ICR Review

Operations Evaluation Department

Report Number : ICRR10736

1. Project Data:		Date Posted :	08/16/2000	
PROJ ID :	P008495		Appraisal	Actual
Project Name :	Pensions Administration And Health Project	Project Costs (US$M)	201.4	43.2
Country:	Hungary	Loan/Credit (US$M)	132	34
Sector(s):	Civil Service Reform	Cofinancing (US$M)		
L/C Number:	L3596			
		Board Approval (FY)		93
Partners involved :		Closing Date	06/30/1998	12/31/1999
Prepared by :	Reviewed by :	Group Manager :	Group:	

2. Project Objectives and Components

a. Objectives

(1) To improve the institutional capacity of the social insurance system to manage its resources more effectively, thereby contributing to its financial viability, and, specifically to reform the Social Insurance Administration (SIA), the agency then responsible for administering the Pension Insurance Fund and the Health Insurance Fund ; and (2) to enhance the efficiency, targeting and quality of client services financed through the social insurance system .

b. Components

As revised after the Mid-Term Review, the components of the project comprised assistance to : (1) the newly established Health Insurance agency (NHIFA) which inherited the health components of the old SIA, US$ 48 million, (2) the newly established pension insurance agency (NPIA) which inherited the pension components of the old SIA, US$21 million , (3) NHIFA and NPIA joint programs, US$8 million, (4) the central statistical office (KATOR), US$ 8 million; and (5) the state office in charge of pension fund supervision (SPFSA), US$ 2 million. Assistance to these agencies comprised: (A) support for policy reform, (B) management reform support, and (C) Information technology (IT). During subsequent implementation, the NHIFA component was substantially reduced and the KATOR and SPFSA components were dropped. It is not possible to extract a final breakdown of project costs between the NHIFA and the NPIA from the ICR (as noted in the Borrower's contribution to the ICR).

c. Comments on Project Cost, Financing and Dates

The actual project cost was US$43.20 million, of which the IBRD loan accounted for US$34 million and government, US$9.20 million. The loan was approved by the Board on April 20, 1993, and made effective on November 9, 1993. It was closed on December 31, 1999, 18 months after the original closing date.

3. Achievement of Relevant Objectives:

(1) The social insurance system was substantially reformed as the consolidated Social Insurance Agency was split into two semi-autonomous administrative units, the NHIFA and the NPIA . Some cross-subsidies from the NPIA to the NHIFA were eliminated. (2) The **Health Insurance System** improvements included (a) *Policy reforms*: (i) introduction of a payroll tax as the main source of revenue; (ii) a new performance-based financing system to pay for providers (capitation payments for general practitioners and modified Diagnostic -Related-Groups to pay for hospitals); (iii) a downsizing of the hospital sector with reduction in the number of beds; (iv) modifications in the pharmaceutical benefits system, including increases in co -payments; and (iv) significant restructuring of short-term cash benefits (including a transfer of a large share of the responsibility for sick pay from the state to employers) and the tightening of eligibility for sick pay and disability pensions; and (b) *management reforms* were supported by (i) two studies which proposed health system financial reforms and an outline for a new financial management system, (ii) a Strategic Systems Plan which defined in detail how information systems could support future business standards, (iii) technical assistance to prepare for Y2K, (iv) over 30 study tours which provided 168 people with exposure to methods and management techniques from other countries; and (c) *IT infrastructure improvements* included provision of (i) 3700 voice and data endpoints, (ii) over 1900 PCs and associated software, (iii) about 500 printers, 24 servers and UNIX and RDBMS software licenses. (3) **Pension reform** supported by the project included (a) *policy reforms* including the introduction of a three-tier system comprising a restructured compulsory pay-as-you-go public sector first pillar, a compulsory private sector second pillar, and a voluntary private sector third pillar, (b) *administration reform* was supported by professional support, audits, study tours, and conferences; and (c)

IT reform included improved pensions record management to provide state-of-the-art access to over 90 million paper based records and 10 million records held on microfiche.

4. Significant Outcomes/Impacts:

The social insurance program was substantially reformed. The pension and health insurance systems were separated, and cross-subsidies reduced, and the focus and financial accountability of both systems were improved. The pension system was put on a much firmer footing.

5. Significant Shortcomings (including non-compliance with safeguard policies):

(1) There were a number of significant shortcomings regarding the Health Insurance System and NHIFA in particular, many of which were related to the Government's blocking utilization of a portion of the loan allocated to the NHIFA. These shortcomings included: (A) **Policy** Reforms, including the failure to address the financial structural problem in NHIFA caused by inadequate funding from the non-working part of the population which was not covered by contributions from the working population, (B) **Management Reforms**, including (i) the financial management system which was developed was not implemented; (ii) most initiatives to improve the health care reimbursement system were not fully implemented, (iii) systems procurement developed under the project was not implemented, and (iv) NHIFA was not effectively strengthened through the project-supported program of study tours, professional support, audits, and conferences because of staff rotation, and (C) **IT Reforms,** including: (i) failure to deliver a complete IT infrastructure, (ii) The planned personal ID and eligibility system for NHIFA were not completed, and (iii) a confirmed database of all the insured could not be produced. (2) The Government blocked utilization of loan proceeds for the KATOR and SPFSA so that they did not participate at all in the project.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Unsatisfactory	The Bank neither adequately assessed nor addressed the risks of this operation, nor the clear lack of ownership over time by the Borrower. The region strongly disagrees with this assessment and argues that: "In the event, Bank staff did forcefully raise their concerns at several junctures. Also, substantial additional supervision resources were allocated to prepare the mid-term review thoroughly and ensure a successful outcome in downsizing and restructuring the project. The Country Management Unit, based in Budapest since 1997, repeatedly intervened with the Ministry of Finance in an effort to resolve deadlocks, and the Bank invited all stakeholders at several crucial junctures to roundtable discussions to help remove obstacles and foster better implementation. At each stage the project and country unit teams evaluated whether higher level or stronger intervention would be appropriate and in every instance tried to push as far as possible without becoming counterproductive. In the staff's assessment alternative courses of action would likely have caused more damage overall, without improving matters at the project level."
Borrower Perf.:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Ownership needs to be very carefully assessed, and, in cases of high risk, alternative strategies devised, to keep the

Bank from having to continually react to adverse decisions . Projects should be kept simple and to manageable proportions.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

There are sharp unresolved differences of opinion between the Borrower and the Bank, as reflected in comments in the unusually detailed and helpful Borrower submission for the ICR . The ICR is not as helpful as it might be in helping the reader to understand these differences . The ICR states that project components could not be implemented as foreseen because they were not included in Hungary's budget, but a deeper analysis of why this occurred would have been most useful .