

# IEG ICR Review

Independent Evaluation Group

<b>1. Project Data:</b>		<b>Date Posted :</b> 05/20/2014	
<b>Country:</b>	Croatia		
<b>Project ID:</b>	P091715	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Agricultural Acquis Cohesion Project	<b>Project Costs (US\$M):</b>	48.51 38.42
<b>L/C Number:</b>	L7360	<b>Loan/Credit (US\$M):</b>	30.14 29.97
<b>Sector Board:</b>	Agriculture and Rural Development	<b>Cofinancing (US\$M):</b>	4.75 4.75
<b>Cofinanciers:</b>	Dutch Grant	<b>Board Approval Date :</b>	02/16/2006
		<b>Closing Date :</b>	10/31/2010 07/31/2012
<b>Sector(s):</b>	Central government administration (50%); Agricultural extension and research (28%); Agro-industry marketing and trade (22%)		
<b>Theme(s):</b>	Regional integration (29% - P); Export development and competitiveness (29% - P); Rural policies and institutions (14% - S); Rural markets (14% - S); Administrative and civil service reform (14% - S)		
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>ICR Review Coordinator :</b>	<b>Group:</b>
Ebru Karamete	Ridley Nelson	Christopher David Nelson	IEGPS1

## 2. Project Objectives and Components:

### a. Objectives:

A single ICR was prepared for the two projects : the IBRD financed Agricultural Acquis Cohesion Project (P091715) and the GEF financed Agricultural Pollution Control Project (P100639). The ICR's ratings for relevance, efficacy, efficiency and outcome were separate for each of these operations . As it is difficult to combine the ratings, this ICR review is prepared only for the the Agricultural Acquis Cohesion Project and a separate ICR review is carried out for the Agricultural Pollution Control Project.

The project development objective stated in the loan agreement ( p. 20) was "to develop sustainable systems and capacities within the Ministry of Agriculture Forest and Water Management and other public institutions to ensure timely compliance with EU acquis conditions in the rural sector".

The Project Appraisal Document statement of objectives ( p. 3) was slightly different: 'to develop sustainable systems and capacities within the Ministry of Agriculture Forest and Water Management to ensure timely compliance with EU acquis conditions in the rural sector.'

This Review uses the Loan Agreement version .

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

No

### c. Components:

1. Strengthen Capacity for Absorbing EU Financial Assistance in Agriculture (appraisal estimate : US\$ 17.40

**million, actual : US\$ 13.26 million)**

This component aimed to support the establishment of a European Union's Special Accession Program for Agriculture and Rural Development (SAPARD) implementing three of the SAPARD rural development measures : (i) finance establishing SAPARD Managing Authority within the Ministry of Agriculture; (ii) provide technical assistance and finance the investment and operating costs of the Paying Agency, as well as establish a comprehensive Integrated Administration and Control System that would build off an improved farm registry; (iii) support a pre-finance facility by using the Bank loan proceeds as a cash reserve for guarantees issued under the Facility to cover the risk of failure of municipalities in fulfilling SAPARD disbursement conditions . Support for construction of the Paying Agency offices was reoriented later on and instead project support focused on establishment of the Land and Parcel Information System that was managed by the Paying Agency . Also SAPARD pre-finance facility was dropped and funds were reallocated due to long delays in its implementation .

**2. Empowerment of the Ministry of Agriculture, Forestry and Water Management (appraisal estimate : US\$ 6.60 million, actual US\$ 7.08 million)**

Investments under this component aimed to address gaps in the Ministry's management and administration capacity, information technology, and institutional structures that are necessary for the effective functioning of the Ministry and conditional to EU accession . This would include development of a comprehensive Farm Register and pilot Farm Accounting Data Network. The component also aimed to establish a management information system for the Ministry of Agriculture Forestry and Water Management, built on government introduced *SAP* software that addressed the needs of the Integrated Administration Control System and the Ministry of Agriculture Forestry and Water Management's financial and administrative management information system (MIS) requirements.

**3. Ensuring Safe Food and Sanitary and Phytosanitary Conditions (appraisal estimate : US\$ 17.49 million, actual US\$ 16.60 million)**

This component aimed to support the development of the Croatia Food Agency and create the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements . This included establishing a consolidated, transparent, efficient, and risk-based food safety program. The component also aimed to establish regionally structured, effective veterinary and phytosanitary inspection services supported by investments in staff capacity building, transportation, testing equipment, a web-based inspection reporting, certification and data management system and civil works and office equipment at up to five regional centers .

**4: Project Management (appraisal estimate : US\$ 0.84 million, actual US\$ 0.62 million)**

A small implementation team within the Ministry of Agriculture, Forestry and Water Management Department for Policy, EU and International Relations was to manage the project . The implementation team was to include a Project Manager, Financial Controller, Procurement Officer and an administration /secretarial support person . Project impact monitoring was to be contracted out.

Project components were co-financed through a US\$4.75 million Dutch Grant supporting strengthening of the administration and management capacity of the staff of the Ministry of Agriculture, Forestry and Water Management and associated institutions to comprehensively implement the *acquis communautaire* concerning the EU Common Agricultural Policy during pre-accession. Three amendments to the Administrative Agreement were made to reflect the extensions of the project closing dates and the inclusion of stipulation for the training of Croatian farmers and farmer associations to facilitate their understanding of the process and requirements of the EU agriculture *acquis* and EU accession requirements . More than 80 farmers' associations (1800 farmers in total) benefitted from the training and study tours to 15 European countries to exchange experience with their European counterparts .

**d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

**Project Costs :**

Total actual costs of US\$ 38.34 million were less than the appraisal estimate of US\$ 48.51 million . A reallocation of funds took place in June 2010, which reallocated funds from categories that had savings towards construction of the Plant Protection Institute laboratory and regional veterinary facilities . Given that the counterpart financing had been dropped and most activities financed after this restructuring were financed 100 % from loan funds, a second reallocation of resources along with extension of project closing date was done in December 2011 and this reallocation aimed to complete outstanding works and furnishings of the laboratory and veterinary institute .

**Financing :**

The actual disbursement from the Loan was US\$ 29.97 million, slightly less than the original Loan amount of US\$ 30.14 million. A Dutch Grant (TF056498) provided US\$ 4.75 million which was completely disbursed, The Grant was provided by the Netherlands Ministry for Development Cooperation in October 2006.

**Borrower Contribution :**

It was expected at appraisal that the Borrower would provide US\$ 13.62 million but the actual contribution was US\$

3.7 million. The borrower had requested an increase of percentage of expenditures to be financed by the loan from the original 85 % to 100 % for works and local goods categories in July 2010 due to financial and economic crisis in the country.

**Dates:**

On June 23, 2010 the original closing date of October 31, 2010 was extended 16 months to February 28 2012. On December 28, 2011, the closing date was extended a second time to July 31, 2012.

**3. Relevance of Objectives & Design:**

**a. Relevance of Objectives:**

**Substantial**

The project development objective was, on balance, substantially relevant to country priorities and sector strategies although it was broad, a point that is taken up below under Relevance of Design . Croatia's candidate status to the EU was confirmed in April 2004 and at the time of project preparation, the Government of Croatia was actively working to comply with EU requirements and obligations . The Government faced substantial challenges in meeting these requirements, particularly in the agricultural and rural sectors, that had been deeply affected by the turbulent years of the past decade where, war and diplomatic isolation from Western Europe inhibited structural adjustment and agricultural growth. The area of food safety, food quality and consumer confidence continued to be an issue . Food safety regulations and quality standards did not match European Union requirements and the Croatian food industry was generally unprepared for the competitive environment of the European Union common market . Croatian producers lacked information on the EU sanitary standards as well as the training, skills, technologies and services needed to meet the relevant hygiene, environmental, and animal welfare requirements that were the pre -conditions for access to European markets .

Croatia was being supported by the European Union through various programs in its accession efforts . However, there were significant funding gaps that would constrain progress if unaddressed . The levels of European Union funding that had historically supported the European Union's Special Accession Program for Agriculture and Rural Development (SAPARD) preparation in accession were not available to Croatia and the time -frame for implementation was less than half of that afforded to past SAPARD beneficiaries . Also, adoption of financial mechanisms in the payment of agricultural subsidies under the European Union's Common Agricultural Policy was needed. The Government requested World Bank assistance to fill specific gaps that would contribute to the Ministry of Agriculture Forestry and Water Management's overall preparedness to fulfill the implementation requirements for European Union accession. The project objective of developing sustainable systems and capacity within the Ministry of Agriculture, Forest and Water Management and other public institutions to ensure timely compliance with European Union acquis conditions in the rural sector was consistent with the country priorities .

The project objectives were consistent with the Bank 's Country Assistance Strategy for Croatia (FY 09-12), specifically Pillar 2, Strengthening private Sector-Led Growth and Accelerating European Union Convergence .

**b. Relevance of Design:**

**Modest**

The design had shortcomings . The project had a very broad objective which did not adequately reflect the fact that it played a partial and complementary role along with the EU accession programs . The project components tried to address gaps related to European Union acquis conditions, such as implementing measures under the European Union's SAPARD program, addressing gaps in the Ministry of Agriculture, Forestry and Water Management's management and administration capacity; and development of the Croatia Food Agency for compliance with European Union sanitary and phytosanitary requirements . However, the objective of developing sustainable systems and capacities in public institutions to ensure timely compliance with European Union acquis conditions was influenced by many other factors and cannot be directly attributable to project activities alone . Therefore, it is difficult to discern a logical results chain in the design .

**4. Achievement of Objectives (Efficacy):**

The achievement of the project development objective of developing sustainable systems and capacities within the Ministry of Agriculture, Forestry and Water Management and other public institutions to ensure timely compliance with EU acquis conditions in the rural sector, was rated, **substantial**, but on balance, noting that the achievements can only be partially attributed to the project.

**Outputs :**

- Support provided for the development of the Land Parcel Information System (LPIS): supply and installation of application software package, technical services for producing digital orthophoto maps, and geodetic cadastral services for production of digital cadastral maps .
- Support provided for the Paying Agency in terms of staff training, office furniture, vehicles, IT equipment and software.
- The Ministry of Agriculture's Information and Communications Technology was strengthened . The details was not provided by the ICR .
- The Ministry of Agriculture's staff trained on EU policies, farm accountancy data network and management .
- EU compatible rapid alert system for food and feed was developed .
- Finance provided for construction of Genetically Modified Organisms laboratory, which is now fully operational .
- Support provided for refurbishment and equipment of National Veterinary Institute regional laboratories .
- Support provided for strengthening capacity of phytosanitary and agricultural inspections .
- Financed construction of Plant Protection Institute building .
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#### **Intermediate Outcomes :**

The following intermediate outcome indicators were achieved and targets were met :

- SAPARD (European Union's Special Accession Program for Agriculture and Rural Development ) Managing Authority, Monitoring Committee and Payment Agency are established .
- Croatian sanitary and phytosanitary management systems are European Union /World Trade Organization compliant and regionally based .
- The departments use electronic databases . Operational phytosanitary info system was delivered, and veterinary info system in a final stage of implementation with conditional operational acceptance issued .
- The Ministry of Agriculture staff able to implement EU acquis communautaire . Staff were trained and capacity built to implement EU acquis communautaire in rural sector and meet the demands of EU compliant agricultural policy.
- 115 SAPARD /IPA facilitators were trained and working profitably .
- Sanitary and animal health inspections are implemented by separate services .
- On the disbursements of the Pilot SAPARD pre-financing facility for SAPARD measures, this indicator was dropped along with the activity as part of June 2010 restructuring.

#### **Outcome :**

The PDO indicator, " Croatia completes negotiation of its EU accession agricultural chapter " was fully achieved implying the compliance with EU acquis conditions called for in the objectives . Chapter 11 on Agriculture and Rural development closed in December and Chapter 12 on Food Safety, Veterinary and Phytosanitary Policy closed in mid-April 2011. However, although the outcome in terms of the acquis achievement was attained there are questions about how much of this achievement is attributable to the project as the project was part of an overall EU, other donor and government support effort.

### **5. Efficiency:**

#### **Modest**

No financial or economic analysis was made at appraisal or at completion on the grounds that a large share of the project resources were allocated to institutional development (PAD p. 13). The ICR stated (p. 17) that the project contributed to developing the platform from which Croatia could access substantial European Union Common Agricultural Policy funds and provided the basis for open trade of food products with the European Union . The ICR argued that the project provided the potential to yield large benefit streams from the investments made . However, these streams would not be the sole result of this project but from a number of interventions including most importantly the European Union. Given the difficulty in separating the various investments from the various donors supporting Croatia's successful negotiations with EU on agriculture and rural development chapters, no quantitative analysis was made.

However, the ICR could easily have provided a cost benefit analysis for the laboratory investments made under Component 3, by comparing the costs and benefits of contracting with external labs and upgrading to EU standards . Indeed, this important subject is not discussed at all by the ICR under the efficiency section, although mentioned under the M&E section (p. 12). It is questionable whether it was efficient to build/renovate new laboratories up to the EU standards rather than to continue to contract out to external labs . The ICR stated that (p. 12) "Croatia was able to negotiate with the EU mainly relying on contracts with external accredited laboratories for much of its plant and plant by-products testing. This practice is perfectly acceptable from the stand point of EU requirements, but poses a question on the significant laboratory investments made under this project in GMO and Plant Protection, even though they do present strengthened local capacity to implement EU food safety regulations in the future with accreditation processes currently underway". The project team subsequently stated that the project brought the plant protection

Institute laboratories scattered around the country under one roof, bringing economies of scale also . However, this does not show that the option chosen was more cost effective than contracts with external laboratories .

The ICR argued that the project was cost effective because it filled gaps and was complementary in its investment, contributing to a greater whole that brought more benefits than the sum of its individual parts . But the case of the laboratories does not support this .

There were also some administrative inefficiencies . The project was extended twice from the original closing date of October 31, 2010 to July 31, 2012. One important reason for the delays was lack of institutional clarity on key project pieces including the support to the National Veterinary Institute . There were also long lead times by the Bank to provide no-objections. Another reason for the extension, which was out of the project's control, was that the project was closely coordinated with EU pre-accession programs and the process of accession took several years longer than intended by the European Union . This meant that some support programs under the project were delayed . Significant components such as the pre-finance facility had to be dropped altogether due to delays .

Due to lack of quantitative analysis, particularly related to Component 3 activities (laboratory investments), as well as attribution questions and administrative inefficiencies, efficiency is rated modest .

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

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

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

**6. Outcome:**

The relevance of objectives is substantial on balance, despite the broad objective, given the relevance to country priorities, however relevance of design is rated modest due to shortcomings in the logic of the results chain . Efficacy is rated, on balance, substantial but there were questions about attribution . Efficiency is rated modest due mainly to lack of quantitative analysis particularly for Component 3 activities (laboratory investments), attribution questions, as well as some administrative efficiency issues .

**a. Outcome Rating :** Moderately Satisfactory

**7. Rationale for Risk to Development Outcome Rating:**

This review concurs with ICR's risk assessment (p.19), The institutional changes supported by this project fit into the broader framework necessary for European Union accession and membership . The institutions supported by the project can be expected to have adequate resources from EU to function and fulfill their mandate .

**a. Risk to Development Outcome Rating :** Moderate

**8. Assessment of Bank Performance:**

**a. Quality at entry:**

The project was the first in a series of projects in the region aiming at developing the institutions and systems required for European Union accession in agriculture by complementing EU pre-accession funds. Although it is not presented in the ICR, such projects typically aimed to complement the European Union -funded Technical Assistance with Bank financing for infrastructure and equipment to improve institutional capacity to deliver public support to the agricultural sector. The European Union pre-accession funds focused on Technical Assistance, thus leaving the necessary investments in hardware (infrastructure, equipment, etc.) unfunded. While it should have been largely clear upfront what gaps would need to be filled, later on some of the project activities had to be reoriented or cancelled (e.g. support to Paying Agency and cancellation of pre-accession facility). This raises questions about whether there was sufficient analysis at entry of what would constitute productive complementary activities rather than simply provide a fund for filling emerging gaps on an ad hoc basis . Furthermore, as noted in Section 3b, the PDO was very broad, beyond the control of the project . The linkage between the PDO and the project activities was not clear . Support for EU accession was intended but the project also helped in completing some activities that had been identified under the IBRD -financed Farmers Support Services Project that preceded this project (including laboratory investments at the Seed and Seedling

Institute and the Plant Protection Institute). These were not critical for EU accession).

The project was to be substantially prepared via funds from a Project Preparation Facility (PPF). A number of delays led to lower expenditure than was projected and the time frame of the PPF was extended by 12 months. However, the PPF did provide key support to the Ministry in its program for European Union integration.

At appraisal, relatively few risks were anticipated in the implementation of the project and those that were anticipated were in general estimated to be moderate. The risk that was not foreseen was that the accession could be significantly delayed and linked European Union programs could similarly be delayed. Indeed, as noted earlier (3b), an important design shortcoming was the selection of a very broad objective (i.e. 'timely compliance with EU acquis') that could be affected by many other factors while the project activities would only partially serve to achieving that objective.

Due to issues with the results framework and clarity of design, the quality of entry rating is moderately unsatisfactory.

**Quality-at-Entry Rating :** Moderately Unsatisfactory

**b. Quality of supervision:**

The ICR (p. 20) reported the following points in terms of quality of supervision: The project had four different Task Team Leaders which led to a lack of continuity in supervision. There were two project restructurings to accommodate for the changes in financing priorities. There were also some delays in the Bank's responsiveness to the client's requests for no objection. One major shortcoming was that the Bank team did not attempt to refine the results framework, particularly to revise the PDO.

**Quality of Supervision Rating :** Moderately Satisfactory

**Overall Bank Performance Rating :** Moderately Satisfactory

**9. Assessment of Borrower Performance:**

**a. Government Performance:**

The ICR reported that (p. 21) the project benefitted from Government's consistent support. However, the Ministry did not always utilize the opportunities that the project provided to adjust its policies towards more fiscal sustainability, better targeting of its agricultural support, and more environmentally sustainable farming practices. No other information was provided by the ICR.

**Government Performance Rating** Moderately Satisfactory

**b. Implementing Agency Performance:**

ICR reported that (p. 21) the Implementation team was very pro-active and it is in large part responsible for the overall positive outcomes achieved. No other information provided in the ICR.

**Implementing Agency Performance Rating :** Satisfactory

**Overall Borrower Performance Rating :** Moderately Satisfactory

**10. M&E Design, Implementation, & Utilization:**

**a. M&E Design:**

As mentioned in the Relevance of Design section, the results matrix had a shortcoming in terms of linkages between objective and the intermediate outcome indicators. The single outcome indicator was the successful conclusion of the negotiations of Croatia's agricultural chapters with the European Union. However although this indicator was linked to the objective, successful negotiations with EU did not depend on the project alone. Also, out of the 13 intermediate indicators, some had only an indirect link to the project development objective.

### **b. M&E Implementation:**

According to the ICR (p.12), M&E data included the expected and actual procurement of works, goods and services, progress of consultancy assignments, staff training etc . for each component. M&E used linked Excel spreadsheets to record plan and actual data developed from the database file provided by Project Implementation Unit. Two of the results indicators required the collection of specific additional data (staff surveys) which the M&E consultant carried out. Prior to project completion the M&E consultant carried out an assessment of project impact in order to assess the extent to which the agricultural sector is able to capture benefits accruing from accession to the EU. Three field surveys were conducted in 2009, 2011 and the final one in 2012. The team subsequently clarified that the impact assessment and the field surveys were only related to the GEF funded Agricultural Pollution Control Project.

There were substantial delays with M&E implementation .In 2010 a consulting firm could finally be hired for this purpose. There was no baseline, however, the ICR argued that considering the project activities were mostly on institutional reforms, the issue with baselines was not so significant . Progress reports were submitted quarterly and included the key activities planned by quarter with a comparison with subsequent achievements .

### **c. M&E Utilization:**

The ICR did not provide any information on M&E use of data . Based on the additional information provided by the project team, throughout the project life M&E findings were used to redefine planned activities and allocate available funds within each category . At the end of project life a workshop was held where M&E findings for both projects were presented to all stakeholders . As noted above, the field surveys do not appear to have been utilized .

**M&E Quality Rating :** Modest

## **11. Other Issues**

### **a. Safeguards:**

The project was rated as Category B requiring an Environmental Assessment (OP/BP 4.01). This rating was primarily due to the fact that some construction works were to be undertaken for institutions and laboratories as well as on private farm land. Resettlement (OP 4.12) was not triggered as no land acquisition was envisaged nor exercised. No environmental safeguard compliance information regarding implementation of safeguard measures was provided by the ICR. According to the additional information provided by the project team, safeguard compliance was satisfactory.

### **b. Fiduciary Compliance:**

Although there were some difficulties with timely audit during the implementation of the Project Preparation Facility, once these were resolved, the project benefitted consistently from unqualified and timely financial audit reports . No fiduciary rating was provided in the ICR. According to additional information provided by the project team, Financial Management arrangements including of project accounting and reporting arrangements; internal control procedures; disbursement; financial manual; external audits; organization and accounting staff were found to be satisfactory . Also according to additional information provided by the project team, Financial Management arrangements including project accounting and reporting arrangements; internal control procedures; disbursement; financial manual; external audits; organization and accounting staff were found to be satisfactory . There were no overdue audits and all actions that were required were addressed in a timely manner .

### **c. Unintended Impacts (positive or negative):**

### **d. Other:**

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Risk to Development</b>	Moderate	Moderate	

<b>Outcome:</b>			
<b>Bank Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Borrower Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

The ICR offers a number of lessons of which the following are the most important (with significant reformulation of language particularly in the second lesson):

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- **Partnering with other donor organizations has potential to be replicated in other neighboring countries** . This project and similar projects in the region have showed that aid coordination among donors such as EU, FAO, GEF and Dutch Embassy across a common objective can be highly beneficial . In this case such partnership helped Croatia meet the EU accession agenda in the agricultural sector .
- **Investments in Laboratory facilities for compliance with EU Food Safety requirements should be proposed based on a feasibility study or business plan in relation to alternatives** . The project invested substantial funding in building government owned national reference testing capacity . The capacity of a country to certify its food production is a requirement for export to the European Union . The question in this case was whether these investments did not reach beyond the immediate requirements of the European Union . While having systems to ensure the safety of food products is necessary, such capacity for testing can be contracted with accredited laboratories in other countries .
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**14. Assessment Recommended?**  Yes  No

**Why?** A couple of similar projects aimed at EU accession were developed in ECA over the same period of time . It would be instructive to take a close look at these projects to understand in more detail how this line of product worked for EU accession countries .

**15. Comments on Quality of ICR:**

The ICR is rated satisfactory but marginally so, due to the following : The ICR rated project components while presenting the achievement of project development objectives, the ratings should have been focused on objectives not components. Also the ICR did not provide information on safeguard compliance -- evidence that the project completed mitigation measures Very limited information was reported on the Quality of Bank Supervision and Borrower Performance.

**a. Quality of ICR Rating :** Satisfactory