Report Number : ICRR0021266

1. Project Data

Project ID P145171	**Project Name** SOCIAL PROTECTION SYSTEM MODERNIZATION	
Country Croatia	**Practice Area(Lead)** Social Protection & Labor	
L/C/TF Number(s) IBRD-84260	**Closing Date (Original)** 31-Dec-2018	**Total Project Cost (USD)** 6,980,635.84
Bank Approval Date 19-Sep-2014	**Closing Date (Actual)** 30-Nov-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	95,550,000.00	0.00
Revised Commitment	9,176,574.47	0.00
Actual	7,425,401.67	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The development objective of the project as stated in the Project Appraisal Document (PAD) and the Financial Agreement was to improve the efficiency and effectiveness of Croatia’s social protection system.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Improving Efficiency and Effectiveness of the Social Protection System (International Bank for Reconstruction and Development [IBRD] planned DLI-linked disbursement EUR 50 million, actual DLI-linked disbursement EUR 4 million). This component was to use a results-based approach where Disbursement-Linked Indicators (DLIs) triggered payments against Eligible Expenditure Programs (EEP). The component was to support four thematic areas:

Thematic Area 1: Consolidation of Benefit Administration and Simplification of Procedures (Planned disbursement EUR 20 million, actual disbursement EUR 0). This thematic area aimed to consolidate cash administration for social welfare programs into a single delivery network, the One-Stop Shop (OSS), with the purpose of reducing the time and cost of application for beneficiaries, generating fiscal savings from the introduction of a cap on total social assistance benefits, and lessening work disincentives. The associated DLIs were: administration of the Guaranteed Minimum Benefit program transferred to the OSS (DLI1); administration of the Child Allowance program transferred to the OSS (DLI2); administration of the noncontributory Maternity/Paternity allowances and Birth Grants transferred to the OSS (DLI 3); administration of the Unemployment Benefit program transferred to the OSS (DLI4).

Thematic Area 2: Unifying and Harmonizing the Certification of Disability (Planned disbursement EUR 4 million, actual disbursement 2 million). This thematic area aimed to create the Central Disability Certification Institute (CDCI) to improve transparency in the certification process, leading to horizontal equity and higher client satisfaction. The associated DLIs were: CDCI legally established and adequately staffed, and unified disability certification methodology adopted by the Government (DLI5); CDCI operating independently, including disability certifications processed centrally, unified disability certification procedures applied, and regional office network and independent information technology system established with interfaces to OSS and other agencies (DLI 6).

Thematic Area 3: Reducing Error, Fraud and Corruption (EFC) (Planned disbursement EUR 9 million, actual disbursement EUR 0). This thematic area aimed at developing a comprehensive system to reduce the level of error and fraud in the social protection system. The associated DLIs were: EFC strategy approved and disseminated by the Government, and Action Plan adopted and disseminated by the Ministry of Labor and Pensions Systems (MLPS) and the Ministry of Social Policy and Youth (MSPY) (DLI 7); minimum effective EFC capacity in place in MSPY and/or MLPS or any of their implementing agencies and CDCI (DLI 8); inspections of risk-prone programs carried out to correct the list of irregularities resulting from cross-checks between the management information systems of these programs and the databases of the Tax Administration, Croatian Pension Insurance Institute, Croatian Employment Service, MLPS, MSPY, and the Civil Registry (DLI 9); inspections of risk-prone programs carried out to correct beneficiary cases with higher risk scores, determined through analytical risk profiling (DLI 10).

Thematic Area 4: De-institutionalization of Vulnerable Children and Adults (Planned disbursement EUR 17 million, actual disbursement EUR 2 million). This thematic area aimed at transferring vulnerable children and adults from institutional care to family-type environments. The associated DLIs were: Operational Plan for Transformation and Deinstitutionalization of Social Welfare Homes 2014-2016 adopted by MSPY and published (DLI11); 210 beneficiaries living in state and non-state institutions or family homes moved from institutions to family-type environments (DLI 12); additional 225 beneficiaries living in state and non-state institutions or family homes moved from institutions to family-type environments (DLI 13); additional 280 beneficiaries living in state and non-state Institutions or family homes moved from institutions to family-type environments (DLI 14).

Component 2: Investments and Technical Assistance to Support Improvements in Efficiency and Effectiveness of the Social Protection System (IBRD planned EUR 19.4 million, actual EUR 1.83 million). This component aimed at supporting technical assistance for the aforementioned thematic areas through a regular investment project financing approach. In addition, it was to support the Croatian Employment Service in developing a statistical profiling model to identify clients at risk of long-term unemployment.

Component 3: Project Management Support (IBRD planned EUR 0.6 million; actual EUR 0.49 million). This component aimed at covering operating expenses for the Project Implementation Unit (PIU).

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Costs, Financing, Borrower Contribution, and Dates: The project was approved in September 2014 and became effective in December 2014. Total project costs were estimated at US$ 95.55 million (EUR 70 million) at appraisal to be financed by an IBRD loan. There was no borrower contribution.

After two national elections in 2015 and 2016, and resulting political uncertainty around the project's objectives, the new administration that took office in October 2016 requested the early closure of the project and cancellation of the undisbursed loan amount in July 2017. The reason behind the loan cancellation was a change in the strategic vision on the OSS and subsequent decision not to proceed with it. The project was then restructured in November 2017 having disbursed only US$ 7.43 million (EUR 5.44 million) (ICR p. 2). The project’s closing date was advanced to November 30, 2017 (13 months earlier than planned), and final disbursement was US$ 7.43 million (EUR 6.32 million, with differences due to exchange rate fluctuations).

3. Relevance of Objectives

Rationale

The project's objectives were consistent with Bank and country strategies at appraisal, but they lost relevance to country priorities during implementation.

Pillar 1 of the Croatia Country Partnership Strategy FY14-17 related to public finance and the need to promote fiscal consolidation consistent with the expected fiscal savings derived from the project. Pillar 3 emphasized European Union (EU) financial support for activation and de-institutionalization as a way of maximizing the benefits of Croatia's EU membership.

At appraisal, the objectives were relevant to the Government's strategy of long-term fiscal consolidation reforms, including the modernization of social welfare programs into an OSS, as reflected in the 2014 National Reform Program (NRP). After parliamentary elections in 2015, however, the 2016 NRP established a new proposal on the structure of the single delivery network, and the 2017 NRP abandoned the concept of consolidation of social assistance programs and focused instead on the strengthening of existing information systems for different social benefits (ICR p. 48).

Rating

Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve the efficiency of Croatia's social protection system

Rationale

Efficiency was to be achieved by reducing fragmentation in the delivery of social assistance cash transfers, harmonizing certification procedures for disability pensions and allowances, and reducing error and fraud in social protection programs.

• The strategy of consolidating administration of social benefits into an OSS was abandoned. DLIs were not met, so there was no disbursement. Private costs for social assistance beneficiaries and unemployed were not reduced, thus not achieving the target of 15% reduction.
• The CDCI was established (DLIs 5-6). Initial activities focused on
funding information technology procurement, design of business processes for the Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disabilities (IDCPREPD), training in certification methodology, and small office renovations. But the new administration froze investments until a review of business practices was conducted, and this review was never initiated; instead, the IDCPREPD engaged in self-development of fragmented business, in contrast to the project design. The percentage of cases certified by IDCPREPD's full-time certifying officers was 77%, falling short of the 90% target.
• Technical assistance included financing of a study tour to the United Kingdom and support for the development of a strategy for combating EFC in social benefits, which was approved by the government in November 2015. An action plan was subsequently developed and approved by the World Bank team in late

2016. However, the plan was not adopted by the new government. The project achieved piecemeal, partial EFC actions aimed at a limited set of social protection programs, much like the situation at the beginning of the project.

- There were no fiscal savings, meaning that the target of 0.5% of GDP savings was not met.

Rating
Negligible

Objective 2

Objective
To improve the effectiveness of Croatia's social protection system

Rationale
Effectiveness was to be achieved by increasing the uptake of benefits, reducing the number of children and adults in residential institutions, and supporting activation of work-able social assistance beneficiaries.

- The project disbursed EUR 2 million against the DLIs for Thematic Area 4. The national deinstitutionalization team supported the preparation of social welfare institution transformation plans in order to receive EU financing. Three institutions that have advanced the transformation process and had their transformation plans approved have received financing from the EU to support the implementation of their transformation plans. 1374 vulnerable children and adults were moved from institutions to family-type care environments, exceeding the target of 715 (DLIs 11-14). However, this achievement cannot be classified as genuine progress, as the number of deinstitutionalized persons is offset by an even larger number of people who entered institutions during the same period (ICR p. 14). Institutions were not closed as planned, and in most cases new individuals were accepted into institutions to replace the ones who left (ICR p. 45).
- Work activation of the inactive and unemployed was the area marking the best progress. The project supported the Croatian Employment Service in developing a statistically-assisted profiling model, with a pilot starting in March 2017. An impact evaluation with a randomized design was carried out. The ICR did not provide further detail on the findings of the impact evaluation.

Rating
Negligible

Rationale

The project was barely implemented, and its intended outcomes were not achieved. The project did not disburse on the majority of its DLIs. Only two DLIs were achieved, disbursing EUR 4 million out of the planned EUR 50 million beyond technical assistance.

Overall Efficacy Rating
Negligible

Primary reason
Low achievement

5. Efficiency

Cost-effectiveness: Neither the PAD nor ICR calculated a Net Present Value or Economic Rate of Return of the project's investments. Following the OPSPQ 2013 Guidance Note on Economic Analysis, the PAD discussed the project's development impact, the rationale for public sector involvement, and the value added of the Bank's support. According to a simulation model, overall cost savings expected under the project were estimated be on the order of 0.5% of GDP (due to the introduction of a stronger gate-keeping in CDCI and the strengthening of the EFC, which more than compensated for increased expenditure due to higher coverage and up-take of social programs). Also, the poverty headcount was expected to fall by 0.4% (PAD p. 21). The ICR updated the discussion on the project's impact, stating that the dropping of the OSS and the failure to introduce strict means testing for child allowances prevented the realization of expected economic results (ICR p. 44). Thus, the benefits of the project in terms of cost savings due to improved targeting, OSS, reduced duplication, and so on, did not materialize (ICR p. 14). In addition, any expected poverty impacts from the OSS did not materialize (ICR p. 46).

Qualitative efficiency: Project preparation followed a standard timeline. Originally, the plan was to establish the PIU in the Ministry of Public Administration (MPA), and all members would have been public servants, with no additional administrative cost to be financed through the project. However, in June 2014 the government decided to shift implementation responsibility to the MSPY. As there was limited capacity in the MSPY to establish a PIU, in coordination with the World Bank it was decided that PIU members would be hired as consultants, and all their expenses would be covered from the project management component. This shift may explain the relatively high project management expenditures. Despite about 91% of the loan having been cancelled, project management costs remained at 82% of the appraisal estimate (EUR 0.49 million out of a planned EUR 0.6 million). The moving of the PIU from the MPA to the MSPY may have signaled problems with commitment and coordination and delayed implementation, which was supposed to start under the Project Preparation Advance.

Efficiency Rating
Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objectives was modest due to misalignment with country priorities at closing. More than 90% of the original loan amount was cancelled, affecting the project's implementation and ability to meet its development objectives. Project benefits were negligible, while project management costs remained high. Negligible efficacy and efficiency dimensions indicate severe shortcomings, resulting in a Highly Unsatisfactory outcome rating.

a. Outcome Rating

Highly Unsatisfactory

7. Risk to Development Outcome

The risk to development outcome, that is, the risk that development outcomes will not be maintained or realized, is non-evaluable because project's objectives were not achieved due to the cancellation of the operation. It is very unlikely that the social protection system will increase its efficiency and effectiveness in the absence of reforms such as those proposed by this operation.

8. Assessment of Bank Performance

a. Quality-at-Entry

The operation was an ambitious modernization project whose design was grounded on previous and existing operations and analytical work (e.g. the Social Welfare Development project, Public Finance Review, previous technical assistance to the NRP, and an Economic Recovery Development Policy Loan series). The project's design was complex and involved a mix of investment project financing with a results-based component. The use of DLIs was seen at project preparation as an entry point for a more comprehensive reform of the social protection system. However, the ICR stated that, in retrospect, the choice of a simpler investment project financing instrument could have allowed more flexibility to restructure or respond to political and implementation challenges (ICR p. 16).

In addition, the ICR recognized that the political risk was underestimated. The PAD correctly noted that some parts of the administration might resist the proposed reform, and that the negotiating government was politically in exit mode. However, these risks were not considered high. Once they materialized and the government's commitment to some of the policy reforms dropped, the objectives' relevance was diminished and the project was discontinued (ICR p. 17).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The project's task team leaders were based in the field and proactively supported the project's implementation. When political risk materialized under the new government administration, the project team explored opportunities to restructure. For example, between January and June 2017, when it was already clear that the OSS activities were to be removed, the Bank was open to discussing options for continuing the project through restructuring and changes to its implementation modality. However, these efforts were not successful, and two years after effectiveness, the Croatian government decided to request the closing of the project. Given the government's stance, there is little more the Bank team could have done during implementation to improve project outcomes.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's results framework included five key outcome indicators with complete baseline and target values, data sources, and responsibilities for data collection. In general, the selected indicators were appropriate measures of achievement of the project's objectives, although indicator #3, related to the reduction of EFC, was of a qualitative nature. Also, indicator #4 on de-institutionalization should have been measured in net terms (that is, the number of people transferred out minus newcomers). Intermediate outcome indicators comprised the 14 DLIs associated with thematic areas (see Section 2d), as well as indicators for project direct beneficiaries and activation.

b. M&E Implementation

The ICR stated that the MSPY oversaw M&E activities, reporting on budget execution of the EEP and submitting project implementation reports to the World Bank semi-annually. Reports on monitoring of results, however, were not systematically shared with the Bank, but instead upon request ahead of missions. Because of limited implementation progress, reporting on DLIs was also limited, and thus the monitoring of the thematic areas was never fully developed before the project was prematurely closed.

c. M&E Utilization

Because of the limited implementation, M&E arrangements also largely remained unutilized. One exception was the activation area, where the information tools supported by the project were used on the ground. Specifically, a statistical profiling model that estimated the probability of employment over the next 12 months for newly registered unemployed beneficiaries was piloted in two regional offices.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was rated Environmental Assessment category B and triggered the Environmental Assessment safeguard (OP/BP 4.01) because of the expected minor rehabilitation of buildings within their existing blueprint under the OSS and CDCI thematic areas. The project did not intend to finance new construction. The Physical Cultural Resources (OP/BP 4.11) safeguard was also triggered, as the buildings to be renovated were predominantly in urban and possibly historic areas.

While there was not an explicit statement of safeguard compliance, the ICR stated that because of the limited disbursement and implementation there were no implemented activities that would require the application of such safeguards.

b. Fiduciary Compliance

Financial Management: The PIU under the MSPY had adequate capacity in terms of staffing and project management. All financial audit reports were submitted on time and were found acceptable. In addition, the PIU submitted adequate interim unaudited financial reports to the World Bank on biannual basis.

Procurement: Procurement was rated satisfactory in the final implementation report. Procurement activities were carried out in accordance with Bank guidelines, the Loan Agreement, and the Procurement Plan.

c. Unintended impacts (Positive or Negative)

None reported.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Unsatisfactory	Highly Unsatisfactory	Efficiency is rated Negligible due to negligible benefits and high administrative costs.
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Modest	Modest	---
Quality of ICR		Substantial	---

12. Lessons

The following lessons from the project are based on the ICR (p. 22):

- Regarding the instrument chosen, successful implementation requires that policy changes be linked firmly to carefully considered prerequisites. A results-based approach based on disbursement-linked indicators (DLIs) needs to stipulate straightforward and concrete steps for DLIs. In the future, project designs with a strong reform component should be based on changes initiated before the start of project implementation.
- Projects entailing reforms with complex networks of stakeholders are dependent on appropriate mechanisms to address institutional setup and mitigate possible communication and subordination issues that may affect project implementation. This operation included five ministries and several agencies under those ministries, and given the history of weak coordination, it was likely that some parts of the administration could oppose the proposed changes.
- Political risk analysis can be a powerful tool for assessing political readiness and the power of stakeholders that are responsible for pushing through policy reforms, as well as setting mechanisms to mitigate risks. In this case, the negotiating government was politically in exit mode at appraisal, and the new administration's commitment to some of the policy reforms dropped, leading to project cancellation. Policy reforms need a clear institutional champion and sufficient political backup across various parts of the political spectrum (both the government in power and the opposition).

13. Assessment Recommended?

No

14. Comments on Quality of ICR

Overall the ICR was clear and concise. It provided a candid description of the implementation challenges and political risks affecting the project. It offered a critical assessment of the type of lending instrument chosen and the limitations that instrument may have placed on project restructuring options. In addition, the presentation of the project's theory of change was strong and well detailed, and the relationship between the shifted approach to benefits administration and the theory of change was explained thoroughly. However, the ICR could have described more extensively the limited activities/outputs that were implemented. In addition, the efficacy discussion focused more on achievement of thematic areas than on achievement of the actual objectives.

a. Quality of ICR Rating
Substantial