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CROATIA
PROGRAM FOR RESULTS

HEALTH SYSTEM QUALITY AND EFFICIENCY IMPROVEMENT (P144871)

FIDUCIARY SYSTEMS ASSESSMENT

JANUARY 2014

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A. EXECUTIVE SUMMARY

A Fiduciary System Assessment (FSA) was carried out in accordance with OP/BP 9.0 that evaluated the fiduciary systems pertaining to the Health System Quality and Efficiency Improvement Program for Results. The integrated fiduciary assessment comprised separate assessments of the fiduciary risks relating to the Program's (i) procurement; (ii) financial management; and iii) governance. The objective of the assessment was to provide reference that could be used to monitor fiduciary system performance during the implementation of the above referenced operation, as well as to identify actions, as relevant, to enhance the performance of the systems. Findings from the assessment, as well as a review of existing analytical and diagnostic work[1], conclude that the overall fiduciary and governance framework is adequate to support the implementation of Croatia's Health System Quality and Efficiency Improvement Program for Results and includes summary table of the key risks and the corresponding mitigation actions identified.

The Program's financial management and procurement systems and institutions provide reasonable assurance that the financing under the Program is used for intended purposes, with due regard to the principles of economy, efficiency, effectiveness, transparency and accountability. Specifically, Croatia's financial management systems for the Program (planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements) provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. Furthermore, the Program's financial management systems perform at a satisfactory level to support the achievement of Program results (see Technical Assessment).

The scope of the FSA covered the Program institutional framework, fiduciary management capacity and implementation performance, and institutions and systems responsible for governance and anti-corruption aspects within the Program. The FSA, within the context of reviewing the performance of institutions responsible for implementing and management program expenditures, included a sample of 7 hospitals to review their fiduciary management capacity.

On July 1, 2013, Croatia became a full member of the European Union (EU). As part of the accession process to the EU, the country's legal and regulatory framework, systems and institutions, responsible for public financial management, including public procurement, enforcing the rule of law and combating corruption, have been assessed as having met the comprehensive requirements of the *acquis communautaire* (specifically Chapter 32 of the *acquis communautaire*), the body of laws and directives each member state must meet in order to be accepted as a full member of the EU.

The public procurement system[2] includes public contracts, contracts for contracting entities in the utilities sector and concessions with uniform legal protection. The new Public Procurement Act (PPA) is effective as of January 1, 2012, and was recently amended in June 2013 to address changes in some of its provisions with regard to Croatia's accession to the European Union on July 1, 2013. It 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. Pursuant to the PPA, in 2012 the Government of the Republic of Croatia has passed all of the subordinate regulations with regard to

[1] Various OECD SIGMA reports covering (i) public expenditure management, (ii) Public Internal Financial Control including internal controls and internal audit, (iii) external audit, and (iv) public procurement.

[2] Croatia's public procurement system is defined by the 2008 (June) Strategy for the Development of the Public Procurement System. The legislative framework for Croatia's public procurement system has been found to comply with the requirements of the *acquis communautaire*.

drafting tender documents, issuing procurement notices, use of common procurement vocabulary (CPV), and control over the implementation of the PPA.

Procurement under the Program will be carried out in accordance with the Croatian PPA. There is a considerable capacity within the framework of the agency for management and implementation of public procurement. Officials involved in carrying out of the procurement process have a formal certification in procurement as required by the PPA. It is not expected that any of the contracts for civil works, goods and services/Technical Assistance (TA) would exceed the current OPRC review thresholds. The Bank will not be involved in the activities with regard to the development of the health information system and eHealth priority.

The DLI related to procurement that will assure that the cost savings potential from centralized procurements is used, and that the centralized procurement is conducted in a transparent way is defined as follows:

> **DLI 8.** Percentage of total public spending on medical consumables, drugs, and devices for hospital (inpatient and outpatient) services made through centralized procurement/framework contracts and disclosed on the Ministry of Health website in simplified and understandable format.

B. BACKGROUND AND INSTITUTIONAL ARRANGEMENTS

In preparation for the Program for Result operation in support of Croatia's National Health Strategy 2012-2020, an Integrated Fiduciary Assessment (including governance), was conducted. As the program has been defined in the technical assessment, the fiduciary and governance assessment covers (i) the administrative budget of the Ministry of Health, (ii) the centralized or joint procurement managed by individually qualified hospitals on behalf of the state-owned hospital network, and (iii) a subset of medical procedures which are subject to health care financing (reimbursement of claims) through the Croatian Health Insurance Fund.[3]

This report is organized along the following lines: presentation of institutional arrangements and national framework; review and assessment of Program fiduciary systems and, including a discussion of baseline performance measurement and indicators, as well as fiduciary risk. While governance and anti-corruption issues are featured prominently throughout the various national systems, institutions, and functions, the report presents these issues in a separate section. Finally, the report includes inputs to the implementation support plan as well as a number of supporting annexes.

B1. INSTITUTIONAL FRAMEWORK

The public procurement environment in the Republic of Croatia is defined by the Croatian Public Procurement Act (PPA), effective as of January 1, 2012. 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. The PPA contains provisions which comply with the following acts of the European Union.

[3] The subset of medical procedures included under the technical and fiduciary definition of the 'program' have been identified as the first examples of efficiency gains as these procedures will be performed through out-patient or ambulatory care clinics rather than through in-patient (admittance) services.

- Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (OJ L 134, 30.4.2004.)
- Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (OJ L 134, 30.4.2004.)
- Directive 2005/75/EC of the European Parliament and of the Council of 16 November 2005 correcting Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (OJ L 323, 9.12. 005.)
- Directive 2005/51/EC of 7 September 2005 amending Annex XX to Directive 2004/17/EC and Annex VIII to Directive 2004/18/EC of the European Parliament and the Council on public procurement (OJ L 257, 1.10.2005.)
- Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007 amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts (OJ L 335, 20.12.2007.)
- Articles 2, 12 and 13 of Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defense and security, and amending Directives 2004/17/EC and 2004/18/EC (OJ L 216, 20.8.2009.).

There are four additional regulations, which complement the PPA and were adopted by the Government of Republic of Croatia in January 2012.

The first of the series of complementary legal documents is the Regulation on the Methodology for drawing up and handling tender documents and tenders. This Regulation lays down the content, methodology for drawing up and handling tender documents, defining the subject matter of the tender, setting the evaluation and qualification criteria, the form and content of the evaluation report and all other matters related to tender documents and carrying out of the tender procedures. The regulation applies both to public procurement contracts and framework agreements. It also provides details related to electronic transmission and receipt of tenders.

The second is the Regulation of Public Procurement notices, which lays down the European threshold values, the format and content of standard forms for procurement notices, and the method and conditions for their publication.

The third is the Ordinance on the Application of the Common Procurement Vocabulary (CPV). This Ordinance lays down the numerical codes accompanying the wording that describes the supplies, works and services comprising the subject-matter of procurement and the conditions for applying the Common Procurement Vocabulary (CPV). The Ordinance has three Annexes defining the Common Procurement Vocabulary (CPV) (Annex I), Main Vocabulary (Annex I.A), Supplementary Vocabulary (Annex I.B), Correspondence table between CPV and Provisional Central Product Classification of the United Nations (CPC Prov.), (Annex II), Correspondence table between CPV and General Industrial Classification of Economic Activities within the European Communities (NACE Rev. 1) (Annex III) and Correspondence table between CPV and CN Combined Nomenclature (Annex IV).

The forth is the Regulation on the Control Over the Implementation of the Public Procurement Act. This Regulation governs authorizations of the central state administration body responsible for the public

procurement systems (i.e. Ministry of Economy), the procedure and other important issues related to control of the implementation of the public procurement act.

The key central institution competencies for public procurement in the Republic of Croatia are:

- the *Directorate for the Public Procurement System* within the Ministry of Economy, responsible for the development, improvement and coordination of the entire public procurement system in Croatia;
- the *Central Procurement Office* of the Government of the Republic of Croatia, established in the second half of 2009 is responsible for carrying out the central procurement of certain procurement categories, defined in a special Decision of the Government of the Republic of Croatia, as well as playing the role of a contracting authority for central state administration bodies. The products, services and works procured by the central Procurement Office comprise the following 17 procurement categories - - office furniture, office supplies, expendable materials, office equipment, computers and computer equipment, mobile telecommunication services and equipment, fixed network telecommunication services and equipment, motor vehicles, vehicle repair and maintenance services, car tires, fuel, electric power supply, postal services, insurance services, software licenses, cleaning of the premises, regular maintenance of facilities in the seat of public procurement entities.
- *Ministry of Finance* is responsible for concessions contracts and operations;
- *Public Private Partnership Agency* for the public private partnership contracts; and
- The *State Commission for the Supervision of Public Procurement Procedures* for review procedures, which is an autonomous and independent government body, responsible for considering appeals in connection with public procurement procedures, concession award procedures and procedures for selection of private partners in public private partnership projects. The Act on the State Commission for the Supervision of Public Procurement Procedures contains provision that have been aligned with Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007 amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts (OJ L 335, 20.12.2007).

B2. PROGRAM ACTIVITIES

The Government of Croatia's National Health Care Strategy sets out development directions for the health sector and is the framework for making policy and operational decisions, including the distribution of budgetary resources. The Croatian health care system is primarily determined by the Health Care Act, which forms the fundamental framework of the National Health Care Strategy 2012–2020. This Strategy is the umbrella document determining the context, vision, priorities, and goals for health care in the Republic of Croatia over this period. Croatia became an EU member in July 2013, so the Strategy is also oriented to planning the development of health care in the context of the social, legal, and economic framework of the EU. More specifically, the Strategy takes into account (a) Europe 2020, the EU strategy for growth; (b) Health 2020, the new health policy of the World Health Organization European Region; and (c) the Common Strategic Framework 2014–2020, which forms the basis for financing from EU funds.

The National Health Care Strategy 2012–2020 identifies the strategic problems and reform priorities for the health care sector. The strategic problems identified are: (a) poor connectivity and insufficient continuity of health care across levels in the health system; (b) uneven or unknown quality of care; (c) inadequate efficiency and effectiveness of the health care system; (d) poor or uneven availability of health

care across regions; and (e) relatively poor health indicators, particularly those related to risk factors and health behaviors. The estimated total cost of implementing the 8 year strategy is about EUR 409 M.

The National Health Care Strategy identifies the following eight main Strategic Priorities:

(i) **Developing a Health Information System and eHealth.** With a focus on: a) establish an electronic health record for patients, b) increase the use of health care and statistical information to support decision making, and establishing the reporting and warning system, c) generate a functional improvement, modernization and maintenance of the existing information systems in health care, d) increase standardization and certification, e) change management and training, and f) introduce new legal regulations for the sector (estimated EUR 45M).

(ii) **Strengthening and better using human resources in health care.** Developing a strategic plan of human resources development, strengthening protection of health care workers, introducing vertical and horizontal mobility, improving specialization planning and approvals, adjusting regulations for work after mandatory retirement age (estimated EUR 12M).

(iii) **Strengthening management capacity in health care**. The specific areas of focus include education and differentiation of management, data analysis, planning and researching the health care system, and strengthening the management authority of community health centers (estimated EUR 14M).

(iv) **Reorganizing the structure and activities of health care institutions**. Improving integration and cooperation in primary health care and public health, developing and implementing a hospital master plan to rationalize and modernize hospital services, increasing the continuity of care between hospital and out-of-hospital services, structural modifications to hospitals, and increasing centralized (joint) procurement for hospitals (estimated EUR 260M).

(v) **Fostering quality** in health care through (a) improving quality of monitoring, health worker education, and better public information for users; (b) developing, implementing, and monitoring clinical guidelines and accreditation; (c) introducing performance-based contracting and performance-based payments, with a specific emphasis on pay-for-quality initiatives; and (d) developing and implementing a formal Health Technology Assessment (HTA), including strengthening capacity to implement HTA (estimated EUR 40M).

(vi) **Strengthening preventive activities** by increasing the budgetary share of preventive activities in the health budget, improving management of preventive activities and programs including the introduction of performance-based contracting for prevention and strengthening preventive care at the primary care level; strengthening systems to monitor harmful environmental factors and early warning/response systems (estimated EUR 24M).

(vii) **Preserving financial stability of health care** by focusing on strengthening the voluntary health insurance market, improving financial discipline in the health care system through greater accountability, improving the strategic allocation of health resources, and reducing corruption and informal payments (estimated EUR 10M).

(viii) **Improving cooperation with other sectors and society in general** by Strengthening intersectoral cooperation (among ministries), with local and regional self-government and with civil society and media (estimated EUR 4M).

The Program

The proposed Program to be supported by the Bank would cover 5 out of the 8 priorities as defined in the Government's National Health Care Strategy (2012-20) (the Government program), within the boundaries defined in terms of (a) Program duration; (b) Priorities supported; (c) Institutions involved. The Program implementation period is from 2013 to 2017. To improve two critical areas of the health services (quality and efficiency) and considering the objectives and pillars of the CPS it was agreed with the Government that the Program would include 5 out of the 8 priorities of the National Health Care Strategy 2012–2020 that are oriented to addressing the main reform challenges facing the Croatian health sector. These challenges and the relevant activities for addressing them are the following:

Rationalizing the health facility network, to be addressed through **Priority iii (**Strengthening management capacity in health care) and **Priority iv** (Reorganizing the structure and activities of health care institutions), including: Implementing hospital master plan, Implementing hospital reforms, governance and management changes, promoting group practices for general practitioners, expanding secondary-level ambulatory services, including high-resolution ambulatory centers, redefining long-term health care services and palliative care

Improving quality of health care services, to be addressed through **Priority v (**Fostering quality in health care) and **Priority vi (**Strengthening preventive activities), including: implementing of a hospital accreditation, implementing of HTA to all new health technologies, building a body of clinical protocols and care pathways, detecting and proper recording of specific "sentinel events for quality", implementing technical/clinical audits and payment mechanism to incentivize the use of clinical guidelines, using of the existing e-prescription system for quality control purposes.

Promoting financial sustainability of the health sector, to be addressed through **Priority vii (**Preserving financial stability of health care), including: further development of central procurement, outsourcing of nonmedical services, strengthening the performance-linked component in payments to hospitals and ambulatory services, developing the MoH capacity to develop and present proposals to be financed by EU structural funds.

Program Development Objective/s (PDO)

The proposed PDO is ***to improve the quality of health care and efficiency of health services in Croatia***.

Program Key Results and Disbursement-Linked Indicators

The key results for the Program include the following:

i. The first phase of the hospital master plan implemented and achieving all of the following milestones: (a) the total number of acute care beds reduced by 20 percent, from 15,930 to 12,800; and (b) 80 percent of hospitals financially consolidated within the redefined institutional architecture, in line with the Master Plan.

ii. Quality control procedures in place including: (a) 40 percent of rationalized hospitals, among those contracted by the Croatian Health Insurance Fund (HZZO) and subject to technical audit in the previous year; and (b) at least 70 percent of HZZO-contracted hospitals accredited through an

independently run accreditation process[4].

iii. Public spending on health reduced from 6.6 percent to 6.1 percent of GDP.[5]

Disbursement-Linked Indicators were selected to identify key results linked to the the Program. Attention has been paid to a number of criteria. First, the Disbursement-Linked Indicators (DLIs) are achievable and challenging at the same time, combining ambition and feasibility so that the financial risk attached to each DLI would have the right impact. Second, intermediate and end-of-Program targets for all DLIs were chosen to allow an adequate disbursement flow (with 50 percent for achieving the intermediate target) while maintaining incentives to achieve end-of-Program targets for second and final disbursement. Third, the DLIs are strongly aligned with government priorities, which should guarantee both synergistic effect and sustainability.

The DLIs for the PforR include the following:

DLI 1. The total number of acute care beds to be reduced from the baseline of 15,930 (paid by the HZZO) to 15,000 and further to 12,800 by converting some of them into "social beds," "long-term" or "palliative care" beds," "day care posts," or closing them down

DLI 2. At least two substantial "hospital reshaping scheme" subprojects[6] implemented.

DLI 3. Percentage of hospitals that became financially consolidated (with zero debt during the preceding year) within the redefined institutional architecture, in line with the Master Plan.

DLI 4. Percentage of all surgeries included in the predefined lists of elective surgeries[7] performed as ambulatory surgeries in the last six months.

DLI 5. Percentage of rationalized hospitals (as defined in the hospital rationalization master plan), among those contracted by the HZZO and subject to technical audit in the previous year, publicly disclosed as best-performing hospitals based on explicit key performance indicators and quality indicators to manage NCDs as defined by the HZZO.

DLI 6. Percentage of HZZO-contracted hospitals accredited through an independently run accreditation process.

DLI 7. Percentage of doctors for whom HZZO-defined prescription patterns in the last six months was found to be "non-satisfactory" and with whom a corrective course of action was discussed on a person-to-person basis.

DLI 8. Percentage of total public spending on medical consumables, drugs, and devices for hospital (inpatient and outpatient) services made through centralized procurement/framework contracts and disclosed on the Ministry of Health website in simplified and understandable format.

[4] Hospital accreditation is an assessment process, usually implemented by an independent agency, used to measure the level of performance of health organizations in relation to established standards and a tool to implement quality improvements.

[5] Also stated in the CPS FY14–17.

[6] Following finalization of the Master Plan, the Ministry of Health will identify two or more potential hospital reshaping schemes in agreement with the Bank and implement at least two of the agreed subprojects to their full functionality. Hospitals reshaping scheme means designing and operationalizing schemes with substantial adjustment in the way two or more hospitals are merged, organized, managed, and funded, and moving forward with the necessary actions in the legal, financial, managerial, and other spheres to provide more efficient ambulatory care and reducing the inpatient acute care .

[7]. Elective surgeries: cataract surgery; knee arthroscopy; surgery of varicose veins; anal surgery (hemorrhoids); carpal syndrome corrective surgery; removal of osteo-synthetic material

DLI 9. Percentage of general practitioners working in group practices.

DLI 10. Percentage of hospitals with surgery wards that have established quality- and safety-related sentinel surveillance schemes showing the rates of specific events: (a) avoidable, non-traumatic, diabetes-related lower-limb amputations; (b) postoperative pulmonary embolism; and (c) deep vein thrombosis.

Key Capacity-Building and Systems-Strengthening Activities

The implementation of the first phase of the National Health Care Strategy will require the inputs of several technical assistance activities to improve planning and to strengthen and adjust the institutional framework and monitoring and information system. With the support of the ongoing World Bank Development of Emergency Medical Services and Investment Planning Project (DEMSIPP, closing December 31, 2013), the Ministry of Health, and the Croatian Institute for Health Insurance (HZZO) are (a) conducting a hospital rationalization analysis to develop a hospital rationalization plan; (b) developing EU proposals to mobilize resources to finance investments in support of the hospital rationalization process; (c) assessing options for outsourcing medical and nonmedical hospital services; (d) implementing a communication campaign to inform the public about the benefits of the health sector reform being implemented; (e) designing the Business Process Reengineering in the HZZO; and (f) implementing a Geographic Information System (GIS) that will improve data availability and allow proper monitoring and evaluation, which requires a reliable and de-aggregated information system.

In addition, the Ministry of Finance and the Ministry of Health agreed that US$ 10 million would be allocated to the MOH budget to finance technical assistance to support the strengthening process of health sector regulations and planning. These funds would finance, among other things, the design of protocols and tools to implement technical audits and other quality control mechanisms, the strengthening of the Health Technology Assessments (HTAs), the development of detailed plans for the hospital reshaping schemes, and the development and implementation of communication strategies.

B3. PROGRAM IMPLEMENTATION

Institutional and Implementation Arrangements

The three most critical stakeholders involved in implementing the proposed Program are the Ministry of Health (MOH), the HZZO, and the Agency for Quality and Accreditation in Health Care and Social Welfare (AQAHS). In the context of the proposed Program, the MOH is the primary beneficiary that will be responsible for using the funds available through the proposed Program to support the reform and restructuring of the Croatian health care system according to priorities and directions defined in the Croatian National Health Care Strategy 2012–2020. The HZZO is the main stakeholder responsible for implementing reforms that will achieve the results targeted by the proposed Program. As the single payer in the mandatory health insurance system, the HZZO has a central role to play in achieving the proposed Program results in terms of collecting data and using contracting (of health facilities/general practitioners--GPs) and monitoring/control/quality supervision mechanisms to implement the desired changes in the health care system (for example, contracting and payment based on Key Performance Indicators and Quality Indicators, stimulating ambulatory surgeries, monitoring prescription patterns, auditing hospitals, and incentivizing GP group practices). The MOH is, however, responsible for supervising HZZO activities, and contributions to HZZO revenues for mandatory insurance constitute a part of the State Budget revenue. The MOH is currently also responsible for managing all (except one) hospitals. In the long term, however, once the financial rationalization of hospitals is completed, the MOH will once again decentralize management. Finally, the AAQHS is responsible for supporting the HZZO in ensuring the quality of contracted providers from whom the HZZO purchases mandatory health insurance services. The main contribution of the AAQHS in this respect is to facilitate and implement accreditation of health

care institutions and ensure standards of quality in service provision.

Results Monitoring and Evaluation

In order to monitor progress toward achieving the PDO, the Program Results Framework will use three PDO-level Results Indicators, while the ten DLIs will serve as Intermediate Results Indicators compiled in three subsets, each contributing to one of the three Intermediate Results Areas.

Measurement and verification of the progress toward achievement of the Program's objectives will be based on the country's existing monitoring and evaluation systems, largely because the proposed operation would contribute to the government's program of health sector reforms by disbursing against achievement of a subset of its key results. The HZZO will be responsible for collecting monitoring data and verifying documentation for most of the Intermediate Results Indicators (7 out of 10) and providing aggregated reporting on achievement of related results to the Ministry of Health on a semiannual and/or annual basis. Specifically, the HZZO health information systems, strengthened under the Development of Emergency Medical Services and Investment Planning Project (DEMSIPP), will be the primary source of monitoring data related to the HZZO's role in contracting health services and quality monitoring/control of service delivery, such as the total number of contracted acute care beds, performed elective surgeries, and doctors' prescription patterns. Hospital-level data, such as hospital financial plans and reports, will be reported by the concerned hospitals directly to the HZZO.

The Ministry of Health, through its Directorate for Health Protection, will be responsible for assembling all the data and documentation necessary for monitoring, verification, and evaluation purposes, including the system-level data for the three Intermediate Results Indicators, namely public spending made through centralized procurement/framework contracts, implementation of hospital reshaping subprojects, and data related to establishment of group practices. Given that the Ministry of Health will be the primary beneficiary responsible for using the PforR funds, it will bear the ultimate responsibility for monitoring overall progress toward achievement of the Program's results, as well as for ensuring timely collection and provision of monitoring data and verification documents to the World Bank and Ministry of Finance.

The Program may, with the agreement of the Government and Bank, be restructured to respond to any changed circumstances during its implementation, including through modifying its development objectives and/or DLIs.

B4. ASSESSMENT OF PROGRAM EXPENDITURE FRAMEWORK

The types of expenditures and their estimated costs under the Government's program 2012-2020 are indicated in the tables below. The Program expenditures will be managed by the MOH (administrative budget), the Health Insurance Institute (HZZO) and hospitals (reimbursements for the provision of medical services) and the MOH Central Procurement for Health executed by select hospitals.

With overall health spending at 7.8 percent of GDP, Croatia is near the top of the list compared to new EU members, and spends significantly more than countries with similar GDP per capita in the region. At 17.7 percent, the health sector's share of public expenditures (about EUR 3.1 B) is higher than the 15.6 percent average for all EU countries. In this fiscally constrained environment, the Croatian health system faces a mismatch among available public resources, growing expenditures, and increasing needs.

Health financing is organized according to social health insurance principles. A single fund, the Croatian Health Insurance Fund (HZZO), covers the entire population (about 4.4 million beneficiaries comprised by: 1.52 million active workers, 1.05 million pensioners, 1.15 million family members and 0.63 million individuals covered by special programs).

The bulk of HZZO's revenue comes from contributions collected from the population augmented by transfers from the Government for "mandatory activities." The following categories of the population are expected to contribute to the fund: active workers (34 percent), active farmers (0.8 percent), and pensioners (24.1 percent). Dependents of these categories, insofar as they are not contributors in their own right, are automatically covered (26.4 percent). Formal exemptions include the unemployed, the 100 percent disabled, and organ and blood donors, which combined represent 14.6 percent of the insured. People working in the grey economy do not contribute and yet receive coverage. There is a formal and explicit mechanism by which the state contributes on behalf of exempted categories.

Contributions to the compulsory health insurance scheme are paid to the treasury and form part of the state budget from which the HZZO receives funds to cover mandatory health insurance. The compulsory health insurance scheme is not entirely dependent on contributions from salaries but also receives central government transfers.

The proposed Program supports 5 out of the 8 Government Program defined priorities, and Bank contributions will represent 41 percent of the total Program estimated cost and 18 percent of the total Government Program. The expenditure analysis, the discussion of financial sustainability of the Program and the analysis of the efficiency of spending is discussed in detail in the Technical Assessment.

Table 1. Government Program 2012–2020 (EUR Million)

	2012-2017	2018-2020	2012-2020
1. Developing a Health Information System and eHealth	30	15	45
2. Strengthening and better using human resources in health care	7	5	12
3. Strengthening management capacity in health care	10	4	14
4. Reorganizing the structure and activities of health care institutions	125	135	260
5. Fostering quality in health care	25	15	40
6. Strengthening preventive activities	14	10	24
7. Preserving financial stability of health care	6	4	10
8. Improving cooperation with other sectors and society in general	2	2	4
Sub-total Strategies 3 , 4, 5, 6 and 7 between 2013-2017	**180**		
Total	**219**	**190**	**409**

Table 2. Program Financing (EUR Million)

Source	Amount
GoC	**105.0**
IBRD	**75.0**
Total Program Financing	**180.0**

Table 3. Estimated profile of Program expenditures (EUR Million)

Civil Works	95
Medical equipment and goods	25
Technical Assistance	4
Human resources	8
Services + Operational cost	48
Total	**180**

The Program will finance various categories of contracts, including civil works, goods and services. Most of the civil works would be rehabilitation of existing facilities and more detailed information on them will

be provided as soon as the Hospital Master Plan is finalized. It is expected that civil works will take place in 2016-2017 and they will be financed with EU structural funds. The goods contracts include medical equipment, various consumables, materials, food for hospitals.

C. SUMMARY OF FIDUCIARY RISKS AND MITIGATION ACTIONS

Based on the findings of FSA, the overall fiduciary risk is ***Moderate***.

Although the experience with the joint procurement until now could be considered as quite positive, there are areas which need enhancement and further improvement related mainly with the long time for drafting and preparation of the technical specifications for medical equipment, consumables, materials and medications for hospitals, the lack of contract administration and monitoring system; further building and sustaining of capacity for procurement management, and development and application of e-procurement

The key institutions (MOH, Health Insurance Fund, Hospitals) all have functioning financial management information systems, adequate financial and accounting staff to plan budgets, execute and record transactions and produce in-year and year-end financial reports. In each of these institutions/groups, an internal control framework is evident, with clear rules and procedures (for the segregation of and articulation of individual duties and responsibilities for key financial management functions). The Fiscal Responsibility Act[8] requires that the head of each budget institution prepares and signs a statement (as well as answers a questionnaire provided by MOF) attesting to the legal, functional and purposeful use of budget resources and the efficient and effective functioning of financial management and controls for the funds provided to the institution through the state budget.

There are however three key areas of risk – (i) the impact of reduction in HZZO budget allocations that finance the reimbursements to hospitals, (ii) the inability of hospitals to manage or renegotiate the terms of liabilities, and (iii) the lack of adequately functioning internal audits for hospitals which are required, under law, to have such units established.

No.	Risk Type	Risk Rating	Risk Description	Mitigation Actions
1	Ineffective planning to incorporate mid-year changes (reductions) to budget allocations	Substantial	HZZO budget allocations are reduced mid-year thereby reducing the amounts reimbursed to hospitals. Hospitals are not informed in a timely manner of these reductions, thereby creating serious financial and fiscal constraints.	The mid-year budget revisions should be immediately shared with all involved budget institutions, particularly hospitals. This will allow hospitals make in-year adjustments to financial plans and budgets in an effort to limit entering into new obligations which may not be adequately supported through the original budget plan.
2	Long time for drafting and preparation of the technical specifications for medical equipment procured by the	Moderate	The process of preparation of technical specifications is lengthy. This results in a long time of preparation and launching the of tender procedures	Preparation and implementation of a realistic plan for preparation of technical specification and tender documents well in advance Use of contemporary methods and techniques, for preparation of

[8] Official Gazette 139/10

	Ministry of Health		There is a trend of receiving complaints with regard to the technical specifications and that they are restrictive and are directed to a specific manufacturer. This delays the procurement and contract award process.	non-restrictive, well-defined technical specifications, based on relevant characteristics and/or performance requirements, in order to promote broadest possible competition.
3	Long time for drafting and preparation of the technical specification for consumables, materials and medications for hospitals, subject to joint procurement	Moderate	The process is quite lengthy and it delays the preparation and launching of the tender procedures. There are no standards and catalogues for commonly used consumables and materials in many cases there are repetitive requests for same item, defined in a different way. Although the technical specifications are drawn up on the basis of numerous consultations with various institutions and representatives of the private sector, majority of complaints are related to the technical specifications and that they are restrictive and are directed to a specific manufacturer. This delays the tender process and in some cases results in a need for cancellation and repetition of the tendering process.	Use of contemporary methods and techniques, for preparation of non-restrictive, well-defined technical specifications, based on relevant characteristics and/or performance requirements, in order to promote broadest possible competition. Development of common standards and a catalogue, as relevant, for defining the procurement items and categories, subject to joint procurement To enhance the procurement process of medications by better defining their specifications and groups/lots in the tender documents.
4	Lack of contract administration and monitoring system	Moderate	There is no adequate information available with regard to contract administration and monitoring of implementation.	Development of an adequate contract administration and monitoring system, including defining the process and capacity needed, the evidence of contract performance with regard to time, quality and cost, inspection of quality of the goods and services delivered, timeliness of payment and effective contractual dispute resolution, as applicable, and

				enforcement of contractual remedies. Ensuring consistency of actual status and information published at the website of the MOH and the Directorate for Public Procurement System
5	Inefficient practices to limit liabilities as well as the accumulation of arrears and receivables	Substantial	Ineffective practices to collect co-payments due from patients; Hospitals are unable to manage liabilities (contracts) in order to permit renegotiation of terms and conditions of payment.	The MOF-MOH hospital financial rehabilitation plan should include new measures to improve the hospitals' ability for the management of obligations and liabilities (consistent with the PPA) and to improve the effectiveness of revenue management. The HZZO should immediately update reimbursement allocations and inform hospitals of any changes to the DRG financing system, particularly in the event of downward budget revisions.
6	Capacity building	Moderate	The PPA required that staff involved in procurement management has formal certification. Hospitals which meet the threshold, as defined by the Law on Internal Audit, should establish adequately functioning and trained internal audit units.	Ensure the continuous and sustainable development of the capacity of staff in procurement and contract management, both in the Ministry of Health and the relevant hospitals, responsible for the joint procurement. For the hospitals included in the Program, over the 5-year implementation period, 20% of hospitals each year will be confirmed to have an effectively functioning internal audit department.
7	E-Procurement is not yet	Moderate	The institutions could benefit of its application by having a	Further to the Government's Strategy 2013-2016 for

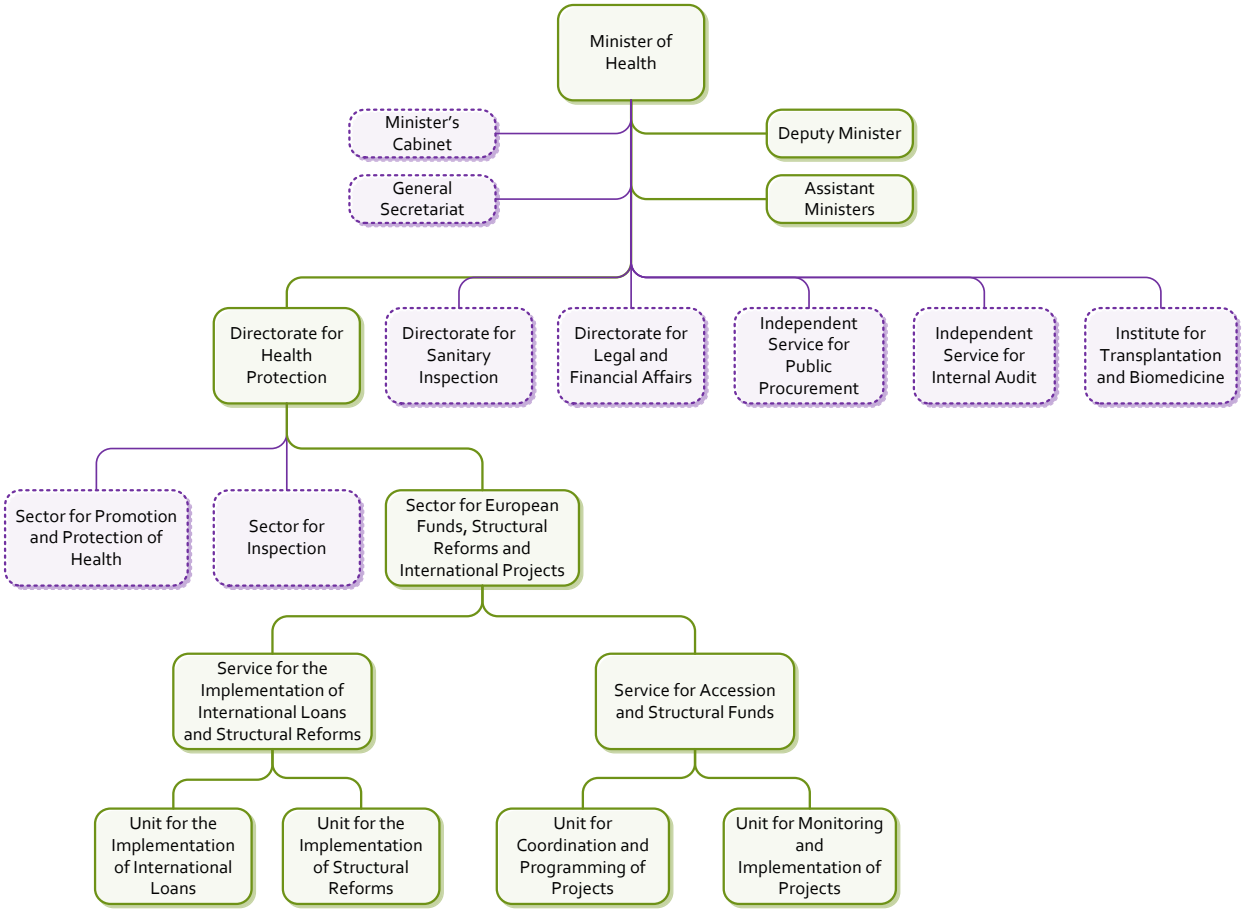
	implemented in Croatia.		more transparent, quicker and more efficient public procurement process.	development of e-Procurement in Republic of Croatia, to pursue options for introducing e-procurement within the scope, limits and timeline of the above referenced Strategy. Initially to assess the options of introducing e-Procurement (e-catalogue, e-marketplace etc.) for smaller value contracts, subject to joint procurement and which are below the thresholds of the Public Procurement Act.

D. PERFORMANCE OF PROGRAM FIDUCIARY SYSTEMS AND ARRANGEMENTS

Within the framework of the Ministry of Health is organized through centralized procurement, involving (i) the *Central Procurement Office*, which is responsible for carrying out the central procurement of certain procurement categories, as defined in a special Decision of the Government of the Republic of Croatia, (ii) the *Ministry of Health* through its *Sector Independent Service for Public Procurement*, which is responsible for carrying out procurement of vehicles, medical equipment, civil works, consultant and non-consultant services, licenses, electricity and postal services for the needs of the Ministry and all health care institutions, including primary care departments, state hospitals and county hospitals, and (iii) *Central Bodies for Public Procurement*, responsible for carrying out of a joint procurement of consumables and materials for all state hospitals participating in the Government's hospital rehabilitation program and county hospitals, which choose to participate.

The main objective of the Ministry of Health is to work on improving, promoting and protecting the health of Croatian citizens, and to perform administrative and other tasks concerning its main purpose of operation. According to Law on the structure and scope of ministries and other state administration bodies (Official Bulletin 39/13), Ministry of Health participates in preparation of programmes and projects and implementation of projects from the programmes of the European Union and other types of international support The ordinance on the internal structure of the Ministry of Health regulates the structure and duties of organizational units.

The ordinance amending the ordinance on the internal organization of the Ministry of Health, adopted on 7 March 2013 by the Government of the Republic of Croatia is of particular interest, since it implemented changes in the organization of MOH that directly affect the units and people responsible for the proposed Program for Results operation. The organization of the Ministry of Health is as follows:



The Sector Independent Service for Public Procurement was established in the beginning of 2013. It comprises 6 staff, certified to carry out public procurement. It is planned that in the future the Sector will expand and the planned number of staff to work there shall be increased to 15 staff. The Sector is responsible for carrying out procurement for needs of the Ministry and all health care institutions, including primary care departments, state hospitals and county hospitals in three procurement categories: public works (new construction and rehabilitation works), goods (vehicles, medical equipment, licenses, etc.) and services (consultant and non-consultant, including electricity and postal services etc.) The contracts that the Ministry is procuring for the health institutions are for capital investment works and equipment, that the health institutions cannot cover from their own funds.

D1. PROGRAM PLANNING AND BUDGETING

Croatia scored well on the Open Budget Index Survey (Croatia's Open Budget Index score is 61 out of 100[9]). According to the calendar set out in the Budget Act, the MOF drafts at the end of May the Economic and Fiscal Policy Guidelines. Guidelines are based on the Strategy of Government Programs for the three-year period ahead and get adopted by the government. In recent years, the adoption of the guidelines has moved to the end of July or beginning of August. All key indicators provided by the guidelines (including the limits set by the government) are then transferred into instructions for drafting the state budget. When receiving those instructions, budgetary users prepare their proposals of financial plans, within which they autonomously decide on the allocation of funds to programs, activities, and projects in their jurisdiction. In preparing the plan for their programs, project activities must comply with the limits set for the overall level of spending. In practice, ministries usually are not satisfied with the allocated limits. They may ask the government to change the limit but with an explanation provided, which the government may accept on the basis of its reasoning. By October 15, the MOF drafts the state budget for the fiscal year and the projection for the next two years and submits these to the government. The government determines the proposed budget and projections by November 15, and submits them to the Parliament for approval. By the end of the year the Parliament adopts the annual budget and projections for the next two years.

Revenue, income, expenses and expenditures are reported in compliance with the following **budget classifications**: 1) organizational, 2) economic, c) functional d) locational (central and subnational government) e) programmatic f) sources of funding[10]. There are two key medium-term strategic documents which define government structural reforms – the PEP and the Strategy of Government Programs. Croatia began publishing a Citizen's Budget since 2012.[11]

The hospital's budget is prepared annually in current year month October for the next year. Also at the same time a projection is prepared also for the subsequent 2 years. Such plans are approved by the hospital's director or [financial rehabilitation] manager if the hospital is under such temporary management set-up. The Management board or [Financial Rehabilitation] board approves the budget by the end of the budget preparation year. During the year the budgets are revised few times depending on the requirements for revisions.

D2. PROCUREMENT PLANNING.

Funds for the public procurement contracts are secured from the state budget. An annual procurement plan is prepared on the basis of the annual budget of MoH. The MoH issues a Decision with which the annual procurement plan is approved. In preparing the procurement plan, the Ministry collects information with regard to the needs of the various departments within the Ministry of Health and also from the various health institutions (state and county hospitals, primary health care departments etc.). It contains information in line with the requirements of the Public Procurement Act, i.e. including the subject matter of procurement and its reference number, estimated value, type of public procurement procedure, including the procedure for awarding of a public service contract, as relevant, information if the public procurement procedure would result in a public procurement contract or a framework agreement, planned commencement of the procedure and the planned duration of the public procurement contract or the framework agreement. The procurement plan is published on the website of the Ministry of Health immediately after the Decision for it is issued, as well as it is sent to the Directorate of Public

9 http://internationalbudget.org/wp-content/uploads/OBI2012-CroatiaCS-English.pdf
[10] Law on Budget (Official Gazette 87/08
11
http://www.mfin.hr/adminmax/docs/IZVRSENJE%20DRZAVNOG%20PRORACUNA%20ZA%20PRVO%20POLUGODISTE%202013..pdf

Procurement Systems in the Ministry of Economy. All revisions, changes, additions in the procurement plan are approved by the Minister of Health and published as indicated above.

D3. PROGRAM PROCUREMENT

The most commonly used procurement procedure for procurement of goods, works and services is the open tendering procedure. The rationale for selection of a public procurement procedure is in accordance with the nature, scope and value of the public procurement contract, as well as in accordance with the rationale for justification of each public procedure as regulated in the Act.

Tender documents. The tender documents[12], including technical specifications are prepared in-house. The technical experts that have prepared the technical specifications usually participate later on in the evaluation process. The experts participating in the preparation of the tender documents are appointed with a Decision of the Minister of Health, and the list of these experts is published on the Ministry's website. While there are no standard tender documents, the documents are drafted in accordance with the requirements defined in the Regulation on the methodology for drafting and handling tender documents and tenders (see the FSA for further detail). The tender documents, including the technical specification and the procurement notice are uploaded on the Narodne Novine platform. The official newspaper where all procurement notices and tender documents are published is also available online, as required by the PPA. All interested prospective bidders could see this information and could download the documents free of charge.

Opening and evaluation of bids. Tenders are opened in public and minutes of public opening are prepared in a form and content as defined in the above referenced Regulation. A copy of the minutes is made available to all authorized representatives of the tenderers. Evaluation is done in accordance with the evaluation and qualification criteria in the tender documents and is carried out by an evaluation committee.

Contract administration. There is no formal data with regard to contracts administration. For facilitating the contract administration and its monitoring, it is recommended that an adequate contract administration and monitoring system is defined, including defining the process and capacity needed, the evidence of contract performance with regard to time, quality and cost, inspection of quality of the goods and services delivered, timeliness of payment and effective contractual dispute resolution, as applicable, and enforcement of contractual remedies. Due to the centralized and joint procurement, considerable savings were achieved in 2012 and 2013.

Complaints Handling Mechanism. The existing PPA elaborates on the legal protection and appeals mechanism and the Ministry of Health and the relevant hospitals central bodies respect it. The independent state body responsible for reviewing appeals in connection with public procurement procedures, concession award procedures and procedures for selection of private partners in public private partnership projects is the State Commission for Supervision of Public Procurement Procedures. Therefore, all appeals with regard to a public procurement procedure are submitted to the State Commission. The PPA defines the time limits for lodging an appeal. Depending on the contract value, an appeal should be submitted within a period of 10 days (for higher value contracts) or 5 days (for smaller value contracts) from the date of the respective step of the procedures, as relevant. More specifically, an appeal may be submitted within the above referenced time limits from the date of (i) the publication of contract notice relating to the content of the contract notice and tender documents, and supplementary documents, if any; (ii) the publication of modifications to the tender documents relating to the content of the modification of the tender documents; (iii) the opening of tenders relating to the procedures for

[12] For the purpose of this report, tender and bidding documents, tender and bid have the same meaning.

opening of tenders; (iv) the receipt of the award decision or cancellation decision relating to the procedure of examination, evaluation and selection of tenders, of the reasons for cancellation. Any appellant, who fails to file an appeal at a specific stage of the open procedure in accordance with the prescribed time line, loses the right to appeal with regard to the previous stage in a later stage of the procedure. The PPA provides the amounts of the fees for initiating the appealing procedure. After an appeal is received, the contracting authority is required to submit all supporting documents within a 5 day term.

The decisions of the Commission are published on its website, on which the information is updated on a daily basis. The time for resolution of the appeals varies depending on the nature of the complaint and it sometimes may take a month even longer. The most common types of appeals with regard to the public procurement procedures carried out by the Ministry of Health and the hospitals are with regard to the technical specifications or the decision on contract award. The fiduciary assessment report provides information on the number and type of appeals/complaints submitted during the 2012 and 2013.

Debarment System. There is no formal debarment system in the country, however, the proposed operation shall be subject to the Bank's 2011 (revised) Anti-Corruption Guidelines and will not enable services of firms and individuals debarred by the Bank. The list of such debarred firms and individuals can be found at the following website: http://www.worldbank.org/html/opr/procure/debarr.html

D4. PROGRAM ACCOUNTING AND FINANCIAL REPORTING

The Ministry of Health uses a modified accrual basis where revenues are recorded on a cash basis and expenditures recognized when incurred. Accounting in hospitals is maintained following principles determined in the Rulebook for budget accounting and budget plan[13] (Official Gazette No. 31/11), and this enables hospitals to prepare various different reports throughout the year. The accounting in hospitals is the same as for any other budget user as revenues and expenditures are recognized following modified accruals basis of accounting. For the health sector, the modified accruals accounting policies includes the following:

- No depreciation or amortization – these are not accounted for or calculated
- No recognition of revenue and expenses related to changes in value of non-financial assets
- Revenue is recognized in the period when it has become available to the hospital, given that it can be measured
- Expenses are recognized when incurred in the reporting period to which they relate, independent from the fact in which period the payment took place
- Expenses for consumption of short-term financial property are recognized when purchased (except in health sector such expenses are recognized at the pint of actual consumption or sales)
- For donations of non-financial assets, revenue and expenses are recognized according to their estimated value

Budget users, whose value of property and annual revenue does not exceed HRK 100,000 (approximately USD 18,000) are not required to prepare and submit financial reports or apply a financial plan. As a minimum such budget users are required to maintain petty cash book and book of revenue and expenses. The decision to exempt a lower-tier budget user from the general requirements is determined by the supervising ministry or central (higher) budgetary authority.

Monthly reports are prepared by the 10th of the month for the previous month and such reports are prepared and submitted to the HZZO (the Health Insurance Fund). The reports contain the following

[13] http://www.mfin.hr/adminmax/docs/Pravilnika_o_proracunskom_racunovodstvu_i_Racunskom_planu.pdf

information: revenue and expenses, amounts invoiced in excess of limits assigned by the HZZO, receivables by days, number and structure of employees, balance of the transaction account, expenses for expensive medication and transplantation, number of practitioners and gross salary expenses of the practitioners.

Quarterly reports are submitted to the FINA (the payment agent of the government and linked the Treasury). The quarterly reports include data and information on revenue and expenses for the period, liabilities, receivables, inventory balances, transaction account balance, number and structure of employees. Semi-annual reports are submitted to HZZO, MOH and FINA and include information on revenue and expenses of the budget user. Annual reports produced by hospitals include a Balance Sheet, report on income and expenditures, report on changes in value and extent of assets and liabilities, and these reports are submitted to the MOH, HZZO and FINA.

The details on reporting requirements of the hospitals are published in Instructions on application of FM system and controls in health institutions in the process on financial rehabilitation whose funders are local or regional counties whose rights are currently resting. The instructions have been issued by the MOF and published on 1 July 2013.[14] The mentioned instructions include reporting requirements for health institutions outside of the financial rehabilitation plan.

Most of the hospitals have an automated accounting system. However reports for MOH, HZZO and FINA are produced manually depending on requirements determined by the government's decisions. Some general statements such as trial balances and accounts balances can be prepared automatically from the system but all other reports are normally produced manually.

The accounting and financial reporting systems in the MOH, HZZO and at the level of hospitals were found to perform adequately in managing expenditures, including transfers to lower tier budget users (i.e., from HZZO to hospitals). However on major areas of deficiency noted is that hospital inventory systems are not connected to the general ledger - most hospitals have a separate system for inventory management. Therefore important information for management decision not available in a timely manner and risk of transferring wrong data into the general ledger manually is high.

Similarly salaries are and will continue to be accounted for in a separate system. Recently the government has decided to reform the manner in which all public sector salaries are managed and accounted for by managing this through a new centralized system. Salary payments will be executed by FINA and all budget users will have the same software where all information on all public sector employees will be captured and maintained. The assessment of such system was not part of this fiduciary assessment and therefore the team was not able to assess it. The system is only now being piloted and has not yet fully implemented by all budget users. There were several complaints about the functionality and comprehensiveness of the system but it was not possible to conclude on actual issues and risks involved in this reform initiative.

D5. HOSPITALS ACTING AS CENTRAL BODIES FOR PUBLIC PROCUREMENT

The responsibility for coordination and monitoring of the joint procurement carried out by the relevant hospitals lies with the Sector for European Funds, Structural Reforms and International Projects. It comprises 13 people, of which 5 have certification in public procurement. The Sector is within the Health Protection Department in the Ministry of Health. It has been created recently with the current reorganization that took place at the Ministry of Health. The Sector is also responsible for the Service for

[14] http://www.mfin.hr/adminmax/docs/naputak%20ustanovama%20u%20zdravstvu%20u%20sanaciji%20(osnivaci%20JLPRS).pdf

the Implementation of International Loans and Structural Reforms and Service for Pre-Accession and Structural Funds.

The decision on joint procurement was adopted by the Ministry of Health as part of the three year plan of the Government for rehabilitation of hospitals, to achieve the most efficient public procurement and economical spending of its financial resources, as well as to achieve best value for money. It is in line with the provisions of the Public Procurement Act (Official Gazette, no. 90/11) and defines the institutions which will be responsible to conduct the joint procurement for selected procurement categories, as well as the institutions which are obliged to implement joint procurement through central bodies for public procurement.

The *Decision for compulsory implementation of joint procurement through the central bodies for public procurement/public institutions whose founder is the Republic of Croatia, for conclusion of framework agreements for specific subjects of procurement (public procurement categories)* was issued by the Minister of Health on May 31, 2012.[15] Initially there were 9 state owned hospitals and the National Health Insurance Fund assigned to implement joint procurement for various procurement categories through the above Decision of the Minister of Health. While centralized procurement is mandatory for the state owned hospitals, it is left to the local governments/counties to decide how to organize the public procurement for the county and general hospitals. County hospitals may participate in the centralized procurement and some of them do participate.

Those institutions which are bound to participate in the joint procurement pursuant to the Decision are not permitted to conduct procurement of goods and services as defined in the Decision individually. As an exception, they may proceed with a procurement process only after obtaining the consent of the Ministry of Health. The hospitals responsible for the implementation of the joint procurement have the status of central procurement bodies, as defined in Article 8 of the PPA. They have the status of authorized clients and before drafting the tender documents, they are obliged to collect all the relevant information for implementation of the joint procurement.

The table below provides the names of the hospitals, assigned the role of central procurement bodies authorized to perform joint procurement and the relevant procurement categories.

No.	Central Body for Public Procurement	Subject of Procurement
1.	Ministry of Health	Medical equipment, other goods, civil works, consultant services, non-consultant services.
2.	Zagreb Clinical Hospital Center	All medication included on the CIHI list which have generic parallels, disposable and implant materials for ophthalmology and neurosurgery, cardio electro-stimulators, laparoscopy instruments and disposable material for electro surgery, disposal materials for endoscopy and endoscopy apparatus, materials, equipment and instruments for infusions, biopsies, injections, administration of cytostatic
3.	Rijeka Clinical Hospital Center	Laboratory diagnostics, microbiology, contrast dyes, equipment for implanting and testing cardio electro-stimulators,

[15] The Decision for compulsory implementation of joint procurement through the central bodies for public procurement/public institutions whose founder is the Republic of Croatia, for conclusion of framework agreements for specific subjects of procurement (public procurement categories) is referred to throughout the report as "the Decision"

		disposable materials for medically assisted procreation, bags and filters for blood
4.	Split Clinical Hospital Center	Food products, materials for existing ECG monitors and defibrillators and other equipment for monitoring cardio function, glass, plastic, metal and wooden medical disposal materials, disposal surgical materials.
5.	Dubrava Clinical Hospital Center	implant and disposable materials for cardio-surgery, implant and disposable materials for vascular surgery, implant and disposable materials for plastic surgery, implant and disposable materials for gastroenterology, disposable materials for anesthesiology, disposable materials for, sterilization, disposable materials for transfusiology, disposable materials for hemodialysis, disposable materials for dentistry, disposable materials for extra-corporal circulation
6.	Mercur Clinical Hospital	Medical gases
7.	Sisters of Mercy Clinical Hospital Center	Implant and disposable materials for intervention radiology and intervention cardiology, disposable materials for nuclear medicine, other medical disposable materials (bandages, needles, injections, plaster, infusion systems, gloves, catheters, drains)
8.	Dr. Fran Mihaljevic Clinic for Infectious Diseases	Fuel, disposable sanitary materials
9.	Lovran Orthopedic Hospital	Implant and disposable materials for orthopedics and trauma surgery, apparatus for fractures, screws, fixation plates, systems for implanting plates and screws
10	National Health Insurance Institute	Mail, electricity, telephones (landlines and mobile), internet, office materials (including toners and ink)
11.	Osijek Clinical Hospital Center	Mali, laboratory diagnostics and microbiology*

* *This hospital was assigned initially through the Decision of the Minister of Health dated May 31, 2012 to carry out joint procurement for the referenced procurement categories, however, due to not very successful implementation it was removed from the list through the Decision dated March 4, 2013.*

As part of the joint procurement and its initiation in May 2012, 45 tenders have been launched with an estimated value of HRK 2,300,000.00 including VAT. As of September 2013, 32 framework agreements were concluded at the actual value of HRK 1,646,223,443.73 including VAT. The savings achieved based on the current status was about 27% which is seen as a considerable achievement. Additional data can be found in the full FSA report.

Procurement planning. The hospitals which are obliged to apply the Decision, sign an Agreement which authorizes the central body for public procurement to implement the joint public procurement and to conclude framework agreements. The framework agreements are concluded with one supplier for a period of two years. The Head of each public institution authorized to conduct joint procurement as the central body for public procurement, appoints authorized representatives to prepare tender documents, including technical specifications. The list with the names of the authorized representatives is sent to the Ministry of Health and is published on its website. Budget resources are made available by each institution and are included in their financial plan for the year. The central bodies for public procurement are obliged to collect data with regard to the needs of each hospital, to draw technical specifications, to make consultations with the relevant institutions. Each hospital, signatory to the Agreement, has to provide to the central procurement body, authorized to implement joint procurement for a specific procurement category, information with regard to the items, manufacturer, quantities used, unit prices and

financial resources spent in the last three years, i.e. 2009, 2010, 2011. In addition, hospitals/public institutions for which the joint procurement is conducted have to provide information on their future needs for a period of two years. The central procurement body draws up a "Table of Needs" covering two years. It should be submitted to the Ministry of health for approval. The procurement planning is based on the above referenced information.

Preparation of tender documents and technical specifications. Hospitals have their own systems to monitor their usage of goods and materials. While each hospital operates an inventory monitoring system, this system is not connected to the hospital's general ledger or accounting system. The persons involved in the preparation of the specifications are medical doctors and other various experts, depending on the material(s) to be tendered. It is required by the Decision that the technical specifications for each procurement article is drawn in a way that would allow the products of at least three different manufacturers to participate and compete. The preparation of technical specifications and the tender documents is a lengthy process and often takes several months to accumulate basic information, as it involves numerous consultations with the public institutions for which the joint procurement is conducted, with the business community, and a consultative group comprising various ministries and institutions. In addition to the time allowed for review and consultations, the initial collection of information on the needs of each institution and the definition of the items needed takes a long time.

There are no common standards for defining the procurement categories and in many cases it appears that different institutions define the same item in a different way. Consolidating and aligning the definitions of the procurement items is an issue, and provokes numerous complaints by potential tenderers, as well as in a couple of cases it required cancellation of the tendering procedure and revision of the technical specifications and tender documents. This issue is relevant in procurement of food products, textile items, various consumables and even generic medicines.

The MOH publishes the first draft of the technical specifications with the tender documents on its website for comments, allowing for free access to this information to any party concerned, including prospective tenderers, citizens, other interested institution etc. The time for discussion and comments is three weeks to a month. All comments received are delivered to the relevant central body responsible for the specific joint procurement. After all comments are addressed the final document is presented for review and approval by a commission, set up by the Ministry of Health. The commission comprises various institutions, including Ministry of Interior, Central Procurement Office, Agency for Protection of Market Competition, Ministry of Regional Development, the State Commission for Supervision of Public Procurement Procedures. Within 5 days after the approval of the tender documents by the Ministry of Health, the tender procedure is launched.

Procurement process, procedures, opening, evaluation and award. The commonly used procurement procedures for the purpose of the joint procurement are the open tendering procedure as defined in the PPA. In exceptional circumstances and with justification in accordance with the PPA, the negotiated procedure with prior publication is applied. As noted before, there are no standard bidding documents and each hospital, responsible for the joint procurement drafts its own bidding documents in accordance with the requirements defined in the *Regulation on the methodology for drafting and handling tender documents and tenders*. The bidding documents, including the technical specification and the procurement notice are published/uploaded on the Narodne Novine platform. They could be downloaded free of charge by interested tenderers. Although the tender documents are published electronically, the bids are submitted on paper. The time for preparation of bids is between 40 and 110 days, depending very much on the value, nature, complexity of the contract and the complaints received.

The bidding documents define the terms and conditions of the respective tender, and they include the qualification requirements for the bidders, as defined in the PPA, the evaluation criteria, and a contract

form. The tenders are opened publicly and the required information is recorded in minutes in accordance with the procedure defined the Regulation on the methodology for drawing up and handling tender documents and tenders. After the bids are reviewed for their technical merits, they are compared by price and the contract is awarded to the bidder who meets the qualification and technical requirements and offered the lowest price. In average the evaluation process takes between 60 and 90 days, but it could take even more, in cases where there are more groups of items included in one tender. Once the decision to award the contract is finalized (i.e. after the obligatory standstill period), the central body for central procurement shall conclude a framework agreement for two years.

The framework agreement is sent to the public institutions, and they, immediately after receipt of the framework agreement, conclude individual contracts for the specific procurement categories relevant for them. The public institutions are obliged to submit to the Ministry of Health information on the individual contracts concluded, including information on savings achieved on an annual basis (through analyzing and comparing against the results of the previous year). In case when any of the institutions has previously signed a contract for a specific procurement category for a lower unit price, than the one in the framework agreement, the institution is obliged to report to the Ministry of Health and keep the specific arrangement.

There is no standard form of the framework agreement and the contract; however, the PPA and the Regulation on the methodology for drawing up and handling tender documents and tenders provide very clear instructions on the mandatory information which should be included. In addition, the Ministry of Health instructed that the supplier should submit a performance guarantee for the framework agreement which is usually up to 5% of value and an advance payment and performance guarantee for each contracts to be concluded with the relevant hospitals.

D6. PROGRAM TREASURY MANAGEMENT AND FUNDS FLOW

For the MOH and Centralized Procurement (health sector) budget resources are planned in accordance with the national budget framework and policies. Budget resources are made available to the MOH which is responsible to manage its expenditures in accordance with the limits and ceilings imposed by the MOF. While only the MOF and Treasury are operating within the government's central SAP system, the MOH operates its own budget management system, which is connected through an interface to the Treasury and FINA. It is through this interface that the MOH is able to issue payment orders which are then executed (as long as there is budget availability within the ceiling) by FINA. There are no separate bank accounts for the MOH as it falls under the Single Treasury Account of the government.

The HZZO receives its budget through MOH. The budget for HZZO is generated through (tax) collections on insurance premia and is allocated to reimburse hospitals for medical services provided as defined under the health sector's DRG system (about 89%), to support allowances as defined by law for sick and health-related administrative leave (about 8-9%) and to support the HZZO's administrative functions (less than 2%) .

Each hospital has its own independent treasury management and specific funds flow. Each hospital has its own transaction account opened in a commercial bank. Majority of hospitals revenue is generated from a contract relationship with HZZO. Other hospital's revenue is generated from either of the following: property lease, apartment accommodation of patients who pay directly to the hospital etc. Additionally, budget resources are transferred to hospitals for the implementation and execution of centralized procurement. Only the select hospitals which have been identified and included in the Decision of the Minister of Health (see previous section) are eligible to receive these budget transfers.

The hospitals invoice their services to HZZO two times a month. The invoices are sent in a digitalized form Also HZZO assigns monthly limits for all hospitals and reimburses the invoiced services on a monthly basis. Usually, if the hospitals invoice to HZZO amounts above the monthly limits, such excess amounts are not being reimbursed by the HZZO. Until 2010 hospitals management boards used to write off the excess receivables towards HZZO or account for it off balance sheet, after 2010 no write offs are made any more but the receivables towards HZZO are significant (example of Dubrava hospital: 2010, 2011 and 2012 HRK 86 million) – that in turn results in a very bad financial position of the hospitals and also in accumulating arrears in the hospitals (extending the payment to their own suppliers because of liquidity issues). After the last hospital financial rehabilitation, HZZO has introduced changes in DRG pricing after which all prices for all types of services provided by the hospitals have been decreased by almost 30%. What is currently happening is that with occupancy rate of close to 100% hospitals will not be able to reach their monthly limits and will collect even less funds from HZZO. This in turn could result with increased arrears in hospitals (reported by several hospitals visited).

The team has observed that in almost all hospitals liabilities (payables to private sector suppliers, vendors and contractors) are not being settled in timely manner. Liabilities should be paid in due time, i.e. in compliance with the relevant legislation (Law on liabilities payment dates Official Gazette 125/11). The legislation has determined that all contracted liabilities should be paid within 30 days from the receipt of an invoice or similar payment request document if nothing was specified in the contract. Otherwise the parties may contract up to 60 days payment deadline, or even longer deadline. The liabilities due dates cannot be longer than 60 days (Article 3, line 2, OG 125/11). Almost all hospitals visited are not respecting the payment deadlines specified in the contracts with their suppliers. Therefore they are constantly running a risk of being charged penalty interest or even cancellation of the contract.

The total revenue of the HZZO compromises revenue from the state budget, revenue according to special regulations (Complementary Health Insurance, Additional health insurance and Private Health Insurance), revenue from financial assets (positive exchange rate differences), revenue from services rendered (leases), and income from other financial assets and liabilities.

D7. INTERNAL CONTROLS AND INTERNAL AUDIT

Republic of Croatia, as a full EU member is part of Public Internal Financial Control (PIFC) agenda. It has established Central Harmonisation Unit in-charge for PIFC coordination, well established Laws and regulation in this area (Financial management and control as well as Internal Audit). Internal controls are well established in MOH and hospitals. There are clear written procedures for authorisations, segregation of duties, reconciliations etc. covering expenditure and financial management as well as procurement responsibilities.

The Law on Internal Audit for Public Sector [16](19 December 2006) determines how internal audit units should be established, the requirements to be met by the internal auditors, obligations of the head of the internal audit department or group, and the independence of both the internal audit department and the head of internal audit. The law further defines the standards of internal audit (and defines compliance with the standards) and provides the regulatory framework for the planning and execution of internal audits, particularly for projects financed under EU programs (structural funds).

Internal audit in MOH is more advanced. The MOH's internal audit department comprises of 4 staff – 2 are certified internal auditors while the other 2 area in the process obtaining the professional certification. The internal audit department conducts regular audits which review IPA funding (provided by the EU), among other areas of audit coverage. The internal audit department prepares a regular audit plan – 5

[16] http://www.mfin.hr/adminmax/docs/Zakon%20o%20sustavu%20unutarnjih%20financijskih%20kontrola.pdf

audits were planned for 2012 and 5 had been carried out to completion and were found to have complied with internal audit standards.

By contrast, internal audit in hospitals is still at a very embryonic stage. Larger, more developed hospitals have already established internal audit departments with staff assigned to perform this job, while other hospitals are in the phase of establishing internal audit department. As per the new Internal Audit Rulebook for public sector users (Official Gazette as of 15 July 2013) each hospital will have to have an internal audit department if it employees over 50 employees and if its annual expenses and/or expenditure exceed HRK 80 million. As per the IA rulebook, Ministries are obliged to have an internal audit department and the MOH complies with this requirement[17].

The HZZO's Service for Control Directorate is responsible for the supervision and control over the execution of contractual obligations of healthcare institutions and of health professionals (including those in private practice) and who provide health and health related services (e.g., procurement and distribution of medicines, orthopedic and other aids (hereinafter: the contractual entities). This unit executes its supervisory responsibilities in accordance with national laws and bylaws, international contracts on social insurance, general and individual enactments, and, following the performance of supervision, and in case of ascertaining illegal and incorrect actions and failures to comply with contractual obligations, the issuance of some of the contracted measures.

The method of performing supervision and controls within the contractual entities of the Institute, as well as in organizational Offices of the Institute, is regulated and is being executed in compliance with the provisions of the Rulebook on Authorities and Method of Operations of Inspectors in the Croatian Health Insurance Institute ("Official Gazette", issues No: 59/09 and 48/11; hereinafter: the Rulebook) as well as Articles 15 and 14a of the Rulebook on Authorities and Method of Operations of Authorized Doctors of Medicine and Commissions of Physicians of the Croatian Health Insurance Institute ("Official Gazette", issues No: 113/09, 126/09, 4/10, 88/10, 1/11,50/11, and 88/11).

The inspectors (based in the regional offices of the Health Insurance Institute) regularly review and exercise a control function over billing invoices and regular monthly reports on hospital operations. Special attention is paid to the review those hospitals (and clinics) which report significant discrepancies in the performance of contractual obligations including reports on rates of sick leave (doctors), the index of expenditure of the funds intended for prescription medicines, rats for reimbursement of healthcare services provided for primary care, and reports on invoices when inpatient treatment of an insured person conflicts (or overlaps) with the period when other patient services were provided to the same patient. Detailed tables of supervision data can be found in the full FSA (Annex 4, tables 1-5) which demonstrate the coverage of directorate and specifically respond to concerns over billing, citizen complaints (regarding services), and other issues including hospital procurement of specific medical devices.

D8. PROGRAM AUDIT

The State Audit Office (SAO) is in-charge of the financial and performance audit in Croatia public sector. The MOH is audited annually by the SAO. However hospitals, clinics and other health institutions are audited on a more irregular basis. As result some hospitals are audited annually while others are audited every 4 years, depending on the situation in a certain hospital.

Croatia's State Audit Office (the Supreme Audit Institution) is considered strong. The State Audit Office's (SAO) external audit report of Government is publicly available, and external audits meet the requirements of International Organization of Supreme Auditing Institutions (INTOSAI) auditing

[17] http://www.mfin.hr/adminmax/docs/Pravilnik%20o%20unutarnjoj%20reviziji%20korisnika%20proracuna.pdf

standards. The SAO has in place a long-term development strategy formally adopting INTOSAI and developing more modern audit tools and practices. However despite these strengths, the performance of the SAO can be further improved. The SAO should improve the timeliness of the Audit Report by publishing public audits six months after the end of the fiscal year, and publishing reports listing actions taken by the executive to address audit recommendations.

The Croatian SAO has issued qualified-exception opinion on the Ministry of Health financial statements for the year ended 31 December 2011, which included benefit programs executed by the new Ministry of Social Protection and Youth. Similarly the HZZO has received a qualified-exception opinion on its 2011 financial statements. Furthermore, the SAO has conducted audit of 30 health institutions (hospitals, clinics, for the FY 2011. The SAO has issued 2 unmodified audit opinions (Karlovac, and Pozega), while the remaining 28 hospitals received qualified audit opinions.

For the Program, the financial audit of the MOH carried out annually by the SAO will include the audit of the administrative budget of the MOH. The separate annual financial audit of the HZZO will include the financing (reimbursement) to hospitals. The scope of the financial audit of HZZO includes the SAO's review of the work and findings of the HZZO's Service for Control Directorate, which focuses its control work on hospitals as previously noted. These two separate audit reports, which will be submitted to the Bank within 12 months of the close of the Program's financial year, will meet the Program audit requirements under OP 9.00.

D9. KEY FIDUCIARY PERFORMANCE INDICATORS

DESCRIPTION	BASELINE	
Budget Variance		
HZZO Service for Control Directorate has: (A) conducted regular inspections of hospitals under the Program (B) conducted specialized reviews based on risk assessments or significant complaints regarding health services provided		
Internal Audit units functioning in large hospitals (increase in coverage by 20% each year over 5 years of the Program)		
Improving the quality and timeliness of financial statements of MOH (should be prepared within 90 days of the end of the fiscal year)		
Audited financial statements of the Program received within 12 months of the end of the previous fiscal year		
Number of External Audit		

recommendations that have been implemented for: (A) MOH (B) HZZO		

E. GOVERNANCE

Within the context of this health program, there are a few institutions and specific functions which are directly related to combating fraud and corruption, and which have been found to be in full compliance with the expectations as set forth in the *acquis.* As such, **this operation will rely on national institutions and public bodies responsible for combating fraud and corruption – i.e., the government will use its own systems for responding to concerns (from citizens, contractors, etc.) related to governance.**

Within the health sector, the key governance (including corruption) concerns include the (i) value of goods procured – both through the central procurement body (central tendering) and through the health sector system for centralized procurement (including both medical and non-medical goods); (ii) the systemic cases of abuse of sick leave (authorizing more leave for insured patients than was justified); (iii) inaccurate billing (incorrect or over-billing) for health services rendered and which qualify for reimbursements from the Health Insurance Institute.

A fourth area of concern, but which is outside the scope of this operation and practical mitigation measures, relates to dramatic reduction or cuts in rates of reimbursement from central government (the MOF through the MOH through the Health Insurance Institute) to hospitals for health services rendered. While these cuts have been administered in the context of a series of measures to implemented a more austere short- and medium-term fiscal framework (in response to the growing budget deficit), the impact has had detrimental effects at the level of hospitals. Operational plans which in many cases (observed) were carefully crafted in a medium term context have been discarded as clinics and hospitals which had enjoyed past budget surpluses are now running deficits and accumulating significant arrears.

The following, in particular, are the key aspects of governance and anti-corruption which have been reviewed in the context of this operation:

Program Expenditure Area	Governance-related Function/Institutions
Centralized Procurement	(i) the public procurement law and functions of the central procurement body (ii) the complaints handling mechanism for public procurement (iv) the Croatian Anti-Corruption body
MOH Administrative Budget	(iii) the system of internal control and the function of internal audit – PIFC (Public Internal Financial Control, Chapter 32 of the *acquis)* (v) the transparency inherent in statutory government (budgetary) reporting requirements (vi) the Fiscal Responsibility Act (vii) the external audit and oversight function (Chapter 32 of the *acquis),*
Hospital Financing (reimbursement) through the Croatian Institute for Health Insurance	(v) the transparency inherent in statutory government (budgetary) reporting requirements

	(vii) the external audit and oversight function (Chapter 32 of the *acquis)*, (viii) the Service for Control Directorate of the Health Insurance Fund.

The three main areas identified as relevant for the assessment include:

- Transparency, integrity and accountability in selection of the activities included in the Program;
- Systems capacity to handle risks of fraud and corruption throughout implementation of the Program activities;
- Integrity issues within the Croatian health sector supported through the Program.

Transparency, integrity and accountability in selection of the Program's activities
The first step in assuring transparency, integrity and accountability in selection of the activities included in the Program was made by focusing Program activities on the strategic problems and priorities identified in recently adopted National Health Care Strategy 2012–2020, preparation of which included a wide consultation and a consensus building among all key stakeholders. The current doctors and nurses strike indicates that implementation of the reforms listed in the Strategy will not pass without strong oppositions and disagreements when it comes to operational details, however, the general consensus has been achieved among the key stakeholders regarding the strategic problems and priorities identified in the Strategy. Consequently, PforR also supports necessary reforms identified and selected through open democratic process.

Transparency and accountability in selection of the concrete activities supported by the Program will be secured through consultations and negotiations with the key stakeholders which will happen before adoption of any of the foreseen Action plans for implementation of the Strategy, including Master plan for hospitals and others. The current strike again indicates that these processes will have to be wide open and very thorough in order to get the implementation documents accepted by critical mass of the key stakeholders.

Consequently, it is fair to conclude that the PforR will support implementation of priority reform measures and activities of the Croatian Health Care System, which have been and will be identified and selected through open democratic process.

Systems capacity to handle risks of fraud and corruption throughout the Program implementation
The most solid aggregated indicator of the borrower's systems capacity to handle risk of fraud and corruption is the recent Croatian EU membership, as establishment and proven reasonable effectiveness of all systems relevant for handling of fraud and corruption was one of the key and the most scrutinized criteria for Croatian EU membership.

More specifically, Croatia has EU harmonized legislation framework and institutional arrangement for public procurement. The main law regulating the subject of public procurement including the procedures for submission and processing of complaints is Public Procurement Act (Official Gazette 90/2011, 83/2013) that enters into force on January 1, 2012.

As stipulated by the Act on the State Commission for Supervision over Public Procurement Procedure (Official Gazette 18/2013), the central body responsible for handling of all complaints on the public procurement in Croatia is the State Commission for Supervision over Public Procurement Procedure. The State Commission standard procedures are in line with the highest standards of transparency and

accountability, all their decisions being publicly available on their web portal (www.dkom.hr), with content available both in Croatian and English languages.

The State Commission has five members, one of whom acts as the Head, and one as Deputy Head. They are appointed by Croatian Parliament on the proposal of the Croatian Government. Three members of State Commission, one of which has to be Head or Deputy Head, constitute a quorum necessary for decision-making. Decisions of the State Commission are passed by a majority vote at the council meetings. No Commission member shall abstain from voting.

The State Commission submits to the Croatian Parliament annual reports on its work (if requested by the Parliament, reports are submitted for a period shorter than one year). The report includes data and analyses concerning legal protection in public procurement procedures, granting of concessions and selection of private partners in public-private partnership projects. The reports has specified content, including the data on: total number of the appeals received; the number of appeals received by individual stages of the procedure; the number of cases categorized by various possible outcomes (e.g. dismissed, rejected, upheld or suspended appeal procedures; approval of continuation of the procedure and /or award of a public procurement contract; annulled decisions, procedures and actions of the contracting authorities due to unlawfulness; annulled public procurement contracts); the number of fines levied and the amounts thereof; average time for adoption of decisions both form the date of receipt of appeal and from the date of completion of the appeal case documentation; the contracting authorities having five or more appeal procedures before the State Commission, including the number of legitimate appeals in such appeal procedures and the total number of implemented appeal procedures related to the concerned contracting authorities; the most common reasons for lodging appeals; the most common irregularities established by the State Commission; legal actions against the State Commission's decisions; the number of submitted accusatory motions.

According to the Report, in 2011, altogether 1,921 complaints were received (7.61% of the total number of the public procurement procedures in Croatia in 2011.); out of which 1,888 were solved until 12/31. Approximately ¼ of complaints were adopted, resulting with annulation of the public procurement process, while ¼ was rejected and ¼ dismissed. Seven charges were filed at court for violation of the Law on public procurement. Contracting authorities having five or more appeals included also a number of the hospital and clinic centers, as they are relatively frequent buyers; however, percentage of the adopted complaints in their case was below average. The total value of public procurements that were scrutinized because of the complaints was above 3.5 billion USD. The average time for adoption of decision was 61 days, while average public procurement duration was 63 days.

In line with the Regulation on control over the implementation of the Public Procurement Act (Official Gazette 10/12), the Ministry of economy is the central governmental body responsibility for control of the law implementation, meaning that it also has to react (within 8 days period) based on the received complaints related to some public procurement procedure. If the law violations are confirmed, the Ministry files charges against responsible parties at court.

The main body within the Croatian criminal justice system in charge of anticorruption is Bureau for Combating Corruption and Organized Crime (generally known as USKOK) attached to the State Attorney office, formed in 2001, whose functioning is regulated by Law on Bureau for Combating Corruption and Organized Crime (Official Gazette 76/09, 116/10, 145/10, 57/11, 136/12). It has a counterpart in the Criminal Police Directorate (the Police National USKOK), as well as in the judiciary (the Court Departments for Criminal Cases in the Jurisdiction of USKOK). Already completed and still ongoing processes against the highest political figures in Croatia (including the former Prime Minister and some other Ministers) are fair indicators of the system's capacity, operative effectiveness and independent

functioning. Any potential allegations of fraud and corruption in the Program should be submitted to USKOK, which will then react by initiating investigative procedure.

The systems handling the risks of fraud and corruption in implementation of the Program are in place and functioning.

Integrity issues within the Croatian health sector supported through the Program

The National Health Care Strategy itself admits that health sector is very prone to corruption, and that Croatia is not an exception to it. A long waiting lists and lack of transparency in their creation and functioning, lack of clinical protocols and care pathways, lack of quality standards, monitoring and control within the system, all of these create environment which allows corruptive behavior. Consequently, the Strategy among the priority measures also includes Combating the corruption and non-formal payments in the health sector.

The ministry has established so called White Phone – a free phone service at which users / patients can report their complaints on the work of the medical staff within the sector, or any other complaints regarding their inability to realize their rights on medical services. Through the established service users are informed about their rights and about the next steps through which they should be able to realize them. If the complaints cannot be solved immediately, they are recorded and patient is informed in writing on the solution of the reported problem. Received complaints can also trigger some further investigative or even corrective action within the system.

In average, around 900 complaints are received monthly, out of which ¼ are complaints related to unprofessional behavior of the medical staff (long waiting, unkindness, inability to get information); 1/3 are related to issues with the health insurance; 10% are related to waiting lists and e-appointments for various medical treatments; while the rest are questions related to addresses, working hours, contacts in various medical institutions. Complaints related to wrong medical treatment are relatively rare.

The service has been criticized by the representative of the Croatian Association for the Promotion of the Patient's Rights for being more complaints collecting and recording mechanism than operative in assisting patients in solving their problems.

More specifically, regarding the expected impacts of the PfR on the integrity within the Croatian health sector, it is clear that the Program focus on improving systems efficiency (through better management, structure, organization and control) directly contributes to improving the operating environment which leaves less space for corruptive behavior.

F. INPUTS TO IMPLEMENTATION SUPPORT PLAN

The Bank's fiduciary team will regularly review the previously noted baseline indicators. The team will pay particular focus (i) on the establishment of functioning internal audit units for large hospitals under the Program, (ii) the level of reimbursement payments from HZZO to hospitals and whether adjustments to reimbursements have been shared in a timely manner with hospitals and if hospitals have adjusted their budget and financial plans to account for these adjustments, (iii) the implementation of the regular control and supervision work plans of the HZZO's Service for Control Directorate, (vi) the implementation of significant audit recommendations (issued annually by the SAO) by the MOH and HZZO respectively.

Additionally, the team will support the government in the development of a framework to monitor and enforce improved expenditure management performance at the level of hospitals. This framework has not yet been developed but will be a key component to ensuring longer term sustainable public expenditure management practices once the hospital financial rehabilitation plans have been completed.

Although the experience with the joint procurement until now could be considered as quite positive, there are areas which need enhancement and further improvement related mainly with the long time for drafting and preparation of the technical specifications for medical equipment, consumables, materials and medications for hospitals, the lack of contract administration and monitoring system; further building and sustaining of capacity for procurement management, development and application of e-procurement, and drafting a program operational manual.

In addition, the Bank fiduciary team will also work with the Borrower to monitor overall implementation progress and address areas which need improvement as identified above, as well as it will have a continued involvement as follows:

- Reviewing implementation progress and achievement of program results, including effectiveness and quality of procurement planning, timeliness and cost effectiveness of delivering of goods and services to end-users, competitiveness of the procurement processes, extent of the implementing agency's compliance with the applicable rules with regard to use of different procurement methods, timeliness and efficiency of contracts' implementation and payments.
- Providing support for implementation issues and institutional capacity building, as relevant.
- Monitoring the performance of the fiduciary systems and audits, as well as compliance with fiduciary provisions of the legal covenants and the program Action Plan.

G. ANNEX 1 – INFORMATION OF JOINT PROCUREMENT THROUGH CENTRAL BODIES

No.	Subject of Procurement	Number of items	Number of hospitals	Estimated cost in HRK without VAT	Actual cost in HRK without VAT as per the Framework Agreement	Savings in %	Savings in amount	Bid opening date	Framework agreement signing date	Opening/Sign date difference in days	Re-tendering	Number and nature of Complaints
1	**Zagreb Clinical Hospital Center**											
1.1	all medication included on the CIHI list which have generic parallels	440	42	219,361,720.59	121,460,940.00	44.63%	97,900,780.59	9/4/2013	9/17/2013	13	None	at the review stage
1.2	disposable and implant materials for											
	- ophthalmology	71	25	37,579,532.00	26,422,582.86	30%	11,156,949.14	1/30/2013			4	second procedure at the stage of reviewing
	- ophthalmology			6,909,600.00	6,710,906.98	3%	198,693.02	6/12/2013				
	- neuro-surgery,	106	15	84,570,000.00	68,725,995.36	18.73%	15,844,004.64	9/18/2013	9/30/2013	12	None	at the review stage
	-											
1.3	cardio electro-stimulators											ongoing data collection
1.3	laparoscopy instruments and disposable material for electro surgery											ongoing data collection
1.5	disposal materials for endoscopy and endoscopy apparatus											ongoing data collection
1.6	materials, equipment and instruments for infusions, biopsies, injections, administration of cytostatics											ongoing data collection
	Total	617	82	348,420,852.59	223,320,425.20	35.90%					4	
2	**Rijeka Clinical Hospital Center**											
	cleaning and maintenance	18	21	19,967,710.00	19,134,502.28	4.17%	833,207.72	2/4/2013			7	
2.1	textile	24	17	24,359,267.25	20,423,462.64	16.16%	3,935,804.61	7/10/2013			13	
2.2	regens, tests and supplies for pathology and cytology	144	15	73,082,720.67								at the stage of examination and evaluation
2.3	materials for hygiene needs and care	133	23	89,830,111.29								at the stage of examination and evaluation
2.4	laboratory diagnostics											
2.5	microbiology											
2.6	contrast dyes											
27	equipment for implanting and testing cardio electro-stimulators											
2.8	disposable materials for medically assisted procreation											
2.9	bags and filters for blood											
	Total	319	76	207239809.2	39,557,964.92	20.33%					20	

3	**Split Clinical Hospital Center**											
3.1	food products	238	17	140,998,733.20	117,749,408.22	16.49%					None	
	meat, meat products, eggs and honey			60,075,007.45	54,584,086.81	9.14%	5,490,920.64					
	fish and fish products			7,044,965.48	5,937,343.48	15.72%	1,107,622.00					
	bread products			8,800,164.68	7,630,381.00	13.29%	1,169,783.68					
	fresh fruit and vegetables			29,436,053.25	26,015,170.88	11.62%	3,420,882.37					
	various food products			25,442,802.19	20,803,541.06	18.23%	4,639,261.13					
	fruit and vegetable			11,762,357.50	7,537,301.90	35.92%	4,225,055.60					
	milk and products			32,164,698.46	24,678,935.00	23.27%	7,485,763.46					
3.2.	materials for existing ECG monitors and defibrillators and other equipment for monitoring cardio function											
3.3	glass, plastic, metal and wooden medical disposal materials											
3.4	disposal surgical materials											
3.5	implant and disposable materials for cardio-surgery											
	Total	238	17	315,724,782.21	264,936,168.35	16.09%						
4	**Dubrava Clinical Hospital Center**											
4.1	implant and disposable materials forvascular surgery	61	5	136,246,999.24	Tender ongoing							
4.2	implant and disposable materials forvascular surgery	49	12	17,487,895.36	15,075,062.67	13.80%	2,412,832.69	4/22/2013			None	
4.3	implant and disposable materials forplastic surgery	3	8	6,271,105.00	5,006,417.00	20%	1,264,688.00	1/25/2013	1/21/2013	4	None	
4.4	implant and disposable materials for gastroenterology	15	14	53,522,903.44	46,137,678.33	14%	7,385,225.11	2/8/2013	4/10/2013	61	4	
4.5	disposable materials for anesthesiology	327	16	106,452,744.50	Tender ongoing		#VALUE!					
4.6	disposable materials for sterilization	49	11	13,562,058.93	7,651,042.90	43.58%	5,911,016.03	4/24/2013			3	
4.7	disposable materials fortransfusiology	18	12	42,127,406.96	22,837,486.74	45.79%	19,289,920.22				3	
	disposable materials for gastroenterology			53,522,903.44	46,137,678.33	13.80%	7,385,225.11	2/8/2013	4/10/2013	61		
	disposable materials for transfusion			42,127,406.96	22,837,486.74	45.79%	19,289,920.22	2/11/2013	4/12/2013	60		
4.8	disposable materials for hemodialysis	105	16	6,271,105.00	Tender ongoing		#VALUE!					
4.9	disposable materials for dentistry											Collecting information on needs is ongoing in order to for defining the subject of procurement
4.10	disposable materials for extra-corporal circulation											Collecting information on needs is ongoing in order to for defining the subject of procurement
	Total	627	94	477,592,528.83	165,682,852.71	65.31%						

5	**Mercur Clinical Hospital Center**											
5.1	medical gases	1	23	35,500,000.00	30,845,216.70	13.11%					None	
6	**Sisters of Mercy Clinical Hospital Center**											
6.1	implant and disposable materials for :											
	-intervention cardiology	18	10	147,276,154.58	134,181,006.24	8.89%	13,095,148.34	1/31/2013	5/21/2013	110	3	
	- intervention radiology	30	10	88,446,033.90	81,477,609.59	7.88%	6,968,424.31	1/28/2013	7/17/2013	170	15	
	-intervention neurology	9	3	31,649,596.50	30,084,943.50	4.94%	1,564,653.00	2/8/2013	6/7/2013	119	2	
	disposable materials for nuclear medicine	30	10	84,813,543.42	65,658,833.34	22.58%	19,154,710.08		9/6/2013		36	
6.2	other medical disposable materials:											
	- bandages											gathering tenders
	- needles	11	25	6,061,793.08	3,908,660.45	35.52%	2,153,132.63				3	standstill period
	- injections											gathering tenders
	- plaster	5	22	29,286,945.98	26,317,321.60	10.14%	2,969,624.38	1/23/2013	3/28/2013	64	None	
	- infusion systems	2	23	17,759,183.86	16,494,495.86	7.12%	1,264,688.00				None	
	- gloves	9	25	36,905,662.00	27,552,792.57	25.34%	9,352,869.43				2	standstill period
	- catheters	4	23	12,216,833.52	6,680,402.53	45.32%	5,536,430.99				1	
	- drains	7	21	22,497,733.83	10,863,359.48	51.71%	11,634,374.35				3	standstill period
	Total	125	172	476,913,480.67	403,219,425.16	15.45%					65	
7	**Dr. Fran Mihaljevic Clinic for Infectious Deseases**											
7.1	fuel		15	177,500,000.00	103,018,087.50	41.96%	74,481,912.50				None	
7.2	disposable sanitary materials											
	implant and disposable materials for orthopedics and trauma surgery											
	Total		15	177,500,000.00	103,018,087.50	41.96%						
8	**Lovran Orthopedic Hospital**											
8.1	implant and disposable materials for orthopedics and trauma surgery											Data not collected
8.2	apparatus for fractures, screws, fixation plates, systems for implanting plates and screws											Data not collected
	Total											
9	**Croatian Health Insurance Institutre**											
9.1	mail											
9.2	electricity		28	198,105,032.59	127,874,378.69	35.45%	70,230,653.90		3/1/2013		None	
9.2	telephones (landlines, mobile, internet)		21	34,020,197.18	33,800,219.18	0.65%	219,978.00		2/4/2013		None	
9.4	office materials (including toners and ink) group A & C		21	70,624,996.00	42,913,256.00	39.24%	27,711,740.00		3/1/2013		None	
	Total		70	302,750,225.77	204,587,853.87	32.42%						
10	**Osijek Clinical Hospital Center** **removed from the list of central bodies for public procurement*											

H. ANNEX 2 – FM PERFORMANCE INDICATORS FOR HOSPITALS

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for the MOH as well as for the selected sample of hospitals, for the last three fiscal years (2010-2012). No amounts were excluded from the relevant calculations, as all are considered to be under government's control (i.e. externally funded projects). The closer the out-turn to the original budget, the higher the rating. It is important to note that the Ministry of Health and Social Protection chased its existence on 21 December 2011, and it has been divided into Ministry of Health and Ministry of Social Protection from that date onwards. Therefore the budget for 2012 is approximately only half of the budget for 2010 and 2011 respectively since it considers only one Ministry, namely the Ministry of Health.

The overall rating for PI-1 is C *meaning that* the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure. This was mainly to the improperly budgeted merger as explained in footnote number 5, and over-budgeted expenses in Rijeka Clinical Hospital Centre (-18%). Otherwise the expenses are being properly budgeted in the MOH and in other hospitals which were subject to the team's assessment.

Table 1: Percentage difference between expenditure Out-turn and Budget

Year/Hospital	Original budget in HRK	Actual out-turn in HRK	% Diff.
Ministry of Health - Administrative Budget			
2010	1,287,655,364	1,135,483,911	-11.82%
2011	1,213,572,278	1,111,428,260	-8.42%
2012[18]	613,434,495	577,092,924	-5.92%
Dimension rating: B			
Sisters of Mercy Clinical Hospital Centre			
2010	546,283,918	739,408,130[19]	35.35%
2011	933,916,882	960,884,116	2.89%
2012	949,787,633	898,005,098[20]	-5.45%
Dimension rating: D			
Dubrava Clinical Hospital			
2010	481,370,000	481,555,547	0.04%
2011	474,654,000	483,395,799	2%
2012	578,850,113	504,689,550	-13%
Dimension rating: C			
Dr. Fran Mihaljevic Clinic for Infectious Diseases			
2010	174,508,026	189,535,259	9%
2011	197,033,000	191,176,236	-3%
2012	181,085,500	186,064,225	3%
Dimension rating: A			
Rijeka Clinical Hospital Centre			
2010	861,880,921	762,294,059	-12%
2011	882,456,214	763,707,026	-13%
2012	938,621,961	765,096,991	-18%
Dimension rating: D			
Lovran Orthopedic Clinic			
2010	66,562,000	60,959,972	-8%
2011	59,253,000	61,150,230	3%
2012	61,787,100	59,852,985	-3%
Dimension rating: B			

[18] Ministry of Health and Social Protection chased its existence on 21 December 2011, and it has been divided into Ministry of Health and Ministry of Social Protection.

19 On 21 July 2012 The Clinic Sisters of Mercy merged with 3 other clinics (Cancer clinic Zagreb, Children's diseases clinic Zagreb and Trauma clinic Zagreb)

[20] On 2 May 2012 Children's diseases clinic Zagreb demerged from the group of 4 hospitals

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

The purpose of this PI is to assess the extent to which the composition of budget changes from that originally planned by the MOH as well as for the selected sample of hospitals. The PEFA Secretariat has set out a formula for calculating the variance between the out-turn and the approved budget. The original provision on each main budget head is adjusted by the overall percentage difference between budget and out-turn as measured by PI-1, and the differences between these adjusted figures and the actual out-turns on each line are then summed. This measure of total variance is then represented as a percentage of the total expenditure out-turn.

The second dimension of the PI looks at the amount of expenditure charged to the Contingency Reserve; the larger the amount charged to the reserve rather than reallocated to specific budget lines, the less transparent the budget, and the lower the rating. However this dimension has not been assessed due to the fact that we are assessing the MOH and hospitals individually and the budget reserve is available on the level of the entire budget of the Republic of Croatia.

Overall rating for PI-2 *Dimension i) is A - it means that* Variance in expenditure composition exceeded 5 % in no more than one of the last three years. *Dimension ii) for PI-2 was not assessed as it is not considered relevant.*

Year/Hospital	2010					2011					2012				
	Actual out-turn in HRK	Adjusted budget	Deviation	Absolute deviation	% Diff.	Actual out-turn in HRK	Adjusted budget	Deviation	Absolute deviation	% Diff.	Actual out-turn in HRK	Adjusted budget	Deviation	Absolute deviation	% Diff.
Ministry of Health - total budget															
Salaries	64,716,964	66,670,200	(1,953,236)	1,953,236	3%	64,390,152	64,774,480	(384,328)	384,328	1%	53,872,762	54,300,124	(427,362)	427,362	1%
Other employee expenses	2,015,107	2,157,000	(141,893)	141,893	7%	2,310,276	2,381,610	(71,334)	71,334	3%	1,258,423	1,267,038	(8,615)	8,615	1%
Contributions on salaries	11,156,261	11,295,000	(138,739)	138,739	1%	11,035,745	11,137,440	(101,695)	101,695	1%	8,671,838	8,755,116	(83,278)	83,278	1%
Reimbursable to employees	11,415,251	12,702,646	(1,287,395)	1,287,395	10%	11,511,781	15,955,420	(4,443,639)	4,443,639	28%	8,553,594	11,365,095	(2,811,501)	2,811,501	25%
Material and Energy	4,844,774	4,889,800	(45,026)	45,026	1%	5,275,005	5,346,700	(71,695)	71,695	1%	4,790,688	5,676,700	(886,012)	886,012	16%
Services	58,894,260	66,011,195	(7,116,935)	7,116,935	11%	53,888,383	64,888,168	(10,999,785)	10,999,785	17%	62,212,418	71,199,852	(8,987,434)	8,987,434	13%
Other expenses	15,256,830	16,135,213	(878,383)	878,383	5%	12,355,424	13,453,500	(1,098,076)	1,098,076	8%	9,836,881	11,315,840	(1,478,959)	1,478,959	13%
Other financial expenses	4,858,782	5,159,073	(300,291)	300,291	6%	5,402,361	5,767,550	(365,189)	365,189	6%	142,364	722,200	(579,836)	579,836	80%
Aid to foreign governments	4,792,080	4,800,000	(7,920)	7,920	0%	5,459,238	5,529,092	(69,854)	69,854	1%	4,132,290	4,300,000	(167,710)	167,710	4%
Aid within country	134,417,636	135,613,021	(1,195,385)	1,195,385	1%	105,797,715	103,380,547	2,417,168	2,417,168	2%	25,332,370	27,115,856	(1,783,486)	1,783,486	7%
Reimbursable to citizens and households based on insurance	23,766,561	23,978,336	(211,775)	211,775	1%	26,526,030	27,012,700	(486,670)	486,670	2%	10,492,378	10,307,810	184,568	184,568	2%
Reimbursable to citizens and households from the budget	600,716,928	610,181,666	(9,464,738)	9,464,738	2%	587,601,156	535,698,690	51,902,466	51,902,466	10%	42,360,347	42,661,400	(301,053)	301,053	1%
Current grants	16,460,295	16,708,611	(248,316)	248,316	1%	15,279,103	9,237,200	6,041,903	6,041,903	65%	14,593,730	14,486,063	107,667	107,667	1%
Penalties and damage reimbursable	775,001	775,001	-	-	0%	1,643,025	1,677,850	(34,825)	34,825	2%	13,142,958	20,000,000	(6,857,042)	6,857,042	34%
Intangible property	665,218	933,218	(268,000)	268,000	29%	983,239	1,250,000	(266,761)	266,761	21%	408,298	411,000	(2,702)	2,702	1%
Buildings	95,645,080	106,581,394	(10,936,314)	10,936,314	10%	57,699,853	78,736,173	(21,036,320)	21,036,320	27%	76,498,229	77,265,589	(767,360)	767,360	1%
Plant and equipment	84,732,507	90,116,549	(5,384,042)	5,384,042	6%	118,976,752	162,748,742	(43,771,990)	43,771,990	27%	193,927,156	200,549,514	(6,622,358)	6,622,358	3%
Transport assets	96,143	299,000	(202,857)	202,857	68%	25,123,556	19,649,000	5,474,556	5,474,556	28%	4,916,819	4,917,847	(1,028)	1,028	0%

Intangible manufacturing assets	258,232	421,500	(163,268)	163,268	39%	169,463	25,463,321	(25,293,858)	25,293,858	99%	41,434,932	46,817,451	(5,382,519)	5,382,519	11%
Total expenditure	**1,135,483,911**	**1,175,428,423**	**(39,944,512)**	**39,944,512**	**3%**	**1,111,428,260**	**1,154,088,183**	**(42,659,923)**	**174,332,109**	**15%**	**576,578,476**	**613,434,495**	**(36,856,019)**	**37,440,489**	**6%**
Dimension rating:B															
Sisters of Mercy Clinical Hospital Centre															
Gross salaries	321,507,971	340,466,000	(18,958,029)	18,958,029	6%	457,868,688	456,288,534	1,580,154	1,580,154	0%	423,442,466	425,200,000	(1,757,534)	1,757,534	0%
Other employee costs (awards, early retirement)	8,486,168	13,681,500	(5,195,332)	5,195,332	38%	15,832,295	11,869,984	3,962,311	3,962,311	33%	10,088,888	7,957,000	2,131,888	2,131,888	27%
Contribution on salaries	100,176,269	105,514,788	(5,338,519)	5,338,519	5%	78,125,973	77,934,910	191,063	191,063	0%	67,290,254	64,400,000	2,890,254	2,890,254	4%
Employee transport costs (from/to work)	14,518,982	15,022,000	(503,018)	503,018	3%	19,214,021	19,242,955	(28,934)	28,934	0%	19,842,333	19,088,000	754,333	754,333	4%
Other material employee costs	2,029,689	2,430,000	(400,311)	400,311	16%	2,410,807	2,899,362	(488,555)	488,555	17%	2,096,391	1,883,000	213,391	213,391	11%
Capital expenditure	38,582,552	26,130,500	12,452,052	12,452,052	48%	14,279,672	28,699,165	(14,419,493)	14,419,493	50%	18,968,510	14,435,167	4,533,343	4,533,343	31%
Pharmaceuticals	101,913,258	81,677,724	20,235,534	20,235,534	25%	155,532,042	169,926,726	(14,394,684)	14,394,684	8%	136,747,794	131,489,000	5,258,794	5,258,794	4%
Medical material	67,679,303	70,974,268	(3,294,965)	3,294,965	5%	104,863,115	109,759,493	(4,896,378)	4,896,378	4%	100,526,795	99,684,100	842,695	842,695	1%
food	11,110,211	12,442,120	(1,331,909)	1,331,909	11%	14,469,254	12,736,321	1,732,933	1,732,933	14%	13,681,145	13,532,000	149,145	149,145	1%
Energy	10,716,864	8,701,632	2,015,232	2,015,232	23%	16,353,656	15,391,477	962,179	962,179	6%	15,973,186	16,887,000	(913,814)	913,814	5%
Current and investment maintenance	10,936,799	15,259,174	(4,322,375)	4,322,375	28%	17,314,812	13,880,277	3,434,535	3,434,535	25%	18,487,764	16,000,000	2,487,764	2,487,764	16%
Blood and blood products	6,881,788	6,158,954	722,834	722,834	12%	8,149,955	6,828,500	1,321,455	1,321,455	19%	9,050,199	6,500,000	2,550,199	2,550,199	39%
Cost of services provided by other health institutions	5,178,846	8,348,179	(3,169,333)	3,169,333	38%	6,951,067	6,966,547	(15,480)	15,480	0%	5,242,112	4,100,000	1,142,112	1,142,112	28%
Other various material	5,529,212	5,426,574	102,638	102,638	2%	7,215,266	4,990,393	2,224,873	2,224,873	45%	9,240,032	8,695,500	544,532	544,532	6%
Postal services	2,690,183	2,955,698	(265,515)	265,515	9%	3,661,476	3,587,872	73,604	73,604	2%	2,977,409	3,123,000	(145,591)	145,591	5%
Spare parts	3,191,412	2,785,013	406,399	406,399	15%	3,263,891	3,487,664	(223,773)	223,773	6%	2,641,918	3,022,000	(380,082)	380,082	13%
Office supplies	2,310,987	3,593,566	(1,282,579)	1,282,579	36%	3,186,290	2,336,527	849,763	849,763	36%	2,497,769	2,250,000	247,769	247,769	11%
Cleaning materials	2,220,566	4,541,210	(2,320,644)	2,320,644	51%	2,938,841	3,091,459	(152,618)	152,618	5%	2,481,465	1,832,000	649,465	649,465	35%
Medical gases	1,191,480	948,641	242,839	242,839	26%	1,693,172	1,479,150	214,022	214,022	14%	1,633,690	1,670,000	(36,310)	36,310	2%
Financial expenses	621,488	526,000	95,488	95,488	18%	720,035	762,585	(42,550)	42,550	6%	2,181,879	1,233,100	948,779	948,779	77%
Other expenses	21,553,021	20,258,665	1,294,356	1,294,356	6%	25,326,199	30,567,914	(5,241,715)	5,241,715	17%	26,896,310	29,666,600	(2,770,290)	2,770,290	9%
Other extraordinary expenses	381,081	450,000	(68,919)	68,919	15%	1,513,588	4,738,264	(3,224,676)	3,224,676	68%	6,016,789	3,600,000	2,416,789	2,416,789	67%
Total expenditure	739,408,130	748,292,206	(8,884,076)	8,884,076	1%	960,884,115	987,466,079	(26,581,964)	26,581,964	3%	898,005,098	876,247,467	21,757,631	21,757,631	2%
Dimensionrating:A															
Dubrava Clinical Hospital															
Gross salaries	209,081,607	207,480,000	1,601,607	1,601,607	1%	206,274,765	206,694,168	(419,403)	419,403	0%	214,915,081	215,000,000	(84,919)	84,919	0%
Other employee costs (awards, early retirement)	5,225,174	6,300,000	(1,074,826)	1,074,826	17%	7,504,605	7,600,000	(95,395)	95,395	1%	5,320,843	5,300,000	20,843	20,843	0%
Contribution on salaries	35,291,323	35,078,000	213,323	213,323	1%	35,432,837	35,800,000	(367,163)	367,163	1%	34,049,261	35,000,000	(950,739)	950,739	3%
Employee transport costs (from/to work)	7,214,103	7,100,000	114,103	114,103	2%	7,555,521	7,700,000	(144,479)	144,479	2%	8,993,355	9,000,000	(6,645)	6,645	0%
Other material employee costs	1,220,731	1,060,200	160,531	160,531	15%	1,045,519	1,060,000	(14,481)	14,481	1%	868,189	840,000	28,189	28,189	3%
Capital expenditure	21,143,976	16,722,400	4,421,576	4,421,576	26%	14,727,471	13,877,400	850,071	850,071	6%	18,387,504	18,399,000	(11,496)	11,496	0%
Medical matierial	129,677,688	138,300,000	(8,622,312)	8,622,312	6%	139,583,946	140,000,000	(416,054)	416,054	0%	147,342,521	147,601,768	(259,247)	259,247	0%
Energy	26,334,229	25,200,000	1,134,229	1,134,229	5%	26,620,216	27,000,000	(379,784)	379,784	1%	30,638,268	31,000,000	(361,732)	361,732	1%
Current and investment maintenance (material and services)	12,694,908	11,200,000	1,494,908	1,494,908	13%	10,372,870	10,600,000	(227,130)	227,130	2%	9,641,114	10,033,000	(391,886)	391,886	4%
Postal services	1,696,359	1,710,000	(13,641)	13,641	1%	1,763,609	1,800,000	(36,391)	36,391	2%	1,744,150	1,800,000	(55,850)	55,850	3%

Spare parts	1,433,272	1,600,000	(166,728)	166,728	10%	930,822	950,000	(19,178)	19,178	2%	828,863	850,000	(21,137)	21,137	2%
Office supplies	5,126,107	5,200,000	(73,893)	73,893	1%	5,654,268	5,690,000	(35,732)	35,732	1%	5,737,301	5,800,000	(62,699)	62,699	1%
Financial expenses	403,862	209,000	194,862	194,862	93%	366,814	362,097	4,717	4,717	1%	282,515	280,000	2,515	2,515	1%
Other expenses	25,012,208	25,770,600	(758,392)	758,392	3%	25,562,536	26,100,000	(537,464)	537,464	2%	25,940,585	27,263,000	(1,322,415)	1,322,415	5%
Total expenditure	**481,555,547**	**482,930,200**	**(1,374,653)**	**20,044,931**	**4%**	**483,395,799**	**485,233,665**	**(1,837,866)**	**1,837,866**	**0%**	**504,689,550**	**508,166,768**	**(3,477,218)**	**3,477,218**	**1%**
Dimensionrating:A															
Dr.Fran Mihaljevic Clinic for Infectious Diseases															
Gross salaries	67,303,512	67,000,000	303,512	303,512	0%	66,831,558	67,650,000	(818,442)	818,442	1%	65,603,516	67,000,000	(1,396,484)	1,396,484	2%
Other employee costs (awards, early retirement)	3,018,811	3,120,000	(101,189)	101,189	3%	3,599,763	2,276,000	1,323,763	1,323,763	58%	2,801,915	2,889,000	(87,085)	87,085	3%
Contribution on salaries	11,546,295	11,600,000	(53,705)	53,705	0%	11,504,664	11,710,000	(205,336)	205,336	2%	10,466,264	11,600,000	(1,133,736)	1,133,736	10%
Employee transport costs (from/to work)	3,110,822	3,205,000	(94,178)	94,178	3%	3,180,876	4,000,000	(819,124)	819,124	20%	3,097,280	3,125,000	(27,720)	27,720	1%
Capital expenditure	2,950,371	1,437,635	1,512,736	1,512,736	105%	1,289,891	1,000,000	289,891	289,891	29%	4,057,736	1,000,000	3,057,736	3,057,736	306%
Pharmaceuticals	49,048,129	42,340,000	6,708,129	6,708,129	16%	55,443,697	57,097,000	(1,653,303)	1,653,303	3%	54,989,698	52,710,000	2,279,698	2,279,698	4%
Medical matierial	31,307,943	28,336,000	2,971,943	2,971,943	10%	29,008,646	34,520,000	(5,511,354)	5,511,354	16%	23,246,018	22,789,000	457,018	457,018	2%
Food	1,687,621	2,150,000	(462,379)	462,379	22%	1,672,724	1,700,000	(27,276)	27,276	2%	1,755,967	1,650,000	105,967	105,967	6%
Energy	4,238,805	2,931,000	1,307,805	1,307,805	45%	4,736,232	4,624,000	112,232	112,232	2%	5,557,701	5,351,500	206,201	206,201	4%
Current and investment maintenance	4,903,826	212,391	4,691,435	4,691,435	2209%	4,228,235	441,000	3,787,235	3,787,235	859%	4,780,694	1,500,000	3,280,694	3,280,694	219%
Blood and blood products	-	31,000	(31,000)	31,000	100%			-	-				-	-	
Cost of sevices provided by other health institutions	2,640,073	2,540,000	100,073	100,073	4%	2,540,041	2,640,000	(99,959)	99,959	4%	2,736,186	2,870,000	(133,814)	133,814	5%
Other various material	930,676	880,000	50,676	50,676	6%	762,365	785,000	(22,635)	22,635	3%	637,138	808,000	(170,862)	170,862	21%
Postal services	634,327	640,000	(5,673)	5,673	1%	670,212	700,000	(29,788)	29,788	4%	596,200	620,000	(23,800)	23,800	4%
Spare parts	78,939	50,000	28,939	28,939	58%	96,184	50,000	46,184	46,184	92%	86,699	98,000	(11,301)	11,301	12%
Office supplies	944,510	1,020,000	(75,490)	75,490	7%	964,314	950,000	14,314	14,314	2%	835,512	965,000	(129,488)	129,488	13%
Cleaning materials	1,089,404	1,100,000	(10,596)	10,596	1%	1,079,674	1,100,000	(20,326)	20,326	2%	1,069,775	1,051,000	18,775	18,775	2%
Medical gases	355,019	245,000	110,019	110,019	45%	310,895	400,000	(89,105)	89,105	22%	269,804	341,000	(71,196)	71,196	21%
Financial expenses	53,153	100,000	(46,847)	46,847	47%	58,043	90,000	(31,957)	31,957	36%	90,371	38,000	52,371	52,371	138%
Other expenses	3,692,092	5,570,000	(1,877,908)	1,877,908	34%	3,198,222	5,300,000	(2,101,778)	2,101,778	40%	3,354,086	4,680,000	(1,325,914)	1,325,914	28%
Other extraordinary expenses	931		931	931				-	-				-	-	
Total expenditure	**189,535,259**	**174,508,026**	**15,027,233**	**15,027,233**	**9%**	**191,176,236**	**197,033,000**	**(5,856,764)**	**5,856,764**	**3%**	**186,032,560**	**181,085,500**	**4,947,060**	**4,947,060**	**3%**
Dimensionrating:A															
Rijeka Clinical Hospital Centre															
Gross salaries	363,008,458	369,977,928	(6,969,470)	6,969,470	2%	366,912,194	366,683,348	228,846	228,846	0%	371,905,186	372,226,650	(321,464)	321,464	0%
Contribution on salaries	61,665,633	62,746,500	(1,080,867)	1,080,867	2%	62,622,917	62,570,784	52,133	52,133	0%	58,838,440	58,948,882	(110,442)	110,442	0%
Employee transport costs(from/to work)	14,276,130	14,199,996	76,134	76,134	1%	14,190,437	14,227,391	(36,954)	36,954	0%	14,066,579	14,065,098	1,481	1,481	0%
Other employee costs	13,046,970	15,468,060	(2,421,090)	2,421,090	16%	15,298,605	15,509,073	(210,468)	210,468	1%	11,949,005	15,643,132	(3,694,127)	3,694,127	24%
Capital expenditure	22,358,392	120,418,920	(98,060,528)	98,060,528	81%	23,756,420	25,076,557	(1,320,137)	1,320,137	5%	21,848,045	22,905,499	(1,057,454)	1,057,454	5%
Pharmaceuticals	100,618,643	88,506,000	12,112,643	12,112,643	14%	102,450,845	104,062,558	(1,611,713)	1,611,713	2%	105,981,138	103,885,973	2,095,165	2,095,165	2%
Medical material	86,926,503	81,144,000	5,782,503	5,782,503	7%	81,198,012	87,593,469	(6,395,457)	6,395,457	7%	76,134,898	79,057,950	(2,923,052)	2,923,052	4%
food	7,176,019	7,800,000	(623,981)	623,981	8%	7,320,350	7,207,171	113,179	113,179	2%	6,873,084	6,967,658	(94,574)	94,574	1%
Energy	18,353,596	16,050,000	2,303,596	2,303,596	14%	20,635,068	22,080,808	(1,445,740)	1,445,740	7%	23,326,400	22,191,105	1,135,295	1,135,295	5%
Current and investment maintenance	13,792,005	10,560,000	3,232,005	3,232,005	31%	13,693,919	12,463,061	1,230,858	1,230,858	10%	15,435,988	14,514,600	921,388	921,388	6%
Blood and blood products	6,609,936	3,600,000	3,009,936	3,009,936	84%	7,043,392	6,885,884	157,508	157,508	2%	7,739,824	7,755,068	(15,244)	15,244	0%

Cost of services provided by other health institutions	12,491,933	13,560,000	(1,068,067)	1,068,067	8%	12,503,403	12,106,864	396,539	396,539	3%	12,644,952	12,191,520	453,432	453,432	4%
Other various material	5,071,399	5,880,000	(808,601)	808,601	14%	3,130,931	3,896,516	(765,585)	765,585	20%	3,688,594	3,522,057	166,537	166,537	5%
Postal services	2,119,868	2,040,000	79,868	79,868	4%	2,514,711	2,269,019	245,692	245,692	11%	2,584,997	2,594,767	(9,770)	9,770	0%
Spare parts	1,201,179	1,680,000	(478,821)	478,821	29%	1,740,642	1,688,213	52,429	52,429	3%	948,483	954,293	(5,810)	5,810	1%
Office supplies	2,418,918	2,400,000	18,918	18,918	1%	2,800,936	2,690,012	110,924	110,924	4%	2,680,870	2,631,818	49,052	49,052	2%
Cleaning materials	2,742,522	2,640,000	102,522	102,522	4%	2,639,454	2,677,408	(37,954)	37,954	1%	2,390,400	2,432,377	(41,977)	41,977	2%
Medical gases	2,188,432	2,100,000	88,432	88,432	4%	2,035,613	2,029,441	6,172	6,172	0%	1,963,542	2,007,703	(44,161)	44,161	2%
Financial expenses	2,672,298	141,996	2,530,302	2,530,302	1782%	250,140	281,652	(31,512)	31,512	11%	693,029	643,736	49,293	49,293	8%
Other expenses	23,555,224	21,303,516	2,251,708	2,251,708	11%	20,969,037	20,167,690	801,347	801,347	4%	23,403,536	25,318,222	(1,914,686)	1,914,686	8%
Total expenditure	**762,294,058**	**842,216,916**	**(79,922,858)**	**79,922,858**	**9%**	**763,707,026**	**772,166,919**	**(8,459,893)**	**8,459,893**	**1%**	**765,096,990**	**770,458,108**	**(5,361,118)**	**5,361,118**	**1%**
Dimensionrating:A															
Lovran Orthopedic Clinic															
Gross salaries	27,991,539	27,994,000	(2,461)	2,461	0%	27,181,775	27,190,000	(8,225)	8,225	0%	27,938,759	27,500,000	438,759	438,759	2%
Other employee costs (awards, early retirement)	613,150	613,000	150	150	0%	984,700	985,000	(300)	300	0%	720,750	980,000	(259,250)	259,250	26%
Contribution on salaries	4,883,834	4,885,000	(1,166)	1,166	0%	4,663,749	4,670,000	(6,251)	6,251	0%	4,441,477	4,800,000	(358,523)	358,523	7%
Employee transport costs(from/to work)	1,541,052	1,540,000	1,052	1,052	0%	1,459,789	1,460,000	(211)	211	0%	1,416,963	1,700,000	(283,037)	283,037	17%
Other material employee costs	161,796	163,000	(1,204)	1,204	1%	342,108	345,000	(2,892)	2,892	1%	320,356	345,000	(24,644)	24,644	7%
Capital expenditure	3,579,779	3,585,000	(5,221)	5,221	0%	3,645,305	3,650,000	(4,695)	4,695	0%	2,190,443	2,786,900	(596,457)	596,457	21%
Pharmaceuticals			-	-				-	-				-	-	
Medical material	11,269,258	11,270,000	(742)	742	0%	11,668,154	11,670,000	(1,846)	1,846	0%	11,788,826	11,750,000	38,826	38,826	0%
Food	618,337	620,000	(1,663)	1,663	0%	638,649	640,000	(1,351)	1,351	0%	672,723	670,000	2,723	2,723	0%
Energy	1,730,626	1,730,000	626	626	0%	1,679,046	1,680,000	(954)	954	0%	1,829,422	1,940,000	(110,578)	110,578	6%
Current and investment maintenance	2,860,941	2,860,000	941	941	0%	3,715,122	3,720,000	(4,878)	4,878	0%	3,463,709	3,113,000	350,709	350,709	11%
Other various material	714,331	715,000	(669)	669	0%	844,771	845,000	(229)	229	0%	677,785	1,404,000	(726,215)	726,215	52%
Postal services	196,651	196,000	651	651	0%	196,267	192,000	4,267	4,267	2%	212,762	200,000	12,762	12,762	6%
Spare parts	435,225	440,000	(4,775)	4,775	1%	753,684	750,000	3,684	3,684	0%	614,660	1,234,000	(619,340)	619,340	50%
Financial expenses	74,479	76,000	(1,521)	1,521	2%	57,675	57,700	(25)	25	0%	54,789	56,000	(1,211)	1,211	2%
Other expenses	4,308,002	4,286,401	21,601	21,601	1%	3,319,436	3,320,300	(864)	864	0%	3,509,557	3,308,200	201,357	201,357	6%
Total expenditure	**60,979,000**	**60,973,401**	**5,599**	**5,599**	**0%**	**61,150,230**	**61,175,000**	**(24,770)**	**24,770**	**0%**	**59,852,981**	**61,787,100**	**(1,934,119)**	**1,934,119**	**3%**
Dimension rating: A															

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget
This indicator compares actual total domestic revenue to the originally budgeted domestic revenue estimates.

Overall rating for PI 3 is D. *The overall rating D for this PI is expected, given that the hospitals usually plan the revenue significantly higher than they actually receive from HZZO.*

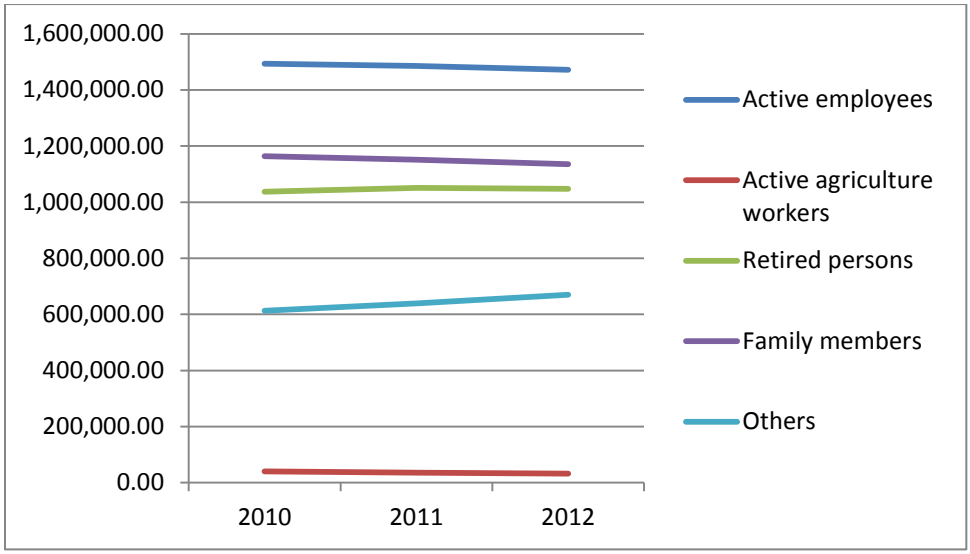
Table 3: Aggregate Revenue Out-turn Compared to Original Approved Budget

Year/Hospital	Original budget in HRK	Actual out-turn in HRK	% Diff.
Ministry of Health - total budget			
2010	**N/a**	**N/a**	**N/a**
2011	**N/a**	**N/a**	**N/a**
2012	**N/a**	**N/a**	**N/a**
Dimension rating: N/a			
Sisters of Mercy Clinical Hospital Centre			
2010	546,283,918	763,722,525	39.80%
2011	933,916,882	969,085,688	3.77%
2012	949,787,633	858,292,250	-9.63%
Dimension rating: D			
Dubrava Clinical Hospital			
2010	534,454,800	482,392,174	-10%
2011	581,468,090	479,727,378	-17%
2012	578,850,113	498,411,451	-14%
Dimension rating: D			
Dr. Fran Mihaljevic Clinic for Infectious Diseases			
2010	174,508,026	175,434,104	1%
2011	197,033,000	176,221,197	-11%
2012	181,085,500	181,404,209	0%
Dimension rating: D			
Rijeka Clinical Hospital Centre			
2010	861,880,921	768,920,043	-11%
2011	882,456,213	769,052,706	-13%
2012	938,621,961	796,780,549	-15%
Dimension rating: D			
Lovran Orthopedic Clinic			
2010	66,562,000	60,973,401	-8%
2011	59,253,000	61,167,222	3%
2012	61,777,600	59,858,788	-3%
Dimension rating: C			

I. ANNEX 3 – ADDITIONAL INSURANCE AND FINANCIAL DATA

INSURED PERSONS IN REPUBLIC OF CROATIA

	2010	2011	2013
Active employees	1,493,148	1,485,324	1,471,662
Active agriculture workers	40,647	35,878	32,205
Retired persons	1,037,643	1,050,460	1,047,191
Family members	1,163,716	1,151,770	1,135,747
Others	612,860	639,163	669,681
TOTAL	**4,348,014**	**4,362,595**	**4,356,486**



HEALTH INSURANCE CONTRIBUTIONS COLLECTED FROM CITIZENS

	Health contributions 15% (13%) and 3%			Contribution for health protection and work 0.50%			Total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
JAN	1,361,411,702	1,365,606,998	1,372,570,686	N/a	45,637,713	45,863,829	1,361,411,702	1,411,244,711	1,418,434,515
FEB	1,364,153,888	1,350,821,734	1,372,860,081	N/a	44,083,874	45,009,760	1,364,153,888	1,394,905,608	1,417,869,841
MAR	1,404,862,144	1,394,008,347	1,401,385,057	N/a	44,841,028	46,203,728	1,404,862,144	1,438,849,375	1,447,588,785
APR	1,427,034,281	1,422,770,971	1,422,406,456	N/a	47,211,717	47,519,414	1,427,034,281	1,469,982,688	1,469,925,870
MAY	1,421,048,362	1,415,878,880	1,548,851,798	N/a	46,272,394	50,096,661	1,421,048,362	1,462,151,274	1,598,948,459
JUN	1,408,236,077	1,434,165,171	1,301,763,437	N/a	46,546,603	48,265,706	1,408,236,077	1,480,711,774	1,350,029,143
JUL	1,486,666,762	1,478,296,005	1,335,400,222	N/a	49,280,180	50,471,558	1,486,666,762	1,527,576,185	1,385,871,780
AUG	1,441,524,657	1,434,972,838	1,286,665,264	N/a	46,904,453	48,705,418	1,441,524,657	1,481,877,291	1,335,370,682
SEP	1,454,284,860	1,459,015,236	1,268,434,930	N/a	47,541,432	48,029,543	1,454,284,860	1,506,556,668	1,316,464,473
OCT	1,424,676,179	1,437,710,232	1,261,879,277	N/a	47,671,621	48,026,436	1,424,676,179	1,485,681,853	1,309,905,713
NOV	1,439,824,733	1,430,629,976	1,254,910,783	N/a	46,215,840	47,001,893	1,439,824,733	1,476,845,816	1,301,912,676
DEC	1,551,909,649	1,538,169,280	1,313,517,998	N/a	48,557,398	48,660,326	1,551,909,649	1,586,726,678	1,362,178,324
Total	**17,185,633,294**	**17,162,045,668**	**16,140,645,989**		**560,764,253**	**573,854,272**	**17,185,633,294**	**17,722,809,921**	**16,714,500,261**

J. ANNEX 4 – SUPERVISION DATA – HEALTH INSURANCE INSTITUTE SUPERVISORY AND CONTROL DIRECTORATE

Table 1 - Regional offices – scope and results of controls implemented at the level of primary health care in 2012

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Family medicine	3417	50	3367	1295	2122	Regular findings	2,790		Overlapping of invoices (1014) Medicinal justification of sick leave (793) High rates of sick leaves (448) Charging for participation (220) Prescribing care at home (202) Prescribing orthopedic aids (197) Prescribing prescription medicines (144) Issuing travel orders (99) Complaints from insured persons (63) Working on CEZIH (50) Index of consumption of prescription medicines (18) Control over working hours (11) Non-purposeful expenditure of funds (5)	156	73
						Warning	248				
						Warning and damage compensation	328	123,316.39			
						Warning and cash fine	39	69,540.40			
						Warning, damage compensation, and cash fine	8	36,041.40			
						Warning in advance of termination of the contract and cash fine	3	13,313.06			
						Warning in advance of termination of the contract, damage compensation, and cash fine	1	14,077.83			
Healthcare of pre-school children	70	0	70	35	35	Regular findings	51		Overlapping of invoices (40) Issuing travel orders (10) Prescribing orthopedic aids (7) Complaints from insured persons (6) Prescribing prescription medicines (5) Index of consumption of prescription medicines (1)	6	1
						Warning	6				
						Warning and damage compensation	13	4,907.49			
Activities on health care of women	69	4	65	28	41	Regular findings	52		Overlapping of invoices (26) Complaints from insured persons (17) Charging for participation (13) Unjustified charging for health care (2) Index of consumption of prescription medicines (2)	2	0
						Warning	11				
						Warning and damage compensation	4	4,507.11			
						Warning and cash fine	2	5,962.40			
Activity of dental health care	276	23	253	148	128	Regular findings	182		Participation (92) Keeping medical records (78) Complaints from insured persons (36) Control over working hours (11) Overlapping of invoices (9) Unjustified charging for health care (4) Issuing travel orders (3)	17	5
						Warning	59				
						Warning and damage compensation	20	5,734.79			
						Warning and cash fine	10	19,909.73			
						Warning, damage compensation, and cash fine	3	12,075.09			
						Warning in advance of termination of the contract	1				
						Initiation of the procedure for the termination of the contract	1				

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Health care at home	21	0	21	8	13	Regular findings	13		Overlapping of invoices (15) Providing contracted health care (2) Incorrect issuance of invoices (2) Complaints from insured persons (1)	1	0
						Warning	3				
						Warning and damage compensation	3	477.00			
						Warning and cash fine	1	500.00			
						Warning in advance of termination of the contract and cash fine	1	4,743.25			
Pharmacies	3	0	3	0	3	Regular findings	1		Staff norms (2) Control of working hours (1)	0	0
						Warning	2				
Health center	9	0	9	4	5	Regular findings	5		Overlapping of invoices (4) Incorrect issuance of invoices (2) Complaints from insured persons concerning the provision of health care in emergency medicine care (1)	3	0
						Warning	2				
						Warning and damage compensation	2	7,562.78			
Labor medicine	8	5	3	0	8	Regular findings	7		Keeping medical records (2) Staff norms (1)	1	0
						Warning in advance of termination of the contract	1				
Emergency medicine	2	0	2	0	2	Regular findings	1		Ensuring replacements (1) Overlapping of invoices (1)	0	0
						Warning	1				

Table 2 - Regional departments for supervision and control – scope and results of controls implemented at the level of primary health care in 2012

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Family medicine	33	0	33	26	7	Regular findings	29		Participation () Prescribing prescription medicines () Prescribing orthopedic aids () Complaints from insured persons ()	1	0
						Warning	4				
Activity of health care for women	1	0	1	0	1	Regular findings	1		Complaints from insured persons ()	0	0
Activity of dental health care	48	22	26	36	12	Regular findings	27		Participation () Ensuring replacements (1) Issuance of referrals () Complaints from insured persons () Prescribing orthopedic aids ()	2	1
						Warning	13				
						Warning and damage compensation	6	7,116.77			
						Warning, damage compensation, and cash fine	1	1,030.00			
						Warning in advance of termination of the contract	1				
Health care at home	14	10	4	10	4	Regular findings	6		Providing home care (2) Non-purposeful expenditure of funds (1) Overlapping of invoices (1)	4	0
						Warning	5				
						Warning and damage compensation	1	225.00			
						Warning and cash fine	2	5,691.90			
Pharmacies	21	18	3	17	4	Regular findings	8		Issuance of replacement medicines (2) Staff norms (1)	1	0
						Warning	7				
						Warning and damage compensation	1	46.87			
						Warning and cash fine	4	28,281.86			
						Warning in advance of termination of the contract, damage compensation, and cash fine	1	66,693.22			
Laboratory diagnostics	5	1	4	0	5	Regular findings	2		Complaints from insured persons (2) Non-purposeful expenditure of funds (2)	1	0
						Warning	3				
Emergency medicine	2	1	1	1	1	Regular findings	1		Complaints from insured persons (1)	0	0
						Warning	1				

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Health center	10	6	4	8	2	Regular findings	2		Overlapping of invoices (2) Non-purposeful expenditure of funds (2)	1	1
						Warning	3				
						Warning and damage compensation	2	502.42			
						Warning and cash fine	3	72,981.20			
Labor medicine	4	4	0	4	0	Regular findings	3			0	0
						Warning	1				

Table 3 - Regional departments for supervision and control – scope and results of controls implemented with suppliers of orthopedic and other aids in 2012

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Suppliers of orthopedic aids	9	1	8	1	8	Regular findings	5		Complaints from insured persons (3) Incorrectly issued invoice (3)	0	0
						Warning	3				
						Warning and damage compensation	1	2,220.00			

Table 4 - Regional office – scope and results of supervisions implemented at the level of secondary health care and at the level of health institutes in 2012

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
General hospitals	59	0	59	20	39	Regular findings	25		Overlapping of invoices (48) Issuance of other invoices (3) Complaints from insured persons (4) Incorrect charging for participation (1)	1	0
						Warning	31				
						Warning and damage compensation	3	8,756.39			
Special hospitals	4	0	4	2	2	Regular findings	2		Overlapping of invoices (2) Complaints from insured persons (2)	0	0
						Warning	2				
Polyclinics	1	1	0	0	1	Warning	1		Complaints from insured persons (1)	0	0
Contractual clinics performing outpatient – specialist – consultative health care (inclusive of clinics in contractual institutions)	44	0	44	0	44	Regular findings	30		Overlapping of invoices (20) Complaints from insured persons (15) Incorrect issuance of invoices (6)	3	2
						Warning	9				
						Warning and damage compensation	2	2.464.30			
						Warning and cash fine	3	16.958.34			
Public health institutes	9	0	9	8	1	Regular findings	9		Overlapping of invoices (8)	0	0
Institutions for health care and rehabilitation – activity of physical therapy in patients' homes	2	0	2	0	2	Regular findings	2		Overlapping of invoices (1) Complaints from insured persons (1)		

Table 5 - Regional departments for supervision and control - scope and results of supervisions implemented at the level of secondary health care and at the level of health institutes in 2012

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Clinical hospital center	94	0	94	28	66	Regular findings	36		Overlapping of invoices (74) Complaints from insured persons (12) Non-purposeful expenditure of funds (1) Unjustified issuance of DTP invoices (1)	1	0
						Warning	35				
						Warning and damage compensation	23	1,689,920.33			
Clinical hospitals	48	0	48	28	20	Regular findings	18		Overlapping of invoices (35) Complaints from insured persons (7)	0	0
						Warning	5				
						Warning and damage compensation	25	304,400.65			
Clinics	36	0	36	25	11	Regular findings	15		Overlapping of invoices (34) Complaints from insured persons (2)	0	0
						Warning	2				
						Warning and damage compensation	19	200,607.02			
General hospitals	10	5	5	5	5	Regular findings	1		Issuance of DTS invoice (2) Complaints from insured persons (2) Overlapping of invoices (1)	5	1
						Warning	7				
						Warning and damage compensation	2	154,622.09			
Special hospitals	9	5	4	3	6	Regular findings	1		Ensuring necessary therapy (2) Overlapping of invoices (2) Complaints from insured persons (1)	3	1
						Warning	7				
						Warning and damage compensation	1	7,960.00			
Health spa	2	2	0	2	0	Warning	1			1	0
						Initiation of the procedure for the termination of the contract	1				
Polyclinics	10	5	5	4	6	Regular findings	5		Recommending medicines in contravention with the guidelines from the Drug List of the CHIF (2) Staff norms (1) Complaints from insured persons (1)	2	0
						Warning	4				
						Initiation of the procedure for the termination of the contract	1				

Activity	Total number of supervisions	Comprehensive supervision	Targeted supervision	Regular supervision	Extraordinary supervision	Measure issued	Number of measures issued	Cash amount	Most frequent reasons for targeted supervision (number of supervisions)	Number of objections	Accepted
Contractual clinics performing outpatient – specialist – consultative health care (inclusive of special clinics health centers)	33	13	20	16	17	Regular findings	10		Complaints from insured persons (12) Overlapping of invoices (8)	6	0
						Warning	11				
						Warning and damage compensation	7	2,305.07			
						Warning and cash fine	2	12,544.63			
						Warning in advance of termination of the contract	1				
						Warning in advance of termination of the contract and cash fine	1	3,232.16			
						Initiation of the procedure for the termination of the contract	1				
Institutions / private practices providing physical therapy at patients' homes	3	1	2	0	3	Warning	2		Overlapping of invoices (82)	1	0
						Warning and cash fine	1	2,020.00			
Public Health Institute	3	2	1	0	3	Warning	1			2	0
						Warning and cash fine	2	55,296.01			

K. ANNEX 5 – INFORMATION ON PROCUREMENT OF EQUIPMENT CARRIED OUT BY THE MINISTRY OF HEALTH IN 2012 AND 2013

No.	Subject of Procurement	Number of items	Number of hospitals	Estimated cost in HRK without VAT	Actual cost in HRK without VAT as per the Framework Agreement	Savings	Savings in %	Re-tendering	Number and nature of complaints / Comments	Comments
Sector Independent Service for Public Procurement at the Ministry of Health										
	Cardiac X-ray systems with the delivery, installation, servicing and maintenance for a period of six years.	4	3	43,000,000.00	-				2 complaints to the documentation	procurement process in progress
	Surgery equipment	2	1	14,800,000.00	-					procurement process in progress
	Surgery tables	19	3							
	Medical and laboratory equipment for tissue banks and blood products		1	2,302,400.00	-					predmet nabave podijeljen u 11. grupa
			4							procurement process in progress
	Brachytherapy devices	3	3	14,000,000.00	-				1 complaint to the documentation	procurement process in progress
	CT devices with a minimum of 128 layers per rotation	3	3	23,600,000.00	-				1 complaint to the documentation	procurement process in progress
	Equipment for radiation of blood supplements	1	1	2,190,400.00	2,185,000.00	5,400.00	0.2%	Yes		procurement process in progress
	X-ray devices for breaking up kidney stones - lithotriptora with the servicing and maintenance for a period of six years.	2	2	14,600,000.00	7,798,100.00	6,801,900.00	46.6%		1 complaint to the documentation	
	Operating microscope for ENT and head and neck surgery with the servicing and maintenance for a period of six years.	1	1	850,000.00	847,970.00	2,030.00	0.2%	Yes		previous procurement procedure cancelled with Decision of the client
	Ultrasound equipment, servicing and maintenance for a period of six years	50	38	50,486,400.00	47,306,087.00	3,180,313.00	6.3%	-	4 complaints to the contract award decision	previous procurement procedure for 2 groups cancelled with Decision of the client
									1 complaint to the documentation	
	Ultrasound devices for hips checked with the servicing and maintenance of fully operational for a period of six years.	8	7	3,840,000.00	2,183,640.00	1,656,360.00	43.1%		1 complaint to the contract award decision	previous procurement procedure cancelled with Decision of the client
	Integrated operating theater with the servicing and maintenance for a period of 6 years.	1	1	2,300,000.00	2,299,692.85	307.15	0.0%	Yes		previous procurement procedure cancelled with Decision of the client
	ECMO devices for life support functions with the delivery, installation, servicing and maintenance for a period of six years.	35	23	30,928,500.00	29,523,659.00		4.5%		1 complaint to the documentation	
						1,404,841.00			1 complaint to the contract award decision	
	ET / CT devices with landscaping, servicing and maintenance for a period of six years.	1	1	30,894,308.94	24,175,600.00		21.7%		1 complaint to the documentation	
						6,718,708.94			2 complaints to the contract award decision	

	Linear accelerator with landscaping, servicing and maintenance for a period of 6 years	1	1	28,455,284.55	24,188,400.00	4,266,884.55	15.0%	Yes		previous procurement procedure cancelled with Decision of the client
	SPECT / CT devices with landscaping, servicing and maintenance	1	1	8,536,585.00	6,957,200.00	1,579,385.00	18.5%			
	Polivalente digital X-ray equipment for radiography and fluoroscopy with a C-shaped frame and a table for the patient with the servicing and maintenance for a period of 6 years	1	1	6,356,169.10	4,927,900.00	1,428,269.10	22.5%		1 complaint to the contract award decision	
	NEURO BI PLANE digital subtraction angiography with the servicing and maintenance for a period of 6 years	1	1	15,864,000.00	13,500,000.00	2,364,000.00	14.9%	Yes	1 complaint to the contract award decision	
	X-ray devices for ERCP with the servicing and maintenance for a period of six years.	1	1	6,800,000.00	5,108,300.00	1,691,700.00	24.9%		1 complaint to the contract award decision	
	Digital device for panoramic dental imaging (ortopan)	3	3	2,400,000.00	1,127,249.60	1,272,750.40	53.0%			
	Monoplanarni X-ray systems for cardiovascular diagnostics and interventions with either a floor or ceiling C stand, and servicing and maintenance for a period of six years.	2	2	24,390,244.00	19,885,100.00	4,505,144.00	18.5%		2 complaints to the contract award decision	
	Anesthesia devices	19	3	9,200,000.00						procurement process in progress
	Endoscopic devices	28	2	4,800,000.00						procurement process in progress
	Medical and laboratory equipment for thetransfusion medicine departments	23	12	2,456,800.00	2,238,693.00	218,107.00	8.9%			procurement procedure for 2 groups cancelled with Decision of the client
	Medical +4 C refrigerator for storing blood products for transfusion departments	12	6	504,000.00	300,762.00	203,238.00	40.3%	Yes		previous procurement procedure cancelled with Decision of the client
	freezer for quick freezing of plasma at -40C for the transfusion departments	2	2	640,000.00	284,858.00	355,142.00	55.5%	Yes		previous procurement procedure cancelled with Decision of the client
Total (committed)				232,492,691.59	194,838,211.45	37,654,480.14	16.2%			
Total (uncommitted - in progress)				111,702,400.00						
Grand total				344,195,091.59				**7**	**21**	