



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 03-Feb-2020 | Report No: PIDC28079



**BASIC INFORMATION**

**A. Basic Project Data**

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|------------------------------------|---|---|--|
| Country<br>Croatia                 | Project ID<br>P172265                                     | Project Name<br>Croatia green growth development policy operation (P172265) | Parent Project ID (if any)                           |
| Region<br>EUROPE AND CENTRAL ASIA  | Estimated Board Date<br>Sep 30, 2020                      | Practice Area (Lead)<br>Energy & Extractives                                | Financing Instrument<br>Development Policy Financing |
| Borrower(s)<br>Ministry of Finance | Implementing Agency<br>Ministry of Environment and Energy |   |  |

**Proposed Development Objective(s)**

To help Croatia broaden and protect its natural assets base and enhance the productivity of its natural capital.

**Financing (in US\$, Millions)**

**SUMMARY**

|                        |        |
|------------------------|--------|
| <b>Total Financing</b> | 100.00 |
|------------------------|--------|

**DETAILS**

|   |        |
|---|--------|
| <b>Total World Bank Group Financing</b> | 100.00 |
| World Bank Lending                      | 100.00 |

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

**Croatia achieved significant social and economic progress thanks to the market-oriented structural reforms introduced in the 1990s and the economic dividends of political stability following the conflict of the 1990s.** In the couple of decades since peace was restored, Croatia created a liberal democracy, established a market economy, achieved the status of high income country, and on July 1, 2013 joined the European Union (EU). However, the global economic crisis led to a reversal of the convergence process and a prolonged recession. The recession lasted six years. Output fell by 12 percent and investment by 33 percent, while unemployment doubled to over 17 percent by 2014. Although 2015 saw the beginning of recovery, Croatia’s economy has reached the pre-crisis level of output only in 2019. The severity of the Croatian recession, the slowness of the recovery since 2014, as well as substantial institutional



weaknesses that remain, mean that Croatia's real convergence process is yet to be restored at a pre-crisis pace. This has also led to high levels of emigration of young and skilled workers, and has resulted in labor shortages in sectors that have witnessed a relatively strong recovery (e.g. tourism and construction). Thereby, labor supply has become a constraint on current growth. This, together with low overall productivity in the economy limits Croatia's growth prospects. Key reform priorities should therefore revolve around boosting Croatia's innovation capacity and productivity and increasing quality and availability of labor and capital. Improving the regulatory and governance framework for sustainability can help Croatia achieve these goals and raise its growth potential.

**Croatia can improve the productivity of its natural capital.** The country is among the worst performers in the EU on resource productivity<sup>1</sup>, i.e. efficiency of the economy in using material resources to produce wealth. Lack of policy direction in the waste management sector have further slowed down the creation of a consistent framework, as no regulatory or economic policy instruments aiming to promote a circular economy have yet been put in place; in 2016, the rate of secondary use of material stood at 4.4 percent, against the EU-28 average of 11.7 percent. Croatia used a third less energy per capita than the EU average, but its nominal energy intensity (energy use as a share of GDP) was 55 percent higher. Similarly, Croatia's GHG intensity is above EU's average. Despite recent progress, the energy intensity of the economy requires further efforts in improving energy efficiency – particularly in the building and transport sectors.

#### Relationship to CPF

**The operation is fully aligned with the FY19-24 Country Partnership Framework (CPF).** The DPO supports the objectives of the CPF's second pillar on "leveraging natural capital and securing low carbon growth." It also supports the CPF overall focus on institutional strengthening. As stated in the 2018 Systematic Country Diagnostic, "Croatia's public sector performance lags EU peers across most governance indicators. Poor legislative quality has led to frequent amendments to address shortcomings, increasing uncertainty and raising the costs of compliance. Public sector is particularly weak at the local and regional self-government units level, where high fragmentation raises costs and reduces the quality, effectiveness and sustainability of services delivery." Moreover, several reform axes supported by the operation are backed by World Bank analytical and advisory work.

### C. Proposed Development Objective(s)

To help Croatia broaden and protect its natural assets base and enhance the productivity of its natural capital.

#### Key Results

The main results expected from the operation include, inter alia, (i) Reenergize renewable energy sector toward achieving a target of 36.4 percent in the final energy consumption by 2030; (ii) Promote resilience of natural assets, including improved access to weather and climate warnings and forecasts and improved timeliness and accuracy of extreme weather warning services; (iii) Increase protected areas supporting biodiversity; (iv) Promote circular economy by applying green public procurement and operationalization of circular economy approaches in waste management; (v) Put in place enabling ecosystem to improve energy efficiency in the building and transport sectors; and (vi) Enhance operational efficiency and improve performance in the water supply and sanitation services sector.

### D. Concept Description

The operation is structured under two pillars with prior actions anchored in existing sector strategies and ongoing reform agendas of the Government and the vision laid out by the European Green Deal. The Croatia's 2019 National

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<sup>1</sup> Resource productivity is defined as the ratio between gross domestic product (GDP) and domestic material consumption (DMC). For Croatia this was EUR 1.19/kg in 2017, against the EU average of EUR 2.04/kg (EU 2019).



Reform Program (NRP) identifies environmental protection, circular economy, decarbonization, climate change adaptation, and reform of water supply and sanitation services as key priorities.

The first pillar aims to broaden and protect Croatia's natural assets base. The indicative reform actions support: (i) increasing renewable energy penetration through an auction system for grid-connected electricity generation and self-generation at consumer level; (ii) enhancing disaster risk management systems for climate adaptation through improved access and timeliness of weather and climate warnings and forecasts; and (iii) protecting biodiversity through expanding area of land/marine protected areas and their management plans. The second pillar aims to enhance the productivity of Croatia's natural capital. The indicative reform actions support: (i) promoting circular economy through introducing the landfill tax and expanding green public procurement; (ii) promoting energy efficiency in buildings through making available a financing facility for retrofits, and in the transport sector through increasing rail and electric transport; and (iii) enhancing operational efficiency and improving performance in the water supply and sanitation services sector through consolidation of service providers and new service standard requirements.

The six policy areas targeted under the European Green Deal correspond well to this DPO's supported actions on clean energy, renovation of buildings, sustainable mobility, biodiversity, sustainable food systems, pollution elimination, and sustainable industry and circular economy.

## E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The DPO supports prior actions that are expected to have overall largely positive social and poverty reduction effects over the medium- and long-term, and neutral or negative, but likely small, effects in the short-term.** Some of the DPO prior actions are expected to have adverse distributional and social impacts in the short run, though some mitigating measures are in place and the overall poverty impact is expected to be limited, while some of the impacts are expected to vary by gender. Renewable energy investments could generate new job opportunities with the potential of reducing poverty; direct employment benefits are not expected to be large for the poor, unless a significant portion of new clean energy jobs is created in the sectors and areas where most of the poor are concentrated. The benefits of renewable energy investments that facilitate the transition to clean energy extend far beyond direct employment opportunities along the renewable energy supply chain, and include lower energy consumption and expenditures, likely in the medium term. Improved flood risk mitigation due to higher availability, reliability and timeliness of meteorological and hydrological data can minimize the negative poverty effects of natural hazards (drought and flooding), if risks are properly mitigated, leading to positive poverty impacts. Landfill taxes can also be used to finance more effective waste management. This can have a positive impact on the urban poor, which are usually more severely impacted by unsustainably managed waste. Energy efficiency measures are key for combating energy poverty in the medium and long term through reducing the consumption needs of poor households, if properly targeted. Energy efficiency measures are also expected to promote growth and job creation in the medium to long term, potentially contributing to poverty reduction. The water reform can also have a positive welfare impact by increasing the reliability of water supply and quality of access.

### Environmental, Forests, and Other Natural Resource Aspects

**The proposed DPO actions are likely to have predominantly positive environmental impacts.** The proposed actions on energy fostering construction of renewable energy generation facilities, energy efficiency in buildings and transport have an intention to reduce use of fossil fuels and consequently GHG emissions. The Natura 2000 Network expansion and enhanced management is expected to result in improved protection of important habitats and species, reduced pressure to natural resources, biodiversity increase and improved and preserved ecosystem services. Circular economy



policy actions are designed to improve environmental outcomes of production of selected goods and services. The policy actions on water supply and sanitation services such as regulation of water service area and conditions for water supply will trigger investments. As a result, some short-term environmental impacts typical for construction are possible. On the other hand, expected environmental gains, better climate change adaptation and positive effects to human health are long-term and increasingly important.

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**APPROVAL**

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**Approved By**

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|-------------------|--------------|-------------|
| Country Director: | Arup Banerji | 26-Mar-2020 |
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