Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Jan-2020 | Report No: PIDISDSA28643
BASIC INFORMATION

A. Basic Project Data

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<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<td>Croatia</td>
<td>P167247</td>
<td>Justice for Business Project</td>
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<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<td>31-Mar-2020</td>
<td>Governance</td>
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<th>Financing Instrument</th>
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<tr>
<td>Investment Project Financing</td>
<td>Republic of Croatia</td>
<td>Ministry of Justice, Ministry of Construction and Physical Planning, Ministry of Economy, Entrepreneurship and Crafts</td>
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Proposed Development Objective(s)

The Project Development Objective is to improve the business regulatory procedures and justice service standards for businesses and citizens.

Components

PROJECT FINANCING DATA (US$, Millions)

**SUMMARY**

| Total Project Cost             | 113.67                  |
| Total Financing                | 113.67                  |
| of which IBRD/IDA              | 111.45                  |
| Financing Gap                  | 0.00                    |

**DETAILS**

World Bank Group Financing
Environmental and Social Risk Classification
Moderate

Decision
The review did authorize the team to appraise and negotiate

8. Introduction and Context

Country Context

1. Despite recent improvements, the Croatian economic recovery after the 2008 crisis remains slower and weaker than in other CEE countries. The process of convergence resumed in 2015, but at a much slower pace than before the crisis, and it has not yet been sufficient to compensate for the divergence during the recession. As a result, in 2017, the last year for which the data are available, Croatia was the only country in the CEE region, besides Slovenia, whose relative GDP per capita had not yet reached the pre-crisis ratio. While growth is projected to remain positive around 2.5 percent over the medium-term, these projections are not enough to revive, let alone accelerate, the pace of convergence with other countries in the European Union.

2. Going forward, the improvement of the business environment and the transformation of the state are paramount to reinvigorating economic convergence. The success in reshaping how businesses interact with government will very much depend on the policy makers’ determination to redefine the role of the state in the economy, as well as remove binding constraints for the private sector to thrive. This particularly refers to the state’s role as a regulator, to steer competition, and its ability to provide the required services to enforce those regulations. Moreover, as the guarantor of the rule of law, the state bears responsibility to effectively provide justice services to resolve disputes and to provide predictability, dynamism and trust for citizens and businesses.

Sectoral and Institutional Context

3. Weak public sector performance increases inefficiencies and costs for government and adversely affects the business environment. Croatia’s public sector performance lags EU peers across most governance indicators. Insufficient coordination and cooperation between agencies and levels of government impairs policy coherence and results in the fragmentation of government-to-business services. In turn, this raises administrative costs for government and reduces the quality, effectiveness and sustainability of services delivery for businesses. The Worldwide Governance Indicators rate Croatia the worst in the EU for regulatory quality and among the worst in
other key public sector governance indicators. In the Global Competitiveness Index Croatia also scores persistently below the average in terms of the quality of its public institutions.

4. Businesses in Croatia face a cumbersome business environment that inhibits competitiveness and private sector growth. According to the Doing Business 2020, the country currently ranks 51st (out of 190 economies), among the lowest ranked in the EU. In some critical areas, such as the Starting a Business and Dealing with Construction Permits indicators the ranking was 114th and 150th, respectively. The regulatory hurdles are also reflected in Croatia’s low ranking in the Burden of Government Regulation indicator (139th out of 141 economies) in the World Economic Forum’s 2019 Global Competitiveness Index, as are the low performance in critical aspects related to dispute resolution. The average time to decisions in litigious and bankruptcy cases before first instance commercial courts, for example, is 391 days in litigious and 373 days in bankruptcy cases. The length of court proceedings in 2018 for first instance civil litigious and commercial litigious cases was 390 days and 374 days respectively, while the 2016 Council of Europe average length was estimated at 233 days with a median value of 192 days.

5. Burdensome procedures to start and operate a business in Croatia impose high compliance costs on businesses. According to the World Bank’s Enterprise Survey (2013), Croatian managers spent on average 19.6 hours per week dealing with different government regulations – equivalent to half the 40 hours work-week. Croatia was the 16th worst performer on this metric among 139 countries captured by the survey.

6. Croatia’s regulatory framework on professional services is highly restrictive and the Government has made open commitment to accelerate reform actions. According to the Organization for Economic Co-operation and Development (OECD), Croatia has the highest level of restrictiveness of regulation in professional services in the Central and Eastern European region. The number of regulated professions in Croatia (approximately 300) is significantly higher than the average of 200 regulated professions in EU level. Globally, Croatia imposes more requirements on the provision of professional services than 53 out of the 57 countries benchmarked by the OECD and the World Bank. As noted by the European Commission, inadequate regulation of professions “creates obstacles for the functioning of the Single Market and holds back the potential for growth and job creation in the EU economies.” The Government of Croatia has committed to lift unnecessary restrictions in regulated professions in the Croatia’s Partnership Agreement, in all its National Reform Programs since 2017, as well as the “First Action Plan to Liberalize the Service Market”, but progress in reform implementation has been limited.

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1 https://info.worldbank.org/governance/wgi/
2 Out of the 141 countries ranked in the 2019 report, Croatia was placed 77th on the overall institutional pillar.
6 By the end of 2020 a cumulative of 250 market liberalization measures are planned to be implemented in 50 major professional services. 
7 See: https://vlada.gov.hr/sjednice/187-sjednica-vlade-republike-hrvatske-28111/28111. This action plan was adopted by the GoC in October 2019 and entails 20 measures of simplifications related to 7 professions (physiotherapist, pharmacist, lawyers, energy certifiers, architects, tourist guides and managers of tourist agencies) and involves 4 ministries (Ministry of justice, Ministry of health, Ministry of construction and physical planning and Ministry of Tourism). A second action plan is expected to be adopted in the first quarter of 2020.
7. Inefficiencies related to the regulation of professions are present in all sectors in Croatia, including in the construction sector, which has the largest negative contribution to aggregate productivity growth in the country. The construction sector contributes 5.1% to GDP and 7% of the total number of employees. It also has strong linkages to the tourism sector, which is the most important source of value added for the Croatian economy. The combination of burdensome procedures to obtain construction permits and the overregulation of building professionals impose high compliance costs and undermine the sector’s growth potential. Box 1 provides examples on requirements in the provision of professional services that may restrict entry and operation of service providers.

8. Inefficiency, unpredictability, and delays in court processing of commercial cases are the other significant impediment to businesses in Croatia. A 2017 study by the European Commission's Joint Research Centre identifies correlations between the improvement of court efficiency and the growth rate of the economy. By measuring the length of judicial proceedings and accessibility to justice services, the report concluded that lengthy civil proceedings can impose constraints to economic activity. By using data from the “2016 EU Justice Scoreboard” and Structural Business Statistics, the study finds strong correlation between the length of proceedings - a proxy for efficiency of the judiciary - and firm performance. Such a link has also been demonstrated in the specific case of Croatia, where a comparative research study found a positive correlation between the rule of law and institutional performance and their effects on economic performance and growth. Inefficiencies in the justice sector are commonly driven by a combination of factors that include the highly congested system due to the legacy of backlog cases and the inability to cope with incoming cases within reasonable time; the limited use of available online and automated services; other procedural aspects related to the processing of cases, hearings and adjournments; and the inadequacies of court physical facilities.

9. Croatia has a large and dense court network, which is compounded by the low quality of physical facilities in most court houses across the country. This leads to inadequate conditions for judges and other actors to perform their duties in a more effective and efficient way. Most of the courts and public attorneys’ offices are housed in deteriorated physical infrastructure due to lack of maintenance and investments. As a result, there is an insufficient number of courtrooms and judicial chambers, spaces for circulation and waiting areas are inadequate and at times unsafe for victims and other users, and facilities for archives and supporting equipment are in poor conditions and lack safety standards. The last major wave of investment in judicial infrastructure occurred in the 70s when several courts were built under very different conditions and specifications of services. At this point, the inadequate infrastructure has become an important constraint to the delivery of proper and efficient services in the justice sector.

Box 1: Examples of requirements in the provision of professional services that can be restrictive to entry and operation of service providers in a given sector

- Guidance on work hours and fees issued by professional associations
- Fragmentation of service provision by overregulating the tasks that different professionals are authorized to undertake (known as exclusive rights)
- Onerous requirements for professional experience and academic qualifications;
- Compulsory membership in professional associations.

8 Policy Note for Croatia: Growth, Competitiveness and Innovation (July 2019).
10. In sum, a strong business environment that is needed for competitiveness and private sector development, is limited by several constraints. A major constraint is the high administrative burden of interacting with government. Specifically, the high regulatory barriers for market entry, the lack of transparency and the misallocation of resources. Another major constraint is the lack of efficiency of the justice services which mainly results from the limited use of e-government services, the substantial delays in dispute resolution of commercial cases, and the sub-optimal court facilities that hinder judicial service provision. Figure 1 summarizes these major constraints.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)
The Project Development Objective is to improve the business regulatory procedures and justice service standards for businesses and citizens.

Key Results

11. The Project’s achievement of the PDO will be measured via the following indicators:

- Improvement of business regulatory procedures
  - Time and number of procedures to register an LLC (measured as percentage reduction in time and the number of procedures);
  - Number of procedures to obtain a construction permit (measured as percentage reduction in the number of procedures);
  - Percentage of licensed activities with information on licensing requirements published online in the informational portal;

- Improvement of justice service standards for businesses and citizens
  - Time (average length) to first instance decisions in litigious and bankruptcy cases before commercial courts;
  - Court users’ and stakeholders’ satisfaction with respect to the quality of justice service delivery in the four selected courts (citizen engagement indicator).

D. Project Description

12. The Justice for Business Project has two components. Component 1 is a results-based component that supports implementation of interventions which are expected to reduce the administrative burden for businesses in their interaction with government. Component 2 combines results-based financing to support improvements in the delivery of justice services with emphasis on those provided to businesses, with direct investment supporting the rehabilitation and renovation of selected court facilities for better onsite court performance. Additionally, support will be provided to project management and technical assistance for the
implementation of the results-based financing interventions. The World Bank loan will finance both the results-based interventions as well as the direct investments. The GoC will finance required technical assistance activities to support achieving the project objectives, allocating funding for technical assistance activities from its own budget or through other parallel programs. The Bank team will monitor implementation of such technical assistance activities as part of the project implementation support.

**Component 1 – Reducing the administrative burden for businesses to interact with government (results-based component, EUR 25MM)**

**Subcomponent 1.1. Removing regulatory barriers for market entry and operation**

13. This subcomponent addresses regulatory barriers for market entry and operation. It focuses on simplifying and automating the complex and costly procedures to start and operate a business aiming at reducing transaction costs and improving transparency through the implementation of the following activities:

(a) **Implementation of an Integrated Business Registration Platform (known as START).** The creation of the “START” platform enables registration of Limited Liability Companies (LLCs) through a single procedure that can be completed online. This will significantly reduce the time and cost to register a limited liability company (LLC), which is the most frequent company form in Croatia. To further integrate registration procedures, the “START” platform will be expanded to also enable online registration of key changes to the status of LLCs such as change of name, address, directors, activity, voluntary liquidation etc. In order to consolidate existing parallel entry points to registration services, single points of contact will be designated to serve as the only physical access points to business registration services for LLCs. This will make registration services more cost effective for government as well. This activity will be led by MoECC.

(b) **Licensing requirements are published online, and selected licenses are digitalized.** An inventory of licensing requirements to start or operate a business activity will be consolidated and published in one source of information that will be available online – an informational licensing platform. In addition, the licensing procedures for a number of business activities will be fully automated. To that end, the E-Government Infrastructure will include a business process management tool. Making procedures and requirements for businesses to formally operate a business transparent and digitalized will increase predictability for investors and reduce rent-seeking opportunities. This activity will be led by MoECC.

**Subcomponent 1.2. Simplifying construction permitting and improving market functioning in the construction sector**

14. This subcomponent seeks to simplify the construction process for investors and contractors and improve availability of construction services. It includes two activities:

(a) **Simplification of construction permitting and full implementation of the E-Dozvola, an online platform for construction permits.** Issuance of construction permits will be automated through the E-Dozvola. Additional simplification of processes in obtaining a construction permit will be implemented. This is expected to lower transaction costs, improve transparency and strengthen predictability in obtaining a construction permit. Full implementation of the E-Dozvola is expected to increase the system’s geographic coverage by allowing building professionals in the City of Zagreb –
where the bulk of construction activity takes place - to submit applications online. Moreover, it is expected to address the existing implementation challenges such as the lack of awareness of the platform in the private sector, the lack of customer support for users of the online solution, the lack of digital signatures for professionals and the uneven capacity in the building authorities outside of Zagreb. This activity will be led by the MoCPP.

(b) **Simplifying requirements for the provision of professional services in the construction sector.** The requirements for professional service providers will be aligned with international best practice. The changes are expected to decrease the cost and complexity of the construction process. This activity will be led by the MoCPP. It is expected that the reforms supported under this component can set a model for further simplification of professional services in other sectors beyond the construction sector.

Component 2 – Improving justice services for businesses (combined direct investment and results-based component, EUR 73.1MM)

15. The objective of this component is to support the improvement of justice services along its service delivery chain, resulting in more effective services and better user experience for businesses and other stakeholders. The component includes four subcomponents: (a) expanding the use of electronic services in the justice sector, (b) accelerating the resolution of commercial disputes, (c) rehabilitation and upgrading of selected court facilities; and (d) strengthening of MoJ's investment management and M&E capacity. Together, these four subcomponents will contribute to a systemic approach to improving court performance to provide better and expedited administration of justice by optimizing business processes, speeding up service delivery by taking advantage of existing ICT support systems, unclogging the case management system, and enhancing quality of the services through better and agile physical facilities. To this aim, the component will reimburse relevant government expenditures associated with the achievement of agreed targets in results areas under the first two subcomponents and will provide direct financing to support project management, technical assistance activities, monitoring and evaluation and direct investment for the rehabilitation of court buildings under the latter two subcomponents.

Subcomponent 2.1. Expanding the use of electronic services in the justice sector

16. This subcomponent seeks to increase the level of uptake of electronic online services in the justice sector both internally by justice sector operators (e.g. judges, staff, prosecutors) as well as by external users (citizens, businesses and lawyers representing their clients). By doing so, it will help decongest the provision of onsite services and accelerate response times of courts and other administrative procedures required by justice sector agencies. The project will reimburse government expenditures against the achievement of targets related to increased uptake of e-Justice tools. Specifically, the following results areas will be monitored through DLIs: (i) Increased number of courts integrated in ICMS, focusing on integration of first instance misdemeanor and administrative courts, many of which currently operate either in their own CMS or offline without taking advantage of the integrated e-system adding on processing time and impacting on the overall integrity of the automated system. Expansion of the ICMS to all courts will represent a major step forward in modernizing judicial services for both businesses and all citizens by developing e-governance in courts; and (ii) Increased number of courts using e-communication system. These activities will be led by the MoJ and implemented in cooperation with relevant courts.
**Subcomponent 2.2. Accelerating the resolution of commercial disputes**

17. This subcomponent focuses on addressing the effectiveness of the judiciary to resolve commercial disputes, as one of the most pressing issues affecting the business environment. By first unclogging the case management system from the existing significant backlog, court efforts can be focused on tackling current commercial cases more efficiently. For this, the following two initiatives have been prioritized for support under this subcomponent:

   a) **Reducing the court backlog of cases older than 10 years**, which will be focused on resolving longstanding commercial cases that continue to disrupt economic activities. Accelerating the resolution of these cases is expected to significantly reduce the backlog by almost half during the project timespan. A database of old cases has been created (presiding judge, activities undertaken, reasons for lack of resolution, and planned time limits for case resolution and reasons for the inability to resolve a case within the planned period). Further analytics will be supported by the creation of a database of cases for protection of the right to trial in a reasonable time. This activity will be monitored by the MoJ and implemented in cooperation with municipal and commercial courts.

   b) **Reducing the average time to first instance decisions in litigious and bankruptcy cases before commercial courts**, which is a critical precondition to raise the effectiveness level of the justice system to secure legal certainty for economic players and prevent further accumulation of backlog cases in the future. Based on standards set by the European Court of Human Rights case-law and the Council of Europe recommendations\(^\text{10}\), targets for an appropriate level of responsiveness of Croatian courts have been agreed. To achieve these targets, the MoJ in addition to help maximizing the utilization of ICT tools, will implement procedural reforms alleviating unnecessary burden on judges, further equalizing workload among judges, and providing instruments to harmonize judicial interpretations and other supporting tools. This activity will be monitored by the MoJ and implemented in cooperation with commercial courts.

**Subcomponent 2.3. Rehabilitation and upgrading of selected court facilities**

18. This subcomponent will finance the physical rehabilitation of selected courts to meet international standards of service allowing for better court performance and user experience. Improved conditions of the judicial facilities will enhance business experience and confidence in the judiciary and will introduce the concept of agile infrastructure in the justice sector, which complements the modernization efforts aiming at decongesting the provision of justice services and upgrading the service standards. The court facilities that will benefit from renovation, rehabilitation and upgrading under this component are the Zagreb Municipal Court and the judicial facilities in Vinkovci, Kutina and Varazdin. These courts were selected based on their level of caseload, their focus on business activities, and their geographical location in lagging regions. The subcomponent will support both functional and construction designs and implementation of rehabilitation works and upgrading of standards.

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\(^{10}\) See 2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011

Subcomponent 2.4. Strengthening Public Investment Management practices in the judiciary

19. This subcomponent aims at strengthening public investment management practices in the judiciary in order to optimize infrastructure spending and allow for savings to be redirected to service modernization. This will contribute to more effective utilization of the MoJ’s capital budget and will allow for stronger engagement of international partners in improving judicial infrastructure. It will also allow the development of **standard project designs** for the planning, rehabilitation and maintenance of justice courts. This practice will reduce the time and cost in the design, procurement and execution of regional and municipal justice investment projects across the country. Overall, such cost savings will allow redirecting resources towards modernization of services and improving the user experience. Support will be provided to the Strategic Planning Directorate and its Sector for Judicial Infrastructure Department in the MoJ, as well as to Court Presidents, who also play a role in the investment planning system and are responsible for maintenance of judicial infrastructure. This project subcomponent will complement ongoing initiatives supported by the European Social Fund and its Justice Modernization Project (Project One), which provides financing for the development and implementation of a comprehensive ERP system. Bank support under this subcomponent will offer technical assistance and sharing of best practices in investment management in the judiciary to complement these efforts.

Additional support to Project Management and for Technical Assistance (EUR 3.9 MM)

20. These activities will support overall project management and provide technical assistance required for the implementation of the above two components including:

a) **Support to the operations of the Project Implementation Unit (PIU) and monitoring and evaluation (M&E) activities.** This includes hiring of required specialized personnel to carry out technical supervision of infrastructure rehabilitation activities as well as to ensure compliance with procurement, safeguards and financial reporting requirements. M&E functions will provide effective oversight of the reform process and specifically of the completion of agreed DLIs. The project will provide support to develop required M&E instruments, such as surveys and impact evaluations, as well as the establishment and financing of the verification procedures for the results-based activities that would then be used to trigger associated disbursements. The project will also provide support to carry out the citizen engagement and change management activities.

b) **Technical assistance activities to complement ongoing support provided by other development partners and the European Commission in areas relevant to the two project components.** These additional technical assistance funds are expected to be used to cover potential gaps, not available through own resources or externally funded programs, towards the achievement of the DLIs and of the PDO, for both Components 1 and 2.

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<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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Summary of Assessment of Environmental and Social Risks and Impacts

21. **Environmental and Social Risks and Impacts are assessed as moderate.** Potential environmental and social risks and impacts of the planned interior upgrade/renovation, energy efficiency and rehabilitation works of physical infrastructure in Zagreb Municipal Court, and judicial facilities in Vinkovci, Kutina and Varazdin are predictable, expected to be temporary and reversible, low in magnitude, and site specific. The Bank team visited all four locations and reviewed available projects designs and cost estimates for each of the facility. The Project will support improvements of judicial services for business, improve the performance of courts and enhance service delivery to Croatian citizens. The planned rehabilitation and renovation works will foster a work-friendly environment for judicial staff. Additionally, the judicial infrastructure upgrades and improved access to judicial services and quality infrastructure will greatly benefit Croatian citizens residing in the four cities – Zagreb, Varazdin, Kutina and Vinkovci.

22. **Of the ten Environment and Social Standards (ESSs), six are relevant:** ESS 1) Assessment and Management of Environmental and Social Risks and Impacts; ESS 2) Labor & Working Conditions; ESS 3) Resource Efficiency and Pollution Prevention and Management; ESS 4) Community Health and Safety; ESS 8) Cultural Heritage; and ESS 10) Stakeholder Engagement and Information Disclosure.

23. **The project environmental risk is moderate and is predominately linked to the rehabilitation of four existing court buildings, with no change in footprint.** Given that these are general and small-scale construction activities, the potential adverse risks and impacts on human populations and/or the environment are not likely to be significant. This is because the Project activities are neither complex, nor large, do not involve activities that have a high potential for harming people or the environment, and all of the project sites are located away from environmentally or socially sensitive areas. As such, the potential risks and impacts are (i) predictable and expected to be temporary and/or reversible; (ii) low in magnitude; (iii) site-specific, without likelihood of impacts beyond the actual footprint of the Project; and have (iv) low probability of serious adverse effects to human health and/or the environment.

24. **Social risk is also assessed as moderate, as the planned civil works under the Sub-component 2.3 on Rehabilitation and Upgrading of Selected Court Facilities will be site-specific (four defined locations of court buildings) with no impacts beyond the footprint of the existing court buildings.** No land acquisition will be required, and the interior works are small in magnitude and as such will have impacts that can be easily and predictably mitigated. The planned activities go beyond simple renovation and rehabilitation work but also consider aspects of energy efficiency, fire safety, information technology, universal access, heating, ventilation, and air conditioning (HVAC), etc. Risk related to labor influx is minimal as rehabilitation works are of small-scale nature. Regular operation and functioning of the four courts will be maintained during the planned works so the users/ beneficiaries will have a continuous and uninterrupted access to judicial services.

**E. Implementation**

Institutional and Implementation Arrangements

25. **Comprehensive implementation arrangements will ensure both oversight of the operation and sector-wide reforms.** Such institutional arrangements will ensure both the strategic alignment of the Project with wider
GoC reform agenda and efficient management of the day-to-day activities under the project. The implementation arrangements consist of the following (see Figure 4): (a) a high level Decision Body, chaired by the Deputy Prime Minister and comprised of Ministers of 4 line ministries directly involved in project implementation (MoJ, MoEEC, MoCPP and MOF), (b) Working Group, comprised of State Secretaries from the 4 line ministries and Advisor to the Prime Minister, (c) Project Implementation Unit (PIU) overseen by a Project Director, and (d) Implementation Teams (IT) in 3 line ministries (MoEEC, MoJ, MoCPP). Furthermore, the World Bank is exploring with the counterparts the possibility of establishing an advisory committee consisting of stakeholder representatives (judges, lawyers and citizens) in order to advice the Decision Body and the Working Group.

**Figure 2: Project Implementation Arrangements**

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