

**INTEGRATED SAFEGUARDS DATASHEET
APPRAISAL STAGE**

I. Basic Information

Date prepared/updated: 07/16/2012

Report No.: AC6710

1. Basic Project Data

Original Project ID: P116080	Original Project Name: Export Finance Intermediation Loan	
Country: Croatia	Project ID: P129220	
Project Name: Export Finance Intermediation Loan Additional Financing		
Task Team Leader: Isfandyar Zaman Khan		
Estimated Appraisal Date: June 27, 2012	Estimated Board Date: August 30, 2012	
Managing Unit: ECSPF	Lending Instrument: Financial Intermediary Loan	
Sector: General industry and trade sector (40%);General finance sector (30%);Other industry (25%);Agro-industry, marketing, and trade (5%)		
Theme: Other Financial Sector Development (50%);Other Private Sector Development (50%)		
IBRD Amount (US\$m.):	67	
IDA Amount (US\$m.):	0	
GEF Amount (US\$m.):	0	
PCF Amount (US\$m.):	0	
Other financing amounts by source:		
Borrower		0.00
		0.00
Environmental Category: F - Financial Intermediary Assessment		
Simplified Processing	Simple <input type="checkbox"/>	Repeater <input type="checkbox"/>
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

2. Project Objectives

The objective of the Project is to support the preservation and growth of exports by providing medium and long term working capital and investment finance to exporters and foreign exchange earning enterprises.

3. Project Description

The Croatia EFIL Project is a Financial Intermediation Loan (FIL) and is implemented by Croatian Bank for Reconstruction and Development (HBOR). The original project was supported by a loan of EUR100 million (US\$141.2 million equivalent) with a 29 year maturity and a 7 year grace period.

For the additional financing, HBOR will continue to intermediate the funds through Participating Financial Intermediaries (PFIs), which in turn will on-lend to eligible private exporters and quasi-exporters such as the tourism sector. The envisaged project is to be implemented through HBOR's funding department. Its responsibilities include: (i) on-lending to PFIs for final lending to sub-borrowers (ii) ensure effective functioning of

the on-lending facility to final borrowers through PFIs; (iii) on-going monitoring of the PFIs to ensure compliance with project criteria; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key project development indicators.

There are no changes to the original project objectives, design or scope. The proposed additional loan would help finance the scaling up of the Project, which is being so far successfully implemented. Given the success of the original Project, additional funds are requested to scale up the project and enhance the development impact. Under the additional finance, the proposed amount is EUR 50 million.

The original Project funds were intended for both investments and as working capital. Due to the recession, all funds under the original Project were used either as working capital or for equipment. According to the interest and current pipeline envisaged under AF, majority of the funds will be on lent for investments thus requiring a greater level of safeguard monitoring and implementation.

4. Project Location and salient physical characteristics relevant to the safeguard analysis

Sub-projects will target exporters and foreign exchange companies all over Croatia. HBOR will remain an implementing agency. PFIs will carry out individual sub projects screening and advise with HBOR on the results of the screening. HBOR will review and approve the EA documents. During sub project implementation, PFI will be expected to monitor sub-borrower's compliance with EMPs and report to the HBOR on the environmental performance of their clients as an integral part of their regular reporting on the status of portfolio. The HBOR will inform the IBRD on the environmental due diligence applied through the general reporting on the project progress.

5. Environmental and Social Safeguards Specialists

Ms Natasa Vetma (ECSS3)

6. Safeguard Policies Triggered	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)		X
Forests (OP/BP 4.36)		X
Pest Management (OP 4.09)	X	
Physical Cultural Resources (OP/BP 4.11)	X	
Indigenous Peoples (OP/BP 4.10)		X
Involuntary Resettlement (OP/BP 4.12)		X
Safety of Dams (OP/BP 4.37)		X
Projects on International Waterways (OP/BP 7.50)		X
Projects in Disputed Areas (OP/BP 7.60)		X

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts: Environmental Assessment Policies will apply to the proposed project. The project triggers Environmental Assessment (OP/BP 4.01). The design of the project calls for FI environmental category, as HBOR (borrower) will intermediate the funds through PFIs, which in turn will on-lend to eligible private and quasi exporters. Environmental due diligence will be applied through the procedures for the selection and implementation of investments agreed between the Bank, the Borrower and PFIs. An environmental management framework (EMF) document was prepared for the parent project to outline the guiding principles of environmental screening, assessment, review, management, and monitoring of sub-loans as well as to describe roles and responsibilities in carrying out the environmental work in the course of the project implementation. The EMF is being updated to reflect additional funds, however, procedures which included working capital and investments, remain the same.

Only EA Category B and C sub-projects will be eligible, therefore projects having large scale impacts (Category A) are excluded. The environmental due diligence procedures identified in EMF will comply with both Croatian national and WB environmental safeguards procedures.

Pest Management policy for the project is triggered as some sub projects might be in the export-oriented food production and processing sector. If eligible sub-projects will include financing for purchase of pesticides (including post-harvest treatment) or investments which are likely to increase or expand the use of pesticides in such operations, the EMF sets out requirements for applicants to prepare a simple Pest (and Pesticide) Management Plan consistent with OP 4.09 requirements which will be prior reviewed by the World Bank Environmental expert.

Given the rich cultural heritage of Croatia the policy of physical cultural resources OP/BP 4.11 is triggered in view of expectations that some operations will likely have a direct impact on historical structures or sites (e.g. in tourism sector) and the possible chance finds in sub projects as well as. The EMF indicates that sub-projects will comply with local legislation on chance finds as well as including advance consultation with the Ministry of Culture through local permitting process in case of potential impact on historical sites or structures. Local legislation on this matter was reviewed and found acceptable by the Bank."

The EMF states that no potential beneficiaries can participate in the project if they would need land acquisition for the activities to be supported under this project. Rehabilitation and reconstruction (which could involve demolition of no longer suitable structure and erection of a new one) of existing buildings within the same footprint would be permissible. If reconstruction would exceed footprint of existing structure in any way, the PFI and HBOR must ascertain that any additional land used is unencumbered (i.e. no squatters or encroachers or not requiring the eviction of anyone resident in such property, and no other land usage for any purpose or restrictions of access). and provide proof in

form of pictures and ownership title. The PFI's should verify for each sub project the unencumbered status of the property prior to approving any sub-project which could raise such issues. Under these restrictions in place, the project does not trigger OP / BP 4.12 Involuntary Resettlement.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The project will support medium and long-term working capital and investment finance to exporters and FX earning enterprises (e.g. Tourism, Logistics), and it is not expected that any proposed activities will cause multiple, significant, and irreversible adverse environmental and/or health impacts. The screening procedures specified in the EMF are designed to eliminate any subprojects which present these types of risks.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Despite a low likelihood of occurrence, sub-projects which would qualify for Category A for environmental assessment purposes are excluded from the activities eligible for the project support. Sub projects categorized as Category B may vary on their potential impacts and therefore are divided in two sub categories: B+ mainly related to new investments and B - involving smaller investments, working capital loans which include purchase and/or use of hazardous materials (e.g. pesticides) or process improvement loans that involve purchase of equipment/machinery presenting a significant potential health or safety risk. Approval of higher risk Category B sub projects (B+) will require prior review by HBOR and IBRD. HBOR will work closely with PFIs to assist them with environmental work to ensure that PFIs are adequately applying environmental screening, review, approval, and monitoring procedures. The status of environmental compliance will be reported by each PFIs to HBOR on regular basis and the HBOR will provide this information to the Bank as a part of general progress reporting.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

As part of the project Operational Manual the Borrower-HBOR has prepared an environment section which serves as the Environmental Management Framework and defines the environmental screening and assessment procedures for the project and sub projects.

Environmental screening of sub-project proposals remains essential to ensure that they are properly categorized and respective environmental review is carried out for them.

This mechanism of environmental screening, review, approval, and supervision of subprojects, including roles and responsibilities of all agencies involved in it, is described in the environmental framework document and included in the Operations Manual of the project. According to the established environmental framework, sub-loan applicants will be required to carry out adequate type of environmental assessment of the proposed subprojects and to obtain environmental permits as prescribed by the national legislation.

PFIs will remain responsible for environmental screening of sub-loan applications, attaching relevant environmental categories to them, reviewing environmental assessment

reports submitted by sub-loan applicants, approving them, and carrying out environmental monitoring in the course of sub-project implementation. HBOR will assist PFIs and prior- review more complex project that fall under B+ category.

Depending on the assigned environmental category, the sub project application package would include one of the following: a) full scale EIA and EMP; b) limited EA and EMP; c) EMP alone; d) simplified (checklist) EMP alone; e) explanation of why no EA or EMP required.

Environmental Management Plans (EMP) will be developed to provide guidance on the application of mitigation measures and a system of monitoring will be introduced to ensure compliance of sub-project implementation with EMPs.

The implementation of EMF during the original Project went well. The EMF was publically disclosed and consulted. The PFIs consulted HBOR and WB environmental specialist on three first applications which provided working capital funds and on few applications for the replacement of equipment. HBOR together with PFI visited randomly selected projects that were using funds for working capital and visited all sub projects which financed equipment (3). HBOR in their regular reports to WB identified all sub projects specifying the use of funds. All projects financed under original Project were category C, with one exemption being category B- for which due diligence document was prepared.

HBOR has acted as implementing agency for several WB loans and GEF grant (Municipal Environmental Infrastructure Project, Renewable Energy Resources Project, and Energy Efficiency Project), therefore the staff is familiar with the WB safeguards procedures. The staff as well successfully implemented safeguards procedures under the original loan and have assigned environmental person in HBOR to work on the project. HBOR has department that deals with approval of environmental projects implying the adequate capacity for covering environmental issues. Prior to the approval of the original loan, it was assessed that the institutional capacity could be strengthened, especially for the PFI to which HBOR should on lend the funds. Environmental good standards applied by potential PFIs are assessed to be diverse. The PFIs in Croatia usually have their environmental policies and are strictly confirming the compliance with the national legislation prior to the approval of the loan. For these reasons training on environmental compliance was provided for PFI staff as well as HBOR. A special focus was done on screening the investments and supervision of the same. Additional training will be organized by WB environmental specialist for HBOR and PFIs to reinstate the knowledge if individuals working on the project implementation in PFIs have changed and to focus more on investment loans procedures because under AF more investment loans are expected (which was not the case in original loan). The training will be organized prior to effectiveness for both HBOR and PFIs and if required repeated during the project implementation phase. Bank task team will facilitate the training and will closely monitor the screening process to support HBOR.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people. The key stakeholders are the Croatian Bank for Reconstruction and Development (HBOR), the Ministry of Finance, selected PFIs and exporters and FX earning enterprises. The implementation agency is HBOR, however the environmental screening will fall under PFIs responsibility.

The draft Environmental Management Framework document along with an announcement of the public consultation workshop was disclosed on the web-pages of the HBOR in June 2009. The draft document, along with individual invitations was sent out to the key stakeholders in the project. The Public Consultations Workshop was held at the premises of the HBOR, on June 19, 2009.

The updated EMF (which reflects AF information) will be re-disclosed on the HBORs website.

B. Disclosure Requirements Date

Environmental Assessment/Audit/Management Plan/Other:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	06/15/2009
Date of "in-country" disclosure	06/15/2012
Date of submission to InfoShop	07/12/2012
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

Resettlement Action Plan/Framework/Policy Process:

Was the document disclosed prior to appraisal?	
Date of receipt by the Bank	
Date of "in-country" disclosure	
Date of submission to InfoShop	

Indigenous Peoples Plan/Planning Framework:

Was the document disclosed prior to appraisal?	
Date of receipt by the Bank	
Date of "in-country" disclosure	
Date of submission to InfoShop	

Pest Management Plan:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	06/15/2009
Date of "in-country" disclosure	06/23/2009
Date of submission to InfoShop	06/22/2009

*** If the project triggers the Pest Management and/or Physical Cultural Resources, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.**

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?	Yes
If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report?	Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?	Yes
Is a separate PMP required?	No
If yes, has the PMP been reviewed and approved by a safeguards specialist or SM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	N/A

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?	Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?	Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes
Have costs related to safeguard policy measures been included in the project cost?	Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes

D. Approvals

<i>Signed and submitted by:</i>	<i>Name</i>	<i>Date</i>
Task Team Leader:	Mr Isfandyar Zaman Khan	06/11/2012
Environmental Specialist:	Ms Natasa Vetma	06/11/2012
Social Development Specialist Additional Environmental and/or Social Development Specialist(s):		
<i>Approved by:</i>		
Sector Manager:	Mr Lalit Raina	06/27/2012
Comments:		