

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA9060

Date ISDS Prepared/Updated: 18-Jun-2014

Date ISDS Approved/Disclosed: 18-Jun-2014

I. BASIC INFORMATION

1. Basic Project Data

| | | | |
|--|--|------------------------------|------------------------------|
| Country: | Croatia | Project ID: | P145171 |
| Project Name: | Social Protection System Modernization Project (P145171) | | |
| Task Team Leader: | Ivan Drabek | | |
| Estimated Appraisal Date: | 18-Jun-2014 | Estimated Board Date: | 30-Sep-2014 |
| Managing Unit: | GSPDR | Lending Instrument: | Investment Project Financing |
| Sector(s): | Other social services (100%) | | |
| Theme(s): | Social safety nets (100%) | | |
| Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)? | | | No |
| Financing (In USD Million) | | | |
| Total Project Cost: | 95.00 | Total Bank Financing: | 95.00 |
| Financing Gap: | 0.00 | | |
| Financing Source | | | Amount |
| Borrower | | | 0.00 |
| International Bank for Reconstruction and Development | | | 95.00 |
| Total | | | 95.00 |
| Environmental Category: | B - Partial Assessment | | |
| Is this a Repeater project? | No | | |

2. Project Development Objective(s)

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

3. Project Description

1. Description

The Government of Croatia (GoC) 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.” It aims to do this through consolidation of benefits using the support allowance program as a base for a new Guaranteed Minimum Benefit (GMB) program; harmonization of the eligibility criteria for remaining benefits under the Ministry of Social Policy and Youth’s purview; improved information systems to promote better decision making and to reduce the scope for error and fraud. The proposed project aims at supporting the government’s reforms of the social protection system, with a special focus on four areas: i) consolidation of programs and simplification of procedures; ii) reducing error fraud and corruption, iii) activation of social assistance beneficiaries; and iv) de-institutionalization.

i) Consolidation of programs and simplification of Procedures: One stop shop and Central Disability Certification Institute (CDCI)

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. Four social assistance benefits have been consolidated into a single GMB in the Ministry of Social Policy and Youth from January 2014. At the same time, a one-stop-shop (OSS) for administration and payment of cash benefits will be implemented. The OSS will gradually include a larger number of cash benefits, starting with the new GMB from December 2014, and later incorporating child allowances, maternity benefits, and unemployment benefits. The OSS, one of the highest priorities of the current government, will transform the experience of social assistance beneficiaries by providing a single service point to apply for and receive a range of cash benefits. Having a 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.

Another major reform supported by the project is the creation of a Central Disability Certification Institute (CDCI). The reform, led by the MLSY and coordinated with the MLPS, will introduce a single certification procedure for persons with disability along the medical, social inclusion and work capacity domains. This reform will simplify administrative processes and harmonize standards, and ensure horizontal equity for all persons with disability in Croatia. It is a revolutionary initiative, that it would encompass disability assessment procedures currently administered by several agencies including Croatian Pension Insurance Institute, Ministry of War Veterans, and Croatian Health Insurance Institute. Spending on disability benefits in Croatia is among the highest in EU, next to Denmark, Sweden and Finland. With 3.6% spent on disability programs in 2010, Croatia exceeded the EU27 average by 64%. Assuming that disability spending numbers would converge to 20% above the EU27 by 2035 (factoring in the objective disability factors in Croatia, such as Homeland war veterans’ disability) could lead to cumulative fiscal saving between 10 and 11% of GDP over the next two decades.

ii) Reducing Error, Fraud and Corruption

The Government is committed to tapping significant fiscal savings by developing the mechanisms and institutions needed to reduce the level of error and fraud in the social protection system. International evidence shows that any mass payment system is prone to error, fraud and corruption (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. The current delivery system of these benefits relies only 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. The MSPY, MLP, Croatian Health Insurance Institute, Croatian Pension Insurance Institute and the Ministry of Public Administration agreed to work with the World Bank on identifying cutting edge EFC strategies and activities that could be applied to their benefits in the context of this project. It was also agreed that the project would support the application of EFC to the disability pension and allowances, where an important proportion of savings are expected to be generated. Support to the EFC agenda is expected to generate cumulative savings of at least 0.5% of GDP over the lifetime of the project.

iii) Activation of Social Assistance Beneficiaries

The Government is keen in reforming social assistance programs and employment services to stimulate the labor market participation of social assistance beneficiaries. Croatia has a relatively large number of social assistance recipients that are able to work but do not work. About 35 percent of the beneficiary adults in the poorest quintile are not in employment, education, training, disabled or retired, and the share increases to 45 percent for beneficiaries of social assistance in cash. Partly, this is a reflection of the fact that poor households are often better off on assistance than on low-wage employment. Moving from assistance to employment would make them ineligible for means- and income-tested benefits, a feature of these programs that acts as an implicit tax on earnings. The Government could stimulate a higher employment rate by ensuring that the GMB and Child allowance programs reward work, and by offering tailored work support services to work-able beneficiaries from the poorest quintile. The project would support these efforts through specific technical assistance and by supporting the development of operational plans for using ESF for incentivizing and supporting the transition from assistance to employment for work-able adults from the poorest quintile. Activities would be defined during preparation and after an initial assessment of the working-age individuals who experience persistent labor market detachment, with a focus on those inactive who are beneficiaries of social assistance.

iv) De-institutionalization

The MSPY's reform plans also encompass a process of deinstitutionalization in the provision of social services currently implemented by State-run institutions. The goal of the proposed reforms is to shift the balance of service provision for key vulnerable groups from institutional, residential care to a range of services provided by a variety of service providers in family-type environments outside of the institutions. De-institutionalization can be a life-changing event for each individual, allowing independent, supported living through foster care, small housing units and other family-type environments. The Plan for Deinstitutionalization and Transformation of Social Welfare Homes (2011-18) has been translated into a draft Operational Plan, describing the precise steps and sequencing of the deinstitutionalization process, including the number and rate of people to be deinstitutionalized (approximately 1,000 adults and children with mild disabilities and children without parental care). The project would support this reform; specifically, the Bank will assist the authorities with the design and focus of its proposals for European financing and reward the achievement of specific milestones. The funds disbursed from the project could then be channeled back into contributing to the Government's co-financing share for further European fund proposals.

The Project will take a results-based financing approach to the implementation of agreed activities under a first component of the project [E50m]. Thus, under this component, project disbursements would off-set Government expenditures on the new consolidated Guaranteed Minimum Benefit program (defined as the project's eligible expenditures); and would be triggered by the achievement of specific results ("Disbursement-Linked Indicators" or DLIs), agreed with the Government of Croatia, that track step increases towards key results, which will then trigger disbursements:

Achievement of the DLIs would gradually lead to the achievement of the PDO over the project period. The main characteristics of the disbursement mechanism are: (a) each DLI would be associated with a specific value that would be disbursed upon achievement of the indicator; (b) the Government would provide evidence of achievement of each DLI, to be verified by the World Bank's technical team; (c) the World Bank will disburse the amount triggered by the DLIs that have been met. Disbursed funds would flow to the Croatian Treasury against expenditures made under the GMB program.

A second component [E20m] would support investments and technical assistance that are necessary, but not sufficient, to support achievement of the DLIs. Examples include: renovation of OSS premises; upgrades to the MIS to integrate systems currently used by other cash transfer programs and the IT system supporting CDCI operations; technical assistance on cutting-edge error fraud and corruption techniques and investments in the prevention and detection infrastructure; training and technical assistance on disability certification methodology; and communications campaigns to raise public awareness of the reforms to social assistance and disability benefits and to attract foster families.

A Project Preparation Advance to support investments needed to make headway on project activities during the preparation period has been approved.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Environment

The part of the project likely to involve rehabilitation of infrastructure is the One-Stop Shop component. In addition to OSS, some smaller interior rehabilitations are expected with Central Disability Certification Institute (CDCI). A detailed assessment study of the buildings is currently ongoing, which might identify rehabilitation works to be covered by the project. The study includes assessment of buildings under: Centers for Social Welfare (118 nationwide); the Health Insurance Fund branches nationwide; the Pension Insurance Fund branches also nationwide; the Public Employment Centers; and Public Administration Offices nationwide. The proposed one-stop-shop 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. Having OSS will reduce the time and cost of application for beneficiaries.

The intra-governmental working group leading the OSS preparations 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.) of the PAOs has not yet been conducted. It is likely that significant investment and technical assistance would be needed to allow such transfers to happen effectively through the OSS housed in Public Administration Offices. Investments required would include: re-organization and upgrade and rehabilitation of space, training of personnel and integration of a Management Information System. It is unlikely that any new build will be required, since there are so many public offices in every region that if one Public Administration Office is entirely unsuitable, the OSS could be housed in another government building (for example, in the Center for Social Welfare, Health Insurance Fund, Pension Insurance Fund or Public Employment Center).

The scope of environmental impacts is considered site specific, predictable and easily mitigated as the project might support only smaller buildings rehabilitation for OSS purposes.

Social

The Program 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.

Also, it could contribute to increase the ability to monitor and evaluate provisions of social welfare delivery system; increase the voice of beneficiaries and civil society groups in delivery of social welfare policies and programs; and improve their feedback on the program and state responsiveness.

Potential social risk associated with proposed de-institutionalization (approximately 1,000 adults and children with mild disabilities and children without parental care) to be supported by the Project is not a safeguards issue. However, it will be further elaborated in the PAD.

5. Environmental and Social Safeguards Specialists

Vera Dugandzic (GURDR)

Natasa Vetma (GENDR)

| 6. Safeguard Policies | Triggered? | Explanation (Optional) |
|---|------------|--|
| Environmental Assessment OP/ BP 4.01 | Yes | Project triggers OP/ BP 4.01 due to expected rehabilitation works in buildings, mainly inside of the buildings. The works will not include any changes in blueprint. The impacts will be temporarily, site specific and typical for small scale construction/ rehabilitation works. The impacts will be mitigated through preparation of site specific EMP checklists. |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/ BP 4.11 | Yes | Some of the building envisaged for OSS might be located in historical urban areas or protected. For these reason the site specific checklist includes predefined mitigation measures for rehabilitation works on protected buildings. It also includes measures for chance finds. |
| Indigenous Peoples OP/BP 4.10 | No | |

| | | |
|--|----|--|
| Involuntary Resettlement OP/BP 4.12 | No | Though a detailed assessment of the investments required for re-organization and upgrade of space has not yet been conducted, no land acquisition, displacement of occupants (legal or illegal), or restriction of access to resources or income streams is expected under the proposed Project. As currently stated, the Project will not finance any new construction but instead will support only small rehabilitation works within the existing buildings. Any sites presenting situations that would trigger OP 4.12, will be excluded from project consideration. |
| Safety of Dams OP/BP 4.37 | No | |
| Projects on International Waterways OP/BP 7.50 | No | |
| Projects in Disputed Areas OP/BP 7.60 | No | |

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

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|---|
| <p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The Project has been classified as an environmental category B and triggers the safeguard policy OP/BP 4.01 on Environmental Assessment and OP 4.11 on Cultural Heritage, as the project is likely to involve rehabilitation of buildings in predominately urban and therefore possibly historic areas. The scope of environmental impacts is considered site specific, predictable and easily mitigated as the project will support only smaller buildings rehabilitation. Rehabilitation works do not envisage changes in blueprint, but solely interior and exterior improvements, implementation of the energy efficiency performance of buildings, adjustments of entrances, etc. Project will not have potentially large scale, significant or irreversible impacts.</p> <p>A template Environmental Management Plan Checklist, that serves as the Environmental Management Framework for the project, was prepared prior to appraisal as sample for other sites to be rehabilitated and was already completed for Velika Gorica Local Office of Zagreb County. The EMP Checklist is applied for minor rehabilitation or small-scale building construction, especially in education, health and public service reconstruction sector. It provides a “pragmatic good practice” and it is designed to be user friendly and compatible with WB safeguard requirements. The EMP Checklist was prepared to guide mitigation and monitoring of potential noise, dust, waste, or other impacts on landscape and urban areas as well as to ensure that the civil works implementation are carried-out in accordance with the good construction practices, existing Croatian construction and environmental legislation as well as with the Bank operational policies applicable to the project.</p> |
| <p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p> <p>The environmental impacts of the project are expected to be manageable, temporary and of local impact as they are related to the general reconstruction activities on already known and previously</p> |

used location. These impacts most commonly include: a) dust and noise due demolition and reconstruction; b) management of demolition construction wastes and accidental spillage of machine oil, lubricants, paints etc., c) damage to historical or cultural property or unknown archaeological sites; and d) traffic disturbance. No significant indirect or long-term environmental impacts are expected.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The Ministry of Social Policy and Youth has agreed 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.) of the PAOs has not yet been finalized. A detailed assessment study of the buildings currently ongoing will identify buildings to be included in the project as well as associated rehabilitation works to be covered by the project. Project will not support new buildings construction.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

For each identified building rehabilitation that would go beyond simple interior rehabilitation, a site specific EMP checklist would be prepared based on EMP checklist prepared for Velika Gorica. Each site specific EMP checklist would be publically disclosed in Croatian language on the website of the Ministry as well in hard copy in the building being rehabilitated. All comments from the public will be addressed and if needed reflected in the checklist. EMP checklist will be part of the tendering documentation for rehabilitation works and therefore part of the work contractors and supervisor contracts.

As part of project preparation, the PIU prepared a template Environmental Management Plan Checklist, that serves as the Environmental Management Framework for the project. It was prepared prior to appraisal as sample for other sites to be rehabilitated and was already completed for Velika Gorica Local Office of Zagreb County.

The Ministry does not have a separate environmental unit, therefore training will be provided to MSPY, PIU and PAO staff prior to project implementation. MSPY will be responsible for the coordination and monitoring of activities at the technical level, including environmental planning and management. The MSPY's responsibility would include the following activities related to environmental safeguards: ensure that the EMP are contractual obligations of the contractor and supervising engineer; supervise the work performed by engineering / design companies to ensure that they are applying adequate standards, as well as the agreed EMP checklist; assign a person within PIU responsible for environmental issues prior to negotiations.

The PIU will coordinate environmental training during project implementation for staff, designers and local contractors; and conduct periodic site visits. PAO will be responsible for supervising construction to ensure, full compliance with the EMP checklist; and for procuring and supervising all related works.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders of the project include the: Ministry of Public Administration, Ministry of Social Policy and Youth, Public Administration Offices, Center for Social Welfare, Health Insurance Fund, Pension Insurance Fund or Public Employment Center, etc.

General EMP checklist was disclosed on May 30, 2014 on the webpage of the Ministry of Social

Policy and Youth (MSPY) (www.mspm.hr) in both English and Croatian, and a hardcopy was available in Velika Gorica. EMP checklist was publicly discussed in form of a public meeting on June 16, 2014. All comments from the public were addressed and in form of minutes attached to the checklist. There were no negative comments from the public.

B. Disclosure Requirements

| Environmental Assessment/Audit/Management Plan/Other | |
|---|-------------|
| Date of receipt by the Bank | 22-May-2014 |
| Date of submission to InfoShop | 17-Jun-2014 |
| For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors | |
| "In country" Disclosure | |
| Croatia | 30-May-2014 |
| <i>Comments:</i> The EMP checklist was publically discussed in form of a meeting on June 16, 2014 | |
| If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP. | |
| If in-country disclosure of any of the above documents is not expected, please explain why: | |
| | |

C. Compliance Monitoring Indicators at the Corporate Level

| OP/BP/GP 4.01 - Environment Assessment | |
|--|---|
| Does the project require a stand-alone EA (including EMP) report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Are the cost and the accountabilities for the EMP incorporated in the credit/loan? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| OP/BP 4.11 - Physical Cultural Resources | |
| Does the EA include adequate measures related to cultural property? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| The World Bank Policy on Disclosure of Information | |
| Have relevant safeguard policies documents been sent to the World Bank's Infoshop? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| All Safeguard Policies | |
| Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

| | |
|--|---|
| Have costs related to safeguard policy measures been included in the project cost? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

III. APPROVALS

| | | |
|---------------------------|----------------------------|-------------------|
| Task Team Leader: | Name: Ivan Drabek | |
| <i>Approved By</i> | | |
| Sector Manager: | Name: Andrew D. Mason (SM) | Date: 18-Jun-2014 |