COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE

Report No.: PIDISDSC15327

Date Prepared/Updated: 04-Jan-2017

I. BASIC INFORMATION

A. Basic Project Data

Country:	Croatia	**Project ID:**	P155842
		Parent Project ID (if any):	
Project Name:	Modernization and restructuring of the road sector (P155842)		
Region:	EUROPE AND CENTRAL ASIA		
Estimated Appraisal Date:	14-Mar-2017	**Estimated Board Date:**	28-Apr-2017
Practice Area (Lead):	Transport & ICT	**Lending Instrument:**	Investment Project Financing
Borrower(s):	Ministry of Finance		
Implementing Agency:	HAC, HC		

Financing (in USD Million)

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Development	350.00
European Bank for Reconstruction and Development	279.33
Financing Gap	0.67
Total Project Cost	630.00

Environmental Category:	B - Partial Assessment
Concept Review Decision:	Track I - The review did authorize the preparation to continue
Is this a Repeater project?	No
Other Decision (as needed):	

B. Introduction and Context

Country Context

1. Croatia is an upper middle income country, strategically located at the crossing of several main European transport corridors. The country➢(s most important industries are tourism and to a declining extent heavy industries, both of which rely to a large extent on good connectivity. Industrial production, in particular in shipbuilding, construction and chemicals sectors, increased steadily during 2003-2008. This boosted the country➢(s Gross Domestic Product (GDP) per inhabitant - measured in Purchasing Power Standards (PPS) - from 56 to 65 percent of the overall European Union (EU) average by 2008. However, since the global economic crisis, the Croatian economy has deteriorated substantially. GDP declined over 13 percent in cumulative terms between 2009 and 2014, down to 59 percent of the EU average. The country➢(s accession to the EU on July 1, 2013 marked an opportunity to reverse this negative trend, but the economy continued shrinking for the sixth consecutive year in 2014 and experienced a positive change only in 2015 with a 1.6 percent increase in GDP. Growth is expected to reach 2.7% in 2016.

2. The prolonged economic recession has exposed Croatia➢(s macroeconomic vulnerabilities. Prior to the downturn, large, relatively cheap capital inflows entered the economy, creating credit, consumption, and real estate booms. The EU Macroeconomic Imbalances Procedure (MIP) identified the main sources of vulnerabilities to be: declining export performance; vulnerabilities arising from sizeable external liabilities; highly leveraged firms; and quickly expanding general government debt, all of which were further exacerbated by low growth and poor adjustment capacity. Since 2008, the public debt almost doubled to 86.7 percent of GDP and the country➢(s external debt surpassed 108 percent of GDP. Credit agencies took note of Croatia➢(s worsening fiscal position, downgrading the sovereign credit rating to below investment grade in December 2013. Debt servicing and financing costs were raised further, leading the European Commission (EC) to open an Excessive Deficit Procedure (EDP) in January 2014 and recommend corrective measures.

3. The adverse economic situation of the past years has also led to a substantial increase in poverty, compared to the pre-crisis levels, and with a sizeable deterioration in market confidence. Unemployment remained high at 16.5 percent in 2015, much higher than the Eurozone average and the third highest in the EU. Protracted recession affected real per capita income which in 2014 stood at over 8 percent below its pre-crisis level. It is estimated that the poverty rate, measured at $5/day PPP 2005, reached 9.8 percent in 2014, from 5.9 percent in 2009.

4. The recession has also led to a defensive fiscal consolidation and restructuring of the corporate sector. State-owned enterprises (SOEs), suffering from weak profitability and high indebtedness, are in particular expected to accelerate restructuring and redirect funding sources to EU funds where possible for investment. As a result of the government➢(s fiscal tightening measures, the fiscal deficit is projected to be 2.6 percent of GDP in 2016, declining to 1 percent of GDP in 2019. Public debt stabilized at 86.7 percent of GDP in 2015 and is expected to decline thereafter to 80 percent in 2019.

5. Overall, the economy has faced a prolonged period of negative growth, but the GDP is expected to rise gradually to 2.5 percent in 2019. The main growth drivers are expected to be the export of goods and services and increasing domestic demand, which should positively impact labor market indicators too.

Sectoral and Institutional Context

6. The Ministry of Sea, Transport and Infrastructure (MSTI) develops road sector policy and supervises implementation of the associated legislation. The Ministry has arrangements with a number of SOEs who manage the construction, maintenance and operations of various national motorways and of the road networks. The MSTI oversees these road operating companies, proposes road maintenance and development plans, and takes part in the EU level sector dialogue.

7. The Road Act is the overarching law that defines road sector standards, financing, legal status and classification. The investment and maintenance program of the Croatian road network also derives from three main documents:

a. The Strategy of Transport Development of the Republic of Croatia and the Public Road Development Strategy specify long term development priorities. In 2014, the Government adopted a new interim transport strategy for the period 2014-2030, which provides the basis for the country➢❨ s transport policy by emphasizing multimodality, safe and sustainable transport services and the completion of the Croatian part of the Trans-European network of corridors (TEN-T). A National Transport Model is being finalized and will provide a basis for the revision of the Strategy.

b. The medium term objectives are set forth in the four-year Public Road Construction and Maintenance Programs adopted by the Government of Croatia (GoC) based on the MSTI➢❨ s proposal.

c. Annual construction and maintenance plans are defined by road operating companies, and are approved by the MSTI.

8. Given the area of the country and number of inhabitants, Croatia tops the list of countries in South-Eastern Europe by density of motorways (22.79 km of network /1000 km2 land area). In part that was due to the large road network expansion during 2001-2008, when investments in motorways were aimed at fully integrating the Croatian territory after the 1990's war, spurring industry growth and tourism, and integrating the Croatian network into the broader European network (such as then Trans-European Network corridors X and V that traverse the country). Over HRK 57.6 billion (EUR 7.7 billion) was invested in development of 660 km of motorways through two four-year Public Road Construction and Maintenance Programs. Investments slowed amid the global economic recession in 2009, but despite the economic slowdown, road investment has still been significant. The modal split of inland transport in 2014 indicates that 75.4 percent of freight and 71.1 percent of passengers were transported by roads. When individual transport is added, more than 90 percent of trips are taken by road. Freight road transport grew by as much as 38 percent during 2001-2014, while passenger road transport experienced a 12 percent decline in the same period. (These figures relate to public transport and as a result exclude individual car use. Individual vehicle use increase has much more than offset the decline in public road passenger transport through buses).

9. In 2014, the Croatian road network comprised 26,778 km of classified roads, of which motorways (1,290 km), state roads (6,711 km), county roads (9,720 km) and local roads (9,057 km). By definition, motorway is road of at least two lanes in each direction designed for high speed traffic of a minimum speed limit of 80 kilometers per hour (km/h), with controlled access and regulated ingress/egress. State roads are important routes for vehicle traffic between various parts of the country. Classification of a road as a state road does not derive from the actual

conditions of the road. All roads are classified as public good in the ownership of the Republic of Croatia, while their management differs as follows:

a. The Motorway network is managed by four concessionaires: publicly-owned Croatian Motorways (HAC) and Motorway Zagreb-Rijeka (ARZ), and privately held Bina Istra and Autocesta Zagreb Macelj (AZM). HAC is a limited liability company for the management, construction and maintenance of 901 km of motorways. It was established in 2001 as one of the legal successors to the Croatian Road Authority, which ceased to exist. ARZ started operations in 1998 as a limited liability company for construction, operation, management and maintenance of 187 km of motorway, mainly along the Rijeka-Zagreb section. In order to rationalize operations and increase efficiency, HAC ONC, a subsidiary of HAC, was contracted in 2014 on a non-competitive basis to perform routine maintenance and toll collection activities for both the HAC and ARZ motorway sections. The relationships between HAC-ONC and HAC and ARZ are determined by a four-year contract expiring in 2018.

b. State roads are managed by Croatian Roads (HC), established in 2001 as the other legal successor to the Croatian Road Authority. HC is a limited liability company for managing, constructing and maintaining the state road network.

c. County roads and local roads are held by regional and local governments.

10. Between 1997 and 2014 HC, HAC, and ARZ developed their network, using financing from commercial lenders fully covered by government guarantees. By 2013, some HRK 57.6 billion (EUR 7.7 billion) of guarantees had been issued over time covering eighty loan facilities. The combined debt of public road companies amounted to EUR 5.6 billion in 2014. In 2014, the debts of Croatian Motorways and ARZ were consolidated into the general government debt in accordance with the European System of National and Regional Accounts (ESA) 2010 requirements. These liabilities amount to approximately 11% of GDP and currently cannot be supported by the revenue generated by the companies themselves.

11. The risks involved with the current structure of road sector liabilities and guarantees are many. Most of the loans have unfavorable borrowing terms, with maturities of around seven years and variable interest rates. The effective interest rates vary, but are as high as 6-7 percent. Most loans have a short maturity of 5-10 years, though the range varies between 5 and 20 years depending on the financier. Around EUR 2.3 billion, or 41 percent of outstanding loans, matures between 2017 and 2019, putting enormous burden on public finances if the loans are not addressed. Currency risk is also a factor as over 90 percent of approved guarantees is denominated in Euros.

12. In 2012 the government began to explore ways to reduce the debt burden of HAC and ARZ and the associated public contingent liabilities. A long-term concession and an Initial Public Offering (IPO) of HAC ONC were both considered, while some restructuring was carried out for ARZ and HAC during 2013 and 2014 in view of their potential concession or sale. With regard to the sector➢(s debt, the Government is now aiming to (i) help refinance or reschedule the existing debt of HC, HAC and ARZ to maximize the share of existing debt that the sector can service from its own sources; and (ii) reduce the extent to which their future debts are guaranteed by the state. It also envisages in the medium term to reduce the sector debt (and by extension the public debt) by involving private investors in the motorway sector at a time when the proceeds from doing so

can be optimized. Concurrently, the Government wishes to put in place sustainable mechanisms to fund and implement operations and maintenance activities in HC, HAC and ARZ, and also introduce reforms to make the system more efficient in terms of its role to preserve asset value and service standards.

13. Compared to the motorway sector, HC➢(s capital investment program has been underfunded from public sources, resulting in higher borrowing needs and consequently a high level of accumulated debt. Though a significant portion of the fuel tax is allocated to HC, it only partially provides for maintenance needs (periodic maintenance budget is particularly insufficient) and cannot fund new construction projects. The company needs to review maintenance standards, contracting strategies and investment financing strategies, not only to improve capacity and efficacy of road preservation operations, but also to be eligible to benefit from EU grant funding and support from International Financial Institutions (IFIs) for construction and rehabilitation.

Relationship to CAS/CPS/CPF

14. The project is consistent with the Country Partnership Strategy (CPS) for FY14-17. The CPS aims to assist Croatia➢(s convergence with the EU through an engagement that is focused on key reform-based outcomes, supporting the Europe 2020➢(s smart, sustainable and inclusive growth➢(strategy and the government➢(s reform agenda. Though not explicitly included in the CPS, the project supports all of its pillars. Firstly, it supports the public finance pillar by decreasing the country➢(s macroeconomic instability through rationalization of sector expenditures and an improved public debt profile. Secondly, it supports the competitiveness pillar by promoting restructuring and efficiency of the road sector to enable its faster convergence to operational and financial performance of EU-28 countries. Lastly, the EU membership pillar is supported by strengthening the capacity of public road sector companies that are among the main recipients of EU funds. The sector will also be under strict review of the EC for competition and sector policy aspects.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

17. The project development objective is to increase the sustainability of the Croatian road sector by enhancing operational efficiency and improving sector finances.

Key Results (From PCN)

16. The achievement of development objectives will be assessed using the following key outcome indicators, which will be refined during the project preparation:
a. The progress towards more efficient management of the road network is measured by introduction of reforms to improve operational and institutional capacity within each of the road and motorway companies.
b. Improved efficiency of use of public resources is measured by a reduction in the overall contingent liabilities borne by the State.
c. Improved effectiveness of use of public resources is measured by implementation of road asset management systems, and development of optimized road maintenance strategies and more efficient and transparent road maintenance and service contracts.
d. Introduction of financing mechanisms that provide certainty of financing in exchange for defined service standards of the State road network.
e. Improved road safety for road users is measured by reduction of road accidents (to be determined based on the final project scope)

f. Reduction in the all-in cost of debt and increase in average life of commercial debt liabilities compared to baseline.

D. Concept Description

17. The proposed project would support the Government of Croatia in enhancing the operational efficiency and improving financial sustainability of the road sector. It supposes that the activities of HAC and ARZ are operated as one entity, which explains why in the descriptions below there are no measure specific to one or the other.

18. The Project consists of an Investment Project Financing (IPF) with funded (investment loan) and unfunded (Loan Guarantee) portions. The loan portion will fund the restructuring of both road companies HAC and HC, including the implementation of reforms through technical assistance and labor retrenchment costs as well as technical advice to improve maintenance and rehabilitation contracting in HC; while the guarantee portion will improve the financial sustainability of the sector by restructuring liabilities to better match cash flows generated by road sector assets and reducing interest costs. The guarantee will also reduce the amount of state-backed debt (through partial coverage) and provide relief from heavy debt service requirements over the next four years, allowing for sufficient time for operational reforms to be implemented and yield results . During preparation, the Bank and the government may agree on the phasing of the guarantees provided so that they can be made available on a needs basis and while sector restructuring is progressing.

19. The overall project financing or guarantees by international financial institutions is estimated at EUR 2,200 million and includes a World Bank investment project financing (EUR 20 million), loan guarantee (First phase of EUR 350 million, but several phases required), and EBRD loan (250 million). The guarantees and EUR 200 million of the EBRD loan would leverage over time the refinancing of an amount around 4.1 billion EUR of commercial debts currently held by the companies while EUR 70 million will directly finance activities supporting restructuring. The exact amounts to be refinanced and the level of guarantee needed to obtain the improvement of financing conditions will be determined during preparation.

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20. It is proposed that the project have three components:

Component 1: Support to sector reform (EUR 3 million). This component will include support to the MSTI in its role of sector coordination, planning and programming the transport sector investment through the set-up of a centralized planning and project implementation function, and support to the role of MSTI as shareholder and regulator of all the companies.

Component 2: TA and equipment support to restructuring of the road sector companies

Component 2.1 support to HAC, HAC-ONC and ARZ for institutional and operational performance improvements (estimated cost EUR 60 million including IBRD EUR 7 million and EBRD loan 50 million)

21. The component will finance operational restructuring of HAC and ARZ, and their subsidiary HAC-ONC. It would build on reforms introduced by the government during the earlier

privatization process and many activities will be carried out through an EBRD loan to HAC for the restructuring of HAC-ONC. The overall reform program will be agreed upon during preparation and its implementation subject to milestones inserted in the project➢(s results framework. This operational restructuring support does not cover civil works but may include studies to ensure compliance of companies with EU directives including with the latest national environmental requirements. In the case of HAC-ONC support to improving the companies➢(processes will include operational health and safety as well as relevant environmental aspects.

22. The component will also finance labor restructuring in HAC/ARZ and HAC-ONC. This could include financing of end-of-employment, severance and compensation payments for employees whose positions are planned to be eliminated during the period 2016-2020. Labor restructuring would also encompass activities for improving staff management, compensation policies, job control, and staff counseling.

Component 2.2: Support to HC performance improvement (estimated cost EUR 7 million)

23. This component would strengthen road management in HC with a particular focus on sustainability of investments and road safety. It would include analytical work to (i) upgrade and refine the existing road asset management system, (ii) improve maintenance contracting approach, including performance based contracting (PBC) and expand the PBC approach across the HC network including through technical assistance, (iii) improve existing maintenance methodology and determine separate budget allocation for road asset maintenance and management. This component would also support changes in legal framework and sector financing mechanisms, such as (iv) study on additional revenues opportunities and investment funding mechanisms, (v) management of heavy vehicles traffic, (vi) revision of road categorization and development of a GIS based mapping, including geodetic and cadastral survey, of the state road network, (vii) improvement of investment policy and investment planning process. Particular consideration would also be given to outreach activities and awareness campaigns in relation to activities carried out using EU funding.

24. Performance improvements in HC may also comprise labor re-structuring. The project would finance the development of a re-organization plan, to optimize staff levels against functions, and the corresponding staff retrenchment needs, though these are assumed to be limited compared to potential retrenchment in the motorway system. The overall restructuring plan will be agreed upon during preparation and its implementation subject to milestones inserted in the project➢(s results framework.

Component 3: Guarantee Support for debt restructuring of the sector companies

Component 3.1 Support to HAC-ARZ debt restructuring (guarantee estimated up to EUR 900 million in several phases and supported by at least EUR 200 million of loan from EBRD and 2.5 million from IBRD)

25. The component would provide in several phases up to EUR 900 million loan guarantee to help HAC-ARZ raise funds under better terms than currently available to it for the restructuring of the part of its debt bearing short maturities and high interest rates (amount to be confirmed and finalized with the government after market sounding and debt analysis finalization but in the order of magnitude of EUR 2.5 to 3 Billion). The new debt would be used for refinancing of the

existing debt stock. Total combined debt of HAC and ARZ is estimated at EUR 4.3 billion, of which EUR 3.4 billion is commercial debt and EUR 0.9 billion is IFI debt. The amount of the guaranteed debt would be determined after road sector and debt sustainability models, as well as market soundings, are completed. The intention is that only part of the HAC-ARZ commercial debt would be covered by the guarantee as some risk must be shared with the market, and it is assumed that IFI debts would not be refinanced or restructured as their conditions and maturity are already favorable compared to the rest of the debt.

26. The Bank issued guarantee could support different borrowing instruments: a long-term loan, rescheduling of existing loans, bonds, or a combination of the three. The government and the Bank would also agree during preparation upon covenants to be included in the guarantee and indemnity agreements, or on a phasing of these guarantees in several steps to reflect performance improvements and restructuring steps for the sector.

27. This Component is linked to Component 1 and 2 (institutional and operational performance improvements) in that an assessment of performance improvements will help determine the level of debt that can be sustained by HAC-ARZ, from their future cash flows. It is also proposed that the loan finance advisory services which would coordinate the set-up of the financial instruments used for refinancing of the debt.

Component 3.2: support to HC debt restructuring (loan Guarantee Estimated up to EUR 300 million over several phases, million and Loan estimated cost EUR 0.5 million)

28. The component would provide up to EUR 300 million loan guarantee to HC (amount to be revisited after completion of debt analysis and of market sounding). The guarantee would help HC improve its financial sustainability by extending tenors and lowering interest cost of its commercial debt. The result of this operation would be a significant reduction of HC financing costs with large annual savings. The Bank guarantee would be used for refinancing the majority of HC loan obligations amounting to EUR 1.3 billion, and the loan would finance the services required for the due diligence needed to close the refinancing of HC➢(s debt.

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

A. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The companies cover the whole road network over the territory of the republic of Croatia, but the project does not include any new physical investment or civil works. However, guarantee operations of the project will help raising funds for the restructuring of the existing debt of HAC-ARZ which occurred due to the construction, operation and maintenance of motorways A 1: Rijeka - Zagreb and A 6: Zagreb ➢(Split - Dubrovnik. Several sections of these motorways pass through the protected and Natura 2000 areas or in their proximity: e.g. A1 motorway passes through Velebit and Biokovo Park of Nature and vicinity of Paklenica and Krka National Parks while A6 motorway passes near Risnjak National Park. The two motorways transect important transit routes for large and protected game: bear, wolf and bobcat. Large parts of the motorways are also built in karst areas, geology which is extremely permeable (with reduced filtration) and present important water catchment supplying central Croatia and the Adriatic coast with drinking water. The later emphasizes importance of good road infrastructure operation and maintenance practices, including surface runoff management. Some equipment (to be located in existing buildings owned by the companies) will be purchased but civil works are not expected to be involved in their installation.

Under component 2, the development of systems to manage assets and the development of system to respond to new EU directives for HAC and ARZ are expected to have a positive impact on the environmental and social compliance of the companies.

Components 2 will finance labor restructuring. It is likely that labor restructuring may lead to staff reductions. This process will be carried out in accordance with applicable national labor and employment laws, collective agreements and good international practice The restructuring of three roads companies is still under consideration. After the decision on the model for restricting is made, the estimated number of workers to be retrenched will be known.
The companies will aim to rely on the voluntary separations of employees with incentive severance payments. However, involuntary staff reductions may occur as well. Since the number of affected workers and models of retrenchment are not known at this stage of the project preparation, the Borrower will prepare the Retrenchment Framework, including social assessment and laying out the processes, procedures and responsibilities for retrenchment, as well as all possible models of retrenchment to be considered. Once the number of affected workers, options for severance payment and models of retrenchment are known during project implementation, each roads company will prepare retrenchment plan, acceptable to the Bank.

Component 3 focusing on HC, HAC/ARZ debt restructuring is envisaged as to amount to increasing the company's working capital, i.e. are not linked to any specific investment. Companies will need to issue a representation that they complied with the appropriate most recent legislation for building of their past investment program. For the purpose of representation, the companies will prepare Environmental Compliance Report. This Report will include, but not be limited to: list of legislation and standards applicable; analysis of compliance with national environmental and nature protection regulation, related environmental assessment procedures and related documentation (e.g. EIA), public consultation legal requirements, procedures and best practices, implementation of prescribed mitigation measures (as defined in the environmental assessment documents and related decisions), inspection findings and recommendations, and more. Due to the specific locations of the roads operated under HAC and ARZ and potential impacts to elements of nature, environment and important resources, the Report will reflect strong emphasis made on overall environmental preservation including cultural resources, ecosystem and water protection. Assessment of existing operational and maintenance practices as well as environmental monitoring programs highlighting gaps if any will also be included in the scope of the representation. If such representation cannot be obtained, or significant gaps are identified as a result of drafting the Environmental Compliance Report, the respective companies will be required to develop an action plan (agreed between the World Bank and companies) during project implementation to bring the companies into compliance, which would contribute to improving of the companies➢(environmental and social management performance and systems.

The project will also support variety of other maintenance and operations programs through technical assistance. The Borrower and Bank staff will ensure that the relevant environmental and social concerns are addressed in line with national standards and Safeguard policies provisions are applied as usual for TA operations, i.e. through incorporating safeguards related considerations as appropriate in the TORs of the respective studies.

B. Borrower's Institutional Capacity for Safeguard Policies

B. Borrowers Institutional Capacity for Safeguard Policies

Croatia has adequate environmental controls, and its legislation and regulations are closely aligned with EU directives. Also, Croatia has adopted relevant EU guidelines for integrating environmental assessments into project planning and programming and the EU Environmental Liabilities Directive setting out liability for damage to properties and natural resources. However, equally important remains the proper implementation of these controls on the ground including transparency in reporting any relevant environmental and social issues with adequate proposal for feasible mitigations. Consequently, the project design will support promoting and implementing adequate policy guidelines linked to companies➢(environmental and social management systems including transparency and disclosure (introduction of key performance indicators; robust environmental and social audit system; and consistent strategy for stakeholders➢(involvement).

During the past decade, HAC, ARZ and HC have conducted extensive national and EU investment programs, which indicates there is, in general, extensive knowledge in project management which includes experience in environmental management and compliance monitoring. Responsibility for environmental issues in HAC is divided between the Sector for Design which ensures environmental compliance related to physical investments and development projects, and HAC ONC which implements regular operation environmental protection measures and monitoring. Similarly, ARZ has a designated person in charge of environmental protection issues and compliance while the HAC ONC takes care of compliance and monitoring of the regular operation of the motorway. On the other hand, HC does not perform any regular monitoring although the environmental measures are integrated into the operation standards. Within the company, Sector for Development set a separate Department for environmental protection in preparation of project documentation (studies and assessments). HC includes environmental protection goals amongst its proclaimed organizational values.
HAC, HAC ONC and ARZ hold a valid certification for its management systems against ISO 9001, 140001 and OHSAS 180001 norm requirements.

National labor legislation in Croatia, including applicable collective agreements, provides for protection of workers in line with good international practice. A comprehensive labor restructuring process was undertaken ahead of the creation of HAC-ONC in April 2013. This process was carried out in accordance with the laws and included consultation between HAC management and the Workers Council. The process relied mainly on voluntary separations with incentive packages ➢(about 75% of affected workers, while 25% left the company involuntarily ➢(collective redundancy.

Some companies have implemented WB safeguards as part of the Rijeka Gateway Project, especially for HC which had to implement category A investment in Rijeka.

C. Environmental and Social Safeguards Specialists on the Team

Jelena Lukic (GSUGL)

Natasa Vetma (GEN03)

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	New physical investments or civil works are not planned in the project therefore the proposed activities are not expected to have an irreversible environmental impact. For debt restructuring, companies will be asked to issue a representation of overall compliance of investment in the form of Environmental Compliance Report assessing environmental compliance of the past investment programs (including, but not limited to: valuation of programs➢(compliance with national environmental assessment procedures and specific decisions - e.g. decision on EIA and related measures, public consultation procedures, inspection findings, monitoring results, etc.) and existing operation and maintenance activities and systems. The Report will be prepared in the first year of project implementation while the table of content (ToC) or ToR for the document/service is to be prepared by the appraisal. If representation is impossible, or significant gap is identified, an action plan will be developed and implemented before the final guarantee provision phase commences. The project will support labor restructuring which will likely lead to retrenchment. The Retrenchment Framework will be prepared prior to appraisal. When retrenchment modalities and number of affected workers become known during project implementation, each company will prepare Retrenchment Plan.
Natural Habitats OP/BP 4.04	TBD	The policy is TBD although no new physical investments or civil works will be financed directly; the project activities are due to the specific location of the motorways, constructed and ran by the clients; the fact that over 30% or the national territory is under some type of national protection level (clients operating the national network), and the potential impact that the road related operations exercises on the water bodies in the karst areas; therefore, a special focus will be given to nature protection and water protection in the representation document (Environmental Compliance Report) in order to ensure that Clients are complying with national environmental norms (including following relevant standards during maintenance operations.
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	

Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/ BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

28-Jan-2017

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

1. Tentative target date for preparing the Appraisal Stage ISDS:
   January 2017
2. Time frame for launching and completing the safeguard-related studies that may be needed.

The specific studies and their timing should be specified in the Appraisal-stage ISDS.
The following is suggested:
Retrenchment framework will be prepared for the whole sector (HAC, ARZ, HAC ONC and HC) prior to appraisal. Representation document (Environmental Compliance Report) will be carried out in the first year of implementation while the ToC or ToR is to be prepared by the appraisal.

III. Contact point

World Bank

Contact: Jean-Francois Marteau
Title: Program Leader

Contact: Richard Bernard MacGeorge
Title: Lead Infrastructure Finance Sp

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Zeljko Tufekcic
Title: State Secretary
Email: zeljko.tufekcic@mfin.hr

Implementing Agencies

Name: HAC
Contact: Josip Drazenovic
Title: Director

Email: josip.drazenovic@hac.hr

Name: HC
Contact: josip skoric
Title: Member of the Management Board
Email: josip.skoric@hrvatske-ceste.hr

IV. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

V. Approval

Task Team Leader(s):	Name: Jean-Francois Marteau,Richard Bernard MacGeorge	
Approved By		
Safeguards Advisor:	Name: Nina Chee (SA)	Date: 09-Jan-2017
Practice Manager/ Manager:	Name: Juan Gaviria (PMGR)	Date: 10-Jan-2017
Country Director:	Name: Carlos Pinerua (CD)	Date: 03-Feb-2017

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.