



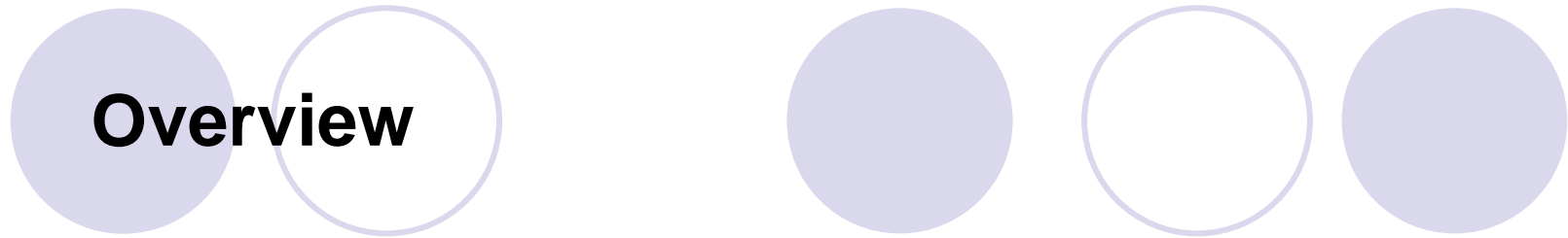
# IRE Expert Conference

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## Overview

- Results of Croatia Living Standards Assessment
- World Bank Program in Croatia support to Regional Development Agenda
- World Bank support on Regional Development in the wider Europe and Central Asia region

# Recent World Bank Research on Regional Development and Living Standards in Croatia - Summary of Key Findings

- **Poverty in Croatia is quite low**

Only a relatively small share of the poor faces hard-core deprivation  
... but progress in reducing poverty recently has been quite modest

- **Some regional disparities, though no higher than in other European countries**

- Report paints a finer picture of disparities at the county-level, though regional profile is more robust and reliable

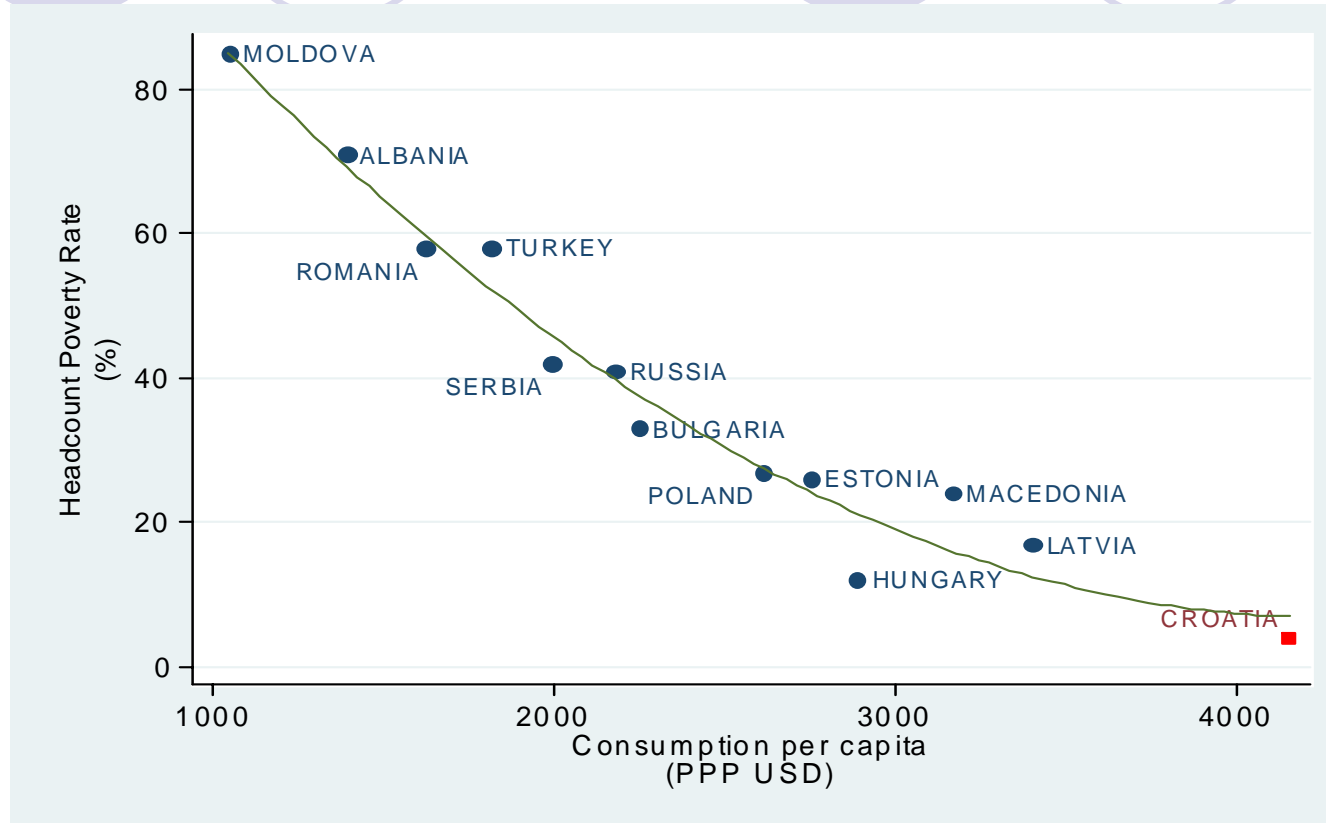
While living conditions do differ across Croatian regions

(i) these differences are not significantly more than other EU countries

(ii) taxes and transfers play a significant redistributive role

- Differences in human capital explain a good part of regional disparities

# Cross-Country Poverty Comparisons



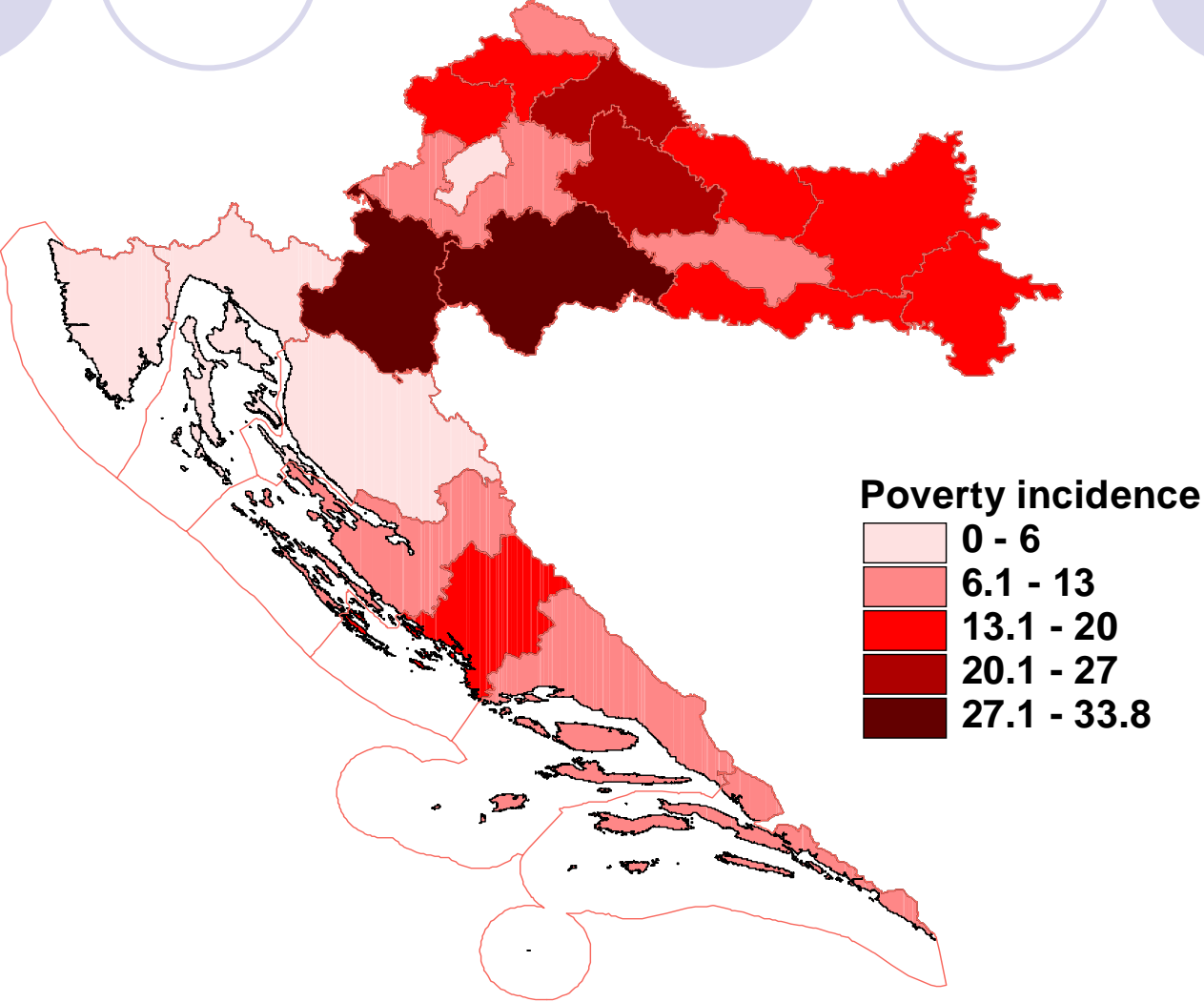
Croatia's poverty rate is the lowest among middle-income countries in the Europe and Central Asia

## National Poverty Trends

Poverty Measure (%)	Expenditures		Incomes	
	2002	2004	2002	2004
Poverty line ( <i>kunas/equivalent adult/year</i> )	21,390	22,145	21,390	22,145
Poverty headcount rate	11.2	11.1	13.0	10.4

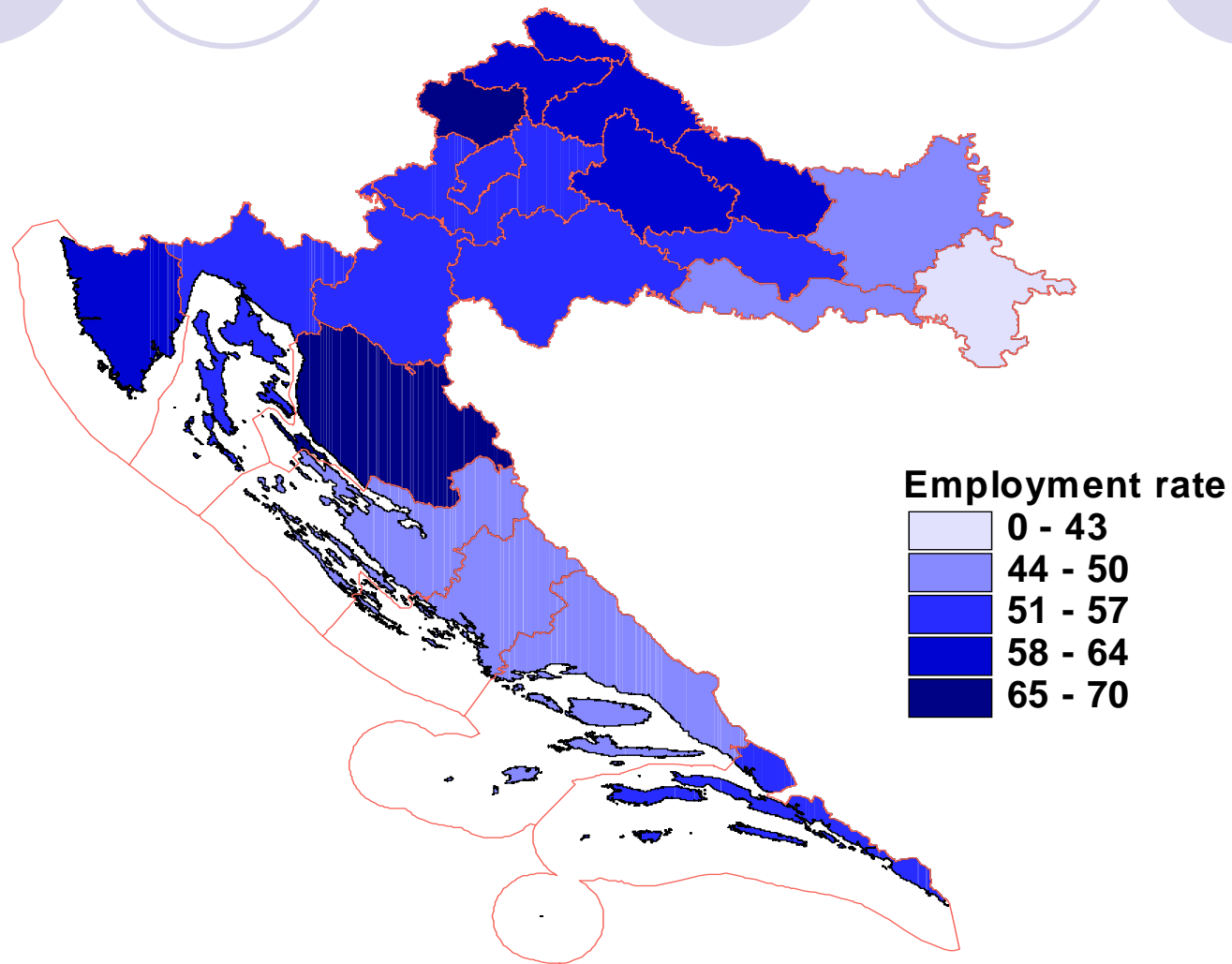
- Poverty is quite limited and shallow
  - 11 percent of the population are poor
  - “Depth of poverty” is low (on average the poor are not far from the poverty line)
- ... but recent poverty trends are **ambiguous** depending on the welfare measure
  - Stagnant if based on consumption,
  - Declining if based on incomes

**(a) Poverty Profile**



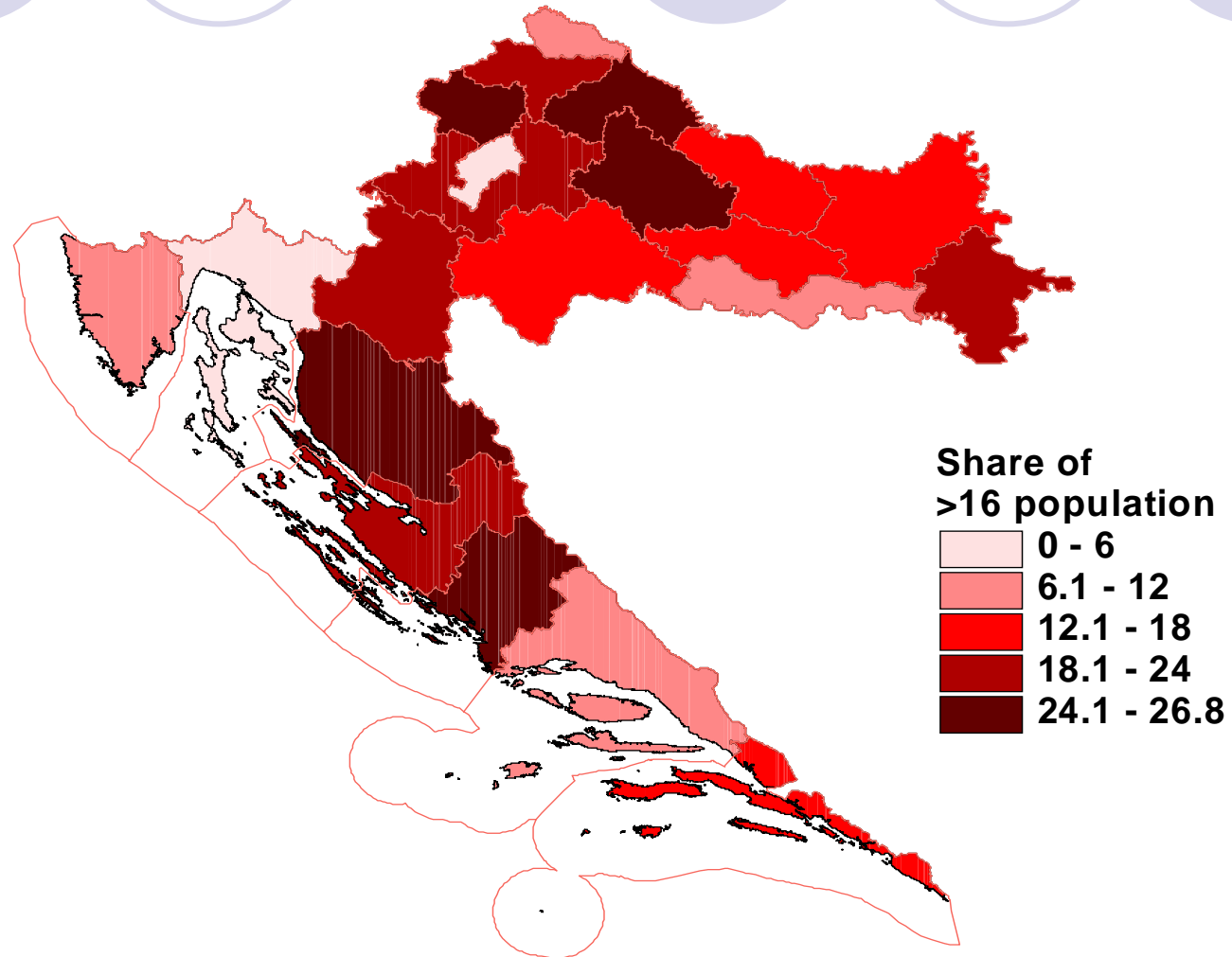
Source: Pooled 2002-04 Household Budget Survey

## (b) Employment Profile



Source: Pooled 2002-04 Labour Force Survey

## (c) Education Profile: Less than primary education



Source: Pooled 2002-04 Labour Force Survey

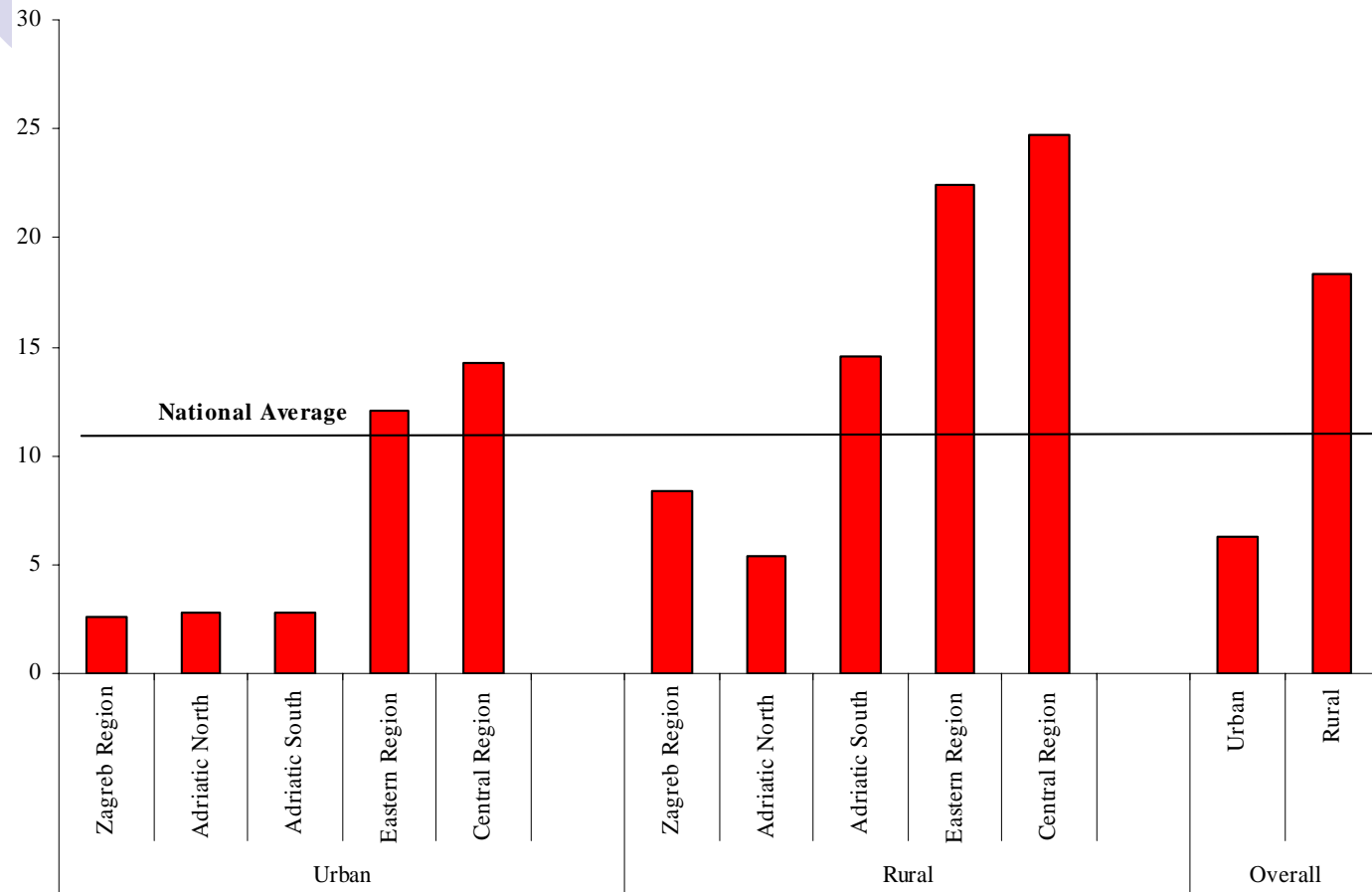


## Regional Poverty Incidence

- Following an earlier World Bank report, a five-way regional disaggregation used to improve precision of poverty estimates

Analytical Region	County
Central Croatia	Krapina-Zagorje, Sisak-Moslavina, Karlovac, Varazdin, Koprivnica-Krizevci, Bjelovar-Bilogora, Medimurje
Eastern Croatia	Virovitica-Podravina, Pozega-Slavonia, Slav. Brod-Posavina, Osijek-Baranja, Vukovar-Sirmium
Zagreb Region	Zagreb County, Zagreb City
Adriatic North	Primorje-Gorski kotar, Lika Senj, Istria
Adriatic South	Zadar, Sibenik-Knin, Split-Dalmatia, Dubrovnik-Neretva

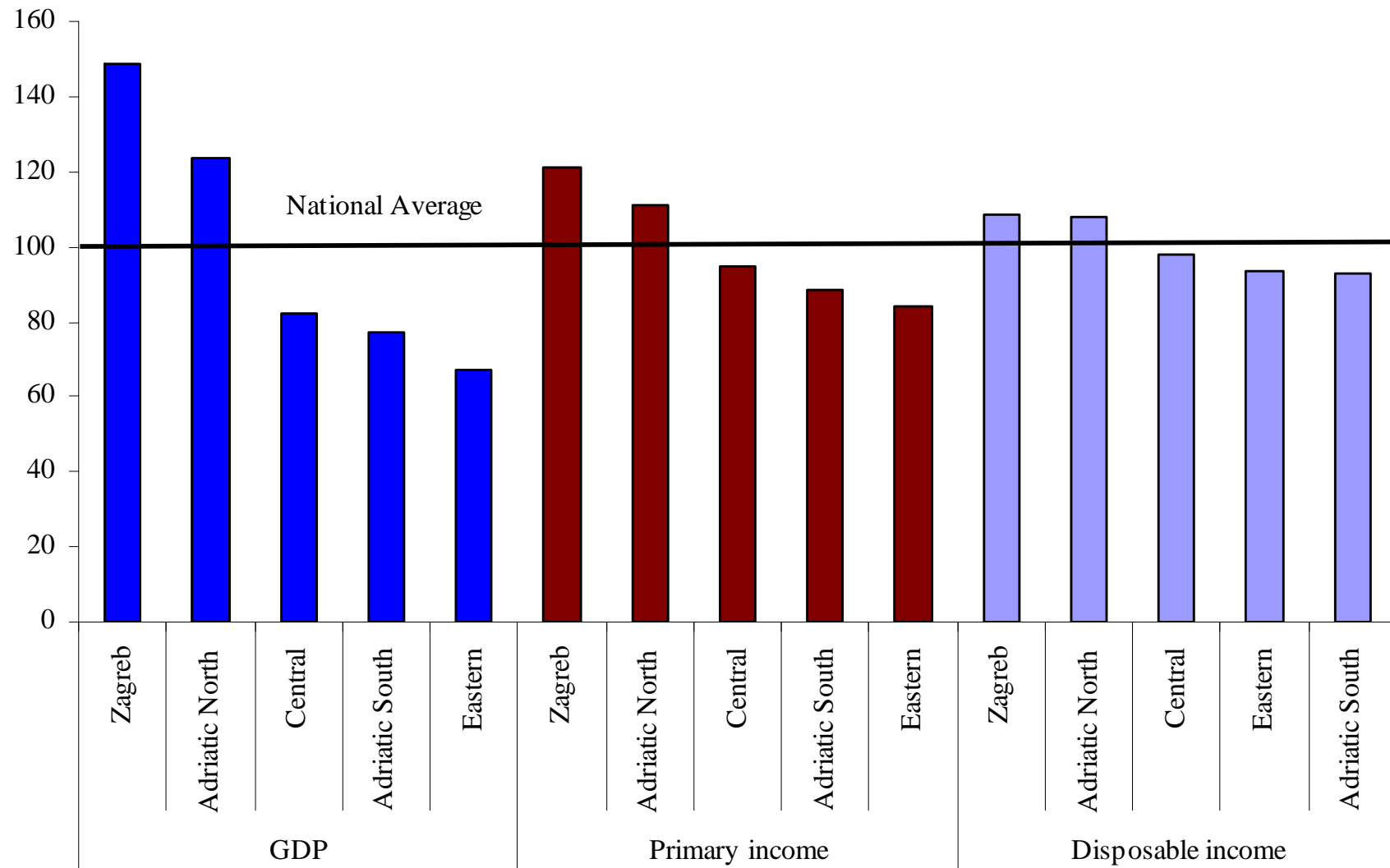
# While living conditions do vary across regions ...



**(i) Regional disparities lower than observed by other many countries**

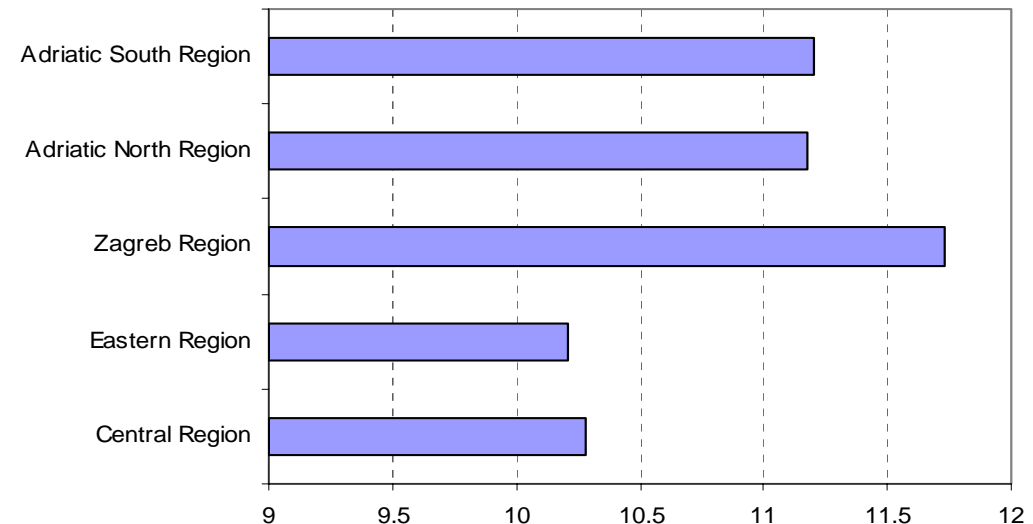
<b>Regional Variation in GDP per capita, selected countries</b>						
<b>Country</b>	<b># of units</b>	<b>Year</b>	<b>Poorest (Euro)</b>	<b>Richest (Euro)</b>	<b>Ratio</b>	<b>coefficient of variation</b>
Bulgaria	6	2002	1,701	3,054	1.79	0.26
France	22	2002	19,111	38,854	2.03	0.18
Spain	19	2002	11,214	23,077	2.05	0.20
Poland	16	2002	3,708	8,067	2.17	0.22
<b>Croatia</b>	<b>5</b>	<b>2003</b>	<b>3,983</b>	<b>8,799</b>	<b>2.21</b>	<b>0.35</b>
Italy	21	2002	13,697	32,279	2.35	0.26
Romania	8	2002	1,751	4,603	2.59	0.42
UK*	37	2002	17,268	45,028	2.60	0.23
Germany	41	2002	15,638	44,151	2.82	0.26
Turkey	26	2001	730	3,063	4.19	0.42
Russia	7	2003	1,129	5,743	5.11	0.58

## (ii) Taxes and Inter-regional transfers play an important role in redistributing incomes across regions



Part of remaining differences can be explained by differences in worker characteristics (e.g. age, education, employment status, etc.)

For instance, people in the central and eastern regions have lower educational attainment (i.e. average years of schooling) than those living in other regions



Analytical Region	Mean Monthly Earning ( <i>kunas</i> )	Share of difference explained due to factors
Adriatic South	3,524	31%
Adriatic North	3,498	28%
Zagreb	3,735	35%
Eastern	2,826	64%
Central	2,806	...

# Some Key Policy Implications

- Faster poverty reduction in Croatia and income convergence with Europe will require sustained rises in worker productivity and labor utilization
- Analysis suggests that developing human capital and upgrading skills should be one of the principle elements of Croatia's regional development strategy
- ROPS and local comparative advantage principle: Accord high priority to those initiatives that build upon commonalities across contiguous counties?

# The World Bank Support to Regionally Balanced Growth in Croatia

- Cross-cutting policy reforms for improving investment climate and reducing the size of public spending and taxes (PAL);
- Education reform for better quality outcomes and higher competitiveness of future labor force; as well as strengthening the links between R&D and business sectors to increase their competitiveness (Education / Science and Technology Loans);
- Social protection reform for better targeting and administrative simplification of social welfare programs; reform of health delivery system to provide better incentives for sustainable service delivery (PAL);
- Underdeveloped areas through revitalization interventions in social and economic sphere (Social Economic and Recovery Loan);
- Broadening access to water supply, sewerage, and more productive agricultural land usage and EU structural fund absorption (Coastal Cities; Agriculture Acquis Cohesion; Proposed Inland Waters);
- Energy Efficiency, District heating, and upgrade of Croatian ports /promoting transport corridor links (E.E/District Heating/ Ploce/Rijeka)

# **Social Economic and Recovery Loan- Targets Croatia's "Areas of Special State Concern"**

- ✓ **Social Inclusion**
- ✓ **Small Community Infrastructure**
- ✓ **Economic Revitalization**
- ✓ **De – mining**
- ✓ **TA /training targets CSOs, County and local/municipal government**

Investment selection criteria includes extra points for actions that cross counties

# Examples of Current World Bank Support to Regional Development

- Regional Development Strategies
  - Khazakhstan
  - Samegrelo, Georgia
- Maximizing Program Design Opportunities with EU Funds
  - Romania
  - Bulgaria
  - Lativa
  - Lithuania
- Lending support (combines capacity building and investments)
  - Community Driven Development
  - Rural, Urban, and Regional Development
  - Municipal Services
  - Integrated Support to Depressed Areas (ie Mining Areas)
  - Transport Corridor Projects
  - Local Government Support
- ECA Learning “Year of Regional Development” – Included Study of International Benchmark Cases and Learning from our Ongoing Investments
  - Country-wide - Italy, Ireland, South Korea
  - Regional Initiatives - North East England, South Carolina, USA
  - Municipal Cases- Bilbao, Spain and Poland