective on July 22, 1996, and closed on April 30, 2000, 22 months later than originally planned. It was fully disbursed.

- The **Capital Markets Development Project**, (*CMDP*, Loan 3999), in the amount of US$9.5 million equivalent was approved April 4, 1996, and closed on time in June 1999 after full disbursement.

The PPAR was prepared by the Operations Evaluation Department (OED), building upon Implementation Completion Reports, project documents, and correspondence. An OED mission visited Croatia during May 2003 to discuss the development impact of these operations with Government officials, business representatives, and donors. Their assistance, along with that of the Croatia Country Team, is gratefully acknowledged.

A draft report was sent to the Borrower for comment, but no comments were received.

The Task Manager for this report was John Johnson. Tirsit Dinka and Joan Mongal provided administrative support.

Summary

1. The **Enterprise and Financial Sector Adjustment Loan**, (*EFSAL*, Loan 4159), in the amount of US$95 million equivalent, was approved on May 13, 1997, and fully disbursed in two tranches, before closing on December 31, 2001. The **Enterprise and Financial Sector Technical Assistance Project**, (*TAL I*, Loan 3989), in the amount of US$5.0 million equivalent, was approved on March 26, 1996, and closed on April 30, 2000, after being fully disbursed. The **Capital Markets Development Project**, (*CMDP*, Loan 3999), in the amount of US$9.5 million, was approved on April 4, 1996, and closed on June 30, 1999, after full disbursement.

2. All of the EFSAL's objectives—accelerating the privatization of the former socially-owned enterprises (FSOEs), restructuring and privatizing the public enterprises (PEs), rehabilitating and privatizing the banking system, and establishing an enabling environment for corporate and bank governance—were highly relevant to Croatia's private sector development and fiscal stabilization. However, only one—privatization of the banking system—was substantially achieved, although at a much higher cost than originally estimated. Hundreds of FSOEs were also sold, mostly via the route of mass voucher privatization. But many languished in the private sector under poor management, over-manning, and asset-stripping of various kinds, and the Croatian Privatization Fund (CPF) now holds a portfolio of publicly-owned FSOEs nearly as numerous today as on the day the EFSAL was approved.

3. Several of the large PEs underwent modest restructuring, and collective losses on the order of 1.5 percent of GDP in 1998 were converted into a small collective surplus by 2003. However, only one PE—the telecommunications company— relinquished its monopoly and was majority-privatized. The oil company (INA) was partially privatized in 2003, two years after the EFSAL closed, and like the power and railway parastatals, retains an effective monopoly. Finally, while the regulatory and enabling environment for banks experienced sharp improvement, such was not the case on the enterprise side.

4. Because only one of four major relevant objectives was substantially achieved, the EFSAL outcome is rated *moderately unsatisfactory* (as compared to satisfactory at the time of ICR review). The sustainability rating of *likely* remains unchanged, because there is broad societal agreement that privatization of the banks and the telecom parastatal has been beneficial, and because Croatia's desire for a closer relationship with the European Union is likely to lead to a deepening of reforms in this direction. However, institutional development impact has been downgraded to *modest*, reflecting evidence that, outside the banking sector, the enabling environment for private sector development has improved little since 1997. Finally, Bank and Borrower performance is downgraded from satisfactory to *unsatisfactory*, reflecting, for the Bank, deficiencies in design and instrument, and, for the Borrower, insufficient ownership, commitment, and action to fulfill the broad privatization pledges laid out in its Letter of Development Policy.

5. The major purpose of TAL I was to provide advisors, studies, and training to facilitate achievement of the EFSAL objectives. A TAL-financed study on upgrading the bank regulatory framework proved timely, as did audits of three banks that were rapidly

sold during the banking crisis. Studies identifying non-core PE assets and restructuring strategies had an impact on the behavior of two of four major parastatals during the time of EFSAL implementation. Other studies related to EFSAL objectives have been taken up under the just-completed SAL and/or have framed discussions for a possible Programmatic Adjustment Loan. On this basis, the TAL I outcome is rated *moderately satisfactory*, slightly higher than the EFSAL, but a downgrade from the ICR review because several objectives concerning privatization were not reached. The ratings of sustainability and Bank performance remain unchanged at *likely* and *satisfactory*, respectively. But Borrower performance is downgraded from satisfactory to *unsatisfactory* because of weak ownership and commitment to the goals of the studies and consequent shortfalls in implementation; and institutional development impact from substantial to *modest*.

6. The design of the CMDP was kept simple, in the interest of speeding implementation. Its objectives were to strengthen: the policy framework for capital markets, especially the regulation of securities; the operational capabilities for securities depository, registry, clearing, and settlement functions; and public understanding of the role of capital markets. Although beset by more pressing PSD issues, Croatia had a long-term interest in promoting the emergence of securities markets as an alternate vehicle for raising finance, improving corporate governance, attracting foreign portfolio investment, and speeding the reallocation of mismanaged assets into more productive hands. Therefore, relevance is rated *substantial.*

7. Thanks to the project, and follow-up by the Borrower, clearing, settlement, and fiduciary procedures markedly improved. Such was not the case with regulation and expansion of securities issuance and trading. While at the time of CMDP closing, the primary securities regulatory agency appeared to have gotten off to a strong start, it has since labored under a series of budgetary, judicial, and staff constraints that have largely sidelined it as a market referee. Only three companies are listed in the market's top tier, where information essential to investment decisions must be disclosed and published. Trading volume relative to GDP has actually contracted. During 1996-2003, commercial bank financing, which had been scarce and expensive before this period, became cheap and abundant, further reducing the allure of issuing stock. As for the public's appreciation for the role of capital markets, little appears to have changed. Croatia's securities markets are dominated by institutions, and are little used by small investors.

8. Based on these results, the outcome of the CMDP is downgraded from satisfactory to *moderately unsatisfactory,* sustainability from uncertain to *unlikely,* and Bank and Borrower performance from satisfactory to *unsatisfactory*. The Bank failed to adequately adapt the design (based largely on experience in advanced market economies) to the Croatian context, while the Borrower abandoned ownership of the project goals and largely ceased to support project implementation. Institutional development impact remains unchanged at *modest.*

9. Lessons of general applicability include:

- Without complementary measures for facilitating entry and exit, maintaining hard budgetary constraints, and imposing corporate managerial accountability, privatization is unlikely to produce significant growth or productivity benefits.
- Troubled banks should be liquidated or privatized quickly, and their lending strictly controlled while in that process.
- The experience with the EFSAL suggests that, although additional delays may be incurred and costs increased, on balance long-run development benefits are likely to be enhanced by canceling projects with major design flaws and addressing the reform needs with a superior instrument.
- Development of domestic capital markets makes little sense, until basic issues for private sector development, such as privatization and financial stabilization, have been resolved.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Background

1.1 Following independence in June 1991, civil war and hostilities with neighboring countries emerging from the break-up of the former Socialist Federal Republic of Yugoslavia caused Croatia's average *per capita* income to fall by one-half from 1990 to 1993. The political situation began to stabilize in 1994, and, for three years, economic performance markedly improved. However, in 1998, deteriorating fiscal and balance of payment performance, combined with over-expansion of commercial bank credit, and a worldwide crisis of confidence linked to events in East Asia triggered a serious financial crisis. The hasty sale of 13 "socially-owned" banks, and the liquidation of another dozen or so, together with the application of tighter fiscal and monetary policies, restored macroeconomic stability in 2000, when a new administration took power. A subsequent resurgence of earnings from tourism, as well as a surge in worker remittances, led to a four-year economic boom. As a result, by 2002, Croatia's real *per capita* income had fully recovered its previous peak from 1990.

1.2 Notwithstanding these gains, economic reform has been an uneven process. While financial stabilization was restored, trade liberalized, and thousands of small and medium-sized enterprises privatized, private sector-led development remains elusive. For example, foreign direct investment has played a negligible role in restructuring non-bank privatized companies, contrary to the experience in most other transition economies. Industrial exports have also stagnated, hampered not only by unresolved problems of enterprise reorganization, but also by the high prevailing wage rate, one-third above the average in the Czech Republic, twice the level in Slovakia, and five times the level in Bulgaria and Romania.[1]

1.3 Moreover, public sector indebtedness has grown rapidly, driven by inefficient spending, a costly, and substantially mis-directed, social welfare system, the fiscal legacy of a costly rescue of the commercial banks, and the direct and indirect costs of maintaining large numbers of public enterprises (PEs) and the Former Socially-owned Enterprises (FSOEs) afloat.[2] Additional constraints include an inexperienced and politicized public administration and a semi-dysfunctional judicial system.

1.4 By the mid-1990s, a number of issues surrounding the methods of privatization had been identified:

- A residue of nearly 500 small, commercially less-attractive enterprises (Former Socially-Owned Enterprises, or FSOEs) remained in public hands, as did 13 medium-sized enterprises placed under the aegis of the Law on the Rehabilitation of Selected Enterprises, which is why they were referred to as the "LRSE enterprises". In addition, ten large public enterprises (PEs), dominating the infrastructure and energy sectors, remained largely autonomous and unrestructured, generating annual losses on the order of 2 percent of GDP.

[1] Average wages in neighboring Slovenia are sixty percent higher, but, adjusted for productivity which is twice as high as in Croatia, Slovenia's unit labor costs are also lower.

[2] FSOEs, generally small or medium-sized enterprises, were given legal recognition by the 1991 Transformation Law, which established them as joint-stock companies having the right to privatize. On the other hand, PEs are large, state-owned enterprises, 10 in number, which provide core infrastructure and utility services, and for which there was no legal presumption of privatization at their founding.

- Auctions staged by the Zagreb Stock Exchange during the first wave had proven ineffective.
- There was a pressing need to transform the bankruptcy process from one controlled by debtors and politicians and designed to force debt-for-equity and other refinancing terms on reluctant creditors, to one in which creditors would have a greater voice, structuring workouts or forcing bankruptcies under court supervision.
- Cross-links of ownership among tycoon groups, public enterprises, and banks had produced an avalanche of related-party lending and self-dealing, jeopardizing the stability of the banking system.
- New labor and bank rehabilitation laws were counted on to increase labor market flexibility and address the legacy of troubled banks.

1.5 From this diagnosis, the genesis of the Enterprise and Financial Sector Adjustment Loan (EFSAL), its accompanying Technical Assistance Loan (TAL I), and the Capitals Markets Development Project (CMDP) emerged to address the most important bottlenecks preventing completion of the privatization process.

1.6 Since 1991, the Bank has lent a total of US$1,198 million to Croatia *via* 22 operations. As of January 2004, 12 loans had closed and 11 had been evaluated by OED, of which only 7 had satisfactory outcomes.

Economic and Social Progress 1994-2002: Macro Perspectives

1.7 From 1991 to 1993, annual inflation exceeded 200 percent, real GDP experienced a cumulative decline of 28 percent, and real wages fell by 64 percent. Stabilization was launched in October 1993, and quickly succeeded in lowering inflation to single-digit levels and restoring moderate-to-high growth (Table 1.1). Debt agreements reached with external creditors in 1995-96 provided a further boost to Croatia's recovery. For the entire period 1994–2002, real GDP grew an average of 4.3 percent annually, annual inflation was held to 4 percent, and annual real exports expanded by 6 percent.

Table 1.1: Croatia, Key Economic Indicators, 1994-2002

	1994	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
Real sector				*(percentage change)*					
Real GDP	5.9	6.8	5.9	6.8	2.5	-0.9	2.9	4.4	5.2
Exports of goods and services	...	...	9.8	7.6	3.9	0.7	12.0	8.1	1.8
Imports of goods and services	...	...	6.8	25.1	-4.9	-3.5	3.7	9.8	8.4
Fixed investment	...	...	37.6	23.3	2.5	-3.9	-3.8	9.7	10.1
Private consumption	...	...	0.4	12.9	-0.6	-2.9	4.2	4.6	6.6
Average CPI Inflation	97.5	2.0	3.5	3.6	5.7	4.2	6.2	4.9	2.2
Gross real wages	...	34.0	12.3	21.0	12.6	10.2	7.0	3.9	6.0
Unemployment rate [1]	...	...	10.0	9.9	11.4	13.6	16.1	15.8	14.8
				(in percent of GDP)					
Exports of goods and services	45.8	38.6	40.2	41.1	39.6	40.9	47.1	49.1	46.0
Imports of goods and services	45.9	49.5	49.7	56.8	49.2	49.3	52.3	54.7	54.8
General Government									
Overall balance	1.5	-1.4	-2.2	-3.1	-2.0	-8.2	-6.0	-6.8	-4.8
Expenditures	44.1	48.9	51.9	51.3	53.8	57.0	53.2	51.5	50.0
Public debt [2]	22.3	30.3	30.6	32.2	37.8	49.5	52.8	53.4	53.9
External Accounts									
Current account balance	4.9	-7.5	-4.8	-12.5	-6.7	-7.0	-2.5	-3.7	-8.4
FDI (Net)	0.7	0.5	2.6	1.5	3.9	7.2	5.9	7.1	2.6
External Debt	20.7	20.2	26.7	37.1	44.8	50.1	60.0	57.0	67.7
Reserves (months of imports)	2.4	2.5	2.8	2.7	3.2	3.7	4.4	5.2	5.4

1/ As a share of the active labor force. Source: ILO. 2/ Includes central government domestic and external debt plus public guarantees (both financial and performance guarantees) and arrears.
Source: CEM FY2004 and IMF.

Privatization[3]

1.8 Throughout the 1990s, Croatia's economy was characterized by the dominance of large, unrestructured, publicly-owned enterprises inherited from the period when Croatia formed part of the former Yugoslavia. At independence, most of Croatia's medium and small enterprises were socially-owned, with day-to-day operational management under the control of a loose coalition of employees and managers.

1.9 Following independence, two waves of non-bank enterprise privatization took place, the first from 1993 to 1996, the second during 1997-98. The terms of the first wave were framed by a 1991 Law for the Transformation of Socially-owned Enterprises. Shares of nearly 2,400, mostly "blue chip", enterprises were sold, primarily to insider managers and employees. Collectively, these firms employed roughly half of the enterprise labor force, and generated a similar proportion of revenues. Shares were sold at heavily-discounted prices on installment, with low interest rates, and frequent forgiveness and extension of payments. For these valuable assets, the Government of Croatia (GOC) received an amount equivalent to only 1.4 percent of GDP.

1.10 The second wave took place under the terms of a 1996 Privatization Law. Vouchers representing claims on the remaining FSOEs were distributed *gratis* to approximately 340,000 refugees, victims, and families of missing soldiers. These vouchers, denominated in "points", represented the nominal book value of these enterprises expressed in German D-Marks. These could then be used to bid on actual shares of these enterprises, a process which took place in several rounds between February and September 1998. Participants had the option to sell their points to one of seven Privatization Investment Funds (PIFs), which is what most of them did, so much so that the PIFs were able to gather 93 percent of all outstanding points by the end of the auction.

1.11 Of the 471 firms up for second-wave privatization, most were in dire financial straits. Some 20-50 were considered attractive, but most of these were withdrawn from the mass privatization lists during the winter of 1997. These reverted to the Croatian Privatization Fund (CPF), where they were privatized by other avenues, often negotiated sales under less-than-transparent terms and methods. Valuations were inflated, so as to satisfy the EFSAL requirement that assets on offer for voucher privatization be worth collectively at least DM12.5 billion.[4] Possibly aware that few attractive companies remained, only two-thirds of voucher recipients registered their holdings (228,000 out of 340,000 eligible). In the ensuing auctions, bids averaged roughly a tenth of the nominal book value of the firms up for auction.[5]

1.12 Business groups were responsible for consolidating many of the first-wave companies; PIFs, tycoons, and company managers for many of the second wave enterprises. Asset stripping and other forms of corporate malfeasance became

[3]This section draws considerably from the recently-published country economic memorandum on Croatia entitled *A Strategy for Growth Through European Integration,* July 2003, (Report No. 25434-HR), pp. 1-4, hereafter referred to as the CEM, and from another internal document.
[4] Mission discussions with high-level CROSEC official.
[5] This outcome was predicted as early as nine months before the auctions were completed in a communication sent to the World Bank by an officer from another international financial institution.

commonplace.[6] Many commercial banks, in the captive ownership of public enterprises and tycoon groups, slid rapidly toward illiquidity and insolvency, dragged down by their growing burden of bad loans.

2. Assessments of Individual Operations

Enterprise and Financial Sector Adjustment Loan (EFSAL, L4159-HR)

Overview

2.1 The EFSAL objectives were fundamentally four-fold: (a) to accelerate privatization of the FSOEs and the LRSE enterprises; (b) to restructure and privatize the PEs; (c) to rehabilitate and privatize the banking system; and (d) to establish the key elements of the enabling environment for enhanced corporate and bank governance.

2.2 The GOC's Letter of Development Policy set an optimistic tone about the magnitude and the speed of the privatization expected. Divestiture of virtually all FSOEs and the minority stakes held by the CPF in privatized enterprises was anticipated by the end of 1999, and privatization of the larger PEs in the sectors of oil, telecommunications, and the production and distribution of electricity within a two-to-three-year timeframe. Four troubled banks would be rehabilitated, then privatized over the next several years. And the incentives framework would be improved by laws already in place, including central bank and commercial banking laws passed during 1992-94; laws liberalizing labor markets, regulating securities markets, and establishing Investment Funds passed in 1994-95; a 1996 Privatization Law; and new banking regulations covering bank capitalization and provisioning in 1997.

2.3 FSOE privatizations would be accelerated by:

- Mapping the FSOEs into four categories, each of which was assigned a different privatization pathway;
- Introducing mass voucher privatization;
- Strengthening non-voucher privatization through modernized regulatory powers accorded to the Croatian Securities Commission (CROSEC) over ZSE auctions;
- Allocating responsibility for the largest privatizations to a Council of Ministers, aided by a new Ministry of Privatization, while delegating responsibility for smaller privatizations (below US$2 million) entirely to the CPF;
- Endowing the CPF with a new, more professional board; and
- Ending of all privatizations under the Law for Rehabilitation of State Enterprises (LRSE), which was responsible for a number of debtor-controlled "cramdowns" (forced debt-equity swaps) under soft budgetary constraints.

[6] See CEM, Chapter 5.

2.4 Four insolvent commercial banks would be first rehabilitated by carving out bad assets, extinguishing the equity interests of the previous owners, installing new management, restructuring troubled borrowers, and establishing Bank Rehabilitation Agency (BRA) oversight of key lending and corporate decisions. Once rehabilitated, these banks would be privatized, with a target of selling at least one-third of their shares by mid-1998, and eventually a majority stake, whenever the GOC considered conditions to be right.

2.5 PEs were to be subject to closer financial and operational oversight from the Office for Restructuring the Economics of State Enterprises (ORESE), and would be required to prepare proposals for unbundling and privatizing their non-core assets, for restructuring core assets, for reducing costs and the need for operating subsidies, and for eventual sale of the "larger part" of their core operations. The newly-privatized firms would be governed by regulatory agencies and laws which the TAL I would help to prepare.

2.6 Corporate and bank governance would be enhanced by the shift toward professional managers, reporting within an enhanced regulatory framework, harmonized with European Union practices, and buttressed by public organs receiving increased budgets and enhanced powers. Finally, the GOC was obligated to provide adequate incremental budgetary support, expected to peak at around 3 percent of GDP in 1998, tapering off rapidly thereafter.

Design, Implementation and Outcome

2.7 From May 1997, when the EFSAL was approved, until mid-2000, progress on enterprise-related conditionality was modest. Mass voucher privatization was completed by September 1998, but without giving rise to the restructuring expected. An initial stage of INA divestiture had taken place, whereby the oil company swapped its non-core assets against debts owed to the GOC, and staff had been reduced by one third. The pace of bank privatization accelerated under the duress of a liquidity crisis during 1998-99. Non-core assets of the Telecommunications Parastatal (HT) were divested in 1999, and a minority stake sold in early 2000 to a foreign investor.

2.8 Other than that, little progress had been made toward restructuring and privatizing the other large PEs (INA, HEP, and HZ) or the LRSE enterprises, whose managements showed little interest in, or commitment to, the GOC's privatization pledges. So, in June 2000, the Bank approached the newly-elected coalition government to propose several options for closing the EFSAL without disbursement of the second tranche. However, the incoming leaders requested a closing date extension long enough for the GOC to complete full compliance with all second-tranche conditions. This was based on the GOC's perception that the EFSAL objectives overlapped in important ways with the GOC's own economic platform directed at accelerating energy and railway reforms, and privatizing INA and HT, and that failure to disburse the second tranche would send markets the wrong signal about the administration's reform intentions. Given the operation's major design flaws, already recognized by that time in the Bank, cancellation of the EFSAL second tranche, and design of a new, customized adjustment operation would have been preferable.

2.9 For purposes of second tranche disbursement, the key areas of unfinished business included: (a) completing privatization of half the share capital held by the CPF in the

FSOEs as of end-1994; (b) streamlining the institutional and incentives framework to facilitate FSOE and LRSE enterprise restructuring; and (c) restructuring the PEs, including privatizing at least one-fifth of their share capital.

2.10 By December 2001, the GOC had managed to comply fully with 12 of the 13 second tranche conditions, and partially with a thirteenth, requiring that the 13 LRSE enterprises be privatized.[7] For this condition, the Bank provided a waiver, taking into account the fact that world shipping markets had plunged into a sharp recession, reducing bidder interest in any but the most competitive shipyards (which these were not). As of end-2003, these five companies remained unprivatized and on the public dole. Collectively, the subsidies and loan guarantees they have received accounted for an estimated 12 percent of Croatia's public and publicly-guaranteed debt.[8] On the final day of 2001, the second tranche was disbursed.

2.11 However, beyond technical compliance with almost all the second tranche conditions, it is instructive to examine what development benefits have been reaped from these actions. In this sense, there remains a considerable gap between the promises of the EFSAL and its actual achievements.

2.12 The objectives of the EFSAL were substantially relevant, clearly related to the priorities highlighted in the 1995 CAS, but the EFSAL design suffered from a number of deficiencies, among which were:

- Lack of any component to deal with the anticipated employment displacement effects of restructuring. The Bank took the position that Croatia inherited from its membership in the Former Yugoslavia an economic system which already contained a strong safety net capable of dealing with any employment effects arising from EFSAL-supported reforms.[9] This proved not to be the case. Croatia's safety net was directed, not so much toward the poor or unemployed, but toward politically-influential groups, like the war veterans. Only a minority of unemployed (about one-third) received any benefits. Public employment services at the time were limited due to fiscal constraints, while private employment services were then virtually nonexistent due to legal restrictions.[10] The omission of an effective labor adjustment component meant that public alarm about the employment effects of reform gathered momentum during EFSAL implementation, and may well have played a factor in the subsequent major delays of implementation. The absence of any component for job retraining or other safety net benefits was cited by QAG as the principal reason it rated the EFSAL's quality at entry as unsatisfactory.[11] The FY01 SAL addressed some aspects of this problem, as will a forthcoming Social Protection Project.

- Mass privatization took place in a regulatory and competitive framework, administered by enfeebled institutions such as the CPF, CROSEC, the BRA, and

[7] Five shipyards were put up for auction, but could not be sold for lack of buyer interest.
[8] See CEM, Summary Report, p. 7.
[9] Internal correspondence.
[10] These deficiencies have since been corrected by the 2002 Employment Intermediation Law.

[11] Interestingly, a December 1995 EFSAL mission proposed making submission of a plan to address the social consequences of enterprise restructuring a condition for negotiations. However, internal documents show that, by March 1996, this requirement had been dropped.

the judicial system, which proved unwilling or incapable of compelling newly-privatized, economically-unviable companies to restructure rapidly and transparently. This should not suggest that privatization should have been delayed by these obstacles, since all that was needed was for the GOC to observe the hard budgetary constraint envisioned. Without public subsidies and concessions, most newly-privatized companies would have had no choice but to restructure. However, once EFSAL budgetary conditionality had expired in 1999, fiscal leakages of various sorts—tax forgiveness, direct subsidies, subsidized lines of credit, etc.—resumed.

- The second tranche conditionality fell well short of ensuring privatization of the "larger part" of PEs within a suitable timeframe. For example, a second-tranche condition requiring sale of at least 20 percent of the shares of three of the most important PEs—INA, the power company (HEP), and the postal and telecommunications company (HPT) was easily achieved by sale of 51 percent of the shares of the telecommunications branch (HT) in 2001, effectively giving the Borrower a free hand to delay further privatization of HEP and INA.[12] Similarly, a second tranche condition that the CPF privatize at least one half of the FSOE share capital it possessed as of end-1994 did not impede that agency from subsidizing the newly-privatized enterprises, nor from repurchasing already privatized companies in financial difficulty.

- Flaws in the new Bankruptcy, Labor, and Securities Laws largely blocked their intended effects, forcing the Bank to revisit these problems during negotiations on the SAL.

- The implementation risks arising from a lack of commitment to reform within some parts of the government, and the sheer complexity of certain reform components, were not properly recognized during appraisal. Not only did designers grossly underestimate the length of time needed for effective reform, but also they overestimated the GOC's capacity to execute those reforms, even when there was a predisposition to do so. This was one basis for the Implementation Completion Report's rating of quality at entry as unsatisfactory. In retrospect, the choice of a fast-disbursing instrument to support so many complex, politically-sensitive reforms was unwise. Better might have been a cluster of sector adjustment loans with floating tranches, although such instruments were not widely available at the time the EFSAL was being prepared.

- Finally, the strategy for bank privatization supported by the EFSAL proved to be slow, unwieldy, and prone to abuse, once the banking system went from a limited to a system wide crisis. Bank staff soon advised the GOC to discontinue the use of EFSAL rehabilitation procedures.

2.13 Viewed from a development impact perspective, the EFSAL had a decidedly mixed record. Its bank rehabilitation objective was fully achieved, but inadequate in both scope and method to the task at hand. Privatization would eventually go far beyond the EFSAL four-bank goal to encompass virtually all commercial banks.[13] It would be characterized, not by the drawn-out process of painstaking asset valuation, followed by

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[12] One-quarter plus one share of INA was sold in 2003.

[13] Ninety-two percent of all commercial bank assets are now in private, mostly foreign, hands.

segregation of bad loans, heightened public oversight, recapitalization at public expense, and maybe eventual full privatization, as the Bank and the Borrower had originally contemplated.

2.14 Rather, privatization took place in a swirl of rapid-fire audits, followed by rushed auctions. Once the process had gotten fully underway, it took little more than three years to sell off more than 90 percent of system assets. With nearly all commercial finance assets now in the hands of professionally-managed banks, Croatia's banking system has become a far more efficient, solvent network of intermediaries than it was before 2000. Under strengthened competition, macroeconomic stability, and renewed saver confidence, the cost of credit has declined so rapidly—from over 16 percent in real terms during 1996 to around 4 percent in 2003—that borrowers show little inclination to seek competing forms of finance, such as the issuance of new equity. The only real question is: How much of this improvement should be attributed to the mechanisms supported by the EFSAL, as opposed to those adopted when the urgency of the crisis compelled them? It is argued here that, in the final analysis, the EFSAL-supported rehabilitation strategy was, at best, a palliative, an only incidental influence on the final shape of the banking system as it stands today.

2.15 Among the indicators of improved commercial bank performance, declining spreads and financial deepening should be noted (Table 2.1). Analytic work provided further support for the view that, by 2002, the financial system had become more resilient and capable of withstanding macroeconomic stress, that banks were generally well capitalized, that non-performing assets had decreased as a fraction of total assets, and that supervision was acceptable, albeit in need of further improvement. In its 2001 Transition Report, the European Bank for Reconstruction and Development (EBRD) accorded Croatia a rating of 3+ for banking reform, in line with Latvia, Poland, and Slovenia, and just below top-rated Hungary, Estonia, and the Czech Republic.

2.16 The EFSAL did achieve a substantial improvement in the bank incentives framework. The Central Bank, strengthened by new authorizing legislation passed in 1999, reinforced by upgraded supervision rules and enhanced staff training, has made major steps toward achieving a modern bank regulatory regime. By 2001, both the World Bank and the IMF certified Croatia as being in broad compliance with the Basle Core Principles for Effective Banking. Moreover, the change of bank ownership removed the corrupting influence of the old system of interlocking directorates, which had so severely compromised bank lending decisions.

Table 2.1: Financial Sector Performance

	1996	*2001*
Spread between lending and deposit rates, Kuna	14.3	6.4
Spread between lending and deposit rates, in foreign exchange	14.4	3.6
Broad Money (M4) in percent of GDP	34.0	52.0
Loan to deposit ratio*	92.6	82.0
Non-performing assets, as share of total bank assets	9.2	7.2
Bank assets, as share of GDP	62.5	74.0

*excludes government accounts.
Source: World Bank research.

2.17 With regard to FSOE privatization, development impact is judged to have been modest. The EFSAL-supported plan achieved a speedy, mass transfer of the assets of several hundred FSOEs to the private sector, initially to the PIFs. But, with one exception, the PIFs have not invoked their rights as dominant shareholders to force the pace of restructuring.[14] Rather, they have shuffled the assets they acquired, either back to the CPF on the grounds of misleading conveyance, or in private, mostly non-transparent transactions with an assortment of managers, employees, and investor groups, on the Varazdin Exchange,[15] which the PIFs control with little or no outside oversight.

2.18 Although most banks collapsed in 1998, such was not the case for large numbers of enterprises which remained in their debt. These enterprises, and their debts, were transferred to the BRA, which was charged with either restructuring them or forcing them into bankruptcy. Very little of either has occurred. Indeed, the BRA, as of 2003, remained one of Croatia's largest creditors.[16]

2.19 During the last 10 years, most privatized FSOEs have neither invested in new technology, nor downsized. The slow pace of restructuring has meant that already-privatized firms are reverting to State-ownership at a pace nearly as fast as the rate of new privatizations. CPF officials reported that, since they had assumed office, the number of majority and minority stakes CPF holds in FSOEs had actually increased slightly, from 1,860 in early 2000 to 1,888 in early 2003. Moreover, employees who are shareholders retain the right to sell back their shares to the CPF, rather than completing their installment purchases. Many working in insolvent enterprises are opting to do exactly that. As of end-2002, pending CPF share repurchase obligations extended to roughly 96,000 employees.

2.20 Croatia's private sector remains weaker than that in other transition countries. For example, among a sample of twelve transition countries,[17] Croatia's private sector was found to be third smallest as of mid-2000, comprising a mere 60 percent of GDP. Within the private sector, disparate trends have been observed. Newly-established private companies, outside the ambit of EFSAL reforms, have enjoyed the best performance, experiencing above-average growth, with value-added having increased from 9 percent to 16 percent of GDP between 1996 to 2000. On the other hand, the FSOEs and the PEs, which were the target of EFSAL-supported reforms, have (not surprisingly) done less well. Their growth has been sub-par, with value-added for the FSOEs shrinking from 14

[14] CEM. Vol. II, p. 116, para. 5.78.
[15] The Varazdin Stock Exchange is one of two such exchanges in Croatia. It operates exclusively for the benefit of the PIFs, and is largely controlled by them.

[16] See CEM, Chapter Five, p. 122, para. 5.98.
[17] The countries are Hungary, Czech Republic, Estonia, Slovak Republic, Poland, Slovenia, Croatia, Lithuania, Latvia, Bulgaria, FYR Macedonia, and Romania. See the EBRD *Transition Report 2000.*

percent to 13 percent of GDP, and for the PEs from 10 percent to 7 percent. Such inferior competitive performance should have led to a far higher rate of bankruptcy and reorganization than has been actually observed.

2.21 A survey published by the State Audit Office (SAO) in 2002 found serious irregularities in the sale and in the subsequent management of roughly four-fifths of the 500 cases reviewed, covering enterprise sampled from both waves of privatization. Asset stripping, misappropriation of loans collateralized with company assets, repayment of personal debts out of company cash flow and assets, and chronic arrears on supply contract payments were commonplace. As of end-2002, 430 privatized FSOEs had reverted to CPF (public) ownership. Others may follow, given that the CPF holds pending contracts to repurchase the shares of 96,000 employees of privatized FSOEs. Finally, the SAO found that roughly 40 percent of the surveyed enterprises remained unprofitable throughout the survey period of 1996-2000.

2.22 More than half of all privatized enterprises remain heavily indebted to the state, either to the BRA or the CPF.[18] Neither of these agencies currently has the legal mandate or the institutional capacity to enforce timely repayment of these obligations or bankruptcy on these companies. A backlog of court cases numbering in the vicinity of one million[19] means that the EFSAL-sponsored Bankruptcy Law had little practical effect.

2.23 With respect to the PEs, the GOC pledge to privatize most of the public enterprise sector has, to date, not been fulfilled, with two exceptions. The first, and most important, was the splitting of HPT into postal (HP) and telecommunication (HT) branches, and the privatization of the latter in 2001. Consumers have enjoyed major benefits from improved telecommunications services and lower prices provided by its German buyer.[20] On a lesser plane, INA undertook a major financial and organization restructuring during 1997-98, leading to the sale in 2001 of roughly US$500 million of non-core assets in tourism, engineering, banks, industries, and social areas, and HT sold its non-core assets as part of its sale to a foreign strategic investor. Aside from these instances, no further PE privatizations took place during the implementation period of the EFSAL.[21]

2.24 As part of second tranche conditionality, Croatia approved an Energy Law Regulatory Package in July 2001. But, a combination of management intransigence, particularly in HEP, inexperience with deregulation, resistance from public unions, and long transition periods mandated by the legislation itself[22] have blunted the impact of this legislation. As noted by the CEM, as of mid-2003, the oil, gas, and power sectors

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[18] One indicator of the gradual erosion of the GOC's pledge to maintain a hard-budget constraint upon troubled enterprises is the fact that the BRA was originally intended to operate for a maximum of three years, and to be largely self-financed from the fees charged, and the assets sold, of debtor companies. But, as of end-2003, the BRA not only had not gone out of operation, but had failed to attain any significant self-financing capability.

[19] A rough estimate, since there is undoubtedly some double-counting, due to assignment of different tracking numbers to cases at different stages of legal review.

[20] For examples of how new competition has accelerated the spread of mobile phone services, see http://www.summitreports.com/croatia/telecoms.htm

[21] In 2003, long after EFSAL's closing, the GOC sold 25 percent of INA's equity to a foreign purchaser.

[22] For example, the requirement that electricity transmission and distribution fees must be set on the basis of three-year network development and construction plans means that the new independent regulator for gas and electricity markets is unlikely to play a significant role in tariff-setting before FY2006. CEM, Chapter 7, p. 168.

remained under the domination of INA and HEP, pricing was widely below costs, and "...the current framework for the energy sector remain[ed] uncertain, due to lengthy discussion of the secondary legislation needed to implement the July 2001 energy law package...."[23]

2.25 As for Croatian State Railroad Company (HZ), the EFSAL required that restructuring be initiated in a manner acceptable to the Bank. Yet, the 2003 CEM concluded that, although operational reforms started as early as 1993 (i.e., four years before the EFSAL was even approved), and that improvements have been achieved in productivity and organizational clarity, performance improvements have been modest, relative to the magnitude of the railroad's problems. The company is still heavily dependent on state subsidies, which, by international standards, are high (45 percent of revenues).[24]

2.26 With respect to the required sale of non-core assets, HZ and HEP created separate subsidiaries for these assets, but have not yet sold them to the private sector.[25] A number of these issues involving the infrastructure PEs are likely to be re-addressed in a forthcoming Programmatic Adjustment Loan (PAL).

Ratings

Relevance

2.27 The EFSAL's objectives were *substantially relevant* to Croatia's private sector development, financial sector reorganization, and fiscal stabilization.

Efficacy

2.28 However, only one—privatization of the banking system—could be said to have been substantially achieved, albeit at some incremental cost to taxpayers, owing in part to delays associated with the initial methods adopted. The three remaining objectives were partially achieved – the incentives framework for banks "yes", the incentives framework for enterprises "no"; the full restructuring and privatization of HT "yes", the full restructuring and privatization of INA and HEP, "no"; the accelerated privatization of the FSOEs, "yes" at the beginning, "no" at the end. Overall efficacy is, therefore, rated *modest.*

Outcome

2.29 Outcome is rated *moderately unsatisfactory* (as compared to satisfactory at the time of the ICR review), on the basis that the project, while not without acknowledged benefits such as the solid counsel provided during supervision on adjusting the course of bank privatization and the restructuring achieved at most of the PEs, nonetheless failed to substantially achieve three of its four major relevant objectives. The in-depth analysis of expected development benefits revealed shortcomings in the process of second tranche

[23] CEM, Vol. II, Chapter Seven, pp. 162-167.
[24] CEM, Vol. II, Chapter Seven, pp. 177-78.
[25] Some non-core assets, such as hotel and catering facilities, were transferred from both enterprises to the CPF for eventual privatization.

compliance which are likely to blunt the development effectiveness of these actions to a greater extent than was known at the time of the ICR review.

Sustainability

2.30 Sustainability is considered *likely* (unchanged from the ICR review), not only because there is broad societal agreement that privatization of the banks and the telecom parastatal has been, on the whole, beneficial, but also because, if Croatia wishes to progress to the next stage of European Union candidate membership, it is likely that further efforts in this direction will be needed.

Institutional Development Impact

2.31 Institutional development is rated *modest* (a downgrade from the ICR review), reflecting new evidence collected by the mission that the enabling environment for private sector development, and its governance, remains short of acceptable, except in the banking sector.

Bank and Borrower Performance

2.32 Bank and Borrower performance are downgraded to *unsatisfactory*, albeit marginally so. The Bank scored well for its strategic selectivity and the quality of supervision, which was pro-active and persistent in the face of chronic Client resistance and delay. However, the flaws in project design and in the choice of a quick-disbursing instrument to support lengthy, complicated, and politically-sensitive reforms became more evident, as the mission examined the on-the-ground results. The Borrower's performance oscillated widely over the course of implementation. Performance and commitment were low prior to mid-2000, high up to end-2002, but declined afterwards. Efforts to complete banking sector reforms went reasonably well, once the crisis had become full-blown, but promises to enact sweeping PE and FSOE privatization were either not observed, or were later altered by policy actions which significantly diminished their expected net benefits.

Enterprise and Financial Sector Technical Assistance Project (TAL I, L3989-HR)

Overview

2.33 The Technical Assistance Loan for the EFSAL (TAL I) was originally designed as a module in the EFSAL, but was later (March 1995) split out as a free-standing operation, at the request of the Loan Committee. It provided US$5.0 million equivalent in Bank financing for advisory services, studies and some training related to the reforms embodied in its parent loan, the EFSAL. This amount was augmented by GOC counterpart financing of US$1.2 million equivalent, giving a total estimated project cost at approval of US$6.2 million equivalent. By closing on December 31, 1999 (a year and a half beyond the originally-projected closing date), the loan was totally disbursed, and the total project cost had risen to US$7.1 million equivalent, reflecting a larger GOC counterpart contribution.

Design, Implementation and Outcome

2.34 The TAL I should be understood as an ancillary instrument, designed to facilitate implementation of the EFSAL. Hence, the accomplishments and setbacks experienced by the EFSAL had a corresponding impact on the success of the preparatory activities financed under TAL I.

2.35 The stated objectives included: (i) assisting the GOC in completing privatization of the FSOEs; (ii) assisting in the restructuring and privatization of the PEs; and (iii) supporting the rehabilitation and privatization of the banking system.

2.36 Within these objectives, the components were as follows:

(i) *Privatizing the FSOEs:*

- Consultant services to undertake the detailed design of the voucher privatization program and to advise the CPF on the non-voucher options for privatization.

(ii) *Restructuring and privatizing the public enterprises*:

- Assisting INA by studying the restructuring needs of its refining, distribution, wholesale, marketing, petrochemical, and fertilizer businesses, as inputs into hiving off of INA's non-core assets over 1997-98 (a first step toward their privatization);
- Assisting ORESE to develop a framework and agency for regulating the utility and telecommunication sectors post-privatization;
- Assisting ORESE and several of the largest PEs (INA, HEP, and HPT) to establish financial reporting and internal audit systems;
- Assisting HEP to develop a blueprint for privatization, a plan for financially separating its district heating activities, and a benchmarking of its efficiency against international comparators; and
- Assisting the shipyards to develop a pilot spin-off program.

(iii) *Rehabilitating and Privatizing the Banking System*:

- Advising the BRA;
- Conducting audit and portfolio reviews of five troubled commercial banks; and
- Providing privatization advisors to three of the four troubled banks included under the EFSAL.[26]

2.37 With a few exceptions—the benchmarking study for HEP whose management refused cooperation, and the advice to the CPF on non-voucher privatization and to the BRA on bank privatization, which were grant-financed by other donors—all of the TAL

[26] The fifth bank, Itarsa, was eventually judged not to require BRA intervention, and, thus, was excluded from EFSAL conditionality. Also, one bank, Slavonska, was purchased by the EBRD before the associated TAL study could begin.

studies and consultant services were delivered. However, the impact of these services varied in accordance with the fate of their over-riding development objectives.

Privatizing the FSOEs

2.38 The study of mass privatization of the FSOEs focused on the mechanics of notifying beneficiaries, identifying the supply of potential FSOE assets and how they should be balanced against the volume of vouchers placed in circulation, the public information campaign required, and the certification and operation of the PIFs. While useful, this work devoted inadequate attention to assessing the appropriateness of mass voucher privatization in the Croatian conditions.

2.39 As experience among the early voucher privatizers—Estonia, the Czech Republic, and Russia—would show, voucher privatization can work, but only within carefully circumscribed conditions. Specifically, successful voucher privatization requires adequate fiduciary restraints and oversight of managerial behavior, free exit and entry conditions to the sector to promote desirable changes in ownership, and, in most cases, reputable core investors to set the privatized enterprise on a sound adjustment path from the outset.[27] Bank staff were aware of the risks, but thought they were adequately hedged by plans to create the PIFs, which would have an incentive to provide intensified oversight of FSOE behavior, at least for the largest of these enterprises, to protect their investment stake. The overhaul of securities regulation and the creation of fiduciary, clearing, and settlement functions supported by the CMDP were regarded as additional safeguards.

2.40 In the event, none of these precautions worked. The generally poor quality of the assets on offer—recall that the best assets had already been privatized in the first wave, before the TAL was approved—discouraged foreign investor interest in gathering and consolidating vouchers. Moreover, few of the newly-privatized FSOEs showed any interest in going public, with its more stringent reporting and oversight requirements. And the CPF, despite Bank remonstrances on several occasions during 1997, removed many of the remaining attractive FSOEs from the mass privatization list before bidding started in February 1998.

2.41 Those FSOEs withdrawn from the list were disposed of through direct sales, tenders, private auctions, etc., under circumstances which lacked transparency. The proffered TAL I assistance to determine how best to conduct these non-voucher privatizations was declined. On these bases, OED concludes that the TAL I goal of assisting FSOE privatization was not achieved.

Restructuring and Privatizing the PEs

2.42 This objective was partially achieved. The TAL-financed studies had their greatest impact on INA's restructuring and transfer of non-core assets during 1997-99. Of intermediate impact was the assistance provided to ORESE to promote better accounting and reporting practices in the PEs, post-privatization regulatory frameworks, and a plan for HEP privatization. ORESE backed a single, multisectoral regulatory

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[27]See J. Nellis, *The World Bank, Privatization, and Enterprise Reform in Transition Economies: A Retrospective Analysis,* OED Working Paper, 2002.

agency, but eventually lost this battle when the telecommunications branch was privatized ahead of the other PEs in 1999. ORESE was also able to develop an elaborate system of reporting and accounting with TAL assistance. However, a government-wide reorganization in 1999 largely sidelined ORESE from the process of determining the fate of the PEs, so these proposals had little impact. The Energy Law Package of 2001 adopted some elements of the restructuring proposals developed in TAL-financed studies, but has had little impact since, due to HEP resistance and the GOC's inability to shepherd through Parliament the necessary enabling legislation. HEP management strongly resisted the conclusions of the TAL power privatization and benchmark studies. The only significant concession it made was to hive off the district heating units. Even here the change was more of form than substance, since the heating units remained under HEP management. Of least impact was the shipyard pilot spin-off study. None of the five shipyards has spun off significant assets to date.

Rehabilitating and Privatizing the Banking System

2.43 This objective was largely achieved. The financial audits and portfolio reviews were material to the process of privatizing four of the five banks originally targeted and, in three of those cases, were facilitated by advisors and privatization programs underwritten by the loan, although a follow-on TAL II was also important in this. Grant financing received from another donor obviated the need for the Senior Banking Advisor planned for BRA.

Ratings

Relevance

2.44 The relevance of the TAL must be judged largely on the same grounds as the EFSAL, since its major purpose was to provide technical assistance in the form of advisors, studies, and training to facilitate achievement of the EFSAL objectives. Hence, like the EFSAL, relevance was judged to be substantial.

Efficacy

2.45 Also like the EFSAL, the TAL's efficacy is also rated *modest.* Two of the three objectives—technical assistance on bank privatization and on PE restructuring and privatization—were partially achieved, with study findings standing the test of time. For example, a study on how to upgrade the quality and functionality of the bank regulatory framework proved especially timely, as did rapidly-completed audits of three banks which had to be privatized in a hurry. Studies identifying non-core PE assets proved particularly useful for the restructuring plans of the oil (INA), and postal and telecommunications companies (HPT). On the other hand, studies on preparing the power company (HEP) for privatization were largely rejected by that company's management. A study proposing a single utilities regulator was rejected in favor of a different plan creating separate regulatory agencies for telecommunications and energy. A study to separate HEP's district heating assets was legislatively implemented, but has had little practical effect, since the assets remain under the control of HEP management. A study to spin-off the state-owned LRSE shipyards was not implemented. Still other study findings, initially ignored or rejected, have gained a second life, such as the design of a PE performance reporting system, which was revived and implemented in the SAL, or the plan for HEP restructuring and privatization, which is still shaping the negotiations over terms of a proposed Programmatic Adjustment Loan. Least successful was the study on voucher privatization, which, while technically sophisticated, overlooked key aspects of the institutional framework that should have, but were not, corrected.

Outcome

2.46 Taking into account the substantially relevant objectives, but also incompletions and shortcomings in the way certain objectives were achieved (PE, LRSE, and voucher privatization, respectively), outcome is rated *moderately satisfactory,* a downgrade from the rating of highly satisfactory at the time of the 1999 ICR review. The earlier review relied heavily on the fact that all but one of the TAL studies had been completed, but was less able to evaluate their eventual impact, given that the EFSAL reforms were still at an early stage at the time.

Sustainability

2.47 The development benefits are likely to be as enduring as the reforms they supported, which, as noted above, are unlikely to be reversed. Thus, sustainability is rated *likely,* unchanged from the ICR review.

Institutional Development Impact

2.48 IDI is rated as *modest,* down from substantial at the time of ICR review. As organizations, the central bank the banks, and HT have been strengthened in major ways. Yet, even here, it is worthwhile noting the important gaps in technical assistance, mostly due to Borrower resistance. For example, BRA rejected a proffered advisor to shape bank privatization techniques. In the light of subsequent results, this omission was regrettable. Similarly, the Ministry of Privatization and the CPF both rejected TAL assistance on non-voucher methods of privatization, on the grounds they preferred grant financing for same.[28] Yet, these were among the areas in which a politicized CPF Board was accused of collusion and corruption.

2.49 Nor have the TAL-financed studies yet been tapped effectively to bring about major improvements in governance and the enabling environment, again with the three exceptions noted above. Among the larger PEs, INA has been the most receptive to study findings, HZ somewhat less so, and HEP and the shipyard company hardly at all. Among small and medium FSOEs, the TAL-financed study of mass privatization can be said to have had, at best, no practical effect, at worst a negative effect in the sense that it helped lead the sector into a policy "blind alley." Finally, ORESE, which had been the lead public agency for overseeing the PEs, and a major target of the TAL studies, lost its policy authority and technical capacity in a 1999 reorganization, and became a non-factor in framing policies on PE accountability, a major setback for the project.

Bank and Borrower Performance

2.50 Bank performance is rated *satisfactory.* With the exception of the mass privatization study, TAL-financed studies were generally well-conceived and, with one

[28] It does not appear that either agency ever actually contracted for outside technical assistance of any kind on conducting non-voucher privatization.

exception (the HEP benchmark efficiency study), completed. HEP management and one high-level minister were critical of the consultants supplied for the energy studies. For example, the findings of the study on INA's fertilizer subsidiary were considered irrelevant, because the price assumptions proved to be too high. However, the bulk of the evidence, drawn from supervision reports and the ICR, suggests that HEP management was critical of the studies, not so much on their technical merits, but rather because of the threat their conclusions posed to HEP's autonomy and monopolistic control. Other than HEP, the Bank worked persistently and effectively with a wide range of agencies during its supervision of a highly-complex project.

2.51 Most of the shortcomings of the project stemmed from Borrower actions which undermined the expected benefits of the TAL studies. Examples are the resistance from HEP and the marginalization of ORESE, a key TAL partner. Therefore, Borrower performance is rated *unsatisfactory,* a downgrade from the rating of satisfactory at the time of ICR review.

Capital Markets Development Project (CMDP, L3999-HR)

Overview

2.52 During the early-to-mid 1990s, Croatia's financial system was dominated by commercial banks. The only non-bank financial institutions were insurance companies, a public pension fund, the Zagreb Stock Exchange, and two over-the-counter securities markets, on which trading volume was very low.

2.53 The Bank and Borrower assumed that development of open and efficient capital markets would foster foreign capital inflow, the return of off-shore savings, more efficient investment allocation, better matching of economic risks, and rationalization of privatized enterprises though ownership consolidation and the emergence of strategic investors. For these reasons, a Capital Markets Development Project was prepared during 1994-95, and approved in April 1996.

Design, Implementation and Outcome

2.54 The primary stated objectives of the *CMDP* were to (i) strengthen the regulatory and policy framework of the capital markets; (ii) strengthen the infrastructure to support securities transactions; and (iii) deepen the public's understanding of capital markets, including participation as shareholders of privatized firms.

2.55 Within these objectives, the components were as follows:

(i) *Strengthening the regulatory and policy framework of capital markets*:

- Establishing and developing a securities exchange commission (CROSEC);
- Restructuring illiquid Government debt (Big Bonds); and
- Providing technical assistance to the asset holding arm of the Pension Fund.

(ii) *Strengthening the securities infrastructure:*

- Establishing and strengthening a securities depository, clearing and settlement facility (SDA).

(iii) *Strengthening public awareness of capital markets:*

- Providing technical assistance to execute a mass media campaign.

2.56 Implementation of the CMDP was expeditious. A few months before CMDP approval in April 1996, Securities and Investment Fund Laws were passed, which provided an initial definition of CROSEC's regulatory powers. In 1997, a mass media campaign was conducted to explain voucher privatization to the public and the role of capital markets, including the newly-established PIFs, in facilitating broader public ownership of privatized enterprises. The SDA went into full operation in July 1999, three months later than originally planned. Hence, all components were delivered in relatively timely fashion. However, developments in Croatian securities markets, as well as gaps in the effectiveness of complementary institutions, have had profound effects on CROSEC and the SDA.

2.57 Croatian capital markets have not fared well since the CMDP was approved. Equity trading on the Zagreb Stock Exchange (ZSE) remains very modest, and is falling as a percentage of GDP. At the end of 2002, equity capitalization, which consisted of two companies, was only 75 percent of the level reached in 1997. The over-the-counter Varazdin Exchange is controlled by the PIFs, who operate it largely for their own benefit, with little involvement by the general public.

2.58 The failure of capital markets to expand in line with the economy owes to a number of factors, including the unwillingness of the GOC to compel privatized companies to list on the ZSE, the availability of cheaper bank credit to the larger companies, the reluctance of Croatian companies to subject themselves to public disclosure requirements, and the desire of owners to maintain close control.

Strengthening the Regulatory and Policy Framework of Capital Markets

2.59 When the CMDP was designed and implemented, capital market development was a GOC priority. However, after the project closed, a newly-elected administration accorded it little importance, as evidenced by its preference for direct sales of important FSOEs over public flotation, and its budgetary decisions, which have starved CROSEC of the most basic financial and human resources needed to do its work.

2.60 CROSEC lives a precarious existence. Its powers are limited and its enforcement activities ineffective. For example, it can issue brokerage licenses, but cannot revoke them, nor does it have the power to levy fines or impose other penalties for misconduct. The judicial system has failed to act on three-quarters of the complaints CROSEC has referred. The Commission has lost some of its best professional staff, after the Government sharply cut salaries, and cannot recruit suitable replacements. As a result, CROSEC has been unable to impose discipline on market participants or curb abuses.

2.61 Pension funds lack a satisfactory means for diversifying their portfolios or risks, and are facing difficulties generating returns from the highly restrictive menu of debt products currently permitted to them. However, trading in Government bonds experienced a sharp recovery in 2002, to nearly triple the level of 1997, stimulated in part by the decision in 2000 to make big bonds interest-bearing, thereby converting them from illiquid to liquid instruments. Overall, this objective was *not achieved.*

Strengthening the Securities Infrastructure

2.62 After initial difficulties funding its operations, SDA was accorded increased freedom to set its own fees. As a result, its finances improved considerably after 2000. The new Securities Act of 2002 compels all newly-established companies to register their shares with the SDA, thus assuring it of a growing clientele. Hence, this objective was *fully achieved.*

Strengthening Public Awareness

2.63 There is little evidence the wider public has any greater interest in, or appreciation for, the purpose and functions of capital markets today than it had in 1996, when the public campaign was launched. CROSEC officials acknowledge that the Croatian public retains a "bank-centric" mentality, and has no culture of investing in bonds and equities.[29] Moreover, the unfavorable public perception of the mass privatization process has, if anything, added to the public's lack of trust in the fairness, transparency, and safety of local capital markets. The low indices of participation in trading provide further support for this viewpoint. Turnover on the Zagreb Exchange remains modest, and market capitalization of all bonds and traded companies, as a share of GDP, has fallen sharply since 1997, from nearly 22 percent of GDP then to 16 percent in 2002, although it has risen slightly from its low point of 13.3 percent in 1998.[30] Thus, this objective was *not achieved.*

Ratings

Relevance

2.64 Relevance is rated *substantial.* Even though it may not have been at the top of Croatia's development priorities, successful capital market development would have brought a number of benefits to Croatia, including increased enterprise and GOC financing options, improved disclosure rules, a new locus for attracting foreign portfolio investment, and better options for savers and Pension Fund managers.

Efficacy

2.65 Efficacy is rated *modest,* in light of the meager achievements to date on securities regulation, and the lack of any clear evidence of increased public interest in securities trading. Only the establishment of the SDA has produced tangible, and essential, services to capital markets.

Outcome

2.66 Based on the fact two of three project objectives were not achieved, the rating for outcome has been downgraded from satisfactory at the ICR review stage to *moderately unsatisfactory.* The ICR judgment was made in 1999, soon after CROSEC and SDA

[29] Mission discussions, May 16, 2003.
[30] CEM, Vol. II, Chapter 5, text and Table 5.4, pp. 100-101.

began to function, with little evidence to judge their likely long-term development impact, evidence which the 2003 mission was able to collect and examine in greater depth.

Sustainability

2.67 Sustainability is rated as *unlikely*, in view of the strong resistance manifested to date in accepting the additional public disclosure, fiduciary, and ownership responsibilities inherent in a public listing. Moreover, the high competitiveness of a revived banking system is likely to make relatively expensive equity financing seem even less attractive for a considerable period to come. However, passage of the 2002 Securities Law amendments might breathe new life into the markets.

Institutional Development Impact

2.68 Institutional development impact is rated *modest*, as at the time of ICR review, reflecting the fact, although the SDA has achieved sustainable self-finance and increased competence in delivering needed share registration and clearance services, such benefits will remain more theoretical than real, until such time as transaction volumes increase to acceptable levels.

Bank and Borrower Performance

2.69 Bank and Borrower performance are both rated *unsatisfactory,* as opposed to satisfactory at the time of ICR review. The Bank applied a "cookie-cutter" approach to the CMDP design, with little adaptation to Croatian realities, including the lack of experience with "arms-length" regulation of the private sector. As one Croatian official lamented: "We built a house from the roof downward, instead of from the foundation upward."[31]

2.70 The Borrower largely abandoned ownership of this project's goals, with the turnover in Government after the 1999 elections. Since then, CROSEC has borne the burden of drastic budgetary cutbacks and reductions in wage ceilings which have alienated some of its most experience lawyers and investigators. Nor have matters been helped by a recent court decision, which has effectively negated CROSEC's ability to investigate and sanction improper behavior by brokers, traders, and other market actors. Indeed, by abolishing the financial police, the GOC sent another signal that it does not regard securities market investigations to be of high priority.

[31] Mission discussion with CROSEC official, May 16, 2003.

3. Summary Findings and Lessons

- Ease of entry and exit, hard budgetary constraints, and checks and balances to ensure corporate accountability are necessary complements of successful privatization.
- Prolonged rehabilitation procedures which leave existing bank management in control can significantly increase the final cost of bank bailouts.
- The experience with the EFSAL suggests that, although additional delays may be incurred and costs increased, on balance long-run development benefits are likely to be enhanced by canceling projects with major design flaws and addressing the reform needs with a superior instrument.
- Development of domestic capital markets makes little sense, until fundamental problems of privatization and restructuring have been resolved.
- Lack of sound, transparent, and predictable judicial enforcement is a major impediment to privatization and the launch of capital markets.
- Mass voucher privatization seldom works, if checks and balances on corporate governance are not in place and functioning properly.

List of People Interviewed

Government Officials

Ingrid Anticevic-Marinovic
Minister
Ministry of Justice

Andro Vlahusic
Minister
Ministry of Health

Cilic Davor
Assistant Minister
Ministry of European Integration

Slavko Linic
Deputy Prime Minister
Republic of Croatia

Miroslav Bozic
Assistant Minister
Ministry of Agriculture and Forestry

Roland Zuvanic
Minister
Ministry of Maritime Affairs,
Transport and Communications

Krunoslav Placko
Assistant Minister
Ministry of Economy

Venko Curlin
Deputy Minister
Ministry of Public Works and
Reconstruction

Josip Kulisic
Assistant Minister
Ministry of Finance

Zeljko Grzunov
Assistant Minister
Ministry of Public Works and
Reconstruction

Goran Granic
Deputy Prime Minister
Republic of Croatia

Ruzica Terze
Assistant Minister
Ministry of Labor and Social Welfare

Nino Zganec
Assistant Minister
Ministry of Labor and Social Welfare

Mr. Sc. Vanja Bilic
Ministry of Economy

Igor Raguzin
Senior Advisor
Ministry of Economy

Boris Maksijan
Advisor
Ministry of Economy

Olja Zaninovic
Deputy Head
Foreign Economic Relations Department
Ministry of Economy

Vladimira Ivandic
Secretary
Ministry of Finance

Bank/Fund Staff

Harry Broadman – SAL Task Manager
ECA

Peter Parker – Highway Sector
ECA

Elana Kasterova – Transport Specialist
ECA

Michel Audige – Lead Transport Specialist,
ECA

Hans Flickenschield - Mission Leader
IMF

Tetsuya Konuki – Economist
IMF

John Norregaard -- Resident Representative
IMF

Andrew Vorkink – Former Country Director for Croatia
ECA

Myla Taylor Williams – Croatia Country Program Coordinator
ECA

Albert Martinez – PAL Task Manager, EFSAL task manager
ECA

Gerardo Corrochano – EFSAL Task Manager
ECA

Olivier Godron – EFSAL Task Manager, Country Economist
ECA

Michel Noel – Former Division Chief
ECA

Akiko Maeda – Former Health Task Team Leader
ECA

Rena Eichler – Health Task Team Leader
ECA

Ana Hrastovic – Advisor
Executive Director's Office
World Bank

Bernard Funck – Sector Manager
ECA

Sandor Sipos – Former Resident Representative to Croatia
ECA

Lubomira Beardsley – Legal Department
ECA

Csaba Csaki
Ministry of Agriculture

Catherine Kleynhoff – Former Country Officer for Croatia
ECA

Kyle Peters – Former Sector Manager
ECA

Anil Markandya – Environment
ECA

Manuel Marion – Lead Water and Sanitation Specialist
ECA

Ilene Photos – TA Project Manager, ECA

Yves Duvivier – Former Lead Specialist for Privatization and Public Enterprise Reform
ECA

Julius Varallyay – Former Lead Country Officer
ECA

Sanja Madzarevic-Sujster
Country Economist
Zagreb Country Office
World Bank

Bruce Courtney
Country Economist
Zagreb Country Office
World Bank

Other Institutions

Vesna Zivkovic
Croatian Central Depository Agency
Republic of Croatia

Katarina Ott
Chief
Croatian Institute for Public Finance

Richard Jones
Chief
Department for International Development

Jack Connolly
Country Representative
CRS

Marija Kolaric
Board Member
Croatian Bank for Reconstruction
and Development

Vedrana Carevic
Director of the Foreign Credit Transaction
Department
Croatian Bank for Reconstruction
and Development

Jacques Wunenburger
Delegate to Croatia
European Community

Predrag Bejakovic
Croatian Institute for Public Finance

Mirna Pavletic-Zupic
Assistance Director
Agency for Protection of
Market Competition

Mario Markovic
Chief
Agency for Protection of
Market Competition

Branimira Kovacevic
Senior Adviser
Agency for Protection of Market
Competition

Maladen Cerovasc
Advisor
Agency for Protection of Market
Competition

Maja Landsman
Director
International Financial Institutions
Department
Croatian National Bank

Martina Dalic
Chief Economist
Privredna Banka

Jadranka Primora
Executive Dir. of Fin. Institution

William Jeffers
Director
Zagreb Country Office
USAID

Davorko Vidovic
Minister, Ministry of Labor and Social
Welfare

Zoran Bohacek
President
Croatian Association of Banks

Vitomir Begovic
Head of Office
Office for Social Partnership
Govt. of Croatia

Ivica Smiljan
Head of Office
Deloitte & Touche

Lidija Pavic-Rogosic
Director
ORDAZ

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Center for Social Studies
Law Faculty

Zeljko Lovrincevic
Institute of Economics

Tomislav Reskovac
President
Open Society Institute of Croatia

Ivan Kolar, President
Croatian Farmers' Association

Dunja Vidosevic
President
First Housing Savings Association
Croatia

Bozena Mesec
Secretary
Croatian Privatization Fund

Dr. Josip Kregar
Full Professor
Law Faculty
University of Zagreb

Ante Babic
Vice President
Economia Moderna

Vedran Sosic
Member
Economia Moderna

Zeljko Ivancevic
General Director
Croatian Employers' Association

Indira Konjhodzic
Country Manager
Zagreb Country Office
World Bank

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Auditor General
State Audit Agency
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Lidija Pernar
Ass. Auditor General
State Audit Agency
Republic of Croatia

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Central Depository Agency Inc.

Laura Garagnani
Counsellor, European Union

Biserka Birus

Ljiljana Marjanovic
Relationship Manager
Bank of Zagreb

Zlatan Janes
Head of Department
Agency for Protection of Market Competition

Darko Polanec
Nacelnik Odjela

Vlatka Kucevic
Visa Savjetnica

Zeljka Skrbina
Senior Officer
International Financial Institutions Department
Croatian National Bank

William A. Jeffers
Mission Director, USAID
American Embassy Zagreb

Srecko Macekovic
Deputy of the Management Board

Clay W. Epperson
Program Officer, USAID
American Embassy Zagreb

Ana Cvitkovic

Richard Howard
Deloitte & Touche d.o.o.

Lidija Horvatic
Director
Croatian Employers' Association

Basic Data Sheet

CROATIA – Enterprise and Financial Sector Adjustment Loan (Loan 4159-HR)

Key Project Data *(amounts in US$ million)*

	Appraisal Estimate (US$ million)	*Actual or current estimate (US$ million*	*Actual as % of appraisal estimate*
Total project costs	95	95	100%
Loan amount	-	-	-
Co-financing	-	-	-

Cumulative Estimated and Actual Disbursements

	FY98	*FY99*	*FY00*	*FY01*	*FY02*
Appraisal estimate (US$M)	47.5	47.5	47.5	47.5	95.0
Actual (US$M)	46	46	46	46	82.9
Actual cumulative as % of Credit	97%	97%	97%	97%	87%
Date of Final Disbursement	December 18, 2001				

Project Dates

	Original	*Actual*
Identification	October 1994	-
Preparation	-	10/17/1994
Appraisal	March 1995	02/01/1995
Negotiations	January 1997	01/01/1977
Board Presentation	May 1997	05/13/1997
Signing	May 1997	06/04/1997
Effectiveness	May 1997	11/05/1997
Mid-Term Review	-	06/30/2000
Project Completion	-	12/31/2001
Loan Closing	June 30, 1999	12/31/2001

Staff Inputs *(staff weeks)*

Stage of Project Cycle	*Actual*	
	Weeks	*US$*
Identification/Preparation	-	898
Appraisal/Negotiation	-	-
Supervision	-	556
ICR	-	22
Total	-	1476

Mission Data

Stage of project cycle	*Date (mm/yr.)*	*No. of persons*	*Specialized staff skills represented**	*Performance rating*	
				Implement. Status	*Develop. objectives*
Identification/ Preparation	May 1994	14	1 Mission Leader 2 Economists 4 Enterprise Specialists 4 Banking Specialists 2 Social Sector Specialists 1 Tax Specialist		
	October 1994	10	1 Mission leader 3 Economists 3 Enterprise Specialists 3 Banking Specialists		
Appraisal/ Negotiation	March 1995	9	1 Mission Leader 1 Economist 3 Enterprise Specialist 2 Banking Specialists 2 Operation Specialists		
	December 1995	6	1 Mission Leader/Economist 1 Economist 2 Enterprise Specialist 2 Banking Specialists		
	April 1996	2	1 Economist 1 Social Sector Specialist		
	July 1996	1	1 Economist		
	December 1996	1	1 Economist		
	March 1997	2	1 Economist 1 Enterprise Specialist		
Supervision	December 1997	3	1 FSD Specialist 1 Financial Analyst 1 Operations Analyst	S	S
	June 1998	4	1 Sector Leader 1 FSD Specialist 1 Financial Analyst 1 Economist	S S	S S
	November 1998	5	2 FSD Specialists 1 Financial Analyst 2 Economists	S	S
	June 1999	5	2 FSD Specialists 1 PSD Specialist 1 Regulatory Specialist 1 Economist	S	S
	October 1999	2	1 FSD Specialist 1 PSD Specialist		
	June 2000	2	1 FSD Specialist 1 Energy Specialist	U	S
	October 2000	4	1 PSD/FSD Specialist 1 Energy Specialist 1 Telecom Specialist 1 Operations Officer	S	S
	June 2001	3	1 PSD/FSD Specialist 1 Energy Specialist 1 Operations Specialist	S	S
ICR	May 2002	3	1 FSD/PSD Specialist 1 Energy Specialist 1 Operations Officer		

S = Satisfactory U = Unsatisfactory

Basic Data Sheet

CROATIA – Enterprise and Financial Technical Assistance Project (Loan 3989-HR)

Project Costs and Financing *(in US$ million equivalent)*

Component	*Appraisal Estimate US$ million*	*Actual/Latest Estimate US$ million*	*Percentage of Appraisal*
1. Privatization of former socially owned enterprises	1.20	0.85	35
2. Rehabilitation and privatization of the banking system	2.00	2.57	147
3. Restructuring and privatization of public enterprises	3.00	3.70	125
Total Base Line Cost	6.20	7.12	
Total Project Cost	6.20	7.12	
Total Financing Required	6.20	7.12	

*Amounts are in Euro million. Transferring the data into US$ million creates big distortions due to exchange rate fluctuations during the project life-time.
**Actual/Latest Estimate is amount disbursed as of April 15, 2003.

Cumulative Estimated and Actual Disbursements

	FY96	*FY97*
Appraisal estimate (US$M)	3.0	2.0
Actual (US$M)	3.0	5.0
Actual cumulative as % of Total	60%	100%
Date of Final Disbursement	May 4, 2000	

Project Dates

	Original	*Actual*
Identification	-	-
Preparation	-	-
Appraisal	March 1995	March 1995
Negotiations	February 1996	February 1996
Board Presentation	March 1996	March 26, 1996
Signing	April 23, 1996	April 23, 1996
Effectiveness	April 30,1996	July 22, 1996
Mid-Term Review	February 15, 1997	-
Project Completion	December 31, 1997	-
Loan Closing	June 30, 1998	April 30, 2000

Staff Inputs *(staff weeks)*

Stage of Project Cycle	*Actual/Latest Estimate*	
	No. of Staff Weeks	*US$ (,000)*
Identification/Preparation	-	-
Appraisal/Negotiation	28.6	92.7
Supervision	56.5	195.8
ICR	/a	-
Total	85.1	288.5

/a SAP system does not distinguish between SPN and ICR.

Mission Data

Stage of project cycle	*Date (mm/yr.)*	*No. of persons*	*Specialized staff skills represented /b*	*Performance rating*	
				Implement. Status	*Develop. objectives*
Identification/Preparation /a					
Appraisal/Negotiation	March 1995	3	Fin Spec, Priv. Spec, Op Off	S	S
Supervision	June 1995 /c	3	Fin Spec, Priv Spec, Op Off	S	S
	July 1996	3	Fin Spec, Priv. Spec, Op Off	S	S
	March 1997	3	Fin Spec, Priv. Spec, Op Off	S	S
	June 1997	3	Fin Spec, Priv. Spec, Op Off	S	S
	November 1997	3	Priv Spec, Of Off, Reg. Spec	S	S
	June 1998	4	Fin Spec, Priv Spec, Op Off, Tel Spec	S	S
	September 1999	3	Fin Spec, Priv Spec, Op Off	S	S
ICR	December 1999	3	Op Off	S	S

/a The TAL originated as a component of the EFSAL and was transformed into a separate project at the time of appraisal. For that reason no separate identification or preparation missions are listed.

/b Fin Spec = Financial Specialist
Priv Spec = Privatization Specialist
Op Off = Operations Officer
Tel Spec = Telecoms Specialist
Reg Spec = Regulatory Specialist

/c All supervision missions were held in conjunction with or within a very short time of EFSAL supervisions, whose mission chief, the financial specialist for the project, reviewed progress of the banking component of the TAL.

Basic Data Sheet

CROATIA – Capital Markets Development Project (Loan 3999-HR)

Key Project Data *(amounts in US$ million)*

	Appraisal Estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	21.0	21.0	100
Loan amount	21.0	21.0	100
Domestic contribution	11.5	11.5	100

Cumulative Estimated and Actual Disbursements

	FY96	*FY97*	*FY98*	*FY99*
Appraisal estimate (US$M)	1.7	5.5	8.6	9.5
Actual (US$M)	0	2.7	8.0	9.5
Actual cumulative as % of Credit	0	49	93	100
Date of Final Disbursement	September 17, 1999			

Project Dates

	Original	*Actual*
Identification	02/15/1995	03/02/1995
Preparation	05/01/1995	05/07/1995
Appraisal	06/15/1995	06/23/1995
Negotiations	10/16/1995	02/05/1996
Board Presentation	12/05/1995	04/04/1996
Signing	04/15/1996	04/23/1996
Effectiveness	07/15/1996	07/22/1996
Project Completion	12/31/1998	06/15/1999
Loan Closing	06/30/1999	06/30/1999

Staff Inputs *(staff weeks)*

Stage of Project Cycle	*Actual*	
	Staff Weeks	*US$*
Preparation to Appraisal	51.1	148.5
Appraisal - Board	24.5	81.5
Negotiations through Board Approval	2.3	8.1
Supervision	61.7	122.1
Completion	7.0	17.7
Total	146.6	377.9

Mission Data

Stage of project cycle	*Date (mm/yr.)*	*No. of persons*	*Number of Persons*	*Special staff skills represented**	*Performance rating*	
					Implement. Progress	*Develop. objectives*
Through Appraisal	March 1995	4	10	FA, T, E, O	S	S
Appraisal through Board Approval	June 1995	3		FA, T, L, O	S	S
Supervision	July 1996	3	7	FA, T, E	S	S
	April 1997	2	7	FA,T	S	S
	August 1997	2	5	FA, T	S	S
	April 1998	2	6	FA, T	S	S
	November 1998	2		FA, T	S	S
Completion	May 1999	3		FA, T, E	S	S

E = Economist
FA = Financial Analyst
T = Technical
L = Legal
O = Operation Officer