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Report No: PAD950

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR70 MILLION
(US\$ 95.55 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CROATIA

FOR A

SOCIAL PROTECTION SYSTEM MODERNIZATION PROJECT

August 14, 2014

Social Protection and Labor Global Practice
Central Europe and the Baltics
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective: June 30, 2014)

Currency Unit = Kuna (HRK)
 HRK 5.535 = US\$1
 US\$ 0.181 = HRK1
 US\$ 1.365 = EUR1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS – add all abbreviations and acronyms

ALMP	Active Labor Market Program	IDCPREPD	Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability
CDCI	Central Disability Certification Institute	IPF	Investment Project Financing
CES	Croatian Employment Service	ICT	Information Communications Technology
CHII	Croatian Health Insurance Institute	LI	Labor Inspectorate
CPII	Croatian Pension Insurance Institute	MLPS	Ministry of Labor and Pensions Systems
CSW	Centers for Social Welfare	MOF	Ministry of Finance
DLI	Disbursement Linked Indicator	MOH	Ministry of Health
DUUDI	State Office for Managing State Property	MHWV	Ministry of Homeland War Veterans
EEP	Eligible Expenditure Program	MPA	Ministry of Public Administration
EFC	Error Fraud and Corruption	MSPY	Ministry of Social Policy and Youth
EMP	Environmental Management Plan	OSS	One Stop Shop
EMPC	Environmental Management Plan Checklist	PIU	Project Implementation Unit
EU	European Union	PPA	Project Preparation Advance
GDP	Gross Domestic Product	SAP	Statistically Assisted Profiling
GMB	Guaranteed Minimum Benefit	SP	Social Protection
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
		TEMPC	Template Environmental Management Plan Checklist
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CROATIA
Social Protection System Modernization Project

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PAD DATA SHEET*Croatia**Social Protection System Modernization Project (P145171)***PROJECT APPRAISAL DOCUMENT***EUROPE AND CENTRAL ASIA**0000009079*

Report No.: PAD950

Basic Information			
Project ID P145171	EA Category B - Partial Assessment	Team Leader Ivan Drabek	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Oct-2014	Project Implementation End Date 30-Jun-2018		
Expected Effectiveness Date 15-Dec-2014	Expected Closing Date 31-Dec-2018		
Joint IFC No			
Practice Manager/Manager Andrew D. Mason	Senior Global Practice Director Arup Banerji	Country Director Mamta Murthi	Regional Vice President Laura Tuck
Borrower: Ministry of Finance			
Responsible Agency: Ministry of Social Protection and Youth			
Contact: Telephone No.:	Hrvoje Sadaric 38512308746	Title: Email:	Assistant Minister Hrvoje.sadaric@mspm.hr
Project Financing Data(in USD Million)			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
Total Project Cost:	95.55	Total Bank Financing:	95.55
Financing Gap:	0.00		
Financing Source			Amount

Borrower	0.00
International Bank for Reconstruction and Development	95.55
Total	95.55

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	0000	0000	0000	0000
Annual	11.00	7.00	23.00	30.00	24.55	0.00	0.00	0.00	0.00
Cumulative	11.00	18.00	41.00	71.00	95.55	0.00	0.00	0.00	0.00

Proposed Development Objective(s)

The project aims to improve the efficiency and effectiveness of Croatia's social protection system.

Components

Component Name	Cost (USD Millions)
Improving efficiency and effectiveness of the social protection system	68.00
Investments and TA to support improvements in efficiency and effectiveness of the social protection system	26.00
Project Management Support	0.80

Institutional Data

Practice Area / Cross Cutting Solution Area

Social Protection & Labor

Cross Cutting Areas

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Health and other social services	Other social services	100		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes			
Theme (Maximum 5 and total % must equal 100)			
Major theme	Theme	%	
Social protection and risk management	Social safety nets	100	
Total		100	
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No []	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Implementation arrangements - POM	X		
Description of Covenant			
The Borrower shall be responsible for the overall implementation of the Project through its MSPY and shall ensure that the Project is carried out in accordance with the procedures set forth in the POM and shall ensure that the POM is not amended, suspended, abrogated, repealed and that no provision of the POM is waived, without prior approval of the Bank			
Name	Recurrent	Due Date	Frequency
Implementation arrangements - Implementation	X		

Description of Covenant
 The Borrower shall, through MOF, MSPY, MPA, MLPS and MOH, other relevant governmental institutions or agencies, including subordinated departments or agencies, carry out the agreed activities in order to achieve the agreed results of the Project

Name	Recurrent	Due Date	Frequency
Implementation arrangements - Steering Committee	X		

Description of Covenant
 The Borrower shall maintain, throughout the duration of the Project, the Steering Committee, in a form and with a composition and functions, staffing, and adequate resources, all satisfactory to the Bank

Name	Recurrent	Due Date	Frequency
Implementation arrangements - PIU	X		

Description of Covenant
 The Borrower shall maintain the PIU within MSPY, throughout the duration of the Project, in a form and with functions, staffing, and adequate resources, all satisfactory to the Bank and as further set forth in the POM; the PIU shall be responsible for implementation of Part 2 of the Project.

Name	Recurrent	Due Date	Frequency
Implementation arrangements - Audit	X		

Description of Covenant
 The Borrower shall cause the SAO, or such other entity, acceptable to the Bank, as the Bank may agree, to carry out, in a manner satisfactory to the Bank, at least three (3) performance audits of the Project to cover such audit periods as shall be agreed with the Bank; the Borrower shall ensure that the performance audit reports are furnished to the Bank not later than twelve (12) months after the end of each respective audit period.

Name	Recurrent	Due Date	Frequency
Transfer of EEP to One Stop Shop	X		

Description of Covenant
 The Borrower shall promptly inform the Bank of any changes, or proposed changes, to fiduciary arrangements relating to the EEP, and shall provide to the Bank all such information and evidence the Bank may require to assess the fiduciary procedures and processes of such program to be transferred to the OSS system.

Name	Recurrent	Due Date	Frequency
Environmental safeguards	X		

Description of Covenant
 The Borrower shall ensure that the Project activities are carried out in accordance with the TEMPC, and any site specific EMPCs, including the guidelines, rules and procedures defined in said instruments. No works shall be commenced on any site until all measures required to be taken under the EMPC prior to the initiation of said works have been taken.

Name	Recurrent	Due Date	Frequency
Social safeguards	X		

Description of Covenant

The Borrower shall ensure that no works under the Project involve the involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, or involving the involuntary restriction of access to legally designated parks and protected areas.

Name	Recurrent	Due Date	Frequency
Withdrawal conditions - front end fee	X		

Description of Covenant

No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee

Name	Recurrent	Due Date	Frequency
Withdrawal conditions - DLIs	X		

Description of Covenant

Withdrawals shall be made in 1 to 14 tranches and in amounts not exceeding the total of the ceilings per each respective DLI, subject to submission to the Bank of evidence satisfactory to the Bank and as defined in the POM.

Name	Recurrent	Due Date	Frequency
Withdrawal conditions - refunds	X		

Description of Covenant

If the Bank determines that any portion of the amounts disbursed by the Bank to the Borrower under Category (1) was: (a) made for reimbursement of expenditures which are not eligible under the EEP; or (b) not in compliance with the provisions of Section IV.B.2 (a) and the provisions of the POM, the Borrower shall promptly refund any such amount to the Bank as the Bank shall specify.

Name	Recurrent	Due Date	Frequency
Withdrawal conditions - EEP	X		

Description of Covenant

No withdrawal shall be made for payments under Category 1 with respect to each tranche unless the Borrower, through MSPY, has submitted evidence satisfactory to the Bank that Payments under the EEP have been made to the eligible beneficiaries by the Borrower in accordance and in compliance with the procedures set forth in the Borrower's applicable laws and regulations, satisfactory to the Bank.

Conditions

Source Of Fund	Name	Type
IBRD	PIU staffing	Effectiveness

Description of Condition

The Borrower, through MSPY, has hired or designated a Procurement Officer and a Financial Management Officer to the PIU under terms of reference and with qualifications and scope of responsibilities satisfactory to the Bank

Source Of Fund	Name	Type
IBRD	Project Operational Manual	Effectiveness

Description of Condition			
The Borrower has adopted the Project Operational Manual, satisfactory to the Bank			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Zoran Anusic	Senior Economist	Senior Economist	GSPDR
Marko Balenovic	Information Assistant	Information Assistant	ECCHR
Ivan Drabek	Senior Operations Officer	Team Lead	GSPDR
Vera Dugandzic	Senior Operations Officer	Senior Operations Officer	GURDR
Joseph Paul Formoso		Senior Finance Officer	CTRLA
Carmen F. Laurente	Senior Program Assistant	Senior Program Assistant	GEDDR
Sanja Madzarevic-Sujster	Sr Country Economist	Sr Country Economist	GMFDR
Lamija Marijanovic	Financial Management Specialist	Financial Management Specialist	GGODR
Alessandra Marini	Senior Economist	Senior Economist	GSPDR
Jasna Mestnik	Finance Officer	Finance Officer	CTRLA
Julie Rieger	Senior Counsel	Senior Counsel	LEGLE
Abla Safir	Young Professional	Young Professional	YPP
Rajeev Kumar Swami	Lead Financial Management Specialist	Sr Financial Management Specialist	GGODR
Ljiljana Tarade	Operations Officer	Operations Officer	ECCHR
Emil Daniel Tesliuc	Senior Economist	co-Team Lead	GSPDR
Natasa Vetma	Senior Environmental Specialist	Senior Environmental Specialist	GENDR
Antonia G. Viyachka	Procurement Specialist	Procurement Specialist	GGODR
Moses Sabuni Wasike	Sr Financial Management Specialist	Sr Financial Management Specialist	GGODR
Penelope Jane Aske Williams	Senior Operations Officer	Senior Operations Officer	GSPDR
Non Bank Staff			
Name	Title	City	
David Barr	Oversight and Controls Consultant	London, UK	
Petre Adrian Guth	De-institutionalization expert	Brasov, Romania	
Frederik Jansson Dahlén	Research Strategist and Expert on	Stockholm	

		statistical profiling			
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. Country Context

1. **Croatia has gone through five consecutive years of recession** since the outbreak of the global financial crisis in 2008. By 2013, projected real GDP was 12 percentage points lower than in 2008. While the rate of GDP contraction slowed to one percent in 2013, another year of recession is likely in the wake of further fiscal consolidation underpinned by the European Union's Excessive Deficit Procedure. With monetary policy constrained by the need to keep the Kuna-Euro exchange rate stable, progress with structural reforms and attracting Foreign Direct Investment needs to be accelerated. Otherwise, growth prospects over the medium term will remain limited.

2. **The prolonged crisis has led to a rise in poverty.** Although Croatia is classified as a high income country with an average GDP of \$13,920, poverty persists. Using an absolute poverty line fixed at 60 percent of median equivalent consumption in 2008, poverty increased by over four percentage points (from 13.3 percent in 2008 to 18 percent in 2012). Household Budget Survey data suggest that the poverty incidence increased further to 20 percent in 2013 due almost entirely to deterioration in living standards as job losses and real wage reduction depressed household consumption. It appears that coping mechanisms in the early years of recession have been used up. The unemployment rate increased faster for men, reflecting the impact of the recession on sectors dominated by men, such as construction and manufacturing, whereas women are more reliant on pensions and public sector wages. Higher-than-average poverty incidence is found in single-elderly households, as well as in households headed by either an unemployed or inactive person without a pension (all above 40 percent in 2011). More than half of Croatia's poor live in households headed by a pensioner¹.

3. **Spending on social protection remains high and was largely protected during the crisis.** Government efforts to protect social assistance benefits and old-age pensions during the crisis have partially mitigated the impact on poverty and shared prosperity. Although overall consumption declined substantially between 2008 and 2011 (by 4.6 percent), distribution favored low-consumption households, i.e. the bottom 40 percent whose mean consumption declined by 3.5 percent. The share of spending on categorical social assistance benefits or entitlements is high, while the share of poverty-focused programs is still disproportionally low, even after the recent reform of the Guaranteed Minimum Benefit. After five years of recession, the demand for social protection is on the rise, while the resources to finance it are increasingly scarce.

4. **Croatia joined the European Union on 1 July, 2013** and now has access to an average of 3.5 percent of GDP in European Union (EU) grant financing over the 2014-2020 financial period. These funds can be used for a number of purposes including different aspects of social protection reform.

¹ Croatia: Means-testing the Child Allowance Program, Madzarevic-Sujster and Nestic (April 2014)

B. Sectoral and Institutional Context

5. **Croatia operates a complex social protection system, which has become costly to administer over time** (see Annex 6). Three ministries set policies and four administer social protection programs. The Ministry of Labor and Pensions Systems (MLPS) covers employment and pension policies, administered through two specialized agencies and their networks: the Croatian Pension Insurance Institute (CPII) and the Croatian Employment Service (CES). Social protection measures for war veterans are set and administered by the Ministry for War Veterans. The Ministry of Social Policy and Youth (MSPY) has policy authority over most social assistance programs, but administers only some of them, along with social services, through its network of Centers for Social Welfare (CSW). A child allowance program is administered by the CPII, while birth grants and maternity and paternity allowances are administered by the Croatian Health Insurance Institute (CHII). Each of these agencies has its own office in each county across Croatia. This fragmented administration creates costs for beneficiaries applying for benefits at multiple agencies, augments the risk of error and fraud in the social protection system, and hinders policy making, particularly in the area of social assistance.

6. **Efforts to consolidate some cash transfer programs and improve targeting have been legislated in a new Social Welfare Law adopted in 2013.** The law introduced a new Guaranteed Minimum Benefit (GMB), which consolidated four different social assistance benefits (the social allowance program, the extended unemployment benefit, the homeland war veterans' benefit and the disabled World War II support allowance) and applied means-testing with changed equivalence scale to protect the most vulnerable (single elderly and single parents). Overall, the GMB could amount to about 0.24 percent of GDP (see Table 6.1.4. in Annex 6). It includes a revised list of asset filters, grounded in empirical analysis; and a cap of HRK 2,900 on accumulated benefits designed to limit dependency on benefits. The Social Welfare Act also contains *inter alia* measures to reduce administrative complexity and cost and reduce the scope for fraud and error. Given the social allowance payment had not been changed since 2008 and failed to cover even the basic food basket, the Government also increased the benefit by one-third to HRK800. The cost of the benefit increase will roughly be offset by the tightened eligibility rules and targeting over the course of the next 4-5 years.

7. **The consolidation of the administration of major social assistance benefits and the unemployment benefit will continue through the announced introduction of a One-stop-shop (OSS) network.** This network will expand gradually, to first include the GMB, then the child allowance and non-contributory maternity/paternity allowances, and finally the unemployment benefit.

8. **Disability benefits in Croatia are among the highest in the EU, with certification spread across six sectors/agencies with no harmonized methodology. This will be corrected through the introduction of a Central Disability Certification Institute (CDCI) in 2014.** In 2010, Croatia spent 3.6 percent of GDP on disability programs (disability pensions, transfers, other benefits), 64 percent above the EU 27 average level of expenditure on disability programs. This is largely the legacy of the 1991-95 war, but is also due to unstandardized and loose disability criteria, lack of control, and lack of governance in the disability assessment system.

Disability certification conducted by the pension, health, veteran, social, employment and education systems is now being consolidated. Creation of the CDCI within the Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (ICDPREPD) is expected to result in faster, more transparent, and more efficient certification process and service for clients.

9. **Croatia could be losing significant amounts of money due to ineffective institutions and mechanisms to combat Error, Fraud and Corruption (EFC) in the social protection and labor system.** Croatia operates a number of cash benefits with high *a-priori* risk of EFC, including disability pensions and allowances, income and means-tested programs (the child allowance and GMB programs), and income replacement programs. The current delivery system of these benefits relies on preventive measures to avoid EFC; detection and deterrence efforts are minimal. The capacity of the social protection system to detect or deter fraud is low. There are fewer than 15 staff in MLPS and MSPY working on EFC detection activities, substantially lower than in EU or other ECA countries. An exception is the Labor Inspectorate (LI) under MLPS, which has an adequate number of labor inspectors for a country the size of Croatia (120 inspectors). The investigative staff consists mainly of specialists in program certification rules (e.g. disability certification physicians, cash benefit administrators, labor inspectors). Their expertise is not yet complemented by Information and Communication Technology (ICT) and data analysts, which could make their work more efficient by narrowing the scope of the reviews or inspections to cases that are of relatively high risk of EFC. The sanctions for error and fraud are also low or nonexistent. Thus, the cost of defrauding the system is rather small (small probability of detection coupled with a weak recovery and sanction policy), while the benefits are positive and, for some programs, very high. Following early implementation of a number of error and fraud control measures recommended by the World Bank, 15 percent of the overall GMB caseload was found to include irregularities.

10. **The legacy of State policies and practices in social care lingers in Croatia, with a continued reliance on institutional care for vulnerable people.** Croatia houses over 8,300 children without parental care, children and adults with development difficulties, and mentally-ill adults in institutions. Many of these individuals could live more independent lives with foster families or in family-style organized housing units, which would allow them to fulfil their individual potential and promote social inclusion. A de-institutionalization Master Plan was approved in 2010. The corresponding Operational Plan was approved by Ministerial Decision on 18 June 2014 setting out Croatia's goals for deinstitutionalization, transformation plans for existing institutions and roles for important stakeholders involved in the process.

11. **Croatia experiences significant employment challenges, but its Employment Service (CES) could provide more efficient tailored services to the unemployed.** Croatia has the lowest activity rate in the EU and is characterized by high and rising unemployment and increasing unemployment duration. In 2012, long term unemployment accounted for more than 60 percent of total unemployment. The recently approved Social Welfare Act (SWA) introduces measures to encourage work-able social assistance beneficiaries to transition from assistance to work. In order for these measures to be effective, they must be accompanied by active labor market policies tailored to support hard-to-employ beneficiaries in finding work. Employment officers face an extremely heavy work load, with an average of 700 unemployed for each

officer, which prevents adequate support to the unemployed. The caseload is expected to increase with the enactment of the SWA. The CES offer a relatively long list of options for the unemployed, ranging from training programs, wages subsidies, to public works on a first-come, first-served basis. To improve the efficiency of its services, the CES would need to employ tools to reallocate scarce resources to the individuals most at risk of becoming long-term unemployed.

12. The Government is advancing a set of reforms to address key weaknesses of the social protection system: the consolidation of major social assistance benefits and the unemployment benefit under a OSS network; the harmonization of disability certification; development of a system to prevent, detect and correct error and fraud in high-budget and risk prone social protection programs and the labor market; advancing the deinstitutionalization agenda; as well as developing tools that could target the activation measures to those at risk of becoming long-term unemployed (see Annex 6 for more detail of the sectoral context and the administrative reforms).

C. Higher Level Objectives to which the Project Contributes

13. The Government's National Reform Program (April 2014) includes the objectives of assuring a minimum living standard for the poorest, facilitating access to social welfare rights and improving the system of awarding social benefits (including structural administrative reforms). All five aspects of the proposed project are cited in the National Reform Program and the World Bank's support under the proposed project is explicitly referenced. The National Reform Program is the first prepared by Croatia as a member of the EU and as part of the yearly cycle of economic policy coordination at the European level.

14. The proposed project will also support the Government's Long Term Fiscal Consolidation Reform Program for 2014-2016 which responds to the European Commission's decision to place Croatia in the Excessive Deficit Procedure. The fiscal consolidation program comprises nine reform measures, including OSS. The fiscal impact of all nine measures is estimated at 0.6 percent of GDP in 2014, 1.2 percent of GDP in 2015 and 1.7 percent of GDP in 2016.

15. Two of the pillars in the Croatia Country Partnership Strategy FY14-17² provide the framework for the proposed operation. Pillar 1 relates to Public Finance and within this, Theme 1 aims to promote fiscal consolidation. The proposed project could deliver fiscal savings that would amount to at least 0.5 percent of GDP during its lifetime (2014-18). It would also support Pillar 3, which relates to maximizing the benefits of EU membership by assisting the authorities to prepare for and access European Funds for activation and de-institutionalization.

16. The proposed project will build on previous and existing operations in the sector and analytical work, including the Social Assistance chapter of the Public Finance Review, and will complement other initiatives in the social protection domain. A National Reform Program Technical Assistance (TA) task³ and the ERDPL-2⁴ complement the proposed project's

² Report No. 77630-HR

³ National Reform Program Technical Assistance (P147844).

focus on the efficiency of the sector by analyzing and supporting parametric reforms that aim to increase the share of social protection programs that are means-tested. The National Reform Program also analyzes the options for a redesign of the eligibility criteria for two large income-tested programs - the Child Allowance (which uses an imperfect self-declared income test) and Child Tax Allowance (which is a generous but regressive quasi-fiscal program) and concludes that improved targeting can generate noteworthy fiscal savings, as well as improve fairness and spur activation. The deinstitutionalization work builds on activities in the earlier Social Welfare Development Project⁵, which built community services for vulnerable people. The activation work will complement a regional programmatic knowledge and advisory service task on Activation and Skills⁶ task that includes Croatia with the objective of promoting activation through analytical work, knowledge exchange and hands-on TA. All this project and analytical work aims to increase the share of social protection funds reaching the poor and vulnerable.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. **The proposed project aims to improve the efficiency and effectiveness of Croatia's social protection system.**

18. The efficiency element will 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 effectiveness aspect will be achieved by reducing the private costs for beneficiaries leading to increased uptake of benefits; reducing the number of children and adults in residential institutions; and supporting activation of work able social assistance beneficiaries.

B. Project Beneficiaries

19. **Poor households are among the direct beneficiaries of the Project (beneficiaries of the GMB program, child allowances, other family programs and the unemployed), persons with disabilities, and vulnerable children and adults in institutions.** By focusing on the poorest in society, the proposed project supports the eradication of extreme poverty. The proposed project will also build the foundations for additional reforms aimed at modernizing the social protection administration.

20. **The Project will directly support the inclusion of the most vulnerable and socially excluded groups in Croatia** by directly addressing the needs of children who are deprived of parental care, and adults and children with developmental disabilities who are de-institutionalized and provided with family-type care. TA will be provided to strengthen the effectiveness of employment offices in supporting activation of the most vulnerable inactive and

⁴ Second Economic Recovery Development Policy Loan (P127665) approved by the World Bank's Board of Directors on April 29, 2014.

⁵ Social Welfare Development Project (P069937) approved by the World Bank's Board of Directors on June 15, 2005 and closed on March 31, 2011.

⁶ Activation and Skills for Employability and Protection Technical Assistance (P143351).

unemployed, including work-able social assistance beneficiaries (a group of adults that are not in employment, education, training or disabled). Some of these inactive and unemployed that are also beneficiaries of the GMB program are likely to be hard-to-serve and face multiple obstacles to employment. The Project will also help to promote shared prosperity by bringing long-term unemployed and vulnerable people into the labor market.

21. **Taxpayers and other social assistance beneficiaries will benefit indirectly.** Taxpayers will also indirectly benefit from the Project, as the level of social assistance spending lost to error or fraud is expected to decline. Taxpayers and social assistance beneficiaries alike will benefit from more effective and efficient social assistance spending.

C. PDO Level Results Indicators

- 1) Reduce private costs⁷ for social assistance beneficiaries and unemployed by at least 15 percent compared to the 2014 baseline;
- 2) Percentage of cases certified by IDCPREPD's full-time certifying officers increased from 0 percent to at least 90 percent in 2018;
- 3) Effective system to reduce error, fraud and corruption in risk-prone social protection programs in place⁸;
- 4) 715 children without parental care and children and adults with disabilities moved from institutions to family-type living environments;
- 5) Cumulative fiscal savings of at least 0.5 percent of GDP resulting from the one stop shop, a reduction in error and fraud and the unification of disability assessment over the project lifetime.

III. PROJECT DESCRIPTION

22. **The Government of Croatia is undertaking an ambitious, wide-ranging reform agenda in social protection.** The goal of the proposed reforms is to “achieve the financial and procedural rationality and efficiency of the social assistance system.” By January 2014, the Government consolidated four benefits currently managed by MSPY, using the support allowance program as a base, into a new GMB program, which will provide the backbone of last-resort social assistance. The proposed project aims to support the Government's further reforms of the social protection system, with a specific focus on five areas: i) consolidating the benefit administration and simplifying procedures; ii) unifying and harmonizing the certification of disability; iii) reducing error, fraud and corruption; iv) de-institutionalizing children and adults; and v) activation of social assistance beneficiaries.

A. Project Components

23. **The project will tackle five thematic areas:** four will be results areas supported by results-based financing (Component 1) and TA/Investment (Component 2), while one thematic

⁷ Private costs refer to the time and financial costs for an individual to prepare copies of documents, travel to a center to apply for benefits and undertake any assessments that may be required to determine eligibility.

⁸ An effective system to reduce EFC includes prevention, detection, deterrence and correction measures; and uses information technology and analytical models to identify overpayments (for social protection benefits) or undeclared wages.

area will be covered by TA/Investment (Component 2) alone, because it is at an early stage of development.

Component 1: Improving Efficiency and Effectiveness of the Social Protection System (IBRD Euro 50 million)

24. **This component will use a results-based approach.** Payments made under this Component will go to the MOF as reimbursement for expenditures made in the Eligible Expenditure Program (in this case, the GMB). Payments will be triggered by achievement of pre-specified Disbursement Linked Indicators (DLIs)⁹ as well as evidence that sufficient expenditures have been made under the EEP. DLIs have been chosen to support the Government's social protection reform in four results areas:

- a) consolidation of social assistance cash benefits administration under a one-stop-shop;
- b) unifying and harmonizing the certification of disability;
- c) reducing error, fraud and corruption in social protection cash benefits;
- d) deinstitutionalization of vulnerable children and adults.

Results Area A) Consolidation of benefit administration and simplification of procedures

25. **A key element of the Government's reform is the consolidation of cash administration for social welfare programs, family policy programs and unemployment benefits through a single delivery network, a one-stop-shop (OSS).** The OSS project is one of nine measures under Government's Plan for Implementation of Long-Term Fiscal Consolidation Reform Measures for 2014-2016. Four social assistance benefits have already been consolidated into a single GMB in the MSPY beginning January 2014. The OSS for administration of cash benefits will be implemented, starting with the new GMB from December 2014, and later incorporating child allowances, birth grants and paternity benefits for non-insured beneficiaries, and unemployment benefits.

26. **The OSS will transform the experience of social assistance beneficiaries by providing a single service point to apply for and receive a range of cash benefits.** The OSS will reduce the time and cost of application for beneficiaries and will create the opportunity of introducing a cap to the total amount of social assistance benefits paid to one household, generating potential for savings and reducing work disincentives associated with the provision of multiple need-based social assistance benefits.

27. **A Government-level working group responsible for the implementation of the OSS project has been created.** The OSS will be housed in the Ministry of Public Administration (MPA) decentralized offices (PAOs). The OSS will administer eligibility and payment of the benefits although policy and budgetary responsibility will remain with MSPY (except for unemployment benefits for which MLPS has policy and budgetary authority).

28. Under Component 1, the Bank will disburse funds against the eligible expenditure program upon completion of the transfer of the administration of each social assistance cash

⁹ See Project Financing section (below) for further details

benefit to the OSS over the project period. Each DLI was priced at Euro 5 million, reflecting the difficulty of this reform and its importance for Croatia's Fiscal Consolidation Plan.

Results Area B) Unifying and harmonizing the certification of disability

29. **Another major reform supported by the project is the creation of a Central Disability Certification Institute (CDCI) within the Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (IDCPREPD),** which is expected to result in faster, more transparent, and a more efficient certification process and service to clients/applicants. Instead of several certifications per applicant, depending on the type of certification, by the end of the project, all applicants will undergo one certification, ensuring horizontal equity (all persons with disabilities will be certified using a single method). Individual costs of disability certification would thus fall and client satisfaction would rise accordingly. Due to IDCPREPD's institutional restructuring and associated costs over the project period no significant administrative savings are expected in the short run. However, in the medium run, IDCPREPD will generate lower costs than the six currently decentralized disability assessment administrations. All of these aspects will be monitored through the share of disability certifications performed by CDCI's staff in total number of certifications, including externally outsourced certifications. Higher share represents higher level of harmonization and a more efficient process. The process should result in at least 90 percent of certifications done internally by 2018. In 2015, 2016 and 2017 the share is expected to stand at 60 percent, 75 percent, and 90 percent respectively.

30. **The legal framework of the CDCI has been developing.** The establishment of the CDCI was initiated by the Law on Professional Rehabilitation and Employment of Persons with Disability, adopted in December 2013. This law has transformed the Fund for Professional Rehabilitation and Employment of Persons with Disability (FPREPD) into the IDCPREPD, which is tasked with establishing the CDCI as an integral part, and with unifying and harmonizing the disability certification process in Croatia. The Law on CDCI was approved by Parliament on July 4 2014. It determines: the procedure of the establishment of CDCI within IDCPREPD; the adoption of unified disability certification rules by the Government within six months of CDCI operations (i.e. expected by end-December 2014); and its full operational status during the course of the project. Furthermore, the CDCI Law envisages transfer of current full-time disability certification officers from their host agencies to the CDCI on January 1, 2015, starting with CPII certification officers.

31. **The proposed reforms could generate significant fiscal savings in the long-run, although parametric reforms to disability benefits are not envisaged under the Project.** Spending on disability benefits in Croatia is among the highest in the EU, next to Denmark, Sweden and Finland. With 3.6 percent spent on disability programs in 2010, Croatia exceeded the EU27 average by 64 percent. Assuming that disability spending numbers would converge to 20 percent above the EU27 by 2035 (factoring in the objective disability factors in Croatia, such as Homeland war veterans' disability) could lead to cumulative fiscal savings of between 10 and 11 percent of GDP over the next two decades, with savings of at least 0.5 percent over the project period.

32. Under Component 1, the Bank will disburse funds against the eligible expenditure program upon completion of the legal establishment and then the full operationalization of the CDCI over the project period. Each DLI was priced at Euro 2 million, reflecting the largely institutional nature of the reform.

Results Area C) Reducing error, fraud and corruption

33. **The Government is committed to generating additional fiscal savings by developing a comprehensive system to reduce the level of error and fraud in the social protection system.** International evidence shows that any mass payment system is prone to EFC. In Croatia, benefits with high *a priori* risk of EFC include income and means-tested programs (e.g., the child allowance and GMB programs), income-replacement programs, as well as disability pensions and allowances. In the labor market, not reporting or under-reporting earnings reduces the revenues of the pension and unemployment funds, and denies rights to employees. The current delivery system of the social protection (SP) benefits relies only on preventive measures to stamp out EFC, but fall short of a comprehensive system. The LI of MLPS has strong capacity to prevent and detect irregularities on the labor market, but lacks analytical capacity to target its scarce resources to high-risk sectors, employers and employees. Complementing these measures with an efficient detection and deterrence system will help safeguard the social protection system against EFC.

34. **An inter-ministerial strategy to combat error and fraud in SP programs is being developed, with technical inputs from the project team.** MSPY, MLPS and their inspection units agreed to work with the World Bank on deploying EFC strategies and activities that could be applied to their benefits and, respectively to the labor market, with the support of the project. The application of EFC will cover at least disability pension administered by MLPS and disability allowance administered by MSPY, where an important proportion of savings are expected to be generated, the child allowance, GMB, and the birth grants and parental leave for non-insured beneficiaries. It will also include the Labor Inspectorate activities aimed to improve compliance with labor market and work protection regulations. Support to the EFC agenda is expected to generate cumulative savings of at least 0.5 percent of GDP over the lifetime of the project.

35. **The EFC strategy builds on the other sector reforms supported by the social protection project, the ERDPL and the Tax Administration Project.** The proposed disability certification and OSS (which increase the Government's capability to access other public databases), and the Tax Administration initiatives (which extend content, timeliness, and accessibility to financial and related personal data), all provide opportunities to strengthen prevention, detection and deterrence of EFC.

36. **Under Component 1, the Bank will disburse funds against the eligible expenditure program upon completion of the steps taken to implement the EFC Strategy and Action Plan over the Project period.** Each DLI was priced at Euro 2 million, reflecting the largely technical nature of the reform, with a Euro 3 million disbursement for the final year DLI at which point the system will be fully strengthened and best practice, risk-based inspections are being conducted.

Results Area D) De-institutionalization of vulnerable children and adults.

37. **The MSPY's reform plans also encompass a process of deinstitutionalization in the provision of social services.** Deinstitutionalization refers to a shift in the balance of service provision for vulnerable children and adults from institutional care to a range of services provided by a variety of service providers in family-type environments outside of the institutions, including return to the biological family, adoption or foster care, organized housing or other community services. Deinstitutionalized care is overwhelmingly and consistently better than institutional care, even in a well-organized institution, for almost all children. Even for adults, institutions inhibit social inclusion and the opportunity to live a normal life. However, minimum quality standards, monitored and enforced regularly by a Social Inspection team are necessary to catch infrequent cases of poor care. Minimum standards are in place in Croatia, quality standards are being developed and there is a Social Inspection team, however these could be expanded and strengthened, including under the Project's TA/investment component.

38. **The Government's reforms are set out in the Plan for Deinstitutionalization and Transformation of Social Welfare Homes (2011-18) and translated into an Operational Plan,** which includes the definitions, steps and necessary inputs to achieve the deinstitutionalization goals: to deinstitutionalize approximately 715 children without parental care, youth with behavioral disorders, adults and children with disabilities and mentally ill adults by 2016.

39. **Under Component 1, the Bank will disburse funds against the eligible expenditure program upon achievement of the numerical targets for de-institutionalization set out in the Operational Plan over the project period.** Each DLI was priced at Euro 5 million because these are outcome indicators and potentially entail high risk.

Component 2: Investments and Technical Assistance to Support Improvements in Efficiency and Effectiveness of the Social Protection System (IBRD Euro 19.4 million)

40. **This component will use a regular Investment Project Financing (IPF) approach.** It would support investments and TA that are necessary, but not sufficient, to support achievement of the DLIs in the four thematic areas supported by results-based financing. It will also support activities in the fifth thematic area: activation. Examples of investments and TA needed to support achievement of the DLIs are outlined in summary below (further details are available in the summary procurement plan in Annex 3):

- OSS: software and hardware upgrades to the MIS to integrate systems currently used by other cash transfer programs, renovation of offices to minimum standards, some consultants and training;
- CDCI: IT system upgrade supporting CDCI operations, CDCI headquarters refurbishment, training and TA on disability certification methodology;
- EFC: MIS software updates, staff training and TA to develop data matching and risk profiling tools to prevent and detect error fraud and corruption;

- De-institutionalization: TA and, possibly, goods to improve monitoring and tracking of results, guidelines and minimum standards, support to foster care; and
- Activation: TA in statistical profiling techniques to provide more tailored services to the inactive and unemployed and to focus scarce resources.

41. **Specific support will be provided to leverage EU funds in the areas of de-institutionalization and activation.** Croatia has access to a large amount of European grant financing, including European Social Fund and European Regional Development funds. Experience in other new EU member states has shown that absorptive capacity can be low, while the potential grant sums are significant. Consultants will be engaged under this component to support the Croatian authorities in preparing quality and appropriate European fund proposals, for example to establish new services for deinstitutionalized beneficiaries or to implement new active labor market programs.

Table 1: Preliminary Estimate of the Allocation of Component 2

Thematic Area	Estimated amount (million Euro)
Thematic Area 1: OSS	12
Thematic Area 2: CDCI	4
Thematic Area 3: EFC	2.25
Thematic Area 4: De-institutionalization	0.75
Thematic Area 5: Activation	0.4
Total	19.4

42. **A Project Preparation Advance (PPA) in the amount of EUR 890,000 has been approved to accelerate the project preparation.** The PPA was signed by the Croatian Government in April 2014. Given the context of serious budgetary restrictions, the Government is not able to fully finance expertise needed for detailed operational plans, preparatory activities or initial investments under the Project. The financing of these TA activities, which would otherwise be financed from Component 2 only after effectiveness, should help jump start project implementation (more details can be found in Annex 5).

Component 3: Project Management Support (IBRD Euro 0.6 million)

43. **A Project Implementation Unit (PIU) has been created in the MSPY.** The PIU team will comprise: a Director, Head of Procurement, Procurement Assistant and two Financial Management staff. These individuals are being identified; some are civil servants paid by MSPY and will continue their jobs in the Ministry, while additional specific expertise, such as Procurement and Financial Management Officers and a Construction Engineer, who can provide expert advice on renovations and environmental standards, and support staff will be financed from the project.

44. **Operating expenses for the PIU will be shared between MSPY and the Loan.** MSPY is currently financing the cost of office space and communications, as well as some staff. The proposed Project will support specific costs, including: an annual audit, translation of documents

and meetings, an annual workshop to review progress and next steps, and a small contingency allocation for training¹⁰/conferences/workshops or other expenses, as the need arises.

45. **Through its different components and instruments (DLIs, TA/investment and the reimbursement for EEP expenditures), the Project will influence a stream of expenditures of 3.2 percent of GDP and about one in five people in Croatia (Table 2).**

Table 2: Scope of the Proposed Project

Program	2013		Project impact through:		
	Expenditure	Number of beneficiaries (persons)	DLIs	TA/Investments	EEP
	(HRK)				
A. Disability pensions*	5,710,000,000	241,633	√	√	
B. Unemployment benefits	1,572,830,220	70,749	√	√	
C. Active Labour Market Programs	343,420,767	53,656		√	
D. Child allowances	1,700,485,299	382,662	√	√	
E. Birth grants & paternity leave for non-insured beneficiaries	415,000,000	59,000	√	√	
F. GMB	790,760,719	143,275	√	√	√
Total (A+B+C+D+E+F)	10,532,497,005	950,975			
% of GDP or population	3.2%	22.3%			
GDP or population	328,251,530,068	4,268,000			

* Disability pensions administered by CPII under MLPS

B. Project Financing

46. **The project will be implemented over four years through an IPF IBRD loan in the amount of Euro 70 million, with a sizeable results-based component.** At first, a Program for Results (PforR) instrument was proposed, but the Ministry identified sizeable investment and TA needs for preparation as well as during implementation. The Euro 20 million requested for TA/investment exceeded the 25 percent available as advances under the PforR instrument and the Government was not able to pre-finance them. A PPA has been requested to finance some of these preparation activities. Furthermore, the proposed project extends into several different areas involving four Ministries and five agencies, covering some (but not all) cash benefits and some (but not all) services. As such, the Program (for PforR purposes) became harder to define.

47. **For Component 1, disbursements will reimburse Government expenditures on a defined eligible expenditure line item (the “Eligible Expenditure Program” or EEP).** The EEP has been defined as the GMB program for social assistance to low-income families. Component 1 will reimburse the Croatian Treasury for a share of monthly GMB expenses already incurred (the amount being determined by the price attached to the DLIs that have been achieved). As in any results-based loan, the World Bank would disburse against verification of Government expenditures (and upon verification of the DLIs, as discussed below). As such, the

¹⁰ This includes training for fiduciary staff such as State Audit Office and procurement officers.

loan proceeds under this Component 1 will be part of the regular state budget financing, with the World Bank as one of the sources of overall funds, spent consistent with the state budget policies and procedures. To enable the World Bank team to monitor progress in releasing resources for this program, the MSPY will submit Semi-Annual Reports on the execution of the State Budget regarding the GMB expenditures. The financial reporting system of the State Treasury and Ministry of Social Policy and Youth will regularly track and report on budget estimates and actual expenditures for the GMB benefits. This monitoring will enable the Project to rely on the national fiduciary system for project financial management and disbursement, as discussed below.

48. **Disbursements of funds for Component 1 will be triggered by achievement of agreed specific results: Disbursement-Linked Indicators or DLIs**, and supported by evidence of expenditures incurred under the EEP. A series of inputs, outputs and outcomes contribute to the achievement of the Project Development Indicators and ultimately the PDO. Fourteen of the critical outputs and outcomes have been selected as DLIs. These are detailed in Annex 1, Table 1. Achievement of the results will be supported by actions by the Government and other stakeholders, as well as the TA and investments under Component 2.

49. **The achievement of each DLI will be monitored, measured and verified** according to specific protocols elaborated in the Project Operational Manual. A summary of these protocols is included in Annex 1. The Task Team Leader must certify achievement of a DLI and verification that sufficient eligible expenditures have been incurred before the associated loan amount is released. The disbursement projections are indicative; disbursements will be made upon verified achievement of the specified DLI and eligible expenditure at any time during the implementation period (see Annex 2 for projected disbursements and government expenditures).

50. **Retroactive financing.** Withdrawals can be made for payments made for the EEP prior to the date of Loan Agreement signing (provided also that the DLIs have been achieved). The amount for retroactive financing cannot exceed 20 percent of the total loan amount and applies only for payments made for eligible expenditures under Component 1 (i.e. payments under the EEP) made on or after June 1, 2014.

51. **Disbursement of funds for Components 2 and 3 will follow standard investment project financing arrangements.** A Procurement Plan for the first eighteen months (and beyond, where possible) has been prepared that details the inputs to be financed under the project.

Project Cost and Financing

52. **Under Component 1, the proposed project will represent a small share of the Government's GMB spending, while under Components 2 and 3 the proposed project will represent 100 percent of the project costs.**

Table 3: Project Costs by Components (in Euro Million)

Project Components	Project cost	Of which IBRD Financing	Financing
1. Improving efficiency and effectiveness of the social protection system	50	50	100%
2. Investments and Technical Assistance to support improvements in efficiency and effectiveness of the social protection system	19.4	19.4	100 %
3. Project Management Functions	0.6	0.6	100%
Total Costs			
Total Project Costs	70	70	-
Total Financing Required	70	70	

C. Lessons Learned and Reflected in the Project Design

53. **Experience with other results-based operations in the region has shown that this approach promotes a strong partnership through implementation that clients find helpful.** The DLIs provide a strong incentive for MOF to facilitate project activities. However, to ensure strong buy-in from the line ministries undertaking the reform, it has been critical to have access (either within the project or separately – but preferably the former) to complementary financing for TA and investment needs during implementation.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

54. **MSPY, headed by the Deputy Prime Minister, is the driving force of the reform and would oversee overall implementation of project activities.** MSPY is responsible for the legislative agenda covering social assistance and retains the policy and budgetary lead over most social assistance programs, even though their administration is undertaken by other agencies – an arrangement that will be addressed under the OSS results area. MSPY will also house the PIU. Another key counterpart is MLPS, which contributes to the CDCI agenda and leads the inter-ministerial working group for combating EFC in social protection programs. MPA leads the implementation of the OSS.

55. **A Steering Committee will coordinate the multiple Ministries and Agencies involved in implementation.** A Project Steering Committee has been created, led by MSPY and also comprising representatives of MPA, MLPS and Ministry of Health and their agencies (IDCPREDP, CPII, CHII, CES and LI), as well as the MOF, to oversee and supervise overall project implementation. In addition, a PIU has been established in the MSPY, which is responsible for the overall implementation of the Project’s second component, including

providing all fiduciary services and M&E for the Project. A detailed implementing agency assessment has been carried out and is provided in Annex 3.

56. Under Component 1, the MOF would be the recipient of the loan funds disbursed based on achieved results. The Ministries and Agencies achieving those results include:

- OSS – (i) MSPY: the administration of its GMB, currently undertaken by its decentralized Centers for Social Welfare (CSWs), will be transferred to the MPA’s decentralized Public Administration Offices (PAOs); (ii) MLPS: the administration of the Child Allowance currently undertaken by decentralized Croatia Pension Insurance Institute (CPII); and administration of the Unemployment Benefits currently undertaken by its decentralized Croatia Employment Services (CES) will be transferred to the MPA’s decentralized PAOs; (iii) MOH: the administration of the non-contributory maternity and paternity allowances and birth grants for un-insured beneficiaries currently undertaken by decentralized Croatia Pension Health Institute (CPHI) will be transferred to the MPA’s decentralized PAOs.
- CDCI – The new agency will be established within the Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (IDCPREPD), an independent agency responsible for disability certification, professional rehabilitation and employment of persons with disabilities under the MLPS, to simplify and harmonize disability assessment/certification processes currently scattered across six sectors/agencies.
- EFC – Two inspection teams and the Department for Medical Revisions of Disability Certification will continue the detection work for risk-prone policies or social protection programs. The MSPY’s Social Inspection team will inspect the GMB and disability allowance programs under its policy authority and will gradually expand its mandate and resources to cover the other social assistance programs once they are transferred to the OSS (child allowances and birth grant/parental leave for uninsured beneficiaries). The Labor Inspectorate of MLPS will continue to review compliance with labor market and work protection legislation and regulations for employers and employees. The Department for Medical Revisions of Disability Certification in MLPS will expand its role to inspect high-risk disability pension claims, both new and existing. Prevention and deterrence activities will also involve the implementation agencies under the project (PAOs; CSWs; CES and CPHI networks, CDCI network).
- Deinstitutionalization – MSPY leads this area of work. Its decentralized CSWs provide social services and refer vulnerable persons to social welfare homes or other support services. It has a network of residential institutions providing for children without adequate parental care, persons with disabilities and youth with behavioral disorders that would be transformed and some of their beneficiaries deinstitutionalized with the support from the Project. It also manages organized housing for more independent living. These services are complemented by non-State social care providers.

57. Under Component 2, the project will finance TA and investments needed to support achievement of the DLIs under Component 1 as well as activities in Activation. Technical

assistance and goods provided by the project under Component 2 will benefit: MSPY, MPA, MLPS and their subordinated agencies, and CDCI. In order to host the new OSS, PAOs will need to upgrade their physical, human and IT capacities to meet minimum service standards. Therefore, the PAOs, through the MPA, would receive the largest share of the TA and investment funds, including civil works, under Component 2.

58. **Under Component 3, a PIU has been established in the MSPY.**

B. Results Monitoring and Evaluation

59. **MSPY will report on budget execution of the EEP and will lead reporting on all activities under the project.** Project Implementation Reports will be sent to the World Bank semi-annually. These reports will describe progress against each of the five thematic areas covered by the project. The reports will also contain information on fiduciary functions. A format for these reports will be agreed with the counterparts and set out in the Project Operational Manual.

C. Sustainability

60. **As described above, the Government’s National Reform strategy commits the Government fully to the reforms covered in the proposed project.** The Government has expressed an interest in going further with the consolidation of social protection benefits, but is taking a step-by-step approach. For both deinstitutionalization and activation, the Government is keen to meet EU expectations and standards, and hopes the Project will help to prepare proposals that will help propel them towards those goals.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Table 4. Risk Ratings Summary

Risk Category	Rating
Stakeholder Risk	S
Implementing Agency Risk	M
- Capacity	M
- Governance	M
Project Risk	M
- Design	S
- Social and Environmental	L
- Program and Donor	L
- Delivery Monitoring and Sustainability	L
Overall Implementation Risk	M

B. Overall Risk Rating Explanation

61. **Overall, the risk rating is moderate for preparation and implementation. While the majority of ratings are Low or Moderate, there are two risks that merit a substantial rating.** The first substantial risk category is stakeholder risk, in several areas of reform (OSS, CDCI, deinstitutionalization) some functions previously carried out by staff in one agency will be transferred to another, and may result in one or more of the Ministries or agencies or their staff – resisting change to the status quo. A related risk is that program beneficiaries being reformed may perceive the reforms as not to their advantage. In this project, a robust error fraud and corruption campaign will exclude those who are not eligible for benefits they are currently claiming. In this respect, aggrieved former beneficiaries could protest that their benefits are being taken away. Similarly, beneficiaries of disability benefits could resist changes to the disability certification process, which could undermine political will to continue the reform.

62. **In relation to the de-institutionalization part of the project, the staff, families or beneficiaries may fear the reforms and move towards more independent living.** Beneficiaries, their families or legal guardians sign consent forms prior to any move, but staff and parents may still resist the move if it is not explained clearly. Staff may have only worked in institutions and be somewhat ‘institutionalized’ themselves; parents may believe they did the best thing for their dependent when they put them in an institution. Staff are being trained on a new approach to support independent living. Strong communication is critical. The institutions have semi-independent houses within their boundaries where those individuals who seem most ready for an independent life can try it out in safe surroundings. To the extent possible, the new accommodation is in or close to communities/regions of origin (“regionalization”), beneficiaries visit several times before the move, and every effort is made to keep siblings and friends together. Furthermore, a single case of inadequate foster care or insufficient support to a deinstitutionalized individual can discredit all the positive gains and bring the reform to a standstill.

63. **Finally, stakeholder risk arises with the Government which will be nearing the end of its mandate at the time of project approval.** If the project is delayed, the Government may feel it has lost its window of opportunity to implement the reform before the next political cycle commences and so dilute or discard the reform effort. These stakeholder risks are moderate in likelihood, but could have substantial impact if they materialize.

64. **The second substantial risk relates to the project design.** This is a complex project involving four line Ministries, their agencies and the MOF. Preparedness in implementation of the reforms will be essential: if there are delays to the information or payment systems for benefits, the beneficiaries may be impoverished and would surely protest. Close coordination and cooperation between the Ministries and agencies will be key. This is primarily a governmental responsibility, but the World Bank has suggested a number of key risk mitigations, such as having an empowered Project Coordinator in place and undertaking a pilot of the OSS reform.

65. **The OSS is a particularly complex reform.** At present, planning for the OSS seems focused on the first benefit (GMB) to be transferred, without much consideration of issues

associated with the other benefits to be transferred. The assessment of PAOs reveals significant gaps in staffing, technology and space required to manage the increase in caseload of beneficiaries. Minimum standards will need to be met, financed under Component 2.

66. **Croatia has entered the Excessive Deficit Procedure and is likely to be making cuts in investment and TA, which could affect project implementation.** The Government has included all areas of the reform in its National Reform Plan and some are also in the Fiscal Consolidation Strategy. Some parts of the Project help the Government leverage EU grant financing. A Cabinet of Ministers meeting in mid-May gave assurances that financing needs for the Project would be met in addition to participating Ministries' and Agencies' regular budgets.

67. **The design risks are substantial in likelihood but can be mitigated, so are rated moderate in impact (further details are included in Annex 4 ORAF).**

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

1) *Project's development impact*

68. **Improved targeting of needs-based social assistance programs.** The Project will complement the parametric reforms led by the ERDPL2 and supported by the National Reform Program NLTA, aimed to improve the targeting of selected cash benefits (child allowance program) and policies (e.g. the child tax allowance). The impact of the parametric reforms on improved targeting will depend both of the parametric reforms being legislated, and the implementation arrangements (in particular, on compliance with program rules). International studies suggest that the contribution of the two factors to the final income is comparable in size. The proposed project supports a number of administrative reforms that will complement and expand the impact of the parametric reforms, such as introduction of the OSS (that is likely to help prevent erroneous claims from being processed), development of the system to combat EFC (that will reduce the incidence of erroneous or fraudulent claims in disability pensions, the social assistance programs to be administered under the OSS, and the instances of shadow labor relationships) and the support to the Croatian Employment Service to strengthen activation of the most vulnerable inactive and unemployed, including social protection beneficiaries. A simulation of the introduction of means-tests for the child allowance program indicates a possible reduction of the number of beneficiaries by 17 percent. About half of these savings will be due to improved program compliance.

69. **Increased take-up and coverage of social assistance programs.** The introduction of the OSS will likely reduce exclusion error and improve program take-up. This is likely to occur triggered by three factors: better information for applicants, lower private costs of application and recertification, and higher benefit take-up. First, as key cash benefits will be processed in one place, the claimants will be better informed on the full array of benefits they are entitled to, thus reducing the exclusion error due to lack of information on available benefit programs and their eligibility criteria. Second, the OSS will reduce the overall private costs for applicants, and this will have a significant role in improving take-up (see Tesliuc et al, 2014). Third, the trip to the OSS will be more worthwhile for beneficiaries of multiple benefits as the total sum to be

cash in will increase, while the private application costs will likely stay constant. International comparisons suggest that the second and third factor determines the low take up for means-tested programs, often as low as 40-60 percent of the total eligible beneficiaries. The large segments of potential beneficiaries who do not apply do so because the cash benefit they could receive is too low compared to the cost of application. These measures will increase the number of beneficiaries benefiting from social welfare programs and the budget for such programs; most of this budget will accrue to the poor and vulnerable beneficiaries, and contribute to a further reduction in poverty rate. A micro-simulation model of program take-up suggests that the coverage of the child allowance and GMB programs could increase gradually, by up to 4 percent and 35 percent respectively by 2018, through the introduction of the OSS. This will result in a gradual increase of the child allowance and GMB program budget by up to 3.5 percent and 38 percent in 2018.

70. **Greater horizontal equity in disability certification, medium-term administrative costs savings and stronger gate-keeping of new claims.** The introduction of harmonized disability certification criteria and procedures will introduce horizontal equity across different categories and diagnoses. In addition, the introduction of a single disability certification unit and criteria will consolidate the various certification bodies under one institution generating administrative costs savings in the process. To prevent erroneous or fraudulent disability pension claims, Croatia uses a two tier system, with CDCI doing a first review and the Department for Medical Revisions of Disability Certifications of MLPS doing a second degree review of all positively resolved new claims, or checking old claims when they receive a complaint or tipoff. Rolling out of the pension model across all disability programs (from about 50 percent of the caseload in present to at least 90 percent after harmonization) may further reduce error and fraud in disability allowance programs. In particular, stronger gate keeping through harmonized certification could bring fiscal savings of up to 0.2 percent of GDP over the project period, all else being equal. The savings through improved detection of erroneous or fraudulent cases are covered in the next paragraph.

71. **Fiscal savings from reduced EFC rate.** The development of a modern, comprehensive system to control EFC in the SP benefit stream will improve compliance and generate fiscal savings estimated at up to 0.5 percent of GDP for the duration of the project (over a four year period). Annex 2 provides the computations and assumptions behind this estimation, and assumes a reduction in the overall caseload of the GMB and disability programs by 5 percent each year and for child allowances, birth grants and maternity/ paternity allowances for uninsured beneficiaries by 2.5 percent per year. At the same time, the social protection system will be less invasive for the clients (as only clients with high risk of EFC will be investigated, and many of the investigative techniques such as data matching or other type of intelligence gathering will not be invasive) and will create trust that the SP ministries are able to transfer cash benefits to the right beneficiary, at the right time and in the right amount, and will minimize the waste of public resources.

72. **Overall cost savings under the project.** Over the four years of its implementation, the project will generate cumulative fiscal savings of at least 0.5 percent of GDP. The savings generated by the introduction of stronger gate-keeping in CDCI and the strengthening of the EFC will reduce spending by at least 0.7 percent of GDP (0.2 percent from CDCI gate keeping, and

0.5 percent from the overall EFC activities), that will compensate an estimated increase in costs of about 0.2 percent of GDP due to the increase in coverage of the GMB and child allowances and the administrative costs involved in setting up the OSS, CDCI, EFC and deinstitutionalization.

73. **Social inclusion of children and disabled adults currently in institutions.** The project will help the Croatian Government use EU funds to finance the cost of de-institutionalization of about 715 children without parental care, children and adults with disabilities, and mentally ill adults. These people will benefit from either living with biological or foster families, or in organized housing that will allow them to live in the community. During a transition period there will be an increase in costs, as new services are created prior to old services being phased out and institutions closed. However, in the long run, there could be savings as some institutions can be closed while the de-institutionalized individuals require lower staff/beneficiary ratios, lead more independent lives and adults may contribute to the economy through employment. To bring about these savings will require political will to close institutions, reduce staffing and outsource more service provision. Deinstitutionalized care could create income earning opportunities, including for currently inactive women. However, it may also mean that some carers – traditionally women - exit the labor market in order to look after dependents at home instead of leaving them in institutions.

74. **Facilitating activation of out-of-work SA beneficiaries.** The project will contribute to the design and implementation of activities that facilitate the activation of the out of work, including SA beneficiaries to resume employment, part of full time, in combination with social assistance support or not. The activities would contribute to better prioritization and targeting of ALMPs to those who have the highest probability of becoming long term unemployed.

75. **The project proposes to leverage EU funds** through support for preparation of European fund project proposals in the deinstitutionalization area and through the activation work. As such, the project will have a positive fiscal impact by helping the Government to generate non-deficit creating spending/investments.

2) Rationale for public sector provision/financing

76. **Social Protection is the responsibility of the public sector in Croatia.** In Croatia, the majority of cash benefits for the poor and vulnerable are financed by the central government, with a minority financed by local governments. The State also has overall responsibility for social service provision but, as part of the reform process, the government is exploring options to increase the opportunities for NGO or commercial service providers to meet the demand for community-based services. The project will support the Government of Croatia to bring the mix of SP instruments closer to European standards, and to improve the efficiency of the SP spending closer to that standard. The project will support strengthening the performance of the social protection system, rather than supporting non-investment alternatives such as changes in policies or regulations.

3) Value added of Bank's support

77. **The World Bank support will deepen and enhance the realization of the Government's social protection reform strategy** through the financing of key investments, through bringing cutting-edge technical assistance and international expertise to the implementation of reforms, and through the leveraging of EU structural funds.

78. **Through the proposed operation, the World Bank will take a partnership approach to implementation.** The Bank can bring its experience from the region and beyond to enhance the Government's reforms, for example with best practices in the design of OSS; disability harmonization; Management Information Systems to support evidence based decision-making; improving oversight and controls, de-institutionalization, and introducing activation elements to help work-able beneficiaries get back into work. In all these areas, the World Bank has expertise and experience from analytical work and from implementation in other countries in the region and beyond that it can share with Croatia. The work in Croatia will, in turn, provide models for other countries in the region.

79. **Access to EU funds provides a big opportunity to upgrade the social protection system, despite a fiscal crunch.** The World Bank's involvement can assist in the absorption of EU funds through support in the preparation of project proposals, especially in the areas of de-institutionalization and activation.

4) Estimated Poverty Reduction Impact

80. **Simulated poverty reduction impact of the OSS.** The poverty headcount is expected to fall from an estimated 14.4 percent before the introduction of the OSS to 14 percent after this impact will be felt by the beneficiaries of the GMB and child allowance program who are currently eligible for these programs but the level of benefits is too small to induce them to apply (the simulation model is described in paragraph 69).

5) Monitoring arrangements to track the results of the project

81. **As the proposed project is results-based, a number of key results will be monitored by the client, and the Project will finance the TA for establishing an adequate monitoring system.** For example:

- To track the reduction in private costs associated with the implementation of the OSS, the Project will finance the development of cost-monitoring system that will track dynamics of such costs and will analyze the composition and dispersion of the costs, to inform the Government on potential areas for cost-savings. A similar monitoring module will be developed for the harmonized disability processes.
- To track the take-up of activation measures by out of work social assistance beneficiaries, the project will finance technical assistance to develop the monitoring system to track the participation in ALMPs by different groups of out of work beneficiaries; percent employed after ALPMs; employment retention rate after 6 and 12 months; and other similar indicators. The use of groups generated by the statistically assisted profiling tool piloted under the project would be a simple and effective way to present such data.
- Last but not least, the Project will provide TA for the development of an end-to-end EFC MIS and monitoring system. The monitoring of the rate of SP spending lost to EFC will

track, inter alia, the share of cases with irregularities; the proportion of undue benefits paid, of which recovered; the number and monetary value of sanctions applied, of which collected, in a given period.

- Qualitative assessment techniques will be used to assess the impact of deinstitutionalization reform on beneficiaries.

B. Technical

See Annex 2 for details of project support under each thematic area and Annex 6 for a detailed description and assessment of the thematic areas supported by the project.

C. Financial Management

82. **Overall Financial Management risks are rated Moderate.** This assessment, undertaken in February 2014, concludes that acceptable arrangements have been put in place by respective implementing entities. It also assesses FM risk as Moderate. It recommends institution of the following systemic improvements intended to support the achievement of project objectives (see also Annex 3):

Action	Responsible	Timeline
The MSPY will hire or designate an FM Officer	MSPY	By Effectiveness
The Project Steering Committee proactively oversees the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities, including fiduciary oversight and risk management to be included in the POM.	Project Steering Committee	During project implementation – responsibilities defined in POM
Technical assistance to the SAO to strengthen capacity for IT systems audits applying Computer-Assisted Audit Techniques (CAATS). A stop-gap measure in the absence of capacity will be to outsource periodic IT audits of the OSS automated systems.	MSPY	During project implementation, to be in tandem with proposed automation of OSS systems.
The scope of annual financial statements audits of the GMB component to include reviews of reimbursement claims for replenishment of eligible expenditures.	Project Steering Committee and SAO	Annually during audits of GMB
Improve capacity of Internal Auditors in order to extend the scope of the audit to cover the audit of processes pertaining to the benefits subject to this Project	All Ministries and agencies included in the Project	During the project implementation
Improve technical capacity of various Inspectorates covering GMB, child allowance and maternity/paternity allowances in order to adopt risk based approach when inspecting final beneficiaries	All Ministries and agencies included in the Project	During the project implementation
FM supervision plan to include assessment of arrangements for migration of other funds – Maternity/Birth Allowances and Child Allowance to the OSS	Bank Task Team	During project implementation support/supervision

Action	Responsible	Timeline
FM to complement TTL review of claims for GMB replenishment by reviewing Semi-Annual Financial Reports	Bank Task Team	During project implementation support/supervision

83. **Implementation arrangements.** Implementation of Component 1 will rely on the Government’s existing financial management architecture for the GMB, which has been chosen as the Eligible Expenditure Program (EEP). Based on Semi-Annual Financial Reports generated by the Government's Treasury System and MSPY monitoring report on GMB execution, the World Bank will reimburse the Government for a share of expenditures on the Eligible Expenditure Program after specified results (DLIs) have been achieved and verified. Amounts disbursed by the Bank will comprise reimbursements of eligible expenditures and will be included in the regular state budget financing and expended in accordance with state budget policies and procedures. Implementation of Components 2 and 3 will rely on the traditional FM and disbursement arrangements, which have been put in place in the PIU at MSPY. Details on division of responsibilities, budgeting, accounting and reporting arrangements, internal controls and audit requirements at the MSPY and other implementing institutions are provided in Annex 3.

84. **Assessment of GMB program implementation arrangements.** The GMB program’s existing implementation arrangements are assessed as adequate including: sufficient levels of transparency; operating under an adequate system of checks and controls; and producing reliable financial and budget execution reports. Payments under the GMB are subject to a complex and complementary system of oversight and controls that will be further improved under the project’s Error Fraud and Corruption Results Area. The project will support the MSPY, MPA, MLPS, CHII, CPII and CES, to increase capacity in certain FM areas, particularly to improve the internal audit functions towards a risk-based approach and a strategic internal audit work planning, and increase capacity of the Inspections in-charge of different benefits which are planned to be managed through OSS, with the overall goal to increase accountability and reduce error, fraud and corruption risks.

85. **Financial Reporting.** MSPY will be responsible for the project’s overall FM and disbursements processes and will take the lead in FM arrangements of the Project. The MSPY has committed to staffing the Project Implementation Unit with FM staff with experience in financial management (preferably of World Bank-financed projects) by effectiveness. They will work in close coordination with the FM staff of the all implementing entities. The PIU in the MSPY will furnish to the Bank the semi-annual IFRs not later than 45 days after the end of the reporting semester. IFRs will be based on existing institutional management reports, including a summarized project level reconciliation prepared by the PIU. Annual financial statements will be prepared separately by respective implementing entities with reports separately disclosing activities financed by the project.

86. **Auditing Arrangements for Component 1.** The State Audit Office (SAO) conducts regular financial audits of the MSPY under which the GMB is administered. The scope of GMB audits will be extended to include specific reviews of claims submitted for reimbursement of

eligible expenditures during the period covered by annual audits. In addition to financial statements audits, the SAO, or another entity acceptable to the Bank, will also undertake performance audits whose scope will be focused on assessing the verification mechanisms for the EEP (GMB) related to the application of eligibility criteria, as well as the programs' administration, oversight and control aspects. Three performance audits, whose specific scope and timing will be agreed with the World Bank, will be undertaken during the life of the project. All reports will be transmitted to the Bank by the MSPY.

87. **The SAO audits the financial statements of all participating Ministries and Agencies: MSPY, MPA, MLPS, CHII, CPII, and CES.** The SAO agreed that it will conduct audits of the relevant institutions' financial statements in order to meet with World Bank's financial reporting requirements. The SAO also agreed to expand its scope of work to include conducting financial and performance audits of the Public Administration Offices under which the OSS will be formed. Audit reports will be published on the SAOs website, consistent with existing practice. Audited financial statements will be submitted to the Bank by MSPY not later than twelve (12) months after the end of the audited calendar year, again, consistent with existing Croatian legislative requirements.

88. **Audit of project financial statements for Components 2 and 3.** The audited project financial statements will clearly present project expenditures by each component, and activity and will follow the format of the agreed IFRs with accompanying notes and explanations. The financial audit of project financial statements will be carried out by contracted private sector auditors acceptable to the Bank in compliance with the audit ToR agreed with the Bank. Audited Project Financial Statements will be transmitted to the World Bank by MSPY and made publicly available.

89. More detail on financial management and disbursement arrangements are provided in Annex 3.

D. Procurement

90. **The procurement risk is rated Substantial:** The project will finance contracts of diverse nature and cost, including consulting services, civil works, goods and information technology contracts, which would follow both national and international competitive procedures. Given the diverse nature of the procurement, as well as insufficient practical expertise with World Bank procurement procedures, the risk for procurement is defined as Substantial.

91. **Procurement arrangements.** Several institutions will be involved in the proposed project, including four ministries (Ministry of Social Policy and Youth (MSPY), Ministry of Public Administration (MPA), Ministry of Labor and Pension System (MLPS) and Ministry of Health (MoH)) and five agencies (IDCPREPD/CDCl, CPII, CHII, CES and Labor Inspectorate).

92. Component 1: Improving efficiency and effectiveness of the social protection system is results-based and will not be subject to the Consultant and Procurement guidelines. Component 2: Investments and Technical Assistance and Component 3: Project Management Support will follow standard investment project financing procedures and will be subject to the World Bank's

Consultant and Procurement Guidelines. A Project Implementation Unit (PIU) will be created in the Ministry of Social Policy and Youth and is responsible for the overall coordination, monitoring, fiduciary functions and reporting activities of the Project Preparation Advance (PPA) and of the project's Component 2 and 3.

93. **The MSPY has committed to hiring or designating an additional Procurement staff person for the PIU who is familiar with procurement practices in similar projects by project effectiveness.** The head of the PIU who is already in place and is managing procurement under the PPA has substantial experience with World Bank procurement procedures.

94. **Agreed mitigation measures:** The following measures are proposed to mitigate the risks for procurement management and to maintain the implementing team's capacity:

- A formal decision to be issued prior to Loan negotiations by the Minister of Social Policy and Youth on project implementation arrangements and the appointment of the PIU;
- A qualified and experienced Procurement Adviser to assist the PIU with the management of the procurement process, at least during the first year of project implementation. This person should be hired as soon as possible, but not later than project effectiveness;
- A Project Operational Manual (POM) to be prepared and adopted, which shall include *inter alia*: a detailed description of overall procurement arrangements and responsibilities under the project (more detail in Annex 3);
- The staff that will be involved in the management and coordination of the procurement process shall attend a formal or regionally organized training in World Bank procurement;
- The Bank's Procurement Officer assigned to the project shall carry out a tailor-made training for the PIU as soon as the project is approved;
- The bidding and proposal documents for selected contracts (large value, or of specific importance for the project) to be procured during the first year of project implementation, to be prepared prior to project effectiveness; and
- During project implementation, as needed, additional technical support (e.g. external consultants and advisers) for preparation of terms of reference and technical specifications and/or other activities as relevant will be hired to assist the PIU.

95. **Applicable Guidelines:** All goods, works, non-consulting services and consulting services required for the activities and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth in World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011 and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011 and the provisions in the Loan Agreement and the procurement plan.

96. **Procurement plan:** The procurement plan for the first 18 months of the project will be finalized during project appraisal and its final version will be agreed at loan negotiations. The procurement plan provides the basis for procurement methods as well as the procurement review arrangements. More details regarding the procurement plan, World Bank review procedures are outlined in Annex 3.

97. **Anti-corruption Guidelines.** The Borrower confirmed during the negotiations that the MSPY, through its PIU, will follow the World Bank's anti-corruption measures and will not engage the services of firms and individuals debarred by the World Bank.

E. Social (including Safeguards)

98. **The Project is expected to have positive social implications,** with cash benefits more readily and easily accessible by beneficiaries; more means-testing to ensure cash benefits go to the needy and vulnerable groups; and greater de-institutionalization of vulnerable children and adults. It is expected that the proposed program will stimulate greater social integration and assist in the development and implementation of more inclusive social policies to target better the vulnerable social groups. The implementation of the 'one-stop shop' concept for social benefits could also contribute to social accountability by increasing the effectiveness of controls of social service delivery outcomes that are currently shared by many different institutions.

99. **No land acquisition, displacement of occupants (legal or illegal), or restriction of access to resources or income streams is expected under the Project.** The Project will not finance any new construction though some small rehabilitation works within the existing buildings might be supported by the Project. Any sites presenting situations that would trigger OP 4.12 on Involuntary Resettlement will be excluded from Project consideration through the EMP checklist and the Project Operational Manual.

100. **During preparation of the reforms to be supported by the proposed project, social assistance beneficiaries have been consulted.** The Government undertook extensive consultations during the preparation of the Social Welfare Act and the CDCI Act. Several workshops and round tables have been held on the GMB and the new program received wide media coverage.

101. **The proposed project will bring positive impacts to both men and women who will benefit equally from the measures being supported.** For example, both male and female applicants will benefit from improved and consolidated disability assessment (certification), which is expected to result in faster, more transparent, and more efficient certification process and service. The same is true for other social protection system services that the project will be supporting such as reducing fragmentation in the delivery of social assistance cash transfers and reducing error and fraud in social protection programs. Women – traditionally carers in society – may find employment as foster parents, although they may also exit formal employment in order to take up home-based care.

102. **The project will also address the needs of children deprived of parental care and adults and children with development disabilities who will be de-institutionalized and provided with family-type living arrangements.** The project will enable them to fulfil their rights to live in the community and will promote social inclusion. Gender-disaggregated data will be collected, monitored and reported as indicated in the Results Framework (Annex 1).

F. Environment (including Safeguards)

103. **The Project is rated Category B and triggers Environmental Assessment (OP 4.01) and Cultural Heritage (OP 4.11).** The scope of environmental impacts is considered site specific, predictable and easily mitigated as the project is likely to support minor rehabilitation of buildings within their existing blueprint under the One-Stop Shop and CDCI Results Areas. The Project will not finance new construction. The Cultural Heritage Operational Policy is triggered as the buildings to be renovated are predominantly in urban - and therefore possibly historic - areas.

104. **An Environmental Management Plan Checklist (EMPC) was prepared prior to appraisal as a template checklist for sites to be rehabilitated was already completed for one specific site.** The EMP Checklist is applied for minor rehabilitation and serves as the Environmental Management Framework for the proposed project. A detailed assessment of the PAO's current facilities is underway but has not yet been finalized. The assessment will identify which buildings will need input from the project and any rehabilitation works to be covered. As the specific buildings have not yet been identified, for the purposes of the project a general EMP checklist is to be prepared prior to appraisal tackling all environmental concerns related to rehabilitation of buildings, possibly in historic areas.

105. **The Project will not have any potential large, significant or irreversible impacts.** The environmental impacts of the project are expected to be manageable, temporary and of local impact as they are related to the general construction activities on already known and previously used locations. The likely impacts and mitigation measures are set out in Annex 3.

106. **The general EMPC has been publicly disclosed and discussed.** The checklist was disclosed in both English and Croatian on the Ministry of Social Policy and Youth's website on May 30, 2014. A public meeting on the checklist was conducted on June 16, 2014. Comments from the meeting were addressed and no changes were needed to the checklist.

107. **If rehabilitation of a building would go beyond interior rehabilitation, a site specific EMP checklist would be prepared and disclosed.** All comments from the public will be addressed and if needed reflected in the checklist. The EMP checklist will be part of the tender documentation for rehabilitation works and therefore part of the work contractors' and supervisor's contracts.

108. **The status of environmental compliance will be reported by each renovation site to the PIU on regular basis and the PIU will provide this information to the World Bank team as a part of general progress reporting.** The PIU will include technical personnel that will be trained by the World Bank staff on implementation of World Bank safeguards policies.

Annex 1: Results Framework and Monitoring

Table A1. Results Framework

Project Development Objectives: The project aims to improve the efficiency and effectiveness of Croatia's social protection system.											
Project Development Objective Indicators											
Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values				End Target	Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1 2015	YR2 2016	YR3 2017	YR4 2018				
One Stop Shop: Indicator 1: Reduce private costs for social assistance beneficiaries and unemployed by 15% from baseline (of X%, month 2014)	<input type="checkbox"/>	Percentage	(2014)	2.0	5.0	10.0	15.0	15.0	Annual	Survey of private costs of beneficiaries of the social protection programs that will be consolidated in the OSS	MSPY Monitoring Department
Central Disability Certification Institute: Indicator 2: Percentage of cases certified by IDCPREPD's full-time certifying officers increased from 0% to at least 90% (December 2018)	<input type="checkbox"/>	Percent	0 (2014)	60	75	90	90	90	Annual	Administrative data: Share of new claims in a given year certified by IDCPREPD out of total new claims	IDCPREPD and CDCI
Reduced Error and Fraud: Indicator 3: EFC risk-prone programs have strengthened information systems, and oversight and control procedures including detection of	<input type="checkbox"/>	Text	Piecemeal, partial EFC actions aimed at a limited set of Social Protection programs (2014)	EFC Strategy approved and is disseminated by the Government, and the Action Plan is adopted and disseminated	Minimum effective EFC capacity in place in MSPY, MLPS and/or CDCI and/or their implementing agencies	Inspections of risk-prone programs* are carried out to correct the list of irregularities resulting from the cross-checks between the MIS of these programs and	Inspections of risk-prone programs* are carried out to correct the beneficiary cases with higher risk scores, determined	EFC risk-prone programs have strengthened information systems, and oversight and control procedures	Annual	Legislation & regulations; Reports; and Administrative data	MLPS and MSPY

error and fraud using risk-based investigation, data matching.				by MLPS and MSPY		the databases of the Tax Administration, CPII, CES, MLPS, MSPY and the Civil Registry	through analytical risk profiling.	including detection of error and fraud using risk-based investigation, data matching.			
De-institutionalization: Indicator 4: Number of beneficiaries living in State and non-State Institutions or Family homes moved from institutions to family-type care environments	<input type="checkbox"/>	Text & Number	0 (2014)	Operational Plan for Transformation and Deinstitutionalization of Social Welfare Homes 2014-2016 adopted by MSPY and published	210 people moved from institutions to family-type environments	Additional 225 people moved from institutions to family-type environments	Additional 280 people moved from institutions to family-type environments.	715 vulnerable children and adults moved from institutions to family-type care environments	Annual	Reports and Administrative data	MSPY
Fiscal Savings: Indicator 5: Cumulative fiscal savings of at least 0.5% of GDP	<input type="checkbox"/>	Text & Number	0 (2014)	0.1% GDP	0.2% GDP	0.35% GDP	0.5% GDP	0.5% GDP	Annual	Reports and Administrative data	MSPY

* EFC Risk prone programs: Disability Pensions and Allowances; Unemployment Benefit, non-contributory Maternity/Paternity allowances, Child allowances and the GMB.

Intermediate Results Indicators

DLIs 1-4: OSS in place: The administration of the GMB, Child allowances, Maternity/Paternity/ Birth Grant for non-contributory programs and the Unemployment Benefit programs are transferred to the OSS	<input type="checkbox"/>	Text	GMB, Child allowances, Maternity/Paternity allowances and Birth Grants, and Unemployment Benefit programs administered by different networks (2014)	The administration of the GMB program has been transferred to the OSS (DLI1)	The administration of the Child Allowance program has been transferred to the OSS (DLI2)	The administration of the non-contributory Maternity/Paternity/ allowances and the Birth Grants have been transferred to the OSS (DLI 3)	The administration of the Unemployment Benefit program has been transferred to the OSS (DLI4)		Annual	Administrative data: OSS MIS records showing that at least 90% of the new applicants of the respective SP program has been processed via the OSS network for at least two consecutive months	MSPY, MPA
DLIs 5-6: CDCI operating	<input type="checkbox"/>	Text	No CDCI (2014)	CDCI legally established,		CDCI operating independently			Annual	Legislation & regulations; Reports;	IDCPREPD and CDCI

independently including: disability certifications processed centrally, unified disability certification procedures applied, regional office network and independent IT system with interfaces to OSS and other agencies				adequately staffed, and unified disability certification methodology adopted by the Government (DLI 5)		including disability certifications processed centrally, unified disability certification procedures applied, regional office network and independent IT system established with interfaces to OSS and other agencies (DLI 6)				and Administrative data	
DLIs 7-10: Reduced Error and Fraud: EFC risk-prone programs have strengthened information systems, and oversight and control procedures including detection of error and fraud using risk-based investigation, data matching	<input type="checkbox"/>	Text	Piecemeal, partial EFC actions aimed at a limited set of Social Protection programs (2014)	EFC Strategy approved and is disseminated by the Government, and the Action Plan is adopted and disseminated by MLPS and MSPY (DLI 7)	Minimum effective EFC capacity in place in: MSPY; and MLPS or a combination of MLPS and either, or both, of any of its implementing agencies and CDCI (DLI 8)	Inspections of risk-prone programs* are carried out to correct the list of irregularities resulting from the cross-checks between the MIS of these programs and the databases of the Tax Administration, CPII, CES, MLPS, MSPY and the Civil Registry (DLI 9)	Inspections of risk-prone programs* are carried out to correct the beneficiary cases with higher risk scores, determined through analytical risk profiling. (DLI 10)	EFC risk-prone programs have strengthened information systems, and oversight and control procedures including detection of error and fraud using risk-based investigation, data matching.	Annual	Legislation & regulations; Reports; and Administrative data	MLPS and MSPY
DLIs 11-14: De-institutionalization: Number of beneficiaries living in State and non-State Institutions or Family homes moved to family-type care environments	<input type="checkbox"/>	Text & Number	0 (2014)	Operational Plan for Transformation and Deinstitutionalization of Social Welfare Homes 2014-2016 adopted by MSPY and published (DLI 11)	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)	715 beneficiaries living in State and non-State Institutions or Family homes moved from institutions to family-type care environments	Annual	Administrative data	MSPY
Activation: Statistically assisted profiling	<input type="checkbox"/>	Text	No statistically	Statistically assisted	Employment Officers in	CES monitoring system includes data		Statistically assisted	Annual	Reports	CES

introduced			assisted profiling in place (2014)	profiling pilot developed	selected CES trained on the use of SAP	on unemployed categorized using SAP		profiling introduced			
Direct Project Beneficiaries: Core Sector Indicator: Number of people affected by the project	x	Number	951,690	-	-	-	-	951,690	Annual	Administrative data	MSPY
Of which, female beneficiaries Sub-indicator	x	Number	475,845	-	-	-	-	475,845	Annual	Administrative data	MSPY

Annex 2: Detailed Project Description

- 1. The proposed Project Development Objective is to improve the efficiency and effectiveness of Croatia’s social protection system.** The Project will aim to achieve greater efficiency 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. It aims to achieve greater effectiveness by reducing the private costs for beneficiaries leading to increased uptake of benefits; reducing the number of children and adults in residential institutions; and supporting activation of work able social assistance beneficiaries.
- 2. With a results-based approach, project disbursements are linked to eligible expenditures and the verified achievement of results.** Specifically, under the proposed SPSM project, project disbursements would be (a) linked to a defined eligible expenditure line item (comprising the “Eligible Expenditure Program” or EEP) within the Government’s Program (the social protection system); and (b) triggered by the verified achievement of agreed specific results (“Disbursement-Linked Indicators” or DLIs) for improving the performance of that Program (the Croatian Government’s social protection system).
- 3. Under the proposed SPSM project, the World Bank would reimburse a portion of the Government’s expenditures on its Program (the social protection system).** Within the overall Government Program, the GMB program was selected for World Bank reimbursement or as the EEP.
- 4. Disbursements would be triggered by the verified achievement of agreed specific results for improving the performance of the Government’s Program** (the social protection system). The MSPY and the World Bank have defined a set of 14 “Disbursement Linked Indicators” (DLIs) that consist of key results that contribute to the achievement of the PDO. These DLIs are described in detail in relation to the results chains in Results Areas I-IV and in matrix format in Table A2 below, and include: (a) one *input* indicator; (b) ten *output* indicators, marking improvements in the administration, functioning and implementation of the social protection system; and (b) three *outcome* indicators, measuring number of beneficiaries living in State and non-State Institutions or Family homes moved from institutions to family-type environments. Each of these results chains contributes to the achievement of the Project Development Indicators (PDIs), which are labeled with capital letters from A to D in the matrix Table A2 below. The protocols for verifying achievement of the DLIs are described in detail below. The cumulative disbursements under Component 1 are €50 million.
- 5. Some technical assistance (TA) and investments are needed for the achievement of these result areas.** Financing for these technical investments and activities would come from Component 2 of the project of €19.4 million.

Table A2: Disbursement-Linked Indicators (DLIs) and their linkages to the PDO-Level Indicators (PDI)

PDO Objective:	Disbursement-Linked Indicators (DLIs) with tentative indication of “target timing”				PDO-Level Results Indicators (PDIs)
	Target Timing = Year 1	Target Timing = Year 2	Target Timing = Year 3	Target Timing = Year 4	
I. One Stop Shop	1. The administration of the GMB program has been transferred to the OSS (<i>output</i>), EUR 5 million	2. The administration of the Child Allowance program has been transferred to the OSS (<i>output</i>), EUR 5 million	3. The administration of the non-contributory Maternity/Paternity allowances and Birth Grants have been transferred to the OSS (<i>output</i>), EUR 5 million	4. The administration of the Unemployment Benefit program has been transferred to the OSS (<i>output</i>), EUR 5 million	PDI A. Reduce private costs for social assistance beneficiaries and unemployed by 15% from baseline (of X%, month 2014)
II. Central Disability Certification Institute (CDCI)	5. CDCI legally established (Law on CDCI adopted), adequately staffed, and unified disability certification methodology adopted by the Government (according to the Law) (<i>output</i>), EUR 2 million		6. CDCI operating independently including: disability certifications processed centrally, unified disability certification procedures applied, regional office network and independent IT system with interfaces to OSS and other agencies (<i>output</i>), EUR 2 million		PDI B1. Percentage of cases certified by IDCPREPD’s full-time certifying officers increased from 0% to at least 90% (December 2018)
III. Reduce Error and Fraud	7. The EFC Strategy is approved and disseminated by Government, and the Action Plan is adopted and disseminated by MLPS and MSPY (<i>input</i>), EUR 2 million	8. Minimum effective EFC capacity in place in (a) MSPY; and (b) MLPS or a combination of MLPS and either or both of any of its implementing agencies and CDCI (<i>output</i>), EUR 2 million	9. Inspections of risk-prone programs** are carried out to correct the list of irregularities resulting from the cross-checks between the MIS of these programs and the databases of the Tax Administration, CPII, CES, MLPS, MSPY and the Civil Registry (<i>output</i>), EUR 2 million	10. Inspections of risk-prone programs* are carried out to correct the beneficiary cases with higher risk scores, determined through analytical risk profiling. (<i>output</i>), EUR 3 million	PDI C. Reduced Error and Fraud: EFC risk-prone programs* have strengthened information systems, and oversight and control procedures in place, including detection of error and fraud using risk-based investigation and data matching.
IV. De-institutionalization	11. Operational Plan for Transformation and Deinstitutionalization of Social Welfare Homes 2014-2016 adopted by MSPY and published (<i>output</i>), EUR 2 million	12. 210 beneficiaries living in State and non-State institutions or family homes moved from institutions to family-type environments (<i>outcome</i>), EUR 5 million	13. 225 beneficiaries living in State and non-State institutions or family homes moved from institutions to family-type environments (<i>outcome</i>), EUR 5 million	14. 280 beneficiaries living in State and non-State institutions or family homes moved from institutions to family-type environments (<i>outcome</i>), EUR 5 million	PDI D. De-institutionalization. 715 beneficiaries living in State and non-State institutions or family homes moved from institutions to family-type care environments
Disbursements	E11m	E12m	E14m	E13m	

*) EFC risk prone social protection programs include: Disability Pensions; Disability Allowances administered by MSPY; non-contributory Maternity/ Paternity Allowances for uninsured beneficiaries, Child allowances, and the GMB.

Thematic Areas of the Project

6. **The proposed project would support five thematic areas:** One stop shop; Central Disability Certification; Error, Fraud and Corruption; De-institutionalization; and Activation. The first four thematic areas are supported through a combination of results-based financing (Component 1) with complementary TA/investment (Component 2). The fifth thematic area, Activation, will only be supported through technical assistance (Component 2 only).

7. **Verifying compliance with the DLIs.** The remainder of this annex lays out some of the basic definitions, and the concept of “protocols” for monitoring progress and verifying achievement of the DLIs. These protocols are further defined in the Project Operational Manual, which will be finalized and approved by the Borrower before effectiveness of the proposed Project.

8. **Complementary TA and investments.** This annex also describes the complementary TA and investments financed by the project to support the achievement of the DLIs. The complementarity between the results-based disbursements (Component 1) and the TA and investments (Component 2) is illustrated graphically through results-chain diagrams that make explicit the theory of change for the thematic areas 1 to 4.

Thematic Area 1: One Stop Shop (OSS)

9. **The project would support the consolidation of cash administration for social welfare programs, family policy programs and cash assistance for the unemployed under a single delivery network, a One-stop-shop (OSS).** It would do so through a combination of results-based financing and TA/investment. Specifically, under Component 1, the Bank would disburse funds against the Eligible Expenditure Program each time the administration of a social assistance cash benefit is transferred to the OSS over the project period. The objective of this thematic area is to reduce the private costs for social assistance beneficiaries and the unemployed. The cumulative disbursements under DLIs 1 to 4 will be €20 million. The draft compliance protocols for DLI 1 to 4 are described in Table A3.

Table A3: Draft Protocol for Monitoring Achievement of DLIs of Thematic Area I (Result Area A) - One Stop Shop

#	Disbursement-linked Indicator (DLI)	Definition of the DLI		Draft Protocol to Evaluate Compliance of the DLI**
1	The administration of the GMB program has been transferred to the OSS (<i>output</i>)	<p>This DLI will be met when at least 90% of the GMB beneficiaries are paid, with GMB administered through the OSS, for two consecutive months; and at least 80% of the PAOs met minimum service standards*.</p> <p>The formula to calculate the DLI is:</p> $\frac{\text{Number of applicants approved by OSS that have been paid in month X}}{\text{Number of applications approved by OSS in month X}} \times 100$		<p>Data sources: GMB payment monitoring report</p> <p>Procedures: Payment monitoring reports are sent to the World Bank upon completion of the DLI target</p>

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI**
2	The administration of the Child Allowance program has been transferred to the OSS (<i>output</i>)	This DLI will be met when at least 90% of the Child Allowance beneficiaries are paid, with Child Allowance administered through the OSS, for two consecutive months; and at least 80% of the PAOs met minimum service standards*. The formula to calculate the DLI is:	<p>Data sources: Child Allowance payment monitoring report</p> <p>Procedures: Payment monitoring reports are sent to the World Bank upon completion of the DLI target</p>
		$\frac{\text{Number of applicants approved by OSS that have been paid in month X}}{\text{Number of applications approved by OSS in month X}} \times 100$	
3	The administration of the non-contributory Maternity/ Paternity Allowances and Birth Grant has been transferred to the OSS (<i>output</i>)	This DLI will be met when at least 90% of the non-contributory Maternity/ Paternity allowances and Birth Grants for uninsured beneficiaries are paid, with these programs administered through the OSS, for two consecutive months; and at least 80% of the PAOs met minimum service standards*. The formula to calculate the DLI is:	<p>Data sources: GMB payment monitoring report</p> <p>Procedures: Payment monitoring reports are sent to the World Bank upon completion of the DLI target</p>
		$\frac{\text{Number of applicants approved by OSS that have been paid in month X}}{\text{Number of applications approved by OSS in month X}} \times 100$	
4	The administration of the Unemployment Benefit program has been transferred to the OSS (<i>output</i>)	This DLI will be met when at least 90% of the Unemployment Benefit beneficiaries are paid, with the Unemployment Benefit administered through the OSS, for two consecutive months; and at least 80% of the PAOs met minimum service standards*. The formula to calculate the DLI is:	<p>Data sources: GMB payment monitoring report</p> <p>Procedures: Payment monitoring reports are sent to the World Bank upon completion of the DLI target</p>
		$\frac{\text{Number of applicants approved by OSS that have been paid in month X}}{\text{Number of applications approved by OSS in month X}} \times 100$	

* Proposed minimum service standards will be outlined in the Project Operational Manual

**The protocols will be finalized in the Project Operational Manual

10. The Project's support to the OSS implementation will be complemented by investments, training and technical assistance (totaling approximately Euro12 million)

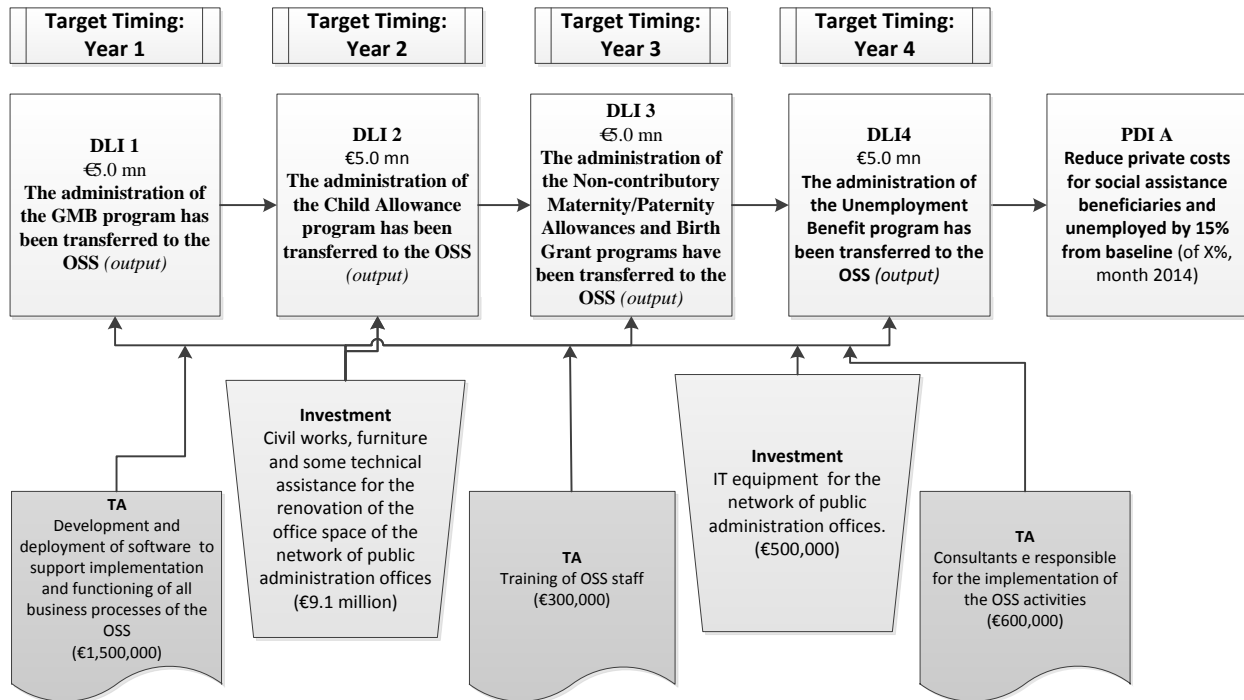
needed for OSS to become fully operational, and to develop the links with the EFC and activation agenda. In order to achieve that, the network of PAOs will have to be upgraded in terms of space, equipment, IT and human resources. Specifically, the types of activities proposed to be supported are the following:

- i) Civil works, furniture and some technical assistance for the renovation of the office space of the network of public administration offices (€9.1 million) that will become the OSS. The activities will include the project design/supervision, refurbishments, and equipment for the OSS. The detailed situation analysis and assessment of HR, IT and physical investment needs for the network of public administration offices to be implemented under the PPA will produce a list of the offices that will be refurbished and equipped under the project;
- ii) Development and implementation of the business software (€1,500,000) for OSS to support implementation and functioning of all business processes in the OSS. Business software is expected to be tailor made, i.e. a consultancy, rather than a goods-alike customization of the off-the-shelf software;
- iii) Procurement of the IT equipment (€500,000) for the network of public administration offices. The detailed assessment will be carried out by the consultant for the situation analysis and assessment of HR, IT and physical investment needs for the network of public administration offices to be implemented under the PPA;
- iv) A team of consultants that will be responsible for the implementation of the OSS activities (€600,000).
- v) Training of OSS staff (€300,000) will focus mainly on implementing new business processes in the OSS that will be introduced with the transfer of the administration of each new social benefit into the OSS.

11. In order to initiate the key activities, a PPA will finance the following activities related to the OSS: (i) detailed situation analysis and assessment of HR, IT and physical investment needs for the network of public administration offices; (ii) initial IT for PAOs; and (iii) designing of PR campaign.

12. Results chain for thematic area 1. Figure 1A below maps the results chain that would support the achievement of this vision, and highlights the complementarity between Component 1 and the activities financed through Component 2.

Figure 1A. One Stop Shop



Thematic Area 2: Unification and Harmonization of the Disability Certification Process and Administration

13. The proposed Project would support the establishment of the Central Disability Certification Institute (CDCI) which will unify the disability certification process. It would do so through a combination of results-based financing and TA/investment. Specifically, under Component 1, the Bank would disburse funds against the Eligible Expenditure Program when the CDCI is legally established and then when the CDCI is fully operationalized over the project period. The objective is to increase the percentage of disability cases certified by IDCPREPD’s full-time certifying officers. The cumulative disbursements under DLIs 5 and 6 will be €4 million. The draft compliance protocols for DLI 5 and 6 are described in Table A4.

Table A4: Draft Protocols for Monitoring Achievement of DLIs of Thematic Area 2 (Result Area B) - Central Disability Certification Institute (CDCI)

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI*
5	CDCI legally established (Law on CDCI adopted), adequately staffed, and unified disability certification methodology adopted by the Government (according to the Law) (output)	This DLI will be met when i) the Law on Central Disability Certifying Institute (“Zakon o Jedinstvenom tijelu vještačenja”) is enacted, ii) CDCI formally established as an integral part of IDCPREPD in IDCPREPD’s Statute, iii) disability certifying officers in CPII transferring their labor contracts to IDCPREPD, and iv) unified disability certification methodology	Data sources: Official Gazette, MSPY, and IDCPREPD Procedures: A copy of the CDCI Law and GoC regulation on disability methodology, published in the Official Gazette is sent to the World Bank. A copy of adopted IDCPREPD Statute is sent to the World Bank.

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI*
		adopted by the Government.	
6	CDCI operating independently including: disability certifications processed centrally, unified disability certification procedures applied, regional office network and independent IT system with interfaces to OSS and other agencies. (output)	This DLI will be met when: (i) CDCI within IDCPREPD is the only agency in Croatia performing disability certification, ii) IDCPREPD is the only point of contact and entry for users of the disability certification service, iii) IDCPREPD operates on its own closed and secure IT system, iv) IDCPREPD operates a regional network of offices, v) CDCI performs all certifications internally and on the same methodology.	Data Sources: IDCPREPD Annual Report posted on the website Procedures: A copy of the Annual Report is sent to the World Bank

**The protocols will be finalized in the Project Operational Manual*

14. **The Project’s support for the establishment of the CDCI will be complemented by investments in business processes, developing CDCI’s infrastructure and training (totaling €4 million).** Initial CDCI activities launched under the PPA include i) design of the business processes and business software for IDCPREPD, ii) procurement of basic IT equipment needed for the first phase of creating CDCI, and iii) development and delivering training in unified disability certification methodology, totalling €350,000. These activities are designed as initial steps in creation of the IDCPREPD, yield IDCPREPD’s Investment and Training Plan, and accelerate the implementation of the IDCPREPD/CDCI’s Project activities. Other activities supported from Component 2 include:

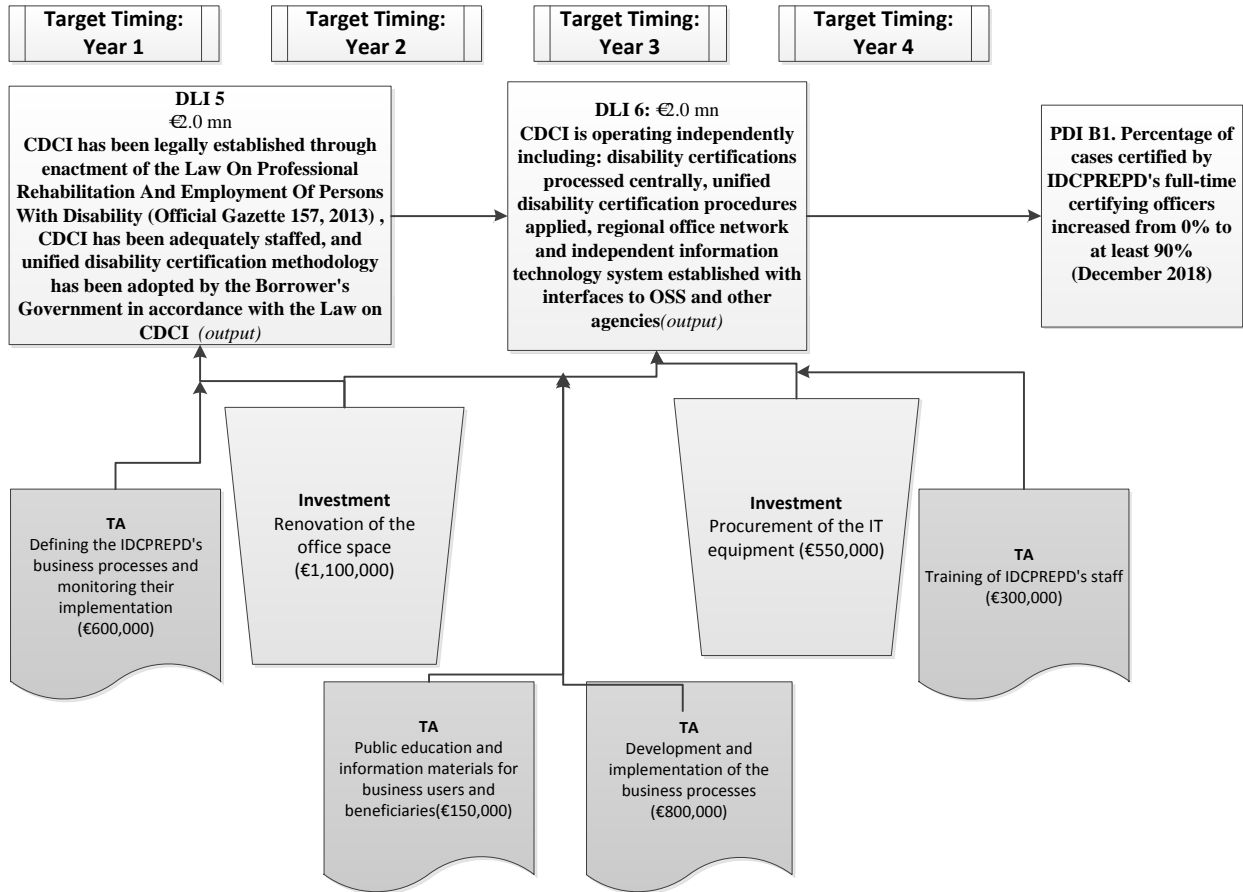
- i) Defining the IDCPREPD’s business processes and monitoring their implementation (€600,000, consultancy). The objective of this activity is to define business processes based on the initial design done under the PPA. The activity should identify and map all elements and details of the business processes of disability assessment, professional rehabilitation and employment of persons with disabilities, cross cutting internal processes as well as business processes linking IDCPREPD with external world. The company implementing this consultancy assignment would also monitor the implementation of the business processes in the IDCPREPD.
- ii) Development and implementation of the business processes (€800,000, consultancy) will finance the production of the business software to support implementation and functioning of all business processes. Business software is expected to be tailor made, i.e. a consultancy, rather than a goods-alike customization of the off-the-shelf software.
- iii) Procurement of the IT equipment (€550,000, goods) as envisaged by the Investment and Training Plan, to be prepared under the PPA. Initial list of IT equipment includes servers and printers for regional offices, personal computers for IDCPREPD’s employees, and archiving equipment. The final list of IT equipment and the number and frequency of tenders will be determined by the design and detailed definition of the business processes.
- iv) Renovation of the office space (€1,100,000, works) will be conducted in line with the IDCPREPD’s Investment and Learning Plan and upon identification of the office space to be used by the IDCPREPD in the Zagreb HQ and four regional offices. The adequate

office space in Zagreb HQ, suitable to accommodate staff between 120 and 150 should be provided by the State Agency for Management of State Property (DUUDI) by end 2014. The volume of needed renovation will depend on the state of the property assigned to IDCPREPD. Assignment of the regional office space will depend on the design of business processes and the volume of work to be performed in regional offices. Initial estimate is that the HQ renovation will require renovation works worth €700,000 and regional offices €400,000. Final allocation and distribution will depend on the quality and appropriateness of the HQ office space provided by DUUDI and the arrangements for the regional offices. In case DUUDI fails to provide the office space, alternative options, such as office space purchase or rental, and their consequences for Project activities will have to be considered.

- v) Training of IDCPREPD's staff (€300,000, consultancy) will focus mainly on implementing new business processes. Additional training in unified disability certification methodology, following-up to the training provided from the PPA, may also be included if needed. The final breakdown of trainings and the number of tenders will be determined in IDCPREPD's Investment and Training Plan.
- vi) Public education and information materials (€150,000, goods) will be needed for providing basic information to the system users and beneficiaries – where to apply, how to apply, what are individual rights and responsibilities, complaints and redress mechanism, etc. Expected format of providing information is through leaflets, brochures, IDCPREPD's portal, and other agencies' portals. Since there will not be a need for a broad information campaign, the educational materials will be prepared by the IDCPREPD staff, and its printing and transmittal through the Project activity.

15. **Results' chain for thematic area 2.** Figure 1B below maps the results chain that would support the achievement of this vision, and highlights the complementarity between Component 1 and the activities financed through Component 2.

Figure 1B. Central Disability Certification Institute



Thematic Area 3: Reduce Error and Fraud

16. The proposed Project would support the Government's EFC strategy, which will encompass Social Protection benefits and shadow employment and fraudulent behavior in the labor market. It would do so through a combination of results-based financing and TA/investment. Specifically, under Component 1, the Bank would disburse funds against the Eligible Expenditure Program as steps are taken to implement the EFC Strategy and Action Plan over the project period. The objective is to strengthen information systems and oversight and control procedures in risk-prone social protection programs. The cumulative disbursements under DLIs 7 to 10 will be € million. The draft compliance protocols for DLI 7 to 10 are described in Table A5.

**Table A5: Draft Protocols for Monitoring Achievement of DLIs of Thematic Area 3
(Result Area C) – Reduce Error and Fraud**

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI***
7	The EFC Strategy is approved and disseminated by Government, and the Action Plan is adopted and disseminated by MLPS and MSPY (input)	<p>This DLI will be met when the GoC has adopted and disseminated the EFC Strategy and MLPS and MSPY have approved and disseminated the Action Plans Based on Strategy on their websites.</p> <p>The Action Plan should include, inter alia: (a) the objective and scope of the Action Plan (programs covered); (b) key activities, at least those required to comply with DLIs 8, 9 and 10 as agreed with the Bank; (c) timetable; (d) responsible institutions; (e) required budget and human resources where applicable; (f) legal implications; (g) indicators to monitor progress; and (h) monitoring and evaluation procedures.</p>	<p>Data sources: Official Gazette and MSPY and MLPS websites</p> <p>Procedures: A copy of the GoC regulation adopting Strategy for the EFC published in the Official Gazette is sent to the World Bank. The Action plan published on MSPY and MLPS websites is sent to the World Bank.</p>
8	Minimum effective EFC capacity in place* in (a) MSPY and (b) MLPS or a combination of MLPS and either or both of any of its implementing agencies and CDCI (output)	<p>This DLI will be met when:</p> <p>(i) sufficient inspectors and medical revision specialists available, trained and ready to undertake pro-active and reactive inspections and controls, and associated operational procedures and manuals in place in MSPY Social Inspection Unit, MLPS Labor Inspection Unit, and MLPS Department for Medical Revisions of Disability Certifications****</p> <p>(ii) There is a legal framework in place that regulates a uniform set of sanctions and recovery of overpayments for the following social protection programs: Disability Pensions and Allowances; non-contributory Maternity/Paternity allowances, Child allowances, and the GMB; as well as for unreported wages and economic activity.</p> <p>(iii) There are Statutes of the MSPY Social Inspection Unit; of MLPS Labor Inspection Unit, and of MLPS Department for Medical Revisions of Disability Certifications, that grant adequate investigative powers to inspect or respectively review beneficiaries, service delivery units, employees or employers;</p> <p>(iv) Methodological Guidelines that describe a referral system for cases of suspected error, fraud and corruption, with clear reporting channels for staff and the general public are approved through a Ministerial Order or Orders for the Inspection units and the Department for Medical Revisions of Disability Certifications; and</p> <p>(v) The Annual Reports of the Inspection Units and the Department for Medical Revisions of Disability Certifications include sections on the number of sanction applied using the new sanction policy (administrative or criminal penalties); and</p>	<p>Data Sources: Annual Report of the Social Inspection posted on the MSPY, MLPS and/or CDCI websites</p> <p>Procedures: A copy of the sanction policy provisions (on administrative and criminal penalties), Methodological Guidance and Annual Report are sent by MSPY and MLPS to the World Bank</p>

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI***
		the output of the new referral system (number of referrals by channel)	
9	Inspections of risk-prone programs** are carried out to correct the list of irregularities resulting from the cross-checks between the MIS of these programs and the databases of the Tax Administration, CPII, CES, MLPS, MSPY and the Civil Registry (<i>output</i>)	<p>This DLI will be met when:</p> <p>(i) Operational guidelines are adopted on the detection of irregularities through data matching / cross-checking information of each program's MIS with the other public databases for the two Inspection bodies and Department for Medical Revisions of Disability Certifications;</p> <p>(ii) List of irregularities are produced and sent to the two Inspection bodies and Department for Medical Revisions of Disability Certifications for investigation</p> <p>(iii) Operational guidelines are adopted for handling referrals from staff, public and from data-matching by the two Inspection bodies and the Department for Medical Revisions of Disability Certifications;</p> <p>(iv) The two Inspection Units and the Department for Medical Revisions of Disability Certifications have verified and proposed remedial actions for 90% of the high-risk cases referred to them via cross-checking.</p>	<p>Data Sources: Operational guidelines; irregularities report; and post-inspection monitoring report</p> <p>Procedures: A copy of irregularity reports; operational guidelines for the detection of irregularities through data matching; operational guidelines for use or irregularities in inspections; and monitoring report of the status of proposals to correct irregularities are sent to the World Bank upon completion of the DLI target, for each of the Inspection bodies</p>
10	Inspections of risk-prone programs** are carried out to review the beneficiary cases with higher risk scores, determined through analytical risk profiling, and take corrective action in confirmed cases (<i>output</i>)	<p>This DLI will be met when:</p> <p>(i) Risk analysis for the classification of beneficiaries, service units and employers into classes of risks of fraud has been carried out;</p> <p>(ii) Procedural guidelines for the classification of beneficiaries, service units and employers into classes of risks of error or fraud are adopted by MSPY and MLPS through ministerial Orders; and</p> <p>(iii) The two Inspection Units and the Department for Medical Revisions of Disability Certifications have conducted at least one round of risk-based inspections for the risk prone programs**.</p>	<p>Data Sources: Risk-based analysis report for risk-prone** programs sent to WB; monitoring reports post-inspection sent to the World Bank.</p> <p>Procedures: Send a notification to the World Bank when risk-based analysis reports of risk-prone programs are posted on the MSPY and MLPS websites, for each of the two Inspection Units and the Department for Medical Revisions of Disability Certifications.</p>

* The definition of minimum EFC capacity in place:

- In each participating ministries and/or agency or institute, additional recruitment of investigative staff, including ICT and data analytics specialists, is implemented if needed. An increase in the investigative staff to at least 25 inspectors should occur in MSPY and to at least 20 medical revision specialists should occur in the Department for Medical Revisions of Disability Certifications of MLPS. The project will support the establishment of a small intelligence unit within the investigative team staffed with statisticians, ICT specialists and senior investigators.

- Legislation and regulations revised are: their status (centrally subordinated) and investigative powers. Clear operational manuals developed for the investigative team (to increase professionalism and prevent abuses). Legislation on recovery of over-payments and sanction policy improved. Operational manual for the investigative work (with specific chapters for specific benefits and ministries) developed.

- Develop a professional cadre of investigative staff with the sole role of bringing back the budget money spent on erroneous or fraudulent claims through training in legislation; investigative techniques; use of intelligence; risk management across program cycle. Expose this staff to international experience.

- Pre-conditions for improving the effectiveness and cost-efficiency of the investigative teams in the future ensured, by developing and implementing an end-to-end monitoring system that documents how the sample of cases has been selected; the results of each review or inspections; the remedial recommendations and sanctions applied; the amount of over- and under-payments; and then follows up on the recommendations after a number of months.

Final output of this DLI: Effective investigative teams are in place: adequately staffed, trained, with satisfactory investigative powers and institutional subordination, operating uniformly across all territory and types of social protection programs and the labor market based on a clear, detailed operational manual.

** EFC risk prone social protection programs include: Disability Pensions; Disability Allowances administered by MSPY; non-contributory Maternity/ Paternity Allowances for uninsured beneficiaries, Child allowances, and the GMB.

*** The protocols will be finalized in the Project Operational Manual.

**** The full name of the MLPS disability pension audit unit is “Independent Sector for Audit and Supervision of Medical Certification”.

17. The Project’s support to strengthening Labor Inspectorate’s (LI) capacity will be complemented by TA and investments to include an upgrade of the eRegistrar system, increase in the LI’s analytical and risk profiling capacity, and an enhancement of the inspectors’ mobile capacity (totaling €520,000). These activities are designed as a follow up to current LI’s development efforts supported by the IPA program since 2012. Project activities for the Li include:

- i) Upgrade of software for eRegistrar, development of web services, and training of inspectors in applying the web services (€100,000, consultancy). The objective of this activity is to enhance the eRegistrar system’s outreach to databases of Tax Administration, CPII, CHII, CES, and MLPS and train inspectors in using the system productively.
- ii) Development and implementation of Labor Inspectorate’s Analysis and Risk Profiling capacity and processes (€100,000, consultancy) will finance the scaling up of the LI’s analysis capacity including profiling methods in order to improve the efficiency and targeting of the pre-emptive inspections and introduce a system of monitoring and evaluation of the Labour Inspectorate and the inspectors.
- iii) Procurement of the IT equipment (€310,000, goods) follows up to equipment procured under the IPA project Initial list of IT equipment includes docking stations for remaining labour inspectors, mobile equipment for inspectors, and some stationary PC equipment for the offices.

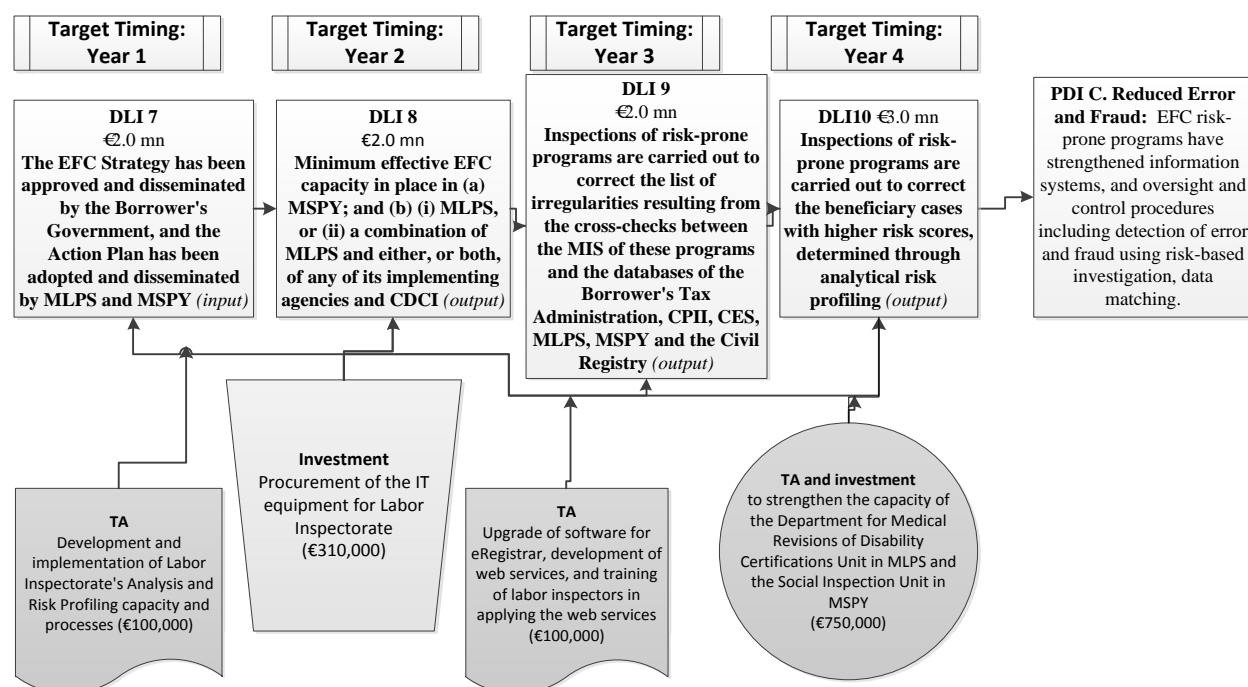
18. The Project’s support to implementation of the EFC Strategy will be complemented by TA and investment activities to strengthen the capacity of the Department for Medical Revisions of Disability Certifications in MLPS and the Social Inspection Unit in MSPY (totaling €750,000). Component 2 of the project could support the gradual development of the EFC activities, by financing a subset of this potential list of activities:

- i. Development of the ICT systems to support EFC activities (hardware, software and related training), on:
 - a. Development of an MIS module for the investigation and control teams (Social inspection unit and the Department for Medical Revisions of Disability Certifications);
 - b. TA for feasibility studies for data cross-checks;
 - c. TA for the review of different public databases and identification of the type of logical checks that could help identify irregularities in cash transfer payments.
- ii. Training activities: specialized training for social inspectors and disability pension

- auditors; for the intelligence/ analytics team (on statistics, modelling, risk profiling)
- iii. TA on reviews of legislative/ regulatory issues and development of draft proposal to improve the legal framework (on sanction and recovery policies; investigative powers of social inspectors and disability pension auditors)
- iv. Peer-to-peer visit to similar units from other countries;
- v. TA for the development of the monitoring system for EFC activities for the two Inspection Units;
- vi. TA for the communication campaign.

19. **Results' chain for thematic area 3.** Figure 1C below maps the results chain that would support the achievement if this vision, and highlights the complementarity between Component 1 and the activities financed through Component 2.

Figure 1C. Reduce Fraud and Error



Thematic Area 4: De-Institutionalization

20. **The proposed Project would support the Government's process of deinstitutionalization in the provision of social services** as set out in the National Plan on Deinstitutionalization and Transformation of Social Welfare and in the soon to be adopted (June 2014) Operational Plan. It would do so through a combination of results-based financing and TA/investment. Specifically, under Component 1, the Bank would disburse funds against the Eligible Expenditure Program each time the numerical targets for deinstitutionalization set out in the Operational Plan are achieved in the project period. The objective is to reduce the number of children and adults in State and non-State institutions and family homes and ensure they are

provided with family-based care. The cumulative disbursements under DLIs 11 to 14 will be €17 million. The draft compliance protocols for DLI 11 to 14 are described in Table A6.

**Table A6: Draft Protocols for Monitoring Achievement of DLIs of Thematic Area 4
(Result Area D) – De-institutionalization**

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI*
11	Deinstitutionalization Operational Plan adopted and published	This DLI will be met when the Minister of Social Policy and Youth has formally adopted the Operational Plan in a form acceptable to the World Bank and published it on the MSPY website.	<p>Data sources: MSPY website</p> <p>Procedures for disbursement:</p> <p>MSPY will send the World Bank the Ministerial Decision adopting the Operational Plan, as well as the final version of the Operational Plan itself.</p> <p>MSPY will also send the World Bank a screenshot of the published Operational Plan and link to the website.</p>
12-14	Additional 210, 225, 280 beneficiaries living in State and non-State institutions or family homes moved out of institutions into family-type environments (outcome)	<p>This DLI will be met when at least an additional 210, 225, 280 named individuals (anonymized to initials, if necessary) are reported as having been de-institutionalized. These numbers refer to additional individuals over the baseline / last DLI (it is not a cumulative number)</p> <p>De-institutionalized is defined for this purpose as the transfer of an individual from institutional care to family-type care outside institution, such as back to the biological family, foster care, organized housing or other types of community-based services.</p> <p>The institution left and new living environment should be described briefly for each individual, as well as their category (child with inadequate parental guidance, child with behavioral disorder, child with development disability, adult with development disability, mentally ill adult).</p> <p>Verification of their consent or consent of their legal custodian for new type of care should be available for inspection in the local Center for Social Welfare.</p> <p>In addition, the Government should provide an annual report on the total number of</p>	<p>Data sources:</p> <p>MSPY Reporting (Report formats included in the Operational Manual)</p> <p>Procedures for disbursement:</p> <p>MSPY will complete the general reporting tables (format in the POM) within two months of the end of each calendar year throughout the project duration. [This report will show that the ‘net de-institutionalization’ part of the DLI has been met.]</p> <p>An additional report itemizing those who have been de-institutionalized (format in the POM) will be supplied with a request for disbursement when the quantitative targets have been met.</p> <p>These reports will be sent to the World Bank upon completion of the DLI target.</p>

#	Disbursement-linked Indicator (DLI)	Definition of the DLI	Draft Protocol to Evaluate Compliance of the DLI*
		individuals in institutions and family homes. This report must show that there has been 'net de-institutionalization' – i.e. the difference between those exiting institutions under the program and those entering an institution anew. The number of new entries should not exceed 50% of the number of new exits.	

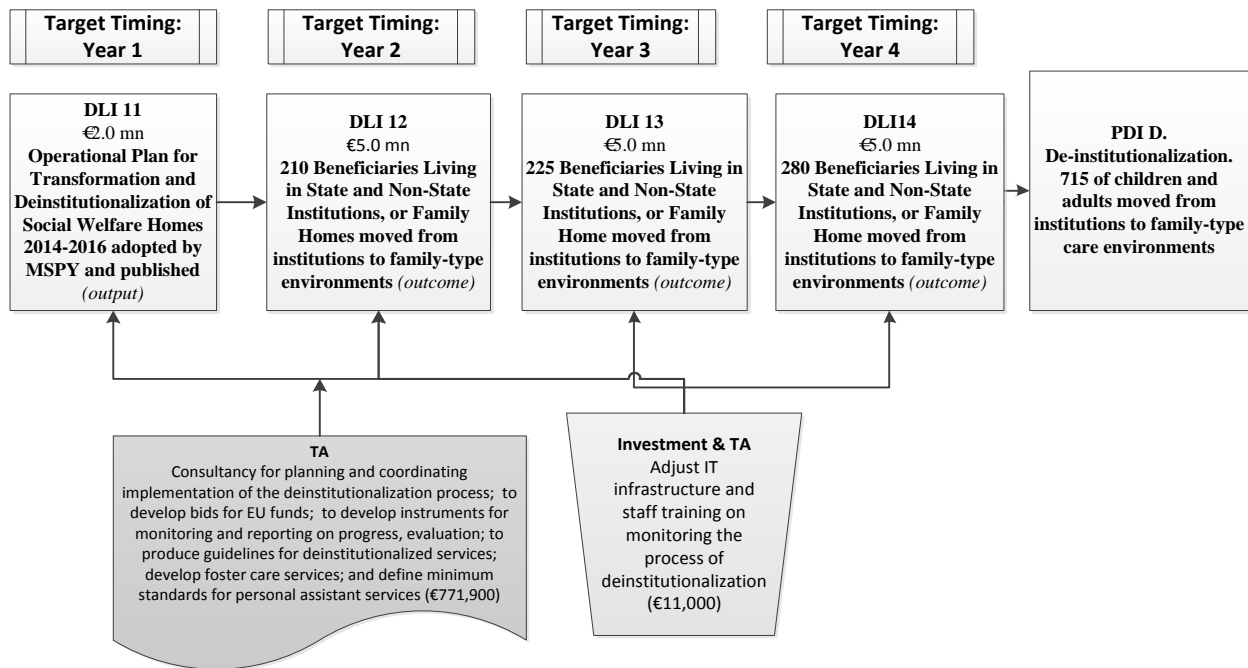
***The protocols will be finalized in the Project Operational Manual*

21. **This proposed Project's support to the Government's deinstitutionalization Operational Plan would be complemented by TA and investment in critical supportive processes.** Based on analysis of gaps between Government financing and other donor financing, the following activities have been identified for support from the World Bank:

- i. Consultants that would participate in the work of national team for planning, management and coordination of implementation of the deinstitutionalization process (€95,000);
- ii. Consultants support for the preparation of EU funds (€3,000);
- iii. Consultants to develop instruments for monitoring and reporting on progress, evaluation (€46,000);
- iv. Adjusting IT infrastructure and staff training on monitoring the process of deinstitutionalization (€1,000);
- v. Consultants to produce guidelines for deinstitutionalized services (€6,600);
- vi. Developing the foster care services to attract new, and support existing, foster families (€66,000); and
- vii. Define minimum standards for personal assistant services (€3,300).

22. **Results' chain for thematic area 4.** Figure 1D below maps the results chain that would support the achievement if this vision, and highlights the complementarity between Component 1 and the activities financed through Component 2.

Figure 1D: De-institutionalization Results Chain



Thematic Area 5: Activation¹¹

23. **The proposed Project would support improving the effectiveness of the Croatian Employment Service (CES) to serve its users and promote activation, specifically for the vulnerable population.** It would do so through technical assistance (and not through a result based disbursement), since a diagnostic of the current challenges and key opportunities for reform has only just started. The CES identified two areas of support: (i) the strengthening of the monitoring system and (ii) piloting and evaluating the use of statistical profiling techniques in employment offices as a tool to manage the high case load of its employment officers and to better focus scarce resources. The objective is to improve the service provided to unemployed individuals. If implemented successfully, these activities would have the additional benefit of contributing to increased EU fund absorption.

24. **Activities funded under this sub-component would include the development of statistical model to predict the likelihood of the registered unemployed and/or SA beneficiary of falling in long term unemployment based on administrative data.** The model would be integrated in new software to be able to generate the profiling score in real time. Eventually, it would be integrated in the MIS. Finally, the project would be expected to support training and communication for the effective use of statistical profiling in employment offices. The pilot would be rigorously evaluated according to selected performance indicators that would be ideally ultimately integrated in the MIS. The evaluation would be essential in refining the tool and its use before adaptation and expansion to the other employment offices of the country.

¹¹ The content of this annex is based on the results of the technical assistance provided to the Government of Croatia through the “ECCU5 Activation and Skills for Employability and Protection” task. See World Bank, 2014, Profiling the out of work in Croatia: Analysis and Implementation.

Annex 3: Implementation Arrangements

Project Institutional and Implementation Arrangements

1. The project has three Components: Component 1, which uses a results-based mechanism to cover four thematic areas; Component 2, which uses standard Investment Project Financing (IPF) processes to finance technical assistance and investments supporting achievement of the results under Component 1 and financing activities in the activation thematic area; and Component 3, which uses standard IPF processes to finance Project Management Support.
2. Under Component 1, the Ministry of Social Policy and Youth is the primary responsible Ministry. The MSPY is the central government body for social assistance policy and has been the architect and driver of the reforms supported by the project. The MSPY is a relatively new Ministry, established in 2012 when it was separated from the Ministry of Health and Social Policy. It is relatively small and is staffed with competent and committed staff.
3. The MSPY is responsible for the Eligible Expenditure Program (EEP), which in this project is the Guaranteed Minimum Benefit. Even though administration (enrollment, eligibility check, payment authorization) of the GMB will transfer to the MPA from December 2014, policy and budget responsibility for GMB will remain with the MSPY.
4. Each of the results areas under Component 1 involves a different set of stakeholders:
 - **OSS:** The deconcentrated offices of the MPA will house the OSS. A coordinator for this results area has been appointed from within the MPA. The benefits that will, in future, be administered by the OSS include those currently managed by MSPY, Croatian Pension Insurance Institute (under Ministry of Labor and Pension System), Croatian Health Insurance Institute (under Ministry of Health) and Croatian Employment Service (Under Ministry of Labor and Pension System).
 - **CDCI:** The Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (IDCPREPD) was established in January 2014 as an independent agency financed from the state budget. The IDCPREPD will establish a network in five regional centers.
 - **EFC:** The MSPY is leading coordination of this work, but engaging closely with the MLPS, MPA and their implementation agencies. MSPY has a social inspection team that reviews the cash benefits and services administered by its own networks. MLPS have a disability review team for disability pensions, and a Labor Inspectorate. These three inspections are the key detection and correction teams whose capacity will be strengthened under the project. A coordinator for this results area has been appointed from the MLPS.
 - **De-institutionalization:** The MSPY leads all aspects of this area of work.
5. Under Components 2 and 3, a PIU has been established in the MSPY to undertake the fiduciary aspects of the project, however the activities to be supported will each be included in the budget of the beneficiary Ministry/agency. Additional expert staff and project-specific operating costs will be covered by the Project's Component 3.

Financial Management, Disbursements and Procurement

Financial Management

6. The objective of the Financial Management (FM) assessment is to determine whether the financial management arrangements for the project are adequate. FM arrangements are considered acceptable if implementing entities' budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements (a) are capable of correctly and completely recording all transactions and balances relating to the advance; (b) facilitate the preparation of regular, timely and reliable financial statements; (c) safeguard assets procured using the advance; and are subject to auditing arrangements acceptable to the Bank.

7. This assessment, undertaken in February 2014, concludes that acceptable arrangements have been put in place by respective implementing entities. It also assesses FM risk as Moderate. The financial management assessment of the Project confirmed that the FM arrangements are satisfactory, subject to successful implementation of proposed remedial actions summarized in paragraph 16.

8. *Implementation Arrangements for the Eligible Expenditure Program.* Implementation of Component 1 will rely on the Government's existing financial management architecture for the GMB (selected as the EEP). Based on accountability and performance reports generated by the Government's Treasury System and MSPY monitoring report on GMB execution, the World Bank will reimburse the Government for a share of GMB expenditures after specified results (DLIs) have been achieved and verified. Amounts disbursed by the Bank will be included in the regular state budget financing and expended in accordance with state budget policies and procedures. To enable the Bank to monitor progress in releasing resources for these programs, the MSPY will submit semi-annual reports on the execution of the GMB under the State Budget as follows:

- Semi- Annual Financial Reports on spending of GMB benefits prepared by the MSPY based on internal MSPY monitoring system (SocSkrb). The reports will include initial balances, amounts calculated and transferred, and closing balances by counties.
- Reports on one expenditure line item execution by the State Treasury. These reports will include the annual planned budget, planned budget for the reporting period, budget executed, expressed in HRK and percentage from total amount.

Once other benefits are transferred to the OSS and are subject to becoming relevant for the compliance of certain DLI, spending reports will be prepared similar to those prepared for the GMB.

9. *The program's existing implementation arrangements are assessed as adequate.* Arrangements include sufficient levels of transparency; operating under an adequate system of checks and controls; and producing reliable financial and budget execution reports. Payments under the GMB are subject to a complex and complementary system of oversight and controls that will be further improved as part of the project's efficiency improvement objective. In addition, the Bank assessed the systems of reconciliation and checks between the Centers for Social Welfare (CSWs) and central government levels, found this overall system to function well.

10. *Disbursements under Component 1 will be triggered by achievement of the results, which are grouped into 4 main results areas, supported by claims for reimbursement of eligible expenditures.* A total of 14 DLIs that would evidence achievement of these results have been agreed with the government. Achievement of the DLIs will be confirmed to the World Bank according to the Compliance Protocols established for each DLI. Upon confirmed achievement of the specific DLI the Euro amount linked to the completed DLI will be credited to the State Treasury Single Account of the GoC. The transfer of funds will be done directly from the loan account to the State Treasury Single Account. To initiate such transfer, MOF will prepare an Application for Withdrawal, following verification completion performed by the MSPY.

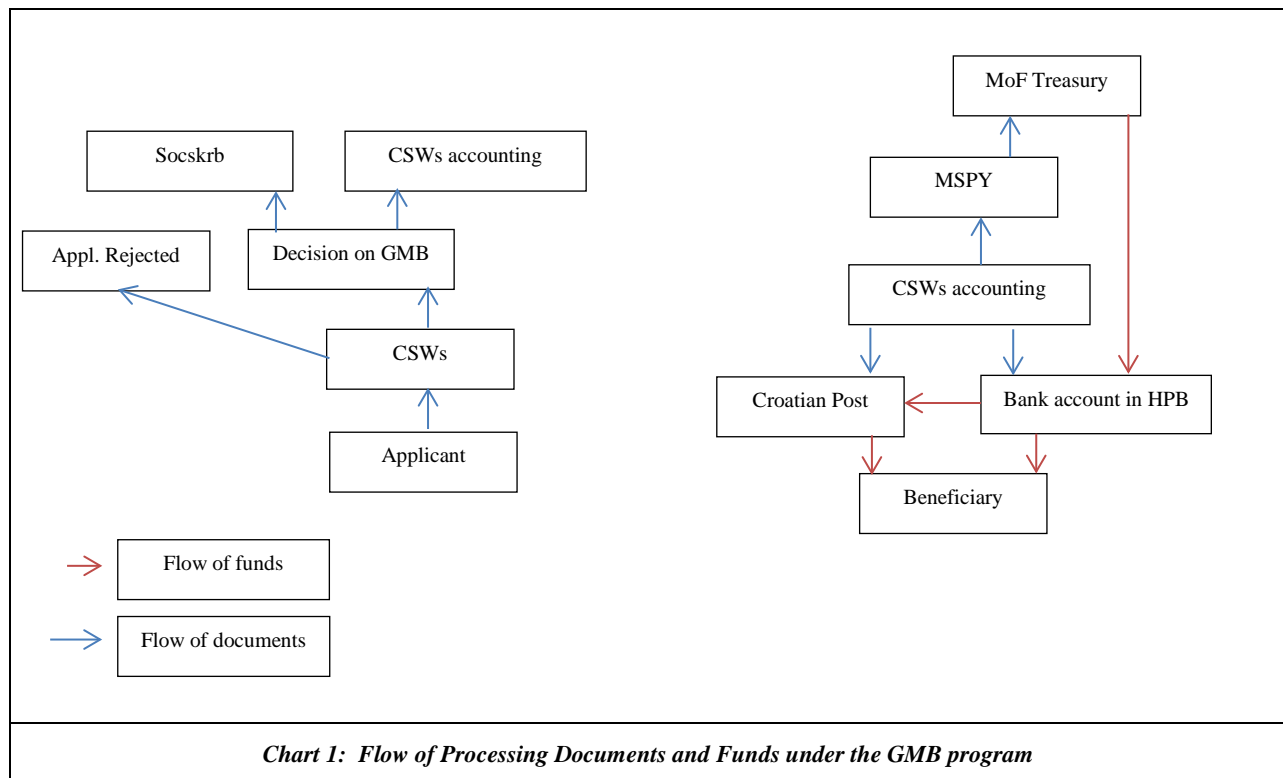


Chart 1: Flow of Processing Documents and Funds under the GMB program

11. *Changes to existing arrangements will be subject to review.* Once the GMB and other benefits are transferred to the PAOs, the process will be re-assessed by the Bank’s FM team in order to ensure that internal control producers and process have been properly established. Also any changes to the current flow of funds for the GMB as well as for child allowance, unemployment allowance, and non-contributory maternity/paternity allowance will have to undergo the FM assessment by the World Bank. These reviews will be included in the Bank’s project implementation/supervision plan.

12. *Financial Statements Audit.* The scope of annual audits of project financial statements, to be undertaken by the SAO, will be expected to include specific reviews of claims for reimbursement of eligible expenditures made during the period of audit coverage.

13. *Performance Audits of the EEP.* In addition to annual financial statements audits, the SAO will also undertake performance audits which will be focused on assessing the verification

mechanisms for the EEP (GMB) related to the application of eligibility criteria, as well as the programs' administration, oversight and control aspects. Performance audits will take a random sample of monthly GMB payments and trace them through eligibility lists, payment channels to the beneficiary to ensure that the right payment was received by the right person at the right time. The performance audits will be carried out at least for three years during project implementation and the sample TORs and frequency for such performance audit will be agreed during Project implementation. The SAO will carry out a performance audit in the first year of program implementation, until the MSPY's Social Inspection Unit is assessed as able to perform them. In the latter years of project implementation, the performance audit could then be conducted by the MSPY Social Inspection Unit. Sufficient capacity of the MSPY Social Inspection Unit will need to be confirmed by the Bank before responsibility could be transferred. The summaries of financial audit and performance audit reports would be published on MSPY website and also made publicly available by the Bank.

14. Implementation of Components 2 and 3 will rely on the traditional FM and disbursement arrangements under Investment Project Financing, outlined as follows:

- a) **Budgeting.** Each of the 3 Ministries (MSPY, MPA and MLPS) will prepare a budget for the part of the project pertaining to the specific Ministry. Such budget information will also enter the regular annual budget preparation cycle in each of the respective Ministries both for the PPA and for the Loan.
- b) **Funds flow.** Traditional disbursement procedures would be used to execute expenditures supporting the implementation of activities under Components 2 and 3, including Advances, Reimbursements, Direct Payments and Special Commitments. IBRD funds would be disbursed to the project Designated Account in USD and EUR opened by the MSPY, with prior consent from the MOF, in a commercial bank/financial institution, acceptable by the Bank, for the PPA and Loan respectively. Based on the project needs, MSPY will prepare requests to transfer part of the funds to be deposited into the designated account. Direct payment and Special commitment payment mechanisms will follow the standard World Bank procedures.
- c) **Accounting.** Project accounting records will be maintained on a modified accruals cash basis with disclosure of commitments and in accordance with the National Accounting Standards in the records of each MPA, MSPY and MLPS. All information on PPA and Component 2 funds will be entered in the existing accounting system of the respective Ministries and it will be possible to generate a trial balance which relates to the Project only. The trail balance will provide all necessary information to be used for the preparation of the IFRs, the format of which will be agreed between the World Bank and the three participating Ministries and set out in the POM.
- d) **Internal controls.** Internal controls will comprise, but not be limited to the following: division of responsibilities between MPA, MSPY, MLPS, segregation of duties of staff within Public Administration Offices (all which are dealing with the GMB), periodic reconciliation of accounting and reporting data, verification and authorization of reports and documents. The key features of internal controls are mentioned in respective sections, and the details on internal controls will be provided in

the project POM. Procedures for acceptance of goods and services in Component 2 will be specified in detail for each activity.

e) **Reporting.** MSPY will collate and submit reports from all three Ministries to the Bank on a semi-annual basis in the form of the Interim Unaudited Financial Reports (IFRs) previously agreed with the Bank. The IFRs will provide information on project disbursements by component and by project activities, at a level of detail acceptable to the Bank. Disbursements on Component 1 will also be part of the reporting. IFRs will be prepared in HRK with regular reconciliations of Euro advances to HRK accountability. Copies of IFRs, prepared in Bank-prescribed format will be submitted to the World Bank within 45 days following the end of each reporting period.

f) **Auditing.** The audited project financial statements will clearly present project expenditures by each Component, and activity and will follow the format of the agreed IFRs with accompanying notes and explanations. The financial audit of project financial statements will be carried out by contracted private sector auditors acceptable to the bank in compliance with the audit ToR agreed with the Bank. Audited Project Financial Statements will be made publicly available in a timely fashion, and in a manner acceptable to the Bank. The audited Project Financial Statements will be published on the MSPY website within two months after the Bank has sent an official audit acknowledgement letter.

15. **Proposed FM Capacity Improvements.** The following systemic improvements are proposed to be implemented to help strengthen institutional arrangements and support the achievement of project objectives:

a) **Role of the Steering Committee in overseeing fiduciary management.** A Project Steering Committee has been established comprising representatives of the five ministries and five agencies responsible for implementing various activities, together with the MOF. Considering the multiplicity of implementing entities, a core responsibility of the Steering Committee should be to oversee the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities, to be included in the POM, should include: (a) monitoring implementation of risk management activities; (b) monitoring and ensuring timely implementation of audit and operational review recommendations, including those raised by Auditors and Inspectors; (c) overseeing the continuing efficacy of accounting and internal control standards, policies and practices; (d) ensuring compliance with Government financial management regulations; (e) enhancing communication between management, internal and external auditors; and (f) overseeing the effectiveness of the internal audit and Inspection functions.

b) **Internal Audit and Inspection.** Ministries and agencies responsible for Project implementation have limited capacity of both Internal Auditors and Inspectors. These two roles are complementary, both aimed at supporting the effectiveness of management controls, including preventing and detecting fraud and error risks. A harmonized approach to respective responsibilities, under the guidance of the Steering Committee would help to optimize their effectiveness and sufficient coverage of the numerous, widely dispersed operating centers.

c) **IT Systems Audit.** The one-stop-shop model will likely entail notable amalgamation/integration of existing stand-alone management information systems, increasing the complexity and level of reliance on automated internal controls. Assurance regarding the

continuing adequacy of these controls will be achieved through regular systems' controls audits. The State Audit Office is in the process of developing capacity to undertake these audits, having recently procured Computer-Assisted Audit Techniques (CAATS) software. They will need technical and financial support to be able to regularly test systems controls as part of their audit of financial statements. It is recommended that, in the initial stages as they build required capacity, automated systems audits should be undertaken by contracted private sector audits. Audit arrangements should include twinning arrangements with the SAO with a view to progressively shifting responsibility to the SAO during the life of the project.

d) **Engaging Public Administration Offices.** In order to support achievement of the project's overall objective of improving the efficiency and effectiveness of Croatia's social protection system, there is a need for early and timely involvement of Regional officers and centers that represent the system's "front office" for a majority of beneficiaries. This should include assessing their capacity to deliver quality "one stop shop" services and including actions to strengthen that capacity.

16. *Financial Management Conditions, Covenants and Actions.* A range of financial management actions were discussed and are summarized as follows:

Action	Responsible	Timeline
POM, including separate sections on: (1) Component 1: DLI-based disbursements; (2) Components 2 and 3 prepared	MSPY, MPA and MLPS	Condition of Effectiveness
The Project Steering Committee should oversee the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities to be included in the POM.	Project Steering Committee	Covenant: During project implementation
The Borrower shall promptly inform the Bank of any changes, or proposed changes, to fiduciary arrangements relating to the EEP, and shall provide to the Bank all such information and evidence as the Bank may require to assess the fiduciary procedures and processes of such program to be transferred to the OSS, as further set forth in the POM	All Ministries and agencies included in the Project	Covenant: As soon as any changes are proposed to fiduciary arrangements relating to the EEP
Provide technical assistance to the SAO in order to strengthen capacity for IT systems audits applying Computer-Assisted Audit Techniques (CAATS) software	MSPY	Action: As soon as possible in tandem with automation of OSS systems.
Improve capacity of Internal Auditors in order to extend the scope of the audit to cover the audit of processes pertaining to the benefits subject to this Project	All Ministries and agencies included in the Project	Action: During the project implementation
Improve technical capacity of various Inspectorates covering GMB, child allowance, unemployment allowance, and non-contributory maternity/paternity allowance in order to adopt risk based approach when inspecting final beneficiaries	All Ministries and agencies included in the Project	Action: During the project implementation
Preparation and submission of semi-annual interim financial reports	MSPY compiling information from all Ministries and	Covenant: Within 45 days after each reporting period

Action	Responsible	Timeline
	agencies included in the Project	
Preparation and submission of audited project financial statements. The scope of financial audits will include reviews of claims made for reimbursement of eligible expenditures during the period covered by the audit.	MSPY compiling information from all Ministries and agencies included in the Project	Covenant: Within 6 months after the end of each financial year
Establishment and maintenance of acceptable financial management arrangements	All Ministries and agencies included in the Project	Covenant: Throughout the life of the project/preparation advance

17. *Implementation Support and Supervision Plan.* The Bank will apply a risk based approach in undertaking project supervision activities that will include reviews of periodic reports and Withdrawal Applications and site visits (at least once each year). Implementation support will be provided in the form of briefing/orientation of key financial management staff; review of IFRs and audited annual audited financial statements together with auditors' management recommendation letters; monitoring implementation of agreed remedial actions; and addressing emerging issues in collaboration with Ministries management. Other specific activities to be included in the FM supervision plan will include:

- Assessment of arrangements for migration of other funds – non-contributory Maternity/Birth Allowances; Child Allowance and Unemployment Benefits - to the OSS; and
- Complementing TTL review of claims for reimbursement of eligible expenditures of the EEP component by reviewing Semi-Annual Financial Reports.

Procurement

18. Overall public procurement environment in the country. The public procurement environment in the Republic of Croatia is defined by the Croatian Public Procurement Act effective as of January 1, 2012 and amended in June and November 2013 to address changes in some of its provisions with regard to Croatia's accession to the European Union on July 1, 2013. The act regulates the procedures for award of public contracts and framework agreements for the procurement of supplies, works or services, legal protection in relation to those procedures and the competences of the central state administration body competent for the public procurement system. It is aligned with and has transposed the EU *acquis communautaire*. Pursuant to the Croatian Public Procurement Act, in 2012 the Government passed several subordinate regulations with regard to drafting tender documents, issuing procurement notices, use of common procurement vocabulary, and control over the implementation of the Croatian Public Procurement Act .

19. Procurement arrangements. Several institutions will be involved in the proposed project, including four ministries (Ministry of Social Policy and Youth (MSPY), Ministry of Public

Administration (MPA), Ministry of Labor and Pension System (MLPS) and Ministry of Health (MoH)) and five agencies (IDCPREPD/CDCI, CPII, CHII, CES and LI).

20. The project will comprise of three components: Component 1: Improving Efficiency and Effectiveness of the Social Protection System is results-based and will not be subject to the Consultant and Procurement guidelines; Component 2: Investments and Technical Assistance to support improvements in efficiency and effectiveness of the social protection system will follow standard investment project financing procedures and will be subject to the World Bank's Consultant and Procurement Guidelines; and Component 3: Project Management Functions. A Project Implementation Unit (PIU) will be created in the Ministry of Social Policy and Youth. The formal decision on the PIU is expected imminently and certainly prior to Loan negotiations. This PIU will be responsible for the overall coordination, monitoring, fiduciary functions (including procurement, financial management, and disbursement), and reporting activities of the Project Preparation Advance and of the project's Component 2 (TA/investment activities). The operations of the PIU will be supported by Component 3 of the project.

21. **The MSPY has committed to hiring a Procurement Specialist for the PIU who is familiar with procurement practices in similar projects by project effectiveness.** The head of the PIU who is already in place and is managing procurement under the PPA has substantial experience with World Bank procurement procedures.

22. The procurement risk is rated Substantial: The project will finance contracts of diverse nature and cost, including contracts for consulting services, civil works, goods and information technology, which would follow both national and international competitive procedures. Given the diverse nature of the procurement, the fact that there is not yet a formal decision on the project implementation arrangements, as well as insufficient practical expertise with World Bank procurement procedures, the risk for procurement is defined as Substantial.

23. Agreed mitigation measures: The following measures are proposed to mitigate the risks for procurement management and to maintain the implementing team's capacity:

- A qualified and experienced Procurement Officer to assist the PIU with the management of the procurement process, at least during the first year of project implementation. This person should be hired as soon as possible, but not later than project effectiveness;
- A Project Operational Manual (POM) to be prepared and adopted, which shall include *inter alia*: a detailed description of overall procurement arrangements and responsibilities under the project; preparation of terms of reference and technical specifications; establishment and appointment of evaluation committees; conflict of interest mitigation measures; record keeping; contract management; and a complaint handling procedure;
- The staff that will be involved in the management and coordination of the procurement process shall attend a formal or regionally organized training in procurement with a focus on the applicable Procurement and Consultant Guidelines of January 2011, the standard procurement documents, procurement of IT and civil works contracts;
- The Bank's Procurement Officer assigned to the project shall carry out a tailor-made training for the PIU as soon as the project is approved;

- The bidding and proposal documents for selected contracts (large value, or of specific importance for the project) to be procured during the first year of project implementation, to be prepared prior to project effectiveness; and
- During project implementation, as needed, additional technical support (e.g. external consultants and advisers) for preparation of terms of reference and technical specifications and/or other activities as relevant will be hired to assist the PIU.

24. **Applicable Guidelines:** All goods, works, non-consulting services and consulting services required for the activities and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth in World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011 and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011 and the provisions in the Loan Agreement and the procurement plan.

25. **Summary procurement plan:** The procurement plan for the first 18 months of the project was agreed at loan negotiations. The procurement plan provides the basis for procurement methods as well as the procurement review arrangements. In the procurement plan, all contracts shall be grouped in packages, as much as possible, to encourage better competition. The procurement plan, including its updates, shall set forth at a minimum (i) a brief description of goods, works, and/or non-consulting services, and consulting services, required for the project for which procurement action is to take place during the period in question; (ii) the proposed methods of procurement as permitted under the Loan Agreement; (iii) any provision for domestic preference; (iv) the Bank review requirement and thresholds; (v) the time schedule for key procurement activities, and any other information that the Bank may reasonably require. The procurement plan shall be updated throughout the duration of the project at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The procurement plan and all its updates shall be subject to Bank's prior review and no-objection before implementation. The Bank shall arrange for publication on its external website of the agreed initial procurement plan and all subsequent updates once it has provided a No-Objection.

26. **Post review percentage and frequency:** Contracts not subject to Bank's prior review will be post reviewed by the Bank's Procurement Specialist assigned to the project. Post review of contracts shall be carried out once per year. At a minimum 1 out of 5 contracts will be randomly selected for post review.

27. **Anti-corruption measures.** The implementing agency through its Project Implementation Unit (PIU) will follow the World Bank's anti-corruption measures and will not engage services of firms and individuals debarred by the Bank. The list of such debarred firms and individuals is located at <http://www.worldbank.org/html/opr/procure/debarr.html>

Environmental and Social (including safeguards)

Environment:

28. The Project triggers Environmental Assessment (OP 4.01) and Cultural Heritage (OP 4.11). The design of the Project calls for environmental category B. The scope of environmental impacts is considered site specific, predictable and easily mitigated as the project is likely to support minor rehabilitation of buildings under the One-Stop Shop and CDCI Results Areas. Rehabilitation works do not envisage any changes in blueprint, but solely interior improvements, implementation of energy efficiency performance of buildings, adjustment of entrances for accessible access, renovations of old offices to create a nice environment and similar interventions. The Project will not finance new construction. The Cultural Heritage Operational Policy is triggered as the project is likely to involve rehabilitation of buildings in predominantly urban and therefore possibly historic areas.

29. An Environmental Management Plan Checklist was prepared prior to appraisal as a template checklist for sites to be rehabilitated, and has already been completed for Velika Gorica Public Administration Office of Zagreb Country, and serves as an example of such checklist. The EMP Checklist is applied for minor rehabilitation or small-scale building construction, especially in education, health and public service reconstruction and serves as the Environmental Management Framework for the proposed Project. The Government has determined that the Public Administration Offices will be the primary hosts of the new OSS. However, a detailed assessment of the current facilities (space, renovations, IT etc.) is underway with the PPA but has not yet been finalized. A detailed study of the existing PAOs will identify which buildings will need input from the project and any rehabilitation works to be covered. As the specific buildings have not yet been identified, for the purposes of the project a general EMP checklist has been prepared and disclosed tackling all environmental concerns related to rehabilitation of buildings, possibly in historic areas.

30. The Project will not have any potential large, significant or irreversible impacts. The environmental impacts of the project are expected to be manageable, temporary and of local impact as they are related to the general construction activities on already known and previously used location. These impacts most commonly include: a) dust and noise due to demolition and construction; b) management of demolition construction wastes and accidental spillage of machine oil, lubricants, etc., c) damage to historical or cultural property; and d) traffic disturbance. Mitigation measures would include the use of Personal Protective Equipment by workers on site, dust prevention, monitoring of the amount of water used and discharged on site, presence of proper sanitary facilities for workers, waste collection of separate types (mineral waste, wood, metals, plastic, hazardous waste such as asbestos, paint residues, spent engine oil), waste quantities, proper organization of disposal pathways and facilities, or reuse and recycling wherever possible.

31. An EMP checklist was prepared and publicly disclosed prior to appraisal as a sample for other sites to be rehabilitated and was already completed for Velika Gorica Public

Administration Office of Zagreb County. The checklist was disclosed in both English and Croatian on the Ministry of Social Policy and Youth's website on May 30, 2014. A public meeting on the checklist was conducted on 16 June 2014. There were no comments from the public and, as such, the checklist was finalized.

32. If rehabilitation of a building would go beyond interior rehabilitation, a site specific EMP checklist would be prepared. Each site specific EMP checklist would be publicly disclosed in Croatian on the website of the Ministry as well as in hard copy in the building being renovated. All comments from the public will be addressed and if needed reflected in the checklist. The EMP checklist will be part of the tender documentation for rehabilitation works and therefore part of the work contractors' and supervisor's contracts.

33. The status of environmental compliance will be reported by each PAO to the PIU on regular basis and the PIU will provide this information to the World Bank team as a part of general progress reporting. The PIU will include technical personnel that will be trained by the World Bank staff on implementation of World Bank safeguards policies.

Social:

34. The Project is expected to have positive social implications, with cash benefits more readily and easily accessible by beneficiaries; more means-testing to ensure cash benefits go to the needy and vulnerable groups; and greater de-institutionalization of vulnerable children and adults. It is expected that the proposed program will assist in the development and implementation of more inclusive social policies to target better the vulnerable social groups. The implementation of the 'one-stop shop' concept for social benefits could also contribute to social accountability by increasing the effectiveness of controls of social service delivery outcomes that are currently shared by many different institutions. The project will be supported through communications campaigns aimed at raising public awareness of the needed reforms to social assistance and disability benefits and to attract foster families.

35. No land acquisition, displacement of occupants (legal or illegal), or restriction of access to resources or income streams is expected under the Project. The Project will not finance any new construction though some small rehabilitation works within the existing buildings might be supported by the Project. Any sites presenting situations that would trigger OP 4.12 on Involuntary Resettlement will be excluded from project consideration through the EMP checklist and the Project Operational Manual.

36. During preparation of the reforms to be supported by the proposed project, social assistance beneficiaries have been consulted. The Government undertook extensive consultations during the preparation of the Social Welfare Act and the CDCI Act. Several workshops and round tables have been held on the GMB and the new program received wide media coverage.

37. The proposed project will bring positive impacts to both men and women who will benefit equally from the measures being supported. For example, both male and female applicants will benefit from improved and consolidated disability assessment (certification)

which is currently spread across six systems and agencies (pension, health, veteran, social, employment and education systems sectors). The consolidation of disability assessment procedures to be supported by the project through creation of the Central Disability Certification Institute (CDCI) is expected to result in faster, more transparent, and more efficient certification process and service to both men and women. The same is true for other social protection system services that the project will be supporting such as reducing fragmentation in the delivery of social assistance cash transfers and reducing error and fraud in social protection programs.

38. The project will also address the needs of children deprived of parental care and adults and children with development disabilities who will be de-institutionalized and provided with family-type living arrangements. The project will enable them to fulfill their rights to live in the community and will promote social inclusion. Gender-disaggregated data will be collected, monitored and reported as indicated in the Results Framework (Annex 1).

Monitoring & Evaluation

39. The Ministry of Finance will report on budget execution of the EEP; MSPY will lead reporting on all activities under the project. Project Implementation Reports will be sent to the World Bank semi-annually. These reports will describe progress against each of the five thematic areas covered by the project. The reports will also contain information on fiduciary functions. A format for these reports will be agreed with the counterparts and set out in the Project Operational Manual.

Annex 4: Operational Risk Assessment Framework (ORAF)

1. Project Stakeholder Risks		
1.1. Stakeholder Risk	Rating	Substantial
<p>Description:</p> <ul style="list-style-type: none"> i) one or more of the Ministries or agencies - or their staff - will resist changes to the status quo ii) beneficiaries of the programs being reformed may perceive the reforms as not to their advantage iii) institutionalized residents (or their families or staff) may not welcome the deinstitutionalization reform and resist the change iv) the Government, near the end of its mandate may feel it has lost its window of opportunity to implement the reform before the next political cycle commences and so dilute or abandon the reform effort 	<p>Risk Management:</p> <ul style="list-style-type: none"> i) The reform is led by the Deputy Prime Minister who can coordinate across Ministries to enact the reforms if needed, but the best mitigation for such resistance to change is clear, comprehensive and timely communication and information. Some communications support will be financed under the project. ii) The Government will need to communicate to beneficiaries the fairness and equity rationale for the reforms. The project can support these efforts. iii) Communications to explain the rationale for reform are key. Government is financing these, but WB has offered support. Some institutions have houses in their territories to practice independent living. They visit new accommodation several times and sign consent forms before making the move. Siblings and families are kept together. All beneficiaries or their guardians sign a Consent Form, which is filed at the CSW. Staff are being retrained. iv) The Government has signed a PPA to jumpstart project activities. Several of the reforms are part of the Government's Fiscal Consolidation plan, needed to help Croatia exit the Excessive Deficit Procedure. 	

2. Implementing Agency Risks (including fiduciary)						
2.1. Capacity	Rating	Moderate				
The scale and complexity of the reform could stretch the limited number of staff and capacity in the MSPY and MPA.	Risk Management: The project will provide access to international experts and best practice. Additional funds should be mobilized from the European Commission during project implementation, which – if used strategically - may help ease resource constraints. A project manager has been designated for each of the results areas.					
	Resp: GoC	Stage: Imp	Recurrent: x	Due Date:	Frequency: On-going	Status:
2.2. Governance	Rating	Moderate				
The number of Ministries and agencies involved in the project could lead to any governance problems going undetected.	Risk Management: The Steering Committee will be mandated to supervise implementation by each of the Ministries and agencies. The World Bank team will follow developments closely, including through regular supervision missions and a TTL based in-country. The project aims explicitly to improve oversight and controls and reduce opportunities for fraud and corruption in the social assistance system. There are no known corruption cases in this sector in Croatia.					
	Resp: GoC	Stage: Imp	Recurrent: x	Due Date:	Frequency: On-going	Status:
3. Project Risks						
3.1. Design	Rating	Substantial				
Description: i) If there are delays to the information or payment systems for benefits, the beneficiaries may be impoverished ii) Political decisions taken after negotiation of the loan may make DLIs unachievable, thus	Risk Management: Planning for the OSS is proceeding rapidly. The Government has undertaken an assessment of PAOs that will host the OSS, an EMP is being prepared, the project is financing some costing studies and will ensure minimum standards prior to the transfer of benefits to the new OSS. It is not possible to control for political decisions that may change current social policy directions. However, if they arise, the team will be in close contact with the counterparts to discuss the implications and restructure as needed. DLIs are technical in nature and should help the Government to stay the course of reforms, rather than to reverse them without adequate consideration of the implications. The Health team is also introducing a results-based approach, so there may be some lessons and experienced shared from central Government.					

<p>preventing disbursement</p> <p>iii) Results-based approach relatively new to Croatia</p> <p>iv) Premises may not be available to host the OSS or CDCI regional networks or to de-institutionalize</p> <p>v) Deinstitutionalized services may not be better than the institutions</p> <p>vi) The Government may not provide resources to allow the TA and investments to proceed, given the need for fiscal consolidation.</p>	<p>Government of Croatia has an extensive network of deconcentrated offices in each county. The Ministry of Public Administration’s offices have already been chosen to house the OSS. If the premises are inadequate, another existing office could be chosen on an <i>ad hoc</i> basis. Properties for independent living are being secured from the State Property Register or rented commercially.</p> <p>Numerous studies show that institutions are detrimental to development (especially for children) and deinstitutionalized care is preferable. Still, minimum care standards, training and monitoring are critical to ensure this. These are in place in Croatia, but should be strengthened, including under the project.</p> <p>A Cabinet of Ministers meeting agreed to provide the necessary resources on top of regular budget allocations to participating Ministries and Agencies. Several of the reform measures are part of the Government’s Fiscal Consolidation plan.</p>					
<p>3.2. Social and Environmental</p>	<p>Rating</p>	<p>Low</p>				
<p>Description: Social impacts are expected to be positive. No social safeguards are triggered.</p> <p>The project will finance interior rehabilitation with no new construction. The project is rated Category B for environmental and cultural heritage OPs.</p>	<p>Risk Management: An Environmental Management Plan has been prepared and has been disclosed. It will be discussed publicly prior to appraisal. Environmental checklists will be prepared for each renovation site. These provide “pragmatic good practice” and are designed to be user friendly and compatible with World Bank safeguard requirements. A construction engineer will be financed from Component 3 of the project to support the PIU with construction standards and environmental safeguards.</p>					
	<p>Resp: WB, GoC</p>	<p>Stage: Prep, Imp</p>	<p>Recurrent: X</p>	<p>Due Date:</p>	<p>Frequency: On-going</p>	<p>Status:</p>

3.3. Program and Donor	Rating	Low				
Description: Donors may not coordinate well.	Risk Management: There are few other donors in social assistance. UNICEF, Open Society Institute and Association for Promotion of Inclusion are active in child protection and de-institutionalization and interested in coordination with the World Bank's operation. Our goals are aligned and the team has – and will continue to - meet regularly with their representatives in Zagreb.					
	Resp: Bank	Stage: Prep, Imp	Recurrent: x	Due Date:	Frequency: On-going	Status:
3.4. Delivery Monitoring and Sustainability	Rating	Low				
Description: Performance against DLIs and the PDO is not monitored carefully.	Risk Management: MSPY has a Social Welfare Development Unit with two staff focused on preparation of monthly and annual statistical bulletins as well as <i>ad hoc</i> thematic analyses. This unit can report on progress under the five thematic areas. The PIU will report on all fiduciary functions and activities under Components 2 and 3.					
	Resp: WB, GoC	Stage: Imp	Recurrent: x	Due Date:	Frequency: On-going	Status:
4. Overall Risk						
Implementation Risk Rating: Moderate						
Comments:						

Annex 5: Implementation Support Plan

Strategy and Approach for Implementation Support

Preparation Support Plan

1. PPA: EUR 890,000 (\$1,240,000). The PPA will primarily finance technical assistance for project preparation, such as:

- Preparation of the operational investment plan for development of the One Stop Shop (OSS) over the 2015-2019 period. This activity will analyze issues and options for subsequent phases of the OSS which envisage further integration of the social benefit provision and administration, assess the needed investment and establish a detailed investment plan, to be financed *inter alia* by the Project.
- IT equipment for the first phase of OSS development. The PAOs will start administering the GMB nationwide under the current public administration IT system as of December 2014. Results of the assessment show technological shortcomings in some of PAO locations. The objective of this activity is to procure the equipment (around 200 PC work stations) to upgrade the PAOs capacity and to pilot the future organizational and IT system with remaining social benefits administered centrally through the OSS.
- Training of PAO staff for the administration of GMB.
- Development of the public information and education program for the OSS (and CDCI) services. These reforms will affect almost a quarter of the population. Their social impacts and administrative changes need to be explained and communicated to a broad public, which will be the objective of this activity.
- Procuring some IT equipment necessary for the first phase of OSS development and initial operations and piloting of IPRDCED's new information system.
- Formation of a national team to coordinate and support the MSPY's deinstitutionalization operational program implementing team.

Expert inputs: British EFC expert, Romanian deinstitutionalization expert, Swedish activation expert.

Implementation Support Plan

2. Implementation Support would be undertaken regularly. Implementation support and supervision missions are planned at least twice a year covering technical and fiduciary aspects of the project. In addition, since a co-TTL, a team member and the procurement specialist are based locally, strong implementation support will be provided between the missions.

3. Technical support will be focused on results areas, combining technical experts from Bank with consultants. Technical support will be heavily front-loaded.

Implementation Plan – Basic Timetable

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Forming cross-Ministerial teams with necessary skills; Initial procurements tendered; Technical support to initiate project activities	Procurement Full team	US\$118,000	Client - staffing of the PIU; regular reporting to the World Bank and active engagement in supervision missions.
12-48 months	Results-monitoring		US\$472,000 (US\$118,000 p.a.)	
Other				

Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Team lead, OSS	8	0	Locally-based
Team lead, EFC	8	3	Based in Nairobi, Kenya
Team member, CDCI	6	0	Locally-based
Team member, Deinstitutionalization	4	2	DC-based
Team member, Activation	4	2	DC-based
Expert EFC	4	2	DC-based
Expert Deinstitutionalization	3	2	Regionally-based
Expert Activation	3	2	Regionally-based
FM	2	2	Regionally-based
Procurement	3	0	Locally-based

Partners

<i>Name</i>	<i>Institution/Country</i>	<i>Role</i>
UNICEF		Deinstitutionalization
Association for Promotion of Inclusion		Deinstitutionalization
Oxford Policy Management		Deinstitutionalization

Annex 6: Specific Sector Context

1. The Government of Croatia is implementing an ambitious reform of the administration of its social protection system which addresses some of its key weaknesses: (i) complex and inefficient administration of main social assistance programs; (ii) parallel disability certification rules that treat similar cases differently, raising issues of horizontal equity; (iii) lack of adequate mechanisms to prevent, detect and correct cases of overpayments in risk-prone social protection programs or of undeclared wages; (iv) reliance on institutions in providing care for vulnerable children and adults; and (v) lack of tools to target activation measures to those at risk of becoming long-term unemployed. This annex reviews the sector context of these administrative reforms. Section one describes the level and composition of social assistance spending, its distributional performance, and points to its fragmentation in terms of policy making and administration. Section two discusses the rationale and plans for the introduction of the OSS, as the key government reform to consolidate the administration of the largest social assistance programs (and of the unemployment benefit), and a necessary steps toward the consolidation of policy making. Section three offers an assessment of the current system to control EFC in the social protection system, highlights its strengths and weaknesses, and outlines an action plan to step up these controls. Section four describes the Government's de institutionalization plans. Section five outlines the challenge face by the CES for the activation of long-term unemployed and highlights the technical assistance activities that could improve the effectiveness of activation measures.

6.1. The Social Assistance Sector

2. **Croatia has a costly social welfare system, broadly defined as non-contributory cash transfer programs and policies, and social services.** Croatia spends a large share of GDP on different types of non-contributory programs and policies – about 4.8 percent of GDP in 2011 (see Table 6.1.1). This definition includes war veterans' pensions, a child tax allowance, and more traditional cash transfer programs for poor and vulnerable families. The spending level remains substantial even if the focus is on more traditional cash transfer programs for the poor, vulnerable and families with children – about 2.4 percent of GDP in 2011. Social services, including residential and community based services, total about 0.4 percent GDP. Services for the elderly are financed at the local level and are not included in the scope of this project.

Table 6.1.1: Spending on Social Assistance Programs in Croatia, in % of GDP, 2004-2011

	2004	2005	2006	2007	2008	2009	2010	2011
Programs for war veterans (disability and survivors)	1.6%	1.6%	1.6%	1.7%	1.8%	2.0%	1.9%	1.8%
<i>of which pensions</i>	1.1%	1.1%	1.2%	1.3%	1.4%	1.5%	1.5%	1.4%
Programs for families with children	0.8%	0.8%	0.7%	0.9%	0.8%	0.9%	0.9%	0.9%
<i>of which child allowances</i>	0.6%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%
Programs for (civilian) disabled, cash or services	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Programs for vulnerable children, refugees and IDPs	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Programs for low-income households	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%
Other social welfare	0.5%	0.5%	0.5%	0.4%	0.4%	0.6%	0.7%	0.7%
Child tax allowance*	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total social assistance, broad definition**	4.3%	4.4%	4.2%	4.3%	4.4%	4.8%	4.8%	4.8%
Total social assistance, narrow definition**	2.2%	2.3%	2.0%	2.0%	2.0%	2.3%	2.3%	2.4%
Memorandum Items: Income-tested programs***:								
% in GDP	0.9%	0.8%	0.7%	0.8%	0.8%	0.9%	0.8%	0.8%
% of non-contributory social assistance programs (incl. war veteran pensions)	27.4%	24.9%	22.9%	25.0%	24.3%	22.4%	20.9%	20.9%

Notes: *) the amount of foregone income due to the child tax allowance is estimated; **) the narrow definition of social assistance does not include the war veteran's pensions and the child tax allowance ***) income-tested programs include programs for low-income households (notably the social allowance) and the child allowance.

Source: Staff estimates based on the State Budget Execution data for 2004-11

2. About half of Croatia's social assistance programs and policies is not targeted towards the poor. Almost half of Croatia's significant outlay for social assistance goes to war veterans pensions and benefits (1.8 percent GDP in 2011); the next biggest category is the child tax allowance, a regressive quasi-fiscal measure (estimated at about 1 percent GDP); followed by several family programs and welfare programs (together about 2 percent GDP) and services (another 0.4 percent of GDP). The distribution of the war veteran pensions and benefits, and of the child tax allowance is tilted toward the middle and upper income households. However, there is little political support to make these entitlements more pro-poor. The distribution of the child allowance and social welfare programs is well targeted; most of these programs are income or means-tested. Overall, the poor are well covered by a combination of categorical programs,

targeted social assistance and social insurance, and social spending has largely been protected during the crisis.

3. **Croatia has a number of good social assistance programs that operate from satisfactorily (child allowances) to very well (the social support allowance program); the project will support the improvements in their administration.** Results from the HBS 2010 indicate that 51 percent of total cash social assistance (excluding war veterans' pensions, which cannot be identified in the HBS) reaches the poorest 20 percent of the population, which compares moderately well with other ECA countries (Table 6.1.2). This result reflects in particular the targeting performance of the child allowance program (57 percent of the spending reaches the poorest quintile) and the social allowance program (69 percent respectively, one of the best regional targeting results).

Table 6.1.2: Croatia: Targeting Accuracy of Social Protection Programs, 2010

Some programs are well targeted but small; the largest programs are poorly targeted

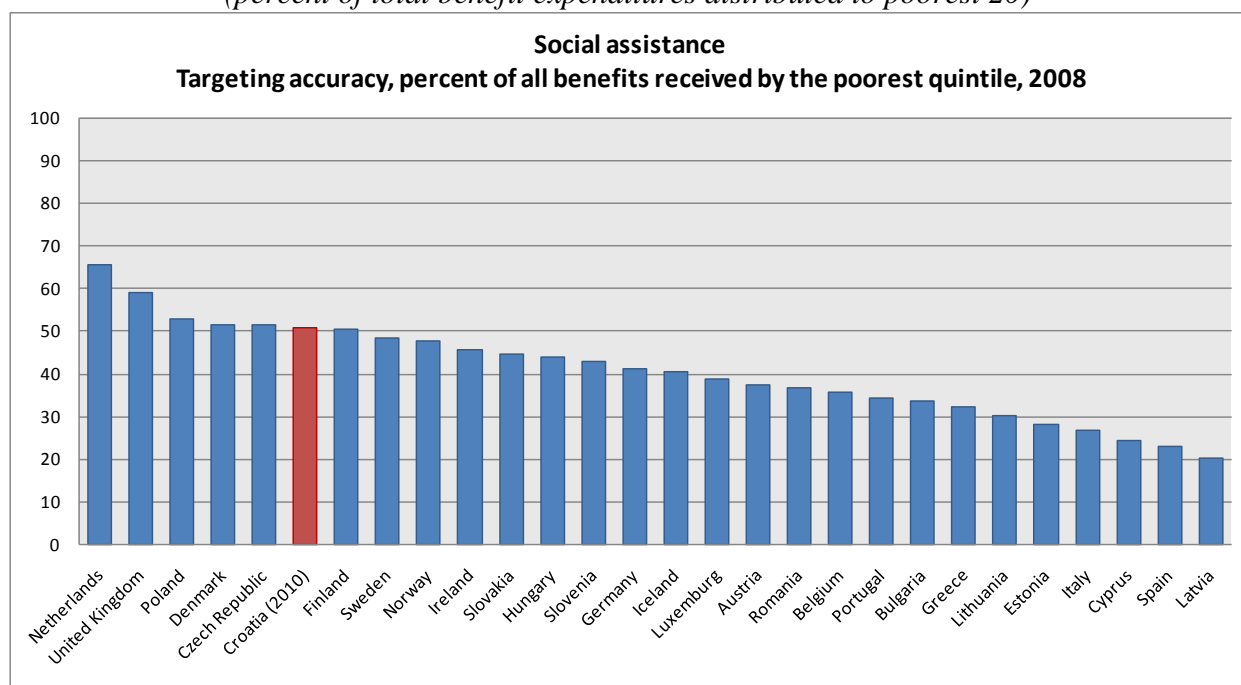
	Quintiles of income per capita distribution, net of each social transfer					
	Total	Q1	Q2	Q3	Q4	Q5
Overall social protection	100.0	46.3	21.5	15.8	10.3	6.0
Social insurance	100.0	51.3	19.4	13.6	9.3	6.4
Old-age pension	100.0	58.1	17.2	9.6	8.6	6.5
Disability and survivors pension	100.0	57.3	20.3	10.3	7.1	5.1
Sickness benefit	100.0	51.7	13.7	20.5	11.7	2.4
Unemployment benefit	100.0	51.8	17.9	15.4	9.8	5.1
Social assistance programs	100.0	50.9	25.9	13.2	6.3	3.7
Child allowance	100.0	57.2	25.2	12.0	4.7	0.8
Other social allowances	100.0	34.9	32.2	16.4	8.9	7.7
Social assistance in cash	100.0	69.0	14.1	11.2	4.8	0.9
Remittances and private transfers	100.0	32.6	16.3	17.6	14.3	19.3

Notes: Targeting accuracy or Benefits' incidence is the transfer amount received by the group as a percent of total transfers received by the population. Specifically, benefits' incidence is: (Sum of all transfers received by all individuals in the group)/(Sum of all transfers received by all individuals in the population).

Source: Staff estimates based on the 2010 HBS

4. **Compared with other EU countries, the share of benefits received by poorest quintile from the total social assistance spending is relatively good** (Figure 6.1.1). The share of non-contributory social assistance spending (excluding war veterans' pensions) that reaches the poorest 20 percent of the population was 51 percent in Croatia in 2010, placing it in number six among the 28 countries (EU-27 plus Croatia).

Figure 6.1.1. Targeting accuracy for the bottom quintile in EU Countries and Croatia
(percent of total benefit expenditures distributed to poorest 20)



Note: Individuals are ranked on the basis of per capita equalized disposable income before all social assistance cash transfers. Social assistance is defined as the following categories in EU-SILC: Education, Housing, Family and children, and Social Exclusion not elsewhere classified

For Croatia, the distribution of benefits does not include pensions or other programs for war veterans and their survivors

Source: EU-SILC 2008, Staff calculations; HBS 2010 for Croatia

5. **Despite strong targeting accuracy of means-tested programs, and their relevance for the most vulnerable, the coverage of the poor with social assistance programs remains low** (Table 6.1.3.). The only exception is the child allowance program, which covers 42 percent of the poorest quintile and 48 percent of the families with children in this quintile. All other programs are rather small, and their coverage of the poorest quintile is also very small. Less than 13 percent of the poorest 20 percent of population has an access to the support allowance program. To cover the poorest 10 percent of population, the support allowance program would need to be quadrupled. In both programs, part of the funds that should be allocated to the poorest quintile leak to the upper income quintiles (so-called “elite” capture); although less so in the case of means-tested support allowance program. This is mostly due to imperfect targeting practice of child allowance that is based on reported and taxed incomes rather than asset and income test operated by the centers for social care in Croatia. Over 2008-2010, the coverage of the poorest quintile with social assistance programs was largely stable (Figure 6.1.2).

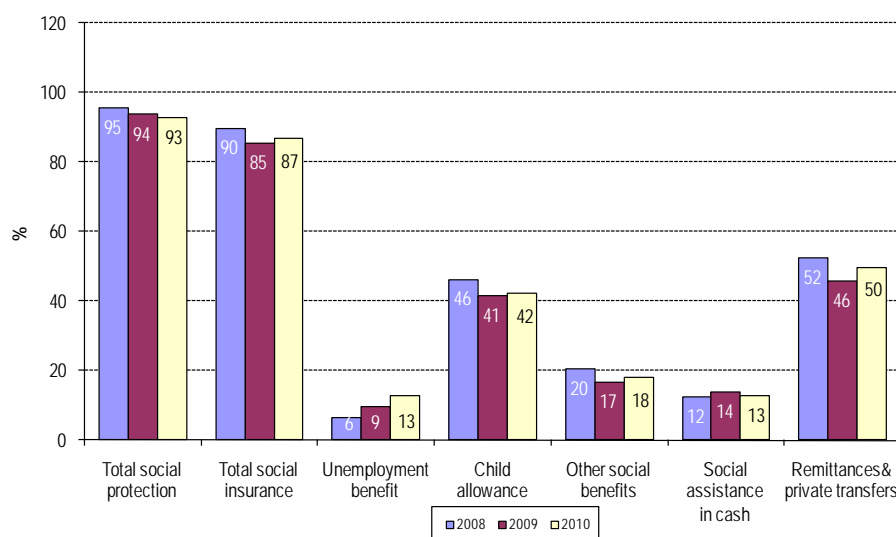
Table 6.1.3: Coverage: Share of Population Receiving Social Assistance Programs, 2010

	Quintiles of income per capita distribution, net of each social transfer					
	Total	Q1	Q2	Q3	Q4	Q5
Overall social protection	70.0	92.5	91.2	80.7	57.3	28.3
Social insurance	53.6	86.8	66.3	55.7	37.7	21.3
Old-age pension	33.2	68.7	39.1	26.9	20.0	11.4
Disability and survivors pension	23.3	51.2	29.9	18.3	9.3	7.9
Sickness benefit	1.6	3.0	1.8	2.0	1.0	0.4
Unemployment benefit	5.9	12.8	7.9	4.2	3.0	1.7
Social assistance programs	26.2	54.6	38.9	21.8	9.5	6.0
Child allowance	17.3	42.2	25.3	12.7	5.4	0.9
Other social allowances	9.1	18.0	11.8	7.7	3.9	4.2
Social assistance in cash	5.0	12.7	5.3	4.2	1.7	1.0
Remittances and private transfers	45.0	49.6	48.5	43.8	43.3	39.7

Notes: Program coverage is the portion of population in each group that receives the transfer

Source: Staff estimates based on the 2010 HBS

Figure 6.1.2. Croatia: Coverage in the bottom quintile, 2008-2010
(percent of the population in the bottom quintile that receives the transfer)



Notes: Program coverage is the portion of population in each group that receives the transfer

Source: Staff estimates based on the 2008 - 2010 HBS

6. **Cash benefit administration is fragmented, scattered across different ministries and institutions.** The war veteran pensions and benefits are administered by the Ministry of War Veterans. The child tax allowance is administered by the Tax Revenue Authority. Even the targeted cash benefits – family policy programs, social welfare programs and social services -- are administered by different institutions, although the policy and budgetary authority rests with Ministry of Social Policy and Youth (MSPY) (about 2 percent of GDP). However, only social welfare (poverty targeted) programs and services are administered by the MSPY (about 1 percent of GDP); the child allowance program is administered by the Croatian Pension Insurance

Institute; and other family programs (e.g. non-contributory maternity/paternity allowances and Birth Grants) by the Croatian Health Insurance Institute. The fragmented administration of cash benefits impedes coherent policy making, increases administrative and private costs of delivering cash benefits, and augments the risk of error and fraud. Many cash benefit administration functions (eligibility determination, payments, recertification, oversight and controls, monitoring and evaluation) are scattered across different administrative bodies and are either under-developed or unnecessarily costly.

7. Efforts to consolidate some cash transfer programs, improve targeting and provide better social welfare services have been legislated in a new Social Welfare Law adopted in December 2013. The law introduced a new Guaranteed Minimum Benefit (GMB), which consolidated four different social benefits (social allowance program, extended unemployment benefit, homeland war veterans’ benefit and disabled WWII support allowance) and applied means-testing with changed equivalence scale to protect the most vulnerable (single elderly and single parents). Overall, the GMB could amount to about 0.4 percent of GDP. It includes a revised list of asset filters, grounded in empirical analysis; and a cap of HRK2,900 (equal to the minimum wage) on accumulated benefits to support activation. It also aims to reduce administrative complexity and cost, as well as the scope for fraud and error. Given the benefit has not been changed since 2008, and failed to cover even the basic food basket; the government also increased the benefit by one-third to HRK800. The cost of benefit increase will roughly be offset by the tightened eligibility rules and targeting.

Table 6.1.4: Programs That Have Been Transferred into GMB, Including Costs and Number of Beneficiaries

Benefit		Spending (kuna)	Spending (% GDP)	# beneficiaries (nb many get > 1 benefit)
A. Living support allowance	GMB (from Jan 2014)	0.56 billion	0.17 %	110,000
B. Extended unemployment benefit		0.06 billion	0.02%	All beneficiaries of extended unemployment benefit are already beneficiaries of the living support allowance
C. Support allowance for Homeland War veterans and their family members		0.05 billion	0.02%	9,585
D. Support allowance for Disabled World War II Victims		0.07 billion	0.02%	5,501
GMB		0.8 billion	0.24%	130,000

6.2. One Stop Shop (OSS)

8. One of the nine key priorities of the Government’s Long-Term Fiscal Consolidation strategy is the consolidation of cash administration for social welfare programs, family policy programs and cash assistance for the unemployed under a single delivery network, a One-stop-shop (OSS). This is a gradual process expected to take three to four years. First, four social assistance benefits have been consolidated into a single Guaranteed Minimum Benefit (GMB) through the new Social Welfare Act that was passed in December 2013. At the same time, a one-stop-shop (OSS) for administration of cash benefits will be set up. The OSS will

start processing the new GMB from December 2014, and later will take on child allowances, non-contributory maternity/paternity allowances and Birth Grants, and unemployment benefits.

Before OSS	After OSS
PAO administers 2 benefits that are incorporated in the new GMB	PAO through OSS administers GMB, child allowance, non-contributory maternity/paternity allowances and Birth Grants for uninsured beneficiaries, unemployment benefits CSWs, CPII, CHI and CES retain their other responsibilities MSPY retains policy and budgetary authority for GMB, Child Allowance, non-contributory Maternity/paternity allowances and Birth Grants for uninsured beneficiaries. MLPS retains policy and budgetary authority for Unemployment benefits
MSPY through CSWs administers GMB, social services to the poor and vulnerable	
MLPS through CPII administers child allowance, pension insurance and compensation for disabled	
MoH through CHII administers non-contributory maternity/paternity allowances and Birth Grants, health insurance benefits, other health services	
MLPS through CES administers unemployment benefits, employment services and job counseling	

9. **The plans for the implementation of the OSS for cash benefits have been prepared by a working group led by the Ministry of Social Policy and Youth with the high-level participation of all relevant ministries and agencies.** The group was established in April 2013. In a first phase, the group has evaluated different alternative approaches: forming a new administrative body vested with public authority; developing a "virtual" center for payment, which would become an integral part of each regional office (the "No wrong door" concept); or using an existing administrative network. In the end, the working group opted for the third alternative. The OSS will build on the existing network of Public Administration Offices with 3000 staff located in over 100 cities/municipalities across Croatia.

10. **The OSS will transform the experience of social assistance beneficiaries by providing a single service point for them to apply for and receive a range of cash benefits.** For only four such benefits, the living support allowance program (consolidated into the GMB), unemployment benefit, maternity benefit and child allowance, the state uses more than 400 regional offices in the Republic of Croatia within the competence of the Centers for Social Welfare, the Croatian Institute for Pension Insurance, the Croatian Institute for Health Insurance and the Croatian Employment Service. Currently, these beneficiaries have to visit a range of different institutions, present similar documents at each and get separate decisions from each. Having an OSS will reduce the time and cost of application for beneficiaries, as well as the administrative costs of processing applications and recertifying beneficiaries.

11. **In addition to reducing the costs for beneficiaries and administration in processing application and paying benefits, the OSS would lay the foundations for deeper structural reforms: stronger policy coordination, harmonization of rules and procedures, benefit consolidation and deeper administrative reforms:**

- *Policy coordination:* Currently, the legislative and policy authority for these benefits is split between three ministries (Health for family support programs, Labor and Pension System for the unemployment benefit, and Social Policy and Youth for social welfare and child allowances), which hampers unified policy making due to inertia and diverging vested interests. Once these benefits will be administered by the OSS, the consolidation of policy making into one central institution will appear both simple and politically feasible.
- *Harmonization of rules and procedures:* Although both child allowances and the GMB are need-based programs, they operate under distinct rules and procedures. Household means are assessed differently, with a means-test used for the GMB and a simple income test for the child allowance. While most documentary evidence is common, some eligibility criteria differ from one program to another. Recertification requirements are also different. Such rules do not respect the principle of horizontal equity that two Croatian households in the same economic circumstances should be treated in the same manner. In particular, the child allowance program is so well embedded in the benefit administration procedures of the Croatian Pension Insurance Institute, that it seems hard to have it separated from the other business functions of the Institute. Once the program will migrate to the OSS, such horizontal inequities will become both more visible and simpler to solve through simple parametric reforms.
- *Benefit consolidation.* Many other EU countries have embarked on a process of benefit consolidation to simplify the access to benefits, avoid duplication, reduce benefit dependency and reduce error and fraud. Recent examples include UK (Universal Credit) and France (*Revenue de solidarite active*). Such reforms, although desired at the policy levels, are difficult to implement given the fragmented policy makings and implementation arrangements. The OSS will facilitate such reforms. For example, currently it is hard for the Government to implement a benefit cap, one of the measures they would like to introduce to limit benefit dependency and encourage work. Once the OSS will be functional, this measure could be implemented easily. The implementation of the OSS on the network of MPA opens the doors for the coordination between the provision of cash benefits financed by central and local authorities. The GoC expects that the OSS would be directly linked with the data bases of payments within the programs of the units of local self-government.
- *Administrative reforms:* A number of administrative processes could be consolidated and made more efficient, including payment of benefits (e.g. single consolidated payment for beneficiaries vs. many separate payments); monitoring and evaluation and reduction of error, fraud and corruption in a benefit stream that exceeds 6 billion HRK per year.

6.3. Unification and Harmonization of the Disability Certification Process and Administration

12. **As of 2013, Croatia has 522,000 persons with disability out of a population of 4.3 million (12.2 percent).** To support the social inclusion of persons with disability, Croatia offers a varied menu of assistance similar to EU countries, including income-replacing benefits (disability pensions or disability allowances), payment for careers in case of severe disability, and rehabilitation and social inclusion services. The share of spending on disability benefits in Croatia is among the highest in EU, next to Denmark, Sweden and Finland. With 3.6 percent spent on disability programs (disability pensions, transfers, other benefits) in 2010, Croatia was

64 percent above the average of the EU27. Such a high level is largely the legacy of the 1991-95 Homeland War, but also a consequence of unstandardized and divergent disability criteria, inefficient gatekeeping, control, and corruption in the currently decentralized disability assessment systems.

13. **The current disability assessment (certification) procedures are scattered across six sectors/agencies.** Currently, the disability assessment procedures are administered by Centers for Social Welfare, Croatian Pension Insurance Institute (CPII), Ministry of Homeland War Veterans (MHWV), Croatian Health Institute Insurance (CHII), Croatian Employment Service (CES) and schools (Table 6.3.1). The total number of disability certification officers and experts engaged in all systems stands around 1200 (many part-time), while the estimated effective staffing would be closer to 250. Certification officers and administrators in CPII (around 100, o/w 67 certifying officers) and CHII (stated to be around 60 officers with other tasks in addition to disability certification) are on their agency's payroll, while the majority of certification officers engaged in social centers and schools (around 1000 in both sectors) are engaged externally on a case basis. MHWV and CES also outsource the disability certification. MHWV uses 61 external officers on a case basis. Closed and separate disability certification processes create inequality in disability treatment, complicate the process of disability certification for private persons and their families, raise private costs of certification process, intensify the administrative burden and create opportunities for corruption. The objective of the project is to establish the framework that would ultimately eliminate these opportunities.

Table 6.3.1: Disability Pensions and Allowances Subject to the Harmonized Certification System

	Benefit subject to certification	Number of certifications in 2013	Staff	Administrative cost* (HRK mil)
CPII	Disability pensions; professional disease; remaining work capacity; level of bodily injury;	100000	112 (o/w 67 certifying officers)	14,00
CHII	Professional rehabilitation	9000	60 (part time, effectively 20 full time)	4,40
Centers for Social Welfare	Social assistance: remaining work capacity; level of bodily injury;	25000	994 (all outsourced)	14,00
CES	Leave and reduced work hours for parents of children with disability;	n.a.	n.a.	n.a. (small)
Education system	School enrolment; education program and assistance to children with development challenges	n.a. (small)	outsourced	0,02
HWVs	Supplement for care and	6000	61 (all	3,00

	assistance to the HWVs; health care above standard for HWV; physical rehabilitation of HWVs; orthopedic supplement, disability pension,		outsourced)	
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***includes wages of the disability certification officers and overheads**

14. **Disability certification procedures are not standardized and generate inequities among persons with disability.** Current disability assessment procedures across the certifying agencies do not rest on identical methodology. For example, while the medical certification for disability pension follows a strict methodology and disability classification, verified by specialized expert teams and approved by the authorities, the certification of HWVs and primary and secondary school students are based on internal procedures. The first-rank certification process in these two systems is largely outsourced and thus open to subjective judgment. With second-rank certification (control and revision) performed individually by respective ministries, such a system has in some cases resulted in different disability assessments for identical medical diagnoses. Unification and standardization of the disability certification methodology and procedures should prevent such outcomes in the future.

15. **Furthermore, introduction of the unique functional disability certification methodology by the CDCI would strengthen labor incentives and improve the targeting of the disability protection system.** Apart from fragmented disability certification system, current assessment is based on a combination of categorical and functional disability assessment and methodology. Categorical methodology assigns a percentage of bodily impairment for each diagnosis, while the functional methodology assesses the capacity of an individual to perform a specific work. For example, current eligibility requirement for disability pension is at least 50 percent of bodily impairment according to Law on List of Bodily Impairments (Official Gazette 162, December 1998). Eligibility for benefits linked to work injury depends, besides categorical, also on assessment of remaining work capacity. However, in practice, this assessment is based on medical diagnosis rather than individual assessment taking into account all individual parameters such as age, profession, lifestyle, etc. Unified functional disability assessment methodology, scheduled to be adopted in Q4 2014, should bring a turnaround in assessment of remaining work capacity. For example, current system assigns 100 percent incapacity to work to every individual with a pacemaker. However, remaining work capacity of a person with a pacemaker is highly individual and depends on person's age, profession and overall health condition. It is not unimaginable for a researcher or a teacher with a pacemaker to continue the work after rehabilitation. Future functional methodology will be designed to stimulate such individuals to maintain working if possible instead of taking disability by default. This approach, although more complex, will improve work incentives and targeting of public funds to disability benefits.

16. **In 2013, the Government decided to reform the system through the establishment of the Central Disability Certification Institute (CDCI) within the Fund for Professional Rehabilitation and Employment of Disabled Persons (FPREDP), which was transformed into Institute for Disability Certification, Professional Rehabilitation and Employment of Persons**

with Disability (IDCPREPD). Integrating disability certification into the agency responsible for professional rehabilitation utilizes the synergy between the two. If a disability certification indicates that the health condition and employability could be improved through professional rehabilitation, the process could start without delays and within the same administration. Reform of the system of professional rehabilitation has been moving in parallel with the disability certification. All professional rehabilitation processes, scattered across CPII and CHII (determining the right to professional rehabilitation), CES (employment of persons with disability), and IDCPRPD (providing financial stimulus to employment of persons with disability and reentry to work after professional rehabilitation), were decided to be unified in the IDCPREPD.

17. Establishment of the CDCI has been identified as one of the measures to be implemented under Government's 2014-2016 Fiscal Consolidation and Reform Program. The Program confirmed that unification of methodologies and administrations should yield “a more fair and work oriented disability assessment system, and a better use of public funds”.

18. The legal framework of the CDCI has been developing. The establishment of the CDCI was initiated by the Law on Professional Rehabilitation and Employment of Persons with Disability, adopted in December 2013 (Official Gazette 157, 2013). This law has transformed the Fund for Professional Rehabilitation and Employment of Persons with Disability (FPREPD) into Institute for Disability Certification, Professional Rehabilitation and Employment of Persons with Disability (IDCPREPD). IDCPREPD is tasked with establishing the CDCI as its integral part and with unifying and harmonizing the disability certification methodology and process in Croatia. While the Law on Professional Rehabilitation stipulated that the IDCPREPD (and CDCI as its integral part) should operate a regional network (five regional centers are mentioned in the supporting documents), the details on CDCI objectives, tasks, responsibilities and operations would be determined in a separate Law on CDCI. The Law on CDCI was approved on July 4 2014. It further determines the procedure of the establishment of CDCI within IDCPREPD, adoption of unified disability certification rules by the Government within six months of the adoption of the Law on CDCI (i.e. expected in Q4 2014), and prior to CDCI's full operational status in January 2015. The CDCI Law envisages transfer of current full-time disability certification officers from their host agencies to the CDCI on January 1, 2015, starting with CPII certification officers.

19. Creation of the CDCI within IDCPREPD is expected to result in faster, more transparent, and more efficient certification process and service to the clients/applicants. Instead of several certifications per applicant, by the end of the project all applicants will undergo only one certification. Individual costs of disability certification would thus fall and client satisfaction rise accordingly. This would be measured and monitored by an independent survey, starting from a baseline survey prior to project effectiveness. Due to IDCPREPD's institutional restructuring over the project period, and the associated costs, no significant administrative savings is expected in the short run. However, in the medium run, the IDCPREPD will generate lower costs than the six currently decentralized disability assessment administrations.

6.4. Reducing Error and Fraud in the SP System

20. All social protection (SP) systems lose some of the public funds they channel to beneficiaries due to error, fraud and corruption (EFC)¹². No SP system is immune to EFC¹³. Some benefits are more prone to this risk than others. Complex eligibility requirements for social assistance programs trigger higher error and fraud rates. Generous benefits (high benefit level and/or infrequent recertification requirements) entice beneficiaries and/or staff to fraud the system. Poorly trained frontline staff or overloaded with numerous claims cannot guard the benefit system against error and fraud. And a weak system of recovery of overpayments and sanction reduces the cost of EFC for both beneficiaries and staff. Combined, these circumstances make some level of EFC a permanent part of the cash transfer delivery system. Similar losses occur on the labor market, when part of economic activity and wages are not reported. However, the experience of OECD countries has shown that developing the right institutions and mechanisms to prevent, detect, deter and monitor EFC does reduce these losses substantially.

21. An UK National Audit Office report¹⁴ shows that even countries with sophisticated EFC systems incur losses amounting 2-5 percent of their social protection spending, with higher EFC rates for risk prone benefits such as means-tested programs, income replacement programs and disability programs. For example, over-payments in the Food Stamp programs in the US have been reduced from about 10 percent to about 5 percent over the last decade. Similarly, the UK has halved the amount lost to fraud during the decade of the 2000's once it embraced a comprehensive, end-to-end approach to stamp out EFC. Recent evidence from ECA region seems to indicate that these losses are higher in systems that have not actively fought EFC.

22. Moderate investments in a comprehensive, modern, effective system to reduce EFC could significantly reduce such losses. Such systems focuses on large-volume risk-prone cash benefits or unreported wages; encompass prevention, detection and deterrence measures; and use data intelligence (data matching and risk profiling) to focus its investigative resources to high-risk applicants, employers or front-line units. The rate of EFC reduction could be higher in systems that have not yet prioritized the control of EFC losses, such as many ECA countries.

23. Croatia operates a number of cash benefits with high *a-priori* risk of EFC, including income and means-tested programs (the child allowance and GMB programs), income replacement programs, disability pensions and allowances. The current delivery system of these benefits relies on preventive measures to stamp out EFC, but fall short of a comprehensive system. Complementing these measures with an efficient detection and deterrence system will help safeguard the social protection system against EFC. Such savings tend to be higher in a

¹² It is important to recognize that social assistance programs always suffer from some degree of fraud and error. Thus, what is more important is to put in place systems for detecting, remedying, and minimizing these irregularities. Fraud refers to intentional behavior on the part of the benefit claimant to defraud the benefit system. Error refers to unintentional mistakes on behalf of benefit claimants or staff in the benefit office.

¹³ No SP system can eliminate completely EFC from the benefit system. After a certain level, the cost of safeguarding the benefit system goes over the savings generated by recovering the over-payments and associated sanctions.

¹⁴ UK NAO, July 20 2006, "International benchmark of fraud and error in social security system", available at: <http://www.nao.org.uk/report/international-benchmark-of-fraud-and-error-in-social-security-systems/>

system that was not subject to EFC reviews, as it is the case in Croatia. Additional savings could be obtained by improving the efficiency of the Labor inspection, the body under MLPS in charge with combating shadow employment and fraudulent behavior in the labor market, i.e for carrying out inspections on the compliance with the labor market laws and regulations and protection of work conditions.

24. There is recent evidence that such measures could bring important savings for Croatia. In May 2013 the World Bank organized a workshop on effective strategies to prevent EFC and supported the MSPY to develop a draft strategy and action plan. Following the workshop, MSPY carried out a recertification of 70 percent of the beneficiaries in Support Allowance, and suspended about 15 percent of them in the process. These savings could be higher, once they are expanded to a larger set of risk-prone benefits and once the respective line ministries will upgrade and modernize their capacity to prevent, detect and deter EFC. The same techniques and instruments could also help the Labor Inspection team to identify the cases of working but not declaring the labor incomes, or under-reporting such incomes.

25. Thus, it is likely that Croatia is losing significant amounts of money due to ineffective institutions and mechanisms to combat EF&C in the social protection and labor system. The main emphasis is on prevention, where sophisticated tools are being put in place¹⁵. However, the capacity of the system to detect, deter or correct error and fraud is low. With the exception of the Labor Inspection, the staff working on EFC activities focused on SP benefits is below 10 persons in each participating ministry (the Social Inspection Unit of MSPY and the **Department for Medical Revisions of Disability Certifications** in MLPS), substantially lower than in EC or some ECA countries (including Albania, Moldova, Romania or Ukraine). The staff of all three inspection bodies consists mainly of specialists in program certification rules (e.g. disability/medical certification physicians, cash benefit administrators or labor inspectors). Their expertise is not yet complemented by ICT and data analysts, which could make their work more efficient by narrowing the scope of the controls or inspections to cases with high risk of EFC. The sanctions for error and fraud are either low or inexistent. Thus, the cost of defrauding the system is rather small (small probability of detection times weak recovery and sanction policy), while the benefits are positive and, for some programs, very high. These circumstances encourage fraudsters to attack the system.

26. At the same time, Croatia has sound foundations to develop rather quickly the appropriate institutional arrangements and mechanisms to reduce EFC and reap the results of this investment. To provide inputs into the development of a SP-wide EFC strategy, the World Bank team has administered a questionnaire to the participating ministries to identify the strengths and weaknesses of the sector before the start of the project. This exercise pointed to four strong elements that Croatia could use to develop a modern, comprehensive strategy to combat EFC:

- *First*, there is a minimum number of social inspectors or controllers in each of the participating line ministries and inspection team (MSPY Social Inspection Unit; MLPS **Department for Medical Revisions of Disability Certifications** and MLSP Labor Inspectorate), which is one of the critical resources for the EFC work.

¹⁵ Such as the ability of frontline social assistance staff to check whether beneficiaries have cars, boats or savings; soon to be extended to other eligibility characteristics such as incomes and family composition.

- *Second*, the three Inspection bodies have relevant job descriptions and possess some of the required skills. These skills could be further enhanced through specialized training.
- *Third*, effective EFC work needs adequate intelligence, and this is based on good program data, stored under an electronic MIS. Such electronic MIS exists for each of the risk-prone social protection benefits (disability programs and means-tested programs) and for the labor market (registry of employers; registry of employees). They only need to be connected, the resulting information needs to be analyzed and then transmitted to the inspection / detection teams for investigation and proposal of remedial actions.
- *Fourth*, the MSPY has a good draft strategy and action plan to combat EFC, developed together with international expertise, and supported by the World Bank. During the project preparation, the team has expanded their assistance to other participating ministries to help develop a sector-wide strategy and action plans.

27. Working with the three Inspection bodies from MSPY and MLPS to enhance their capacity and to focus their effort on high-risk social protection programs and, within these, high risk beneficiaries, employers and service units, the project could generate cumulative fiscal savings of about 0.5 percent of GDP over the project life. The project team is working with the participating ministries and agencies (MSPY and MLPS, their implementing agencies and the three Inspection bodies) to develop and inter-ministerial EFC strategy and action plan for all risk-prone social protection programs and under-reported wages that will be adopted by the Government over the summer. The participating ministries have established a working group, led by a senior expert from MLPS. The scope of benefits and activities covered by the proposed EFC strategy covers about 3.5 percent GDP. Under realistic assumption about the deterrence and detection effects of such measures, fiscal savings of at about 0.5 percent of GDP could be tapped over the project life time. The assumptions of the projected savings are spelled out in Table 2.4.1; the EFC detection rates are consistent with international benchmarks.

Table 6.4.1. Estimation of potential fiscal savings from reducing EFC (upper bound of the potential fiscal saving range)

Panel a: Baseline spending and assumptions

	Spending, 2013		Assumed EFC rate	Assumed detection rates	
	Bln Kuna	% GDP		2014/15	2016/18
GMB	0.80	0.24	10.0%	25.0%	50.0%
Child allowance	1.66	0.49	5.0%	25.0%	50.0%
Maternity and paternity	2.10	0.62	5.0%	25.0%	50.0%
Disability pensions (under Pension Institute)	5.70	1.68	10.0%	25.0%	50.0%
Total	10.26	3.03			
GDP	339				

Panel b: Estimated EFC Savings

	EFC savings, estimated as % of GDP					Cumulative
	2014	2015	2016	2017	2018	2014-2018
GMB	0.006	0.006	0.012	0.012	0.012	0.047
Child allowance	0.006	0.006	0.012	0.012	0.012	0.049
Maternity and paternity	0.008	0.008	0.016	0.016	0.016	0.062
Disability pensions (under Pension Institute)	0.042	0.042	0.084	0.084	0.084	0.337
Total	0.062	0.062	0.124	0.124	0.124	0.495

28. The Government’s EFC strategy will encompass not only SP benefits, but combating shadow employment and fraudulent behavior in the labor market. Shadow employment (unregistered labor) and labor contract frauds (registering labor at lower remunerations, false registration data) exist in all countries. The share of gray economy in Croatia, estimated at 30 percent of GDP, is among the highest in the EU.¹⁶ A large part of gray economy originates from unregistered employment, wage underreporting or fraudulent labor contracts. These activities harm the rights of the employees and reduce the revenues of the pension and unemployment funds. Often, the practice of wage non- or underreporting goes hand in hand with SP benefit fraud, when beneficiaries are working in the shadow while claiming benefits. Combating error and fraud in the labor market is an integral part of the combating EFC in the whole SP system. The project will support the Labor Inspectorate under MLPS to detect and correct shadow employment and increase the effectiveness and efficiency of their work. The resulting improvement in the labor market discipline will tilt the overall fiscal savings over the 0.5 percent of GDP threshold, during the project lifetime.

29. The Labor Inspectorate (LI) of the MLPS is the Government’s unit responsible for fighting EFC in the labor market. Based on the Labor Inspectorate Law (Official Gazette, 19/2014), LI is established as an administrative unit department of the MLPS.¹⁷ LI currently employs 250 labor inspectors, 130 of which are responsible for labor inspections, and remaining 120 for inspections of work conditions. Labor inspections are conducted on the basis of external complaints (some 60 percent of actual inspections) or preemptive inspection campaigns (remaining 40 percent of inspections). The results of the labor inspections were reports of possible noncompliance with the labor market regulations in 2013. The LI filed these findings with the Tax Administration, followed by Ministry of Interior, CES, CPII, CHII and CSWs. LI’s network includes the HQ, five regional offices and 15 local offices.

30. The Labor Inspectorate has good foundation for combating EFC in the labor market, especially sufficient staff and well-tested inspection procedures. The inspection procedure consists of preparation (preliminary review of data on employer, employees, legal framework), on-site inspection (review of documents, interviews with witnesses, verifying inspection minutes), post-inspection desk review (filing a report, initiating penalty or criminal case), and

¹⁶ See Schneider (2013): “Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2013: A Further Decline” (http://www.econ.jku.at/members/Schneider/files/publications/2013/ShadEcEurope31_Jan2013.pdf)

¹⁷ The Labor Inspectorate emerged from fragmenting the State Inspectorate into several smaller and specialized inspectorates in 2013. The main argument for dismantling the State Inspectorate, created in 1999, was relative inefficiency of State Inspectorate in undertaking targeted inspections. The LI Director is formally the assistant minister in the MLPS.

reporting cases to relevant agencies for further processing. Since 2009 the process is performed electronically through the eRegistrar (eOcevidnik) system¹⁸. In 2013, all LI's office administration procedures were incorporated in the eRegistrar system. The LI has access to the corporate and self-employed data (Ministry of Entrepreneurship and Self-employment and State Statistics, which are publically available), but it still does not have real-time feed-back in the Tax Administration, CPII, CHII, CES, MSPY and MLPS databases. Average inspection time is three days and the LI is working towards reducing the inspection time and improving the efficiency of inspection. In 2012, an IPA project (totaling Euro1.5 million) was launched for twinning the LI with best EU practice and strengthen the LI capacity. Among other, 77 docking PC stations (one half of initially required equipment) will be procured for inspectors. In addition to completing to equip the inspectors with mobile equipment, it is even more important to establish a real time access of inspectors to other agencies' databases.

31. The project could support the LI to improve access to relevant information needed for the inspections, and reduce the time of inspection. Inspectors do not have a direct access to all the necessary databases to perform inspection in real time. With real time access to Tax Administration, CPII, CHII, CES, MSPY and MLPS the inspectors could establish the facts and initiate penalties during onsite inspection, and complete the inspection findings and inform the inline agencies the next day. Average inspection time will then be reduced from three to two days.

32. In addition, the project could support the LI team to identify suspicious cases (employers and employees) with greater accuracy. Most inspections are conducted in catering, tourism, trade and construction, sectors most exposed to shadow activities and breaching labor regulations. The inspection schedules, target areas and employers are based on experience and basic sector analyses. LI's analysis department has been preparing analyzes from past inspections and information from other agencies. However, the process still lacks modern analytic profiling methods and deeper use of data from other agencies, especially the Tax Administration. In addition to establishing the LI's connections with other databases, this project will engage in strengthening the analytical capacity of the LI. Finally, the LI does not have a feedback from other agencies on the outcomes of legal processes initiated. Consequently, the LI could not evaluate the effectiveness of its inspections and design routes for improvement. Receiving and analyzing the feedback from other agencies' enforcement processes will be the important segment of LI's capacity improvement.

33. To increase the effectiveness and cost-efficiency of the EFC work across the participating ministries, the following actions – consistent with the draft EFC strategy --- will be implemented with the support of the proposed project:

Step 1:

- Adopt an action plan, based on a comprehensive strategy to combat EFC in the SP sector. The Action Plan should include, inter alia: (a) the objective and scope of the Action Plan (programs covered, at minimum the risk-prone social protection programs and unreported wages); (b) key activities, at least those required to comply with DLIs 8, 9 and 10 agreed

¹⁸ eRegistrar is a 3-tier smart client Windows application designed in Microsoft's .NET framework.

with the World Bank; (c) timetable; (d) responsible institutions; (e) required budget and human resources where applicable; (f) legal implications; (g) indicators to monitor progress; and (h) monitoring and evaluation procedures.

Step 2:

- Develop minimum EFC capacity in each participating ministries (LI and Department for Medical Revisions of Disability Certifications in MLPS and the Social Inspection Unit of MSPY). This will involve additional recruitment of investigative staff, including ICT and data analytics specialists. Over time, the project will support the establishment of a small intelligence unit within the investigative team staffed with statisticians, ICT specialists and senior investigators.
- Revise the legislation and regulations re: their status (centrally subordinated) and investigative powers. Develop clear operational manuals for the investigative team (to increase professionalism and prevent abuses). Improve the legislation on recovery of over-payments and sanction policy. Develop an operational manual for the investigative work (with specific chapters for specific benefits and ministries).
- Develop a professional cadre of investigative staff with the sole role of bringing back the budget money spent on erroneous or fraudulent claims through training in legislation; investigative techniques; use of intelligence; risk management across program cycle. Expose this staff to international experience through a specialized workshop (activity carried out during June 9-11, 2014, financed under a PFM TF).
- Ensure the pre-conditions for improving the effectiveness and cost-efficiency of the investigative teams in the future, by developing and implementing an end-to-end monitoring system, that documents how the sample of cases to be investigated has been selected; the results of each control or inspection; the remedial recommendations and sanctions applied; the amount of over- and under-payments; and then follows up on the recommendations after a number of months.
- Carry on controls and inspections in all SP programs that have, *a priori*, a high risk of EFC. With the existing workforce, the line ministries could cover a large share of each program caseload in two to three months' time and carry ex-post eligibility checks by verifying the documentary evidence and, when needed, following up with home visits, employment visits and the collection of other types of information and evidence. These inspections will create a baseline of the amount of irregularities in the system. The LI will continue to focus on employers and employees that do not report or under-report their labor earnings. The Social Inspection Unit in MSPY will continue to inspect the GMB program and disability allowances financed by the ministry, and will gradually expand the scope of the inspection to cover other social assistance programs once they are transferred to the OSS network (child allowances in 2015; and birth grant and parental leave for non-insured beneficiaries in 2016). The Department for Medical Revisions of Disability Certifications in MLPS will inspect disability pensions.
- The inspection reports of the Inspection bodies should describe the inspection process (from planning and prior assumptions about potential causes of EFC; to the implementation of the inspection; to the results of the inspection process; and with an analysis of the EFC detected in terms of high risk groups). Regular (quarterly) monitoring

report that follows up on the recommendations of the inspectors for beneficiaries and front line units; showing the status of the implementation of the recommendations, as well as an exhaustive list with suspicion of fraud or corruption and their status within the prosecutorial / judicial system.

- The results of these large sample inspections or controls could then be analyzed to identify types of beneficiaries, employees, employers or front line units, with EFC rates higher than average and then target the inspections and controls to these groups. These inspections will also reveal a subset of behaviors or circumstances that facilitate EFC in specific social protection programs (the vulnerabilities of the social protection system) and in the labor market. Once the results of these inspections are stored into an MIS module, they can be used for analysis, to identify the beneficiary types that have high risk of EFC; the circumstances that facilitate EFC; and to develop countermeasures to safeguard the program against the risk of EFC.
- *Final output a: Effective investigative teams are in place: adequately staffed, trained, with satisfactory investigative powers and institutional subordination, operating uniformly across all territory and types of social protection programs based on a clear, detailed operational manual. Similar for the Labor Inspectorate.*
- *Final output b: At least one large sample inspection carried on for each of the high-risk social protection programs, with the results of the inspections adequately reported in an inspection report.*

Step 3:

- To increase the cost-efficiency of the investigative process, the future inspections should be targeted to high risk groups of beneficiaries, employees, employers or service units rather than being exhaustive or random. A cost-effective way to filter the pool of beneficiaries etc. and generate suspicions of EFC is through large scale data matching. The data matching processes would compare whether the household circumstances that entitle households to benefit and that were declared and/or documented to the front line units are similarly held or reported to other public databases. The key databases of interest include the pensions and unemployment databases (with records on formal wages; pensions and unemployment benefits received); the tax registry (with records on a broader range of incomes); the civil registry (with information on identify of the individual claimants and family affiliations, births and deaths); as well as property registry (land cadastre, other taxable property). A precondition for this activity is the interoperability of each program database with the other databases; the signing of data exchange protocols between the intelligence unit of each ministry and the other administrators of public databases (with appropriate protection of the data held in these databases); the development of the software for data cross-checks; and of the regulations and internal protocols that define how the data irregularities would be checks and remedied by the investigative team. Targeting the inspections to those beneficiaries whose documentary evidence is different in each program MIS than in other public databases will increase the effectiveness of the thematic or ad-hoc inspections. Once the referrals from data cross-checks are introduced in the practice of the thematic inspections and these are carried on, the results would be described in the Inspection' reports.

- The introduction of the OSS and the CDCI would facilitate the process of data exchange.
- *Final Output: At least one large scale inspection per each risk-prone social protection program is carried on using the referrals generated by the data cross-check system (between the MIS of each risk-prone social protection program, and the databases operated by the CPII, CES, MLPS, Civil Registry and Tax Registry). The Labor Inspectorate uses data cross-checks to generate referrals for subsequent inspections.*

Step 4:

- Over time, the results of the large scale and ad-hoc inspections would allow the intelligence unit of each of the Inspection bodies to fine-tune the risk analysis for each social protection program and respectively, for the labor market. At the beginning, some of this analysis will mainly be descriptive: e.g. what are the main types of irregularities detected after each inspection. By blending the insights of the social inspectors with the (statistical) analysis of the results of the large scale inspection, and by enlarging the information base for this analysis, the investigative teams would develop sharper risk profiles of beneficiaries, employees, employers and service delivery units. These would allow classifying the caseload into classes of risk of EFC (e.g. green for low incidence of EFC; yellow for moderate; red of high incidence/ probability of EFC). A cost effective inspection process would cover all red cases, a fair sample of yellow cases, and a very low sample of green cases. By documenting the sampling of the inspections, the three intelligence units would be able to extrapolate the results to the whole caseload of the program. This information could provide the basis for a robust, comparable, reliable monitoring system of the level of EFC in the social protection and labor system.
- *Final Output: At least one inspection per each risk-prone social protection program is carried on using an adequate risk-profiling system. The Labor Inspectorate uses a risk-profiling system.*

6.5. De-Institutionalization

Context

34. **De-institutionalization refers to the process of planning transformation, downsizing and/or closure of residential institutions, while establishing a diversity of other non-institutional care services regulated by rights-based and outcome-oriented standards¹⁹.** The Croatian Government has defined its deinstitutionalization goal as ‘an exchange of institutional forms of accommodation for community-based forms of care, which will enable children with developmental difficulties, persons with disabilities, children without parental care and children and youth with behavioral disorders to: i) return to life in their families, with support; ii) live in foster homes; and/or receive support for use of all available services in the community according to the individual needs of each individual beneficiary in a program of organized housing²⁰.’

¹⁹ UNICEF ‘At Home or In a Home Formal care and adoption of children in Eastern Europe and Central Asia’ (September 2010)

²⁰ Operational Plan approved by Ministerial Decision, 18 June 2014

35. **Croatia inherited a legacy of State policies and practices in social care, whereby individuals without adequate parental care, with behavioral disorders, or with physical and mental disabilities were placed in institutions comprised of people with the same type of ‘deficiency’.** These residential homes foster an institutional culture and are far from a natural family environment with access to mainstream services and opportunities for individuals to develop their potential. It has long been recognized that including persons with disabilities in the wider social community is not only desirable from a human rights perspective, but also contributes to the quality of life of persons with disabilities and changes attitudes in society towards persons with disabilities and their capabilities. The UN Convention on the Rights of the Child, to which Croatia is signatory, guarantees a child’s right to grow up in a family and reserves accommodation of a child in a social welfare institution as an exception and only where absolutely necessary for a limited duration. Likewise, the Convention on the Rights of People with Disabilities guarantees the right of all disabled people to live in society.

36. **Deinstitutionalized care is overwhelmingly and consistently better than institutional care, especially for children.** The evidence shows that care in family-type settings (the child’s natural or extended family, foster care or adoption), is immeasurably better than life in even a well-organized institution for almost all children. The individual, one-to-one love and attention that only parents (whether birth, foster or adoptive) can give, is extremely powerful and cannot be bettered by institutional care in promoting the development of children²¹. Even for adults, institutions inhibit social inclusion and the opportunity to live a normal life.

37. **Safeguards are necessary to protect vulnerable people in the infrequent cases of potentially poor care.** De-institutionalization to inadequate forms of care would present a risk to achievement of the goal of securing better welfare outcomes. Thus, even though deinstitutionalized care is almost always better, it is important to ensure that minimum quality standards are in place, monitored regularly by a Social Inspection team and enforced to catch cases of poor care. Standards are in place in Croatia and there is a Social Inspection team, however both could be strengthened, including with the project’s TA/investment component for service-specific standards, enhanced training and increased monitoring.

38. **From 2000-2008, the number of children placed in residential care institutions rose, but it started declining in 2009.** For most of the last decade, the number of children in residential care institutions rose both in absolute figures (from 5,200 to 6,300) and also as rates of children in residential care per 100,000 population aged 0-17 (from 548.5 to 753.0)²². Starting with 2009, the trends have been decreasing. However, even today, a very large number of children remain in long-term and weekly accommodation. Children must be the priority in deinstitutionalization efforts given the detrimental impact that institutional life can have on a child’s emotional, intellectual and physical development. Croatia’s Operational Plan for Deinstitutionalization (see below) establishes that accommodation of a child in an institution should be the exception, only used in situations when it is absolutely necessary and for a limited time.

²¹ EveryChild: Family Matters (2005)

²² Source: TransMonEE database

39. Overall 8311 individuals are housed in long-term or weekly accommodation (institutions or family homes for up to ten children or 20 adults). Of these, 1943 (or 23 percent) are children. About one third of the institutions or family homes are not state-run, but managed by other service providers.

40. A further 652 individuals are accommodated in non-institutional ‘organized housing’ defined as a housing community of no more than five beneficiaries supported with 24 hour care. Of these, only 52 (or eight percent) are children. Just under two thirds of the beneficiaries of organized housing are in facilities run by non-state service providers. A further 3551 children and adults across all categories are placed with foster families²³, reflecting the efforts made during the last few years in Croatia with regards to reducing reliance on residential care institutions while developing family-based alternative care.

Table 6.5.1. Number of Beneficiaries Living in State and Non-State Institutions, Family Homes and Organized Housing, 31 December 2013

<i>Beneficiary category</i>	<i>Institutionalized</i>			<i>Not institutionalized</i>	
	<i>Number of beneficiaries in state-run homes</i>	<i>Number of beneficiaries in non-state homes</i>	<i>Number of beneficiaries in family homes</i>	<i>Number of beneficiaries of state-run organized housing</i>	<i>Number of beneficiaries of non-state-run organized housing</i>
<i>Children with developmental disabilities</i>	438	159	3	10	4
<i>Adults with physical, emotional and intellectual disabilities</i>	1162	972	47	116	317
<i>Adults with mental disabilities</i>	2833	828	315	66	44
<i>Children and adults 18-21 accommodated in homes for children without adequate parental care on a long-term or weekly basis</i>	592	556	27	53	34
<i>Children and adults 18-21 accommodated in homes for children with behavioral disorders on a long-term or weekly basis</i>	379	0	0	8	0
TOTAL	5404	2515	392	253	399

²³ Data on foster families from 2012, all other figures as of 31 December 2013

Croatia's reform path

41. **Over the last decade, Croatia has been reforming its social policy legislation to promote inclusion of vulnerable individuals in society.** It has ratified International Conventions, including the Convention on the Rights of the Child and Convention on the Rights of Persons with Disabilities, as well as a number of EU Human Rights Treaties that call for the replacement of residential institutions as dominant forms of care with social arrangements that permit them to: live in their families or in family-like environments; enjoy the support they need to use mainstream services; and fully exercise their rights as citizens. Recently a new Social Welfare Act has been adopted in order to further align social welfare policies with the provisions of the international conventions and treaties that Croatia has ratified.

42. **In 2010, Croatia adopted the National Plan on Deinstitutionalization and Transformation of Social Welfare Institutions and Other Legal Entities Performing Social Welfare Activities [2011-18] (hereinafter, the Master Plan) and, in June 2014, will adopt an Operational Plan to implement the Master Plan.** The Master Plan identifies five different types of beneficiaries²⁴, based on the feasibility of reintegrating them with their families or placing them in family substitute arrangements, such as foster families or organized housing:

- For children without adequate parental care, the target for 2016 is to achieve a 20/80 ratio between residential placements and other family-type care arrangements;
- For children with disabilities, the target for 2016 is a 40 percent reduction of institutional placements;
- For adults with disabilities, the target for 2016 is 30 percent reduction of institutional placements;
- For children and youth with behavioral disorders²⁵, the target for 2016 is also of 40 percent reduction in placements in residential institutions; and
- For persons with mental disabilities, the target for 2018 (*sic*) is 20 percent reduction of institutional placements.

43. **The Operational Plan sets out the framework and rationale for deinstitutionalization, the specific objective, implementation period, and resources being used to achieve the goals.** The purpose of the Operational Plan is to 'reduce admissions to institutions and increase the number leaving institutions into new forms of care, especially stimulating family reintegration (with support)'. The specific de-institutionalization goals are as follows:

²⁴ The elderly are not considered in this plan, since they generally enter institutions without the expectation of returning home.

²⁵ Some of these individuals are placed in institutions under court orders

Table 6.5.2. Deinstitutionalization Targets, 2014-2016

<i>Beneficiary category</i>	<i>Target for 2014</i>	<i>Target for 2015</i>	<i>Target for 2016</i>
<i>Children with developmental disabilities</i>	4	5	10
<i>Adults with physical, emotional and intellectual disabilities</i>	45	48	57
<i>Adults with mental disabilities</i>	109	112	133
<i>Children and adults 18-21 years of age accommodated in homes for children without adequate parental care on a long-term or weekly basis</i>	24	28	40
<i>Children and adults 18-21 years of age accommodated in homes for children with behavioral disorders on a long-term or weekly basis</i>	28	32	40
TOTAL BY YEAR	210	225	280
CUMULATIVE TOTAL	210	435	715

44. **The Operational Plan has been developed based on a bottom-up planning approach, initiated in 2010.** An independent assessment of beneficiaries, staff and infrastructure was not undertaken during the planning process, as best practice in the region would recommend for such situations. While there is evidence that this approach has worked well in some cases, there is a high conflict of interest risk whereby staff asked to recommend the future of their institution are unlikely to recommend that it should close. Currently, services for newly de-institutionalized individuals appear to be extensions of the institutions themselves, albeit provided in a different location. This may be a necessary and natural interim step to ensure some continuity of care. It is also understandable, as the institutions have a wealth of specialists. However, as long as these services are extensions of the institution, it will be difficult to promote independence of the beneficiaries and full inclusion in society.

45. **The Government is undertaking de-institutionalization nationwide, which means it can promote ‘regionalization’.** Regionalization means returning children or adults to their ‘home’ region, as far as possible to promote the continuity of wider family and cultural ties. The Operational Plan has a strong and welcome focus on family reintegration with support ‘aligned with the development of a network of services at the local level’. Regional and county plans are being drawn up under a project administered by Oxford Policy Management and funded by EU Instrument of Pre-accession funds.

Institutional Arrangements

46. **There are two sides to de-institutionalization: (i) stopping entries into and (ii) facilitating exits from institutions.** Both are critical and have to be kept in balance.

47. **Prevention and support services are key for successful gate-keeping but incentives need bolstering.** At the heart of the social welfare system, playing a key case management role are social workers in the 118 Centers for Social Welfare (CSWs) across the country, functioning as de-concentrated units of the MSPY. The social workers are currently making decisions regarding service care for vulnerable individuals and currently also on entitlements for cash benefits and services. Their capacity is low considering the volume of work reported, although this may change with the adoption of the proposed one-stop-shop model, as CSW staff would no longer administer cash benefits and would therefore be able to spend more time on their professional care duties. Social workers do not seem to have sufficient incentives to find a range of services for a vulnerable beneficiary when there is no moratorium on recommending an individual for institutional care. Directors of institutions may even seek new entrants to protect their institution from downsizing or closure. Even if the Director of an institution supported deinstitutionalization, they may not be able to turn away new entrants. Stronger incentives are needed to enforce gatekeeping and promote prevention, reintegration or deinstitutionalization.

48. **The Social Welfare Act provides for interventions to prevent family break-up wherever possible but families need support.** Currently there is low capacity developed at local level to provide preventive and support services (early identification and support, psycho-social counseling, day care, rehabilitation, etc.) as development of such services is at an early stage and very few such services are available at local level. Biological (and foster) families caring for vulnerable individuals report insufficient support in their often difficult task. UNICEF has supported Family Centers in most counties, which will soon be placed under the management of the Centers for Social Welfare, providing them (where such services exist) with additional choice and capacity to provide support services to children and their families. Such services, however, do not have yet national coverage. Component 2 of the project could be used to provide further support to biological and foster families and to develop further the foster care service.

49. **When prevention and support mechanisms fail to work, if an individual must be separated from his/her immediate family, there should be a clear hierarchy of options from living with extended family, through foster care/ independent living, to residential care as last resort.** While the Social Welfare Act (articles 102-110) mentions this, it doesn't provide clear and unequivocal guidance to social workers on this important issue. The Act does, however, give enhanced protection to children under the age of seven who may be recommended for temporary accommodation in an institution only if it was not possible to provide accommodation in a foster family or family home when the need arose and up to a maximum of six months²⁶. The Operational Plan establishes that 'accommodation of a child in an institution should be the exception and only used in situations when it is absolutely necessary' but enforcement and incentives are needed to ensure this is done.

Quality Care Standards, Regulation and Oversight

50. **Since 2009, Croatia has adopted Quality Standards that are generic for all social services, but with limited coverage and with some gaps.** The Quality Standards cover

²⁶ Social Welfare Act 2013, Article 107

protection of beneficiaries' rights; staffing treatment and care requirements; infrastructure and conditions; and standards of work with beneficiaries. However, these standards do not regulate staff structure, skills or workloads. Currently the quality standards only apply to the Centers for Social Welfare and residential care institutions; however their application could and should be further expanded to all service provision. Furthermore, specific minimum quality standards, including technical specifications for service provision (like work flows, range of services, target beneficiaries, case management, staff structure, workloads, etc.) are not yet available for any of the services. The application of minimum care standards, training and monitoring will be part of the Government's annual report to the World Bank on its deinstitutionalization activities.

51. **Alternative forms of care like organized housing and day services are under-regulated.** Foster care is now used on a large scale and is regulated by a 2008 Ministerial Ordinance on standards. Social workers in Centers for Social Welfare select, train and license foster families and provide monitoring and support, but there is no nationwide methodology for selection or nationally approved training curricula to reduce the risk of unequal or inadequate quality of service provision. Other services (e.g. organized housing, day care, family centers, psycho-social counseling, rehabilitation, life skills training, adoption, etc.) should also have minimum standards and regular monitoring. In some cases, the Social Welfare Act or the related Ordinance designates staff / beneficiary ratio requirements. A Validus project is introducing certification for personal assistants to beneficiaries in organized housing. All standards should apply equally to state and non-state providers. Component 2 of the project could be used to further develop such standards.

Controls and redress

52. **Quality inspections of the social welfare services are provided by a small team of inspectors who are employed by the MSPY.** This situation gives rise to two concerns: first, a capacity issue and secondly, a potential conflict of interests issue, whereby inspectors are employed by the same Ministry whose services that they regulate. Of the team of less than 20 people, six filter incoming grievances/complaints/requests; six support the Centers for Social Welfare on cash benefit or family issues, while another five focus on social services. The team of five plans a program of visits that combines prioritizing high risk institutions, responding to urgent cases, inspecting new services after six months and aiming to visit every institution once every three years (although this latter goal is simply not possible sometimes). The inspectors use their judgment in deciding whether to take action or not with delinquent service providers, however, many were former staff of institutions and the head of unit reports monthly to the assistant Minister. Independent ombudsmen exist for children and for the disabled. While they can do no more than recommend action, the MSPY is obliged to follow up on all complains and to respond on a case-by-case basis. If criminal activity is uncovered, the inspectors report to the police or magistrate. An annual report documents measures imposed and action taken but this is not yet made public. The World Bank team recommends that such an Annual Report be published on the MSPY website.

53. **Grievance mechanisms should be enhanced and made more independent.** The Social Welfare Act provides that individuals, or their legal representatives, must give consent to the

services to be provided, except in cases determined by the law²⁷. If an individual is to be de-institutionalized, a consent form is signed by the institution and the individual and placed on file in the Center for Social Welfare. An individual who has grievances about the social workers' decision or the quality or appropriateness of service provision can complain to social workers in the Center for Social Work or, if there is no response, to the MSPY, basically keeping the grievance response mechanisms under the umbrella of the same administrative structure. There is also the option of contacting an ombudsman, although these have no decision-making power and can only take recommendations back to the MSPY again.

54. The deinstitutionalization process can face resistance from those most closely involved. Staff of existing institutions may have been working in their institution for years and rely on their jobs for household income. They are used to the institutional work environment and perceive a reduction in the use of institutional care, or the transformation of institutions into community or family-based care options, as a threat. Communities that host an institution might fear that its closure will result in an increase of unemployment and loss of a key customer for their products. Not knowing how harmful institutional care can be, or what alternatives are possible, community members might think it better for beneficiaries to remain behind the institution's walls. Finally, the families of children and adults placed in institutions usually do not realize the damaging effect of institutional care on children, and think that better material conditions, access to services and education offered by institutions will be sufficient or superior to meet their needs. Some families may hope that when their situation improves they will be able to take their children back and so prefer impersonal institutional care, where their children do not form attachment to other adults. It is therefore critically important to involve staff, communities and families in the entire process, from planning to developing alternative services and institutions' closure to minimize their resistance to change²⁸.

Financing

55. Most social care financing comes from the central budget. Funding for the State-run Social Welfare Homes is covered by the state budget. Funding of the Social Welfare Centers is shared between the state budget (covering staff salaries and benefits, procurement of assets and equipment, and mandatory professional staff training) and the relevant regional self-government structures (covering professional training of employees, official travel, stationery, energy, heating and ongoing maintenance costs). Other services should be funded by the relevant self-government body that decided on their establishment.

56. During deinstitutionalization there will be a temporary increase in costs, however, in the long run, there could be savings. In the short term, new services are created prior to old services being phased out and some institutions closed leading to temporary costs. However, in the long run, there could be savings. While financial considerations should not be a sole foundation for any deinstitutionalization effort – the ultimate goal is improved welfare of vulnerable individuals - large residential childcare facilities are cost-ineffective, compared to family and community-based alternatives, which require lower staff/beneficiary ratios, allow beneficiaries to lead more independent lives

²⁷ Social Welfare Act 2013, Article 17. The Law may require individuals with extreme mental disability or behavioral disorders to be subject to specific types of care.

²⁸ Deinstitutionalization Good Practice, Katarzyna Jarosiewicz-Wargen (2013); EveryChild: Family Matters (2005)

and allow adults to contribute to the economy through employment. Every Child has compiled available evidence of institutional care vs. family based alternatives and finds the latter to be cheaper in the long-term.

Table 6.5.3. Costs of alternative care as a percentage of state residential care

Results from:	Community residential care	Professional foster care	Voluntary foster care	Family support/ social service provision
World Bank (Romania 1998)	48%	38%	19%	8%
Every Child (Ukraine)	56%	-	42%	16%
Every Child (Moldova)	67%	-	30%	11%
Every Child (Russian Federation)	-	-	53%	25%
USA	-	33%	-	11%
UK	-	-	14%	-
South Africa (Desmond & Gow 2001)	-	16%	-	12%

Source: EveryChild: Family Matters (2005)

57. To achieve real savings, the Government would have to commit to eventual closure of some institutions. As described above, the bottom-up planning approach resulted in many transformation proposals and few closure proposals. The MSPY should consider establishing criteria and a schedule of closure for the worst performing or most remote homes.

58. Financials standards or service tariffs have not yet been developed, making it difficult for regional and local authorities to plan for the development of community-based services and making outsourcing of service provision to NGOs or private service providers difficult and probably inequitable. New services should be subject to a competitive bidding process open to all licensed service providers, with funding based on financial standards, per capita costs or tariffs for services, to allow also NGOs and private providers to participate.

Monitoring and Evaluation

59. Monitoring and evaluation of the process of deinstitutionalization is critical. Quarterly reports should be prepared based on key indicators, including details of the individuals affected by the process, the personnel, development of new services and the financial position. A more detailed report should be prepared and published annually including qualitative information showing the service users' (and other stakeholders') satisfaction with the process. The annual report can look into wider issues, such as analysis of the impact of the deinstitutionalization program on service users, families, personnel, local agencies and communities, along with

lessons learned²⁹. It should also report on the application of minimum care standards, training and monitoring. Reporting formats for the purpose of tracking individuals and aggregate numbers under this project have been discussed with the client and are included in the Project Operational Manual.

60. **Monitoring of social services is not currently part of the MSPY's main database.** At present, information on beneficiaries is sought periodically from homes and Centers for Social Welfare, and then collated by the statistical unit of the MSPY. There is a lack of data on the homes that are run by non-state service providers. The MSPY's Socskrb is due to be expanded with 17 new modules, including several that would track de-institutionalization process, social services and foster families, but the procurement has not yet been initiated. It could be supported under Component 2 of the proposed project. Automation of the monitoring would allow for more real-time information on individuals' needs and transfer plans, thus facilitating better decision-making.

61. **Other partners are active in this area.** UNICEF has a strong program of policy, advocacy and training support for vulnerable children, including the nationwide 'Every Child Needs a Home' campaign. The MSPY has just closed an EC Instrument of Pre-Accession (IPA) funded project on strengthening foster care and is close to finalizing another IPA funded project managed by Oxford Policy Management on social planning and the transformation of institutions. The Open Society Institute has partnered with the Association for Promotion of Inclusion (an NGO that supports 250 children and adults with intellectual disabilities in organized housing) to transform two of Croatia's largest institutions: Stancic and Zagreb Center for Rehabilitation. Since 2013, over 80 people have been deinstitutionalized under this project.

6.6. Activation of Vulnerable Population in Croatia: Context and Activities for Technical Assistance³⁰

62. **Croatia experiences significant employment challenges: it has the lowest activity rate in the European Union and the second lowest employment rate.** It is characterized by high and rising unemployment and increasing unemployment duration. In 2012, long term unemployment accounted for more than 60 percent of total unemployment, higher than in most European countries.

63. **About 30 percent of the working-age population in the bottom quintile is out-of-work (inactive or unemployed)³¹.** Most (65 percent) of the out-of-work population are females in prime age (25-49) and living in rural areas. As expected, the bottom quintile is more likely to receive social assistance, with forty percent of the working-age population in the bottom quintile receiving some form of social assistance. More than 36 percent of the employed population and

³⁰ Deinstitutionalization good practice, Katarzyna Jarosiewicz-Wargan (October 2013). The content of this annex is based on the results of the technical assistance provided to the Government of Croatia through the "ECCU5 Activation and Skills for Employability and Protection" task. See World Bank, 2014, Profiling the out of work in Croatia: Analysis and Implementation.

³¹ Out of work is defined as the combination of inactive and unemployed individuals, as opposed to employed, retired, in education or training and with disabilities.

about 47 percent of the out-of-work population in the bottom quintile receives some kind of SA.³²

64. The design parameters of social assistance programs could trigger work disincentives, especially in the case of income- or means-tested programs. For these programs, introducing changes in the key parameters that would strengthen work incentives and make work pay could be an effective measure to increase their labor market participation. Many EU countries face similar problems and, to prevent the long term dependence on social assistance benefits, have reformed their social assistance systems to promote work incentives to stimulate beneficiaries to return to work. There are several examples of such reforms introduced in the EU member states and the US and they are characterized by: (i) financial incentives to work for social assistance beneficiaries (e.g. by reducing the benefits for non-working recipients and increasing them for those who work); and (ii) employment assistance via active labor market policies (e.g. by requiring recipients to work, to search for work, to participate in job training and education programs; and by providing support to help recipients meet these requirements).

65. The recently approved Social Welfare Act (SWA) introduces a number of provisions aimed at encouraging work-able beneficiaries to transition from assistance to work. The act introduces (i) a penalty for work-able beneficiaries who refuse a job offer; (ii) a time limit of two years for participating in the GMB, followed by three months without assistance before the possibility to reapply; (iii) an incentive to transition to work (including for part-time or seasonal work), by offering a 3-month period when the benefit is gradually adjusted downwards; and, (iv) requirement of cooperation between social welfare centers and local public employment offices. The act signals important activation elements in the new design of social protection system in Croatia. However, the provisions so far only apply to the beneficiaries of the GMB program, which has a very low coverage. One would hope that as part of the larger reform the same provisions would be extended to beneficiaries of other programs, such as the child allowance for example. At the same time, it is expected that the more “punitive” measures of the SWA will be accompanied by active labor market policies tailored to supporting the hard-to-employ social assistance beneficiaries. The Croatian Employment Services (CES) is undertaking, for example, a review of all ALMPs in partnership with the EU³³.

Challenges faced by the CES for activation

66. The CES faces several challenges in serving its clients and these challenges will likely increase with the influx of SA beneficiaries promoted by the Social Welfare Act (SWA). Employment officers face an extremely heavy work load: they are responsible on average for 700 unemployed (more than 10 times higher than the work load in the Swedish Employment Services). The workload does not allow adequate support to the unemployed,

³² Moderate differences in coverage between the out-of-work population and other groups is the results of varieties in household composition that includes some persons who are out-of work, some (younger) may be in education, some retired, etc. The other reason is the difference in aims and scopes of various social assistance programs, particularly between family allowances and needs-based social assistance.

³³ The review, funded by EuropeAid, is planned in October 2014 and will review the long-term effects of participation on employability, as well as qualitative assessments to analyze participants’ experience with the programs. In addition, smaller evaluation activities are planned for all ALMPs using ESF grants.

particularly the hardest to employ. In Zagreb the workload of counselor is higher, and varies from an average of 840 unemployed to a maximum of 1,200. Given current reforms of the SWA that require the registered to contact their counselor every 4 weeks, this means, if every jobseeker were calling, an average of 31 calls per day. This clearly leaves very little time to customize support to those who need it most.

67. With the implementation of the SWA since January 2014, the CES has to cater to the needs of a larger and more heterogeneous population, making it even more challenging to fulfill its mission of counseling. The new requisite – effective since 1 January 2014 - for SA beneficiaries to be in touch with their CES counselor every four weeks to show that they are actively searching has increased the work load of counselors.

68. At the moment the CES does not have clear rules to establish categories of jobseekers and no systematic way to prioritize resources and allocation of programs based on categories. The CES offers a relatively large menu of options for the unemployed, ranging from training programs, wages subsidies to public works. Registered job seekers are assigned to a category (unknown to them) by job counselors. The category should be based on education, occupation and experience in desired occupation, as well as skills. However, there is no clear protocol to categorize job seekers and the category is left to the discretion of the counselor. In addition, there are no clear consequences of being assigned to a category. Programs are mostly allocated on a “first-come, first served” basis and some programs can be fully used before the end of the year, meaning that a vulnerable individual registering late in the year may not benefit from ALMPs.

69. Although the ALMP coverage has increased, it is much below the EU average. Coverage and spending on ALMPs have been increasing but remain below EU average.³⁴ The coverage of ALMPs expressed as number of entrants over average number of unemployed persons over the year was 11.9 percent in 2011, 8.9 percent in 2012 and 12.4 percent in 2013.³⁵ An evaluation of the impact of ALMPs for ALMP beneficiaries in 2009 and 2010 showed rather limited effects; however evaluating ALMPs is difficult given that there is a lot of discretion in their allocation to jobseekers³⁶.

70. The CES deemed that technical assistance supported by the World Bank would be most useful to improve the effectiveness of the CES to serve its users, and specifically the vulnerable population. In particular, the CES identified the possibility of piloting the use of

³⁴ CSR monitoring.

³⁵ Source: CES. This calculation of coverage calculation does not account for duration of intervention.

³⁶ The evaluation used matching and PES administrative data to examine whether individual were still registered unemployed at several points in time after the end of the program. It examined: wage subsidies to youth with no employment experience, to long-term unemployed and to older unemployed persons; training programs; and public works. Participation in wage subsidies seems to increase employment in the two years after the end of the subsidies. However, it should be noted that employees with wage subsidies are selected by employers and hence matching on observable characteristics may not account well for this selection. Training programs had limited effect on average but some groups have benefitted, such as individuals without secondary education. Lastly, participants of public works were more likely to be unemployed two years after the end of the program. Again, this may be due to the selection of the most vulnerable into the program but also to the fact that non-participants may have stopped looking for a job and become inactive. Public works may have helped maintain active search among participants.

statistical profiling techniques as a useful tool to manage the high case load of its employment officers and to better focus scarce resources.

71. **Statistically assisted profiling (SAP) is a tool to support activation and counselling work in employment offices and to help CES allocate its resources more effectively.** Many OECD countries use statistical profiling techniques as tool to segment case-management needs to treat early the less employable, or as in indicator to inform case managers and to better target ALMP programs. The tool uses existing data on individuals' unemployment history and other background variables identified as relevant to generate a probability assessment on the risk of becoming long-term unemployed. The main outcome of such a model is that individuals are sorted into groups of risk of being long-term unemployed, or distance from the labor market.

72. **SAP would support counsellors by triaging the unemployed based on their "distance" from the labor market and facilitating the organization of staff by vulnerability risk thus more optimally allocating resources.** For example, in other counties, employment offices have reorganized the time and frequency dedicated to unemployed or staff resources have been assigned to offices with a larger work load on the basis of SAP measures. This use of SAP has been discussed with CES and fits well with planned reforms in the CES that aim to allow counselors to focus on supporting the hardest to employ. The CES aims to have counselors specialize between those managing jobseekers that are closer to the labor market from the hardest to employ. SAP would allow assigning jobseekers to counselors based on objective criteria, making the process simpler and more transparent.

73. **Given the limited resources available, the CES would increase its effectiveness by using a tool to target ALMPs to those who need them most, even among groups broadly defined as vulnerable, such as youth, older individuals or women.** In addition, with the influx of a more heterogeneous population which is likely harder to employ than the traditional PES clients, a tool that helps predict who is more likely to be long-term unemployed would also help target individuals early. Measures have also been adopted to target long term unemployed; however, once these measures are applied it is somehow too late as individuals have spent a long time without work.

74. **In fact, SAP is an objective instrument that allows objective treatment, reducing differences in allocation of ALMPs due to differences between counsellors, and ensuring that programs go those who need them most.** SAP could help better allocate resources throughout the year and ensure that resources are protected for individuals at high risk of unemployment who would lose their job later in the year.

75. **SAP would help improve the monitoring of the coverage, targeting and impact of ALMPs to individuals classified as being at high risk of long-term unemployment.** By aggregating data at the level of CES offices, SAP would also allow monitoring, over time, which CES offices have higher individuals at risk of being long-term unemployed and the allocation of counselors and ALMPs across regions and counties could be modified to reflect the higher needs of individuals at risk of being long-term unemployed. The benefits from using such a tool are summarized in Table 2.5.1.

Table 6.6.1. Benefits from using statistically assisted profiling in Croatia

Challenges faced by the CES	How statistically assisted profiling can help
Individuals are enrolled in programs when it's too late (after being unemployed for 6 months) (*)	High risk individuals are given early interventions (possibly preventing LTU)
Heavy workload (700 to 1200 cases per counselor)	Target and prioritize counselors' work through a simple tool
ALMPs allocated on a first-come first-served basis, based on group profiling (risk: no resources during the year)	Protect resources for high risk individuals throughout the year
Focus on group risk (youth, people with disability, older etc.)	Objective tool to prioritize individuals by risk of being long term unemployed (not on individuals who belong to the group but have low risk)
Different counselors may apply criteria differently	Tool is objective and based on the same variables
Heterogeneity of "clients" is increasing with the application of the SWA	Adaptable tool supports the sorting of the more heterogeneous population

76. **A better allocation and monitoring of ALMPs would ultimately help make a better case to increase spending on ALMPs.** Targeting and monitoring of ALMPs have both been mentioned as lacking, when compared to other EU members, and improving the CES on this front would hopefully ultimately increase the allocation of funds to ALMPs.