



1. Project Data:		Date Posted : 08/12/2002	
PROJ ID: P008327		Appraisal	Actual
Project Name: Efsal	Project Costs (US\$M)	95	95
Country: Croatia	Loan/Credit (US\$M)	95	95
Sector(s): Board: FSP - Banking (48%), General industry and trade sector (35%), Central government administration (7%), Telecommunications (5%), Power (5%)	Cofinancing (US\$M)		
L/C Number: L4159			
	Board Approval (FY)		97
Partners involved :	Closing Date	06/30/1999	12/31/2002

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2. Project Objectives and Components

a. Objectives

To support Croatia's efforts to implement effective reform of its enterprise and banking sectors .

b. Components

1. accelerated privatization of the former socially -owned enterprises (FSOEs). 2. restructuring and privatization of selected large public enterprises. 3. rehabilitation and privatization of the banking system and problem enterprises . 4. improve key elements of the enabling environment for enhanced corporate and bank governance . 5. fiscal measures in support of the above reforms .

c. Comments on Project Cost, Financing and Dates

The project cost US\$95 million, financed by the two tranche Bank Loan for this amount . The project was appraised in February, 1995, approved by the Board on May 13, 1997, made effective on November 5, 1997, and closed on December 31, 2001, 18 months behind schedule .

3. Achievement of Relevant Objectives:

1. Concerning case by case privatization, the Croatian Privatization Fund has privatized 85 percent of the shares of FSOEs. Concerning mass privatization, the program is being satisfactorily implemented . Process improvements have been implemented to improve transparency . 2. The telecommunications company has been privatized . The legal and regulatory framework enabling the privatization of the oil and gas company, and the electricity company, has been put in place. The oil and gas company has been restructured, the electricity company has been unbundled (generation, transmission), and the Government has begun the process of privatization for these companies . A strategy for the restructuring of the railway company has been approved . 3. The major problem banks have been taken over by the Bank Rehabilitation Agency (BRA) and bad loans have been separated from their portfolios . BRA has successfully privatized all but one of the banks in its portfolio, and the remaining bank is now being privatized . Concerning problem enterprise covered by the Law on the Restructuring of Selected Enterprises, eight out of thirteen have been either liquidated or privatized . The remaining five are all shipyards, for which the world market offers poor prospects for privatization. 4. A new Bankruptcy Law and a new Labor Law were passed . Supervision capacity of the Croatian National Bank has been strengthened . A deposit insurance scheme has been implemented . 5. The IMF approved a three-year Extended Arrangement in March 1997 and a Stand-By Arrangement in March, 2001. Budgets have incorporated provisions insuring adequate fiscal support to the structural reforms . Supporting technical assistance from two technical assistance loans played a major role in achievement of these objectives .

4. Significant Outcomes/Impacts:

Most of the formerly publicly owned enterprises have been privatized, and the government has made significant improvements in the methods of privatization to improve transparency and ensure corporate governance . The banking sector was privatized (and is now 85 percent foreign owned with substantial improvements in performance . The enabling environment for private sector development has been improved . Although there were some delays in

Implementation, this did not detract from the project's significant outcomes .

5. Significant Shortcomings (including non-compliance with safeguard policies):

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	Despite some delays in implementation, the outcome is fully satisfactory .
Institutional Dev .:	Modest	Substantial	OED's rating of substantial for IDI is based on the improved functioning of government agencies in supporting the substantial privatization program, the new laws on bankruptcy and labor, and the broad enhancement of the role of the private sector supported by this project . OED also gives less weight to the importance of delays in implementation cited as a reason for the ICR's rating of "Modest", since the institutional development impact has occurred and is benefitting the country's economic development.
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Implementation of this operation has benefitted from supporting TA loans, showing that carefully designed technical assistance can play an important role in implementation, especially of complex adjustment operations . 2. A communications strategy and supporting social sector operation would have facilitated implementation of the reforms supported by this project, might have reduced delays in implementation, and should be considered as an integral part of similar approaches.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR presents cogent material in a very clear and informative manner, with a frank discussion of the problems encountered in implementation, how they were addressed, as well as a straightforward description of the project's successes. The detailed matrix of key performance indicators for second tranche release nicely supplements the material in Annex 1 (Key Performance Indicators/Log Frame Matrix). The ICR also benefitted from detailed contributions from the Ministry of Finance and several agencies, which also confirms government interest in and ownership of the project.