I. Introduction and Context

Country Context
Key development issues and rationale for Bank involvement.

Before 1990, the Sava River fulfilled an important role in the regional waterway transport network. The Sava River enters the Danube at Belgrade and extends through Serbia, Bosnia and Herzegovina, Croatia and Slovenia. Navigation was possible for much of the year from the confluence with the Danube at Belgrade all the way up to Rugvica in Croatia for a total length of 683 river kilometers (rkm). The Sava River is now categorized as an international waterway, forming the border between Bosnia and Herzegovina and Serbia for some 27 rkm, and between Bosnia and Herzegovina and Croatia for some 305 rkm. Serbia and Croatia also have sole responsibility for 175 rkm and 72 rkm (as far as Sisak), respectively.

The Sava River in Bosnia and Herzegovina runs for a length of 332.4 river kilometers (rkm). The
Bosnian section of the river runs from rkm 175 to rkm 507.4, through the Federation of Bosnia and Herzegovina (FBH), Republika Srpska (RS), and Brcko Administrative District (BAD). The largest share is in the RS (61 percent), followed by the FBH (32 percent), with the remaining 7 percent or 24 km under the responsibility of BAD. Prior to the break-up of the former Yugoslavia, navigation on the Sava was possible from the river mouth on the Danube up to the Galdov and Rugvica for a length of 683 rkm. The total amount of freight carried on the Sava River in 1990 amounted to 5.2 million tons of primarily bulk freight. There are three inland ports on the Sava River in Bosnia and Herzegovina: Samac port (rkm 306) and Brcko port (rkm 221/225), and Bosanski Brod (rkm 368).

The conflict in the 1990s was particularly hard on the Sava River and its ports, as in many areas the river represented the front line and the infrastructure was devastated and the area heavily mined. In addition, since the end of the conflict, the Sava River has been neglected - with little or no maintenance expenditure or investment - annual traffic volumes have been modest, amounting to less than 400,000 tons on the entire waterway. Low volumes reflect the limitations in navigability and the associated unreliability in arrival/departure for consignments for much of the year, together with the lack of marking in the fairway for safe passage. In some upper sections of the river, navigability is only possible for 100 days per year. In addition, the dangers to navigation on the river are such that insurance companies are reluctant to provide coverage for vessels and cargoes.

Navigation on the Sava River is subject to several international and regional treaties and regulations, particularly the Framework Agreement on the Sava River Basin (FASRB). In addition to certain global treaties such as the Ramsar Convention, UNECE treaties and the EU acquis communautaire, there are specific instruments regulating navigation on the Sava River and its tributaries, particularly the FASRB and related protocols. The FASRB was signed by the riparian countries (Republic of Slovenia, Republic of Croatia, Bosnia and Herzegovina and the former Federal Republic of Yugoslavia) in Kranjska Gora (Slovenia) in December 2002, after successful completion of negotiations run under the umbrella of the Stability Pact for Southeastern Europe. The agreement entered into force on December 29, 2004. Its objectives are: (i) establishing the international navigation regime on the Sava River and its navigable tributaries; (ii) establishing sustainable water management; and (iii) undertaking measures for prevention or restriction of danger, as well as elimination of the hazardous impacts of floods, ice, draft and accidents involving substances having negative impacts to waters. In realization of the first objective above, the parties committed themselves to special cooperation with the Danube Commission.

The ISRBC has recently made a decision regarding the detailed design for the rehabilitation of the Sava River. Decision 21/09 passed on July 7, 2009 states that the Sava River will be rehabilitated to Class Va status from the confluence of the Sava and Danube Rivers in Belgrade to Brcko port and to Class IV status from Brcko to Sisak. Class IV European inland waterways of international importance requires a draft of 2.5 meters and allows navigation of vessels of 1,000 to 1,500 tons, while Class Va requires a draft of 2.5 to 2.8 meters and allows navigation of vessels weighing from 1,500 to 3,000 tons. The ISRBC decision reflects lower transit traffic and a marked increase in capital costs for work upstream, after Samac port. Croatia will take charge of developing the detailed design of the Sava River from Brcko to Sisak using the EU Instrument for Pre-accession Funds (IPA), while the detailed design from Brcko to the confluence of the Sava and Danube rivers, will be undertaken by Bosnia and Herzegovina, in cooperation with the Republic of Serbia.

**Sectoral and Institutional Context**

Before 1990, the integration of the River Sava and the River Danube fulfilled an important role in
the regional transport network. Navigation was possible from the confluence with the Danube at Belgrade all the way up to Rugvica in Croatia for a total length of 683 river kilometers (rkm). The total amount of freight carried on the River Sava in 1990 amounted to 5.2 million tons, primarily comprising the movement of bulk freight. In what is now Bosnia and Herzegovina (BiH), there were three operational ports: (i) Brcko Port (located rkm 221/225) which had a capacity of 670,000-750,000 tons per year with an operational period of 260 days per year, and actual traffic of 500,000 tons in 1990; (ii) Samac Port (located at rkm 306) was originally designed to handle 1 million tons per year, with plans for expansion - and had an average annual volume of 500,000 tons over the period 1985-1990; and (iii) Bosanski Brod, a dedicated port serving the oil refinery, with an annual volume of some 200,000 tons.

The conflict was particularly hard on the River Sava and its ports, as in many areas, the river represented the front line and the infrastructure was devastated and the area heavily mined. In addition, since the end of the conflict, the River Sava has been neglected - with little or no maintenance expenditure or investment - and until recently annual traffic volumes have been modest, amounting to less than 400,000 tons on the entire waterway. The modest volume reflects the limitations in navigability and the associated unreliability in arrival/departure for consignments for much of the year, together with the lack of marking in the fairway for safe passage. In some upper sections of the river, navigability is only possible for 100 days per year, compared to nearly 300 in 1990. In addition, the dangers to navigation on the river are such that insurance companies are reluctant to provide coverage for vessels and cargoes.

However the reopening of many of the extractive and heavy industries, together with existing and planned new developments, has generated considerable potential for future traffic. Historically, Zenica Iron & Steel Works (Zenica Steel) in Zenica and the Koksno-Hemijski Kombinat (KHK) coke factory in Lukavac accounted for approximately 95 percent of the traffic in Brcko Port. The majority of the traffic was coal, coke, steel products and sand/gravel. These two plants have now reopened and represent major potential clients. A recent feasibility study, funded by the International Sava River Basin Commission (ISRBC), forecasts an annual freight volume of 3.5 million tons by 2012 in the lower case scenario, 5.2 million tons in the middle scenario, assuming navigability on the waterway. Whilst forecasting demand from the existing very low base is fraught with difficulty, even overlooking the current turbulence in the external environment, a recent mission to the region, which visited all the ports on the River Sava between Belgrade and Sisak and a number of potential clients, found considerable evidence of significant potential traffic for the river ports.

The port of Brcko recommenced operations in the year 2001. The port of Brcko recommenced operations under a joint commitment of local stakeholders, the Government of Italy and the International Management Group (IMG). The Port invested, from its own resources, the sum of KM3.3 million (US$2.3 million) over the period 2001-2006 to perform the first phase of rehabilitation as recommended by a feasibility study funded by USTAD in 2000. The traffic volume through the Port in 2006 was 105,000 tons. And although actual volume in 2007 at 85,000 tons fell short of the projected 165,000 tons, the port authorities maintained that had navigability been certain, they had signed contracts for 400,000 tons of traffic in 2007. A similar situation is possible in 2008. Samac Port was privatized in 2006, and the new owner is investing considerable sums in the port.

The International Sava River Basin Commission (ISRBC) was established by the Framework
Agreement on the Sava River Basin signed by the riparian countries. The International Sava River Basin Commission (ISRBC) was established by the Framework Agreement on the Sava River Basin signed by the four riparian countries (Republic of Slovenia, the Republic of Croatia, Bosnia and Herzegovina and the Federal Republic of Yugoslavia) in Kransjska Gora (Slovenia) in December 2002. The Agreement entered into force on December 29, 2004, and the ISRBC was formally established in Zagreb in June 2005, with the secretariat in place and operational in January 2006. The ISRBC was established to implement the Framework Agreement, and realize the goals mutually agreed amongst the riparian countries: (i) the establishment of the international navigation regime on the Sava River and its navigable tributaries; (ii) the establishment of sustainable water management; and (iii) the undertaking of measures for the prevention or restriction of danger, as well as elimination of the hazardous impacts of floods, ice, drought, together with accidents involving liquids/substances that reduce water quality.

The ISRBC is financed from contributions from the signatory countries, together with monies from other sources. The riparian countries have also provided resources from their respective national budgets to 'mark' the safe channel on the waterway, and the work is expected to be completed by the end of 2009. In addition, all three riparian countries invested in an up-to-date bathymetric survey for the River Sava. The ISRBC commissioned a feasibility study, including an Environmental Impact Assessment (EIA), for the revitalization of the waterway, which was finalized at the end of October 2008. The feasibility study recommends a program of capital dredging, bank protection and groyne construction to return the River Sava to Class Va status, for the section of the River Sava between Belgrade and Sisak in Croatia.

Relationship to CAS

The proposed is explicitly mentioned in the current CPS for Bosnia and Herzegovina. The project fits with one of the key main pillars of Bank support defined in the CPS as it would improve the conditions for private sector led growth, through the improvement of infrastructure and regional integration.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Project Development Objective is to improve the operational performance and safety of commercial and leisure vessels on the Sava River, contributing to improved utilization of the river ports. The project proposes to achieve this objective through the following: (i) the rehabilitation of the River Sava to Class IV/Va status (tbc) between Sisak and Belgrade; (ii) targeted investments in a river information and vessel tracking systems; and (iii) necessary implementation assistance and institutional support.

Key Results (From PCN)

Improved navigability, improved safety, increase in tonnage of cargo handling.

III. Preliminary Description

Concept Description

Preliminary Description

The project proposes to achieve the project development objectives through the following three components: (i) the rehabilitation of the Sava River within Bosnia and Herzegovina; (ii) targeted
investments to improve the operational performance of, and access to, the river ports on the Sava River in Bosnia and Herzegovina; and (iii) necessary implementation assistance and institutional support. The civil works in Croatia and Serbia respectively are expected to be funded from other sources, primarily EU Grant monies, in parallel. A more detailed description of the provisional components is provided in the following paragraphs:

(a) Component 1: The necessary rover rehabilitation works. The first component comprises the necessary civil works, involving river dredging and training works, riverbank protection and where necessary land acquisition, site clearance, and the placing of rock or braced blocks, or geotextile material, to return the Sava River to Class Va status between Brcko and the international border with Serbia at the confluence of the Drina River and to Class IV status between Brcko and the confluence with the Una River at the point where the border with Croatia diverts from the Sava River.

(b) Component 2: Targeted investments to improve the operational performance of the river ports. The second component has two sub-components: (i) targeted investments to improve the operational performance of the river ports, including, but not restricted to, Brcko port; and (ii) investments to improve road and rail access in Brcko to facilitate plans to concession Brcko port in parallel to the Bank financed project.

(i) the first sub-component provisionally includes the following: (i) the completion of works on the reconstruction of the quay wall; (ii) the connection of the main rail track with tracks within the port; (iii) the procurement of forklifts; and (iv) the procurement of new bucket grabs for the gantry cranes. A call to procure consultants to prepare the detailed design and ESIA for the civil works was published on March 7, 2011.

(ii) the second sub-component supports the proposed plans of BD Authorities to reroute the rail tracks away from the city center to avoid the need for freight trains to traverse the city center. In addition, approximately 2.5 km of the road access to the port needs to be asphalted. A call to procure consultants to prepare the detailed design and ESIA for the civil works was published on March 7, 2011.

(c) Component 3: Implementation Assistance and Institutional Support. This component would provide necessary project management and implementation assistance to the project implementation unit. Provisionally, the following sub-components were identified for potential inclusion in the project: (i) the procurement of a qualified firm to supervise the civil works in the waterway, and for the access rail and road links in Brcko; (ii) the procurement of a qualified firm to supervise the safeguard aspects for the works in the waterway, and for the access rail and road links in Brcko; and (iii) the procurement of consultants to prepare bidding documents to manage and maintain the waterway using an output and performance based approach after the project.

The project also involves the establishment and administration by the Bank of a free standing Recipient-Executed Trust Fund (RETF) to manage the EU Instrument for Pre-Accession (IPA) Grant Monies. These monies will be used to undertake the necessary preparatory works for the Sava Waterways Rehabilitation Project in BiH including the demining of the south bank of the Sava River, between Belgrade and Brcko, and the preparation of a detailed design for the rehabilitation works in the waterway, and the associated Environmental Impact Assessment (ESIA). The RETF includes the following components and related activities:
(i) Component 1: the preparation of the detailed design, tender documents and the Environmental and Social Impact Assessment, Environmental Social Management Plan (ESIA/ESMP) for the rehabilitation works to return the Sava River to Class Va status between the port of Breko and the confluence of the Sava River with the Danube River in Belgrade.

(ii) Component 2: the demining of the south bank of the Sava River in Bosnia and Herzegovina, between the confluence with the Una River and the Drina River, and the removal of any UXO in the waterway.

(iii) Component 3: the hiring of an international demining expert to supervise the component.

Safeguard policies that might apply

The project has been assigned Category A status for environmental assessment purposes within the World Bank. The proposed investments include activities related to the enhancement of the navigability of the river/waterway, together with associated potential investments in port infrastructure in the river ports. Specifically, works will involve dredging of the main fairway to increase the water depth, construction of bank protection work, potentially involving land take, groynes and sills, to alleviate erosion and impede sedimentation in the channel, and small bridge rehabilitation/construction. In addition, the waterway has a number of areas along its banks that are protected, or of special scientific or environmental significance.

IV. Safeguard Policies that might apply

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VI. Contact point
World Bank
Contact: Moustafa Baher El-Hefnawy
Title: Lead Transport Economist
Tel: 458-1589
Email: melhifnawi@worldbank.org

Borrower/Client/Recipient
Name: Ministry of Finance and Treasury
Contact: H.E. Nikola Spiric
Title: Minister
Tel:
Email:

Implementing Agencies
Name: Ministry of Communications and Transport
Contact: Mr. Izet Bajrampačić
Title: Assistant Minister
Tel: 387-33-254-378
Email: n.sego@mkt.gov.ba

VII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop