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Report No: RES20568

RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
RIJEKA GATEWAY II PROJECT  
LOAN NO. 7638-HR  
April 17, 2009  
TO THE  
PORT OF RIJEKA AUTHORITY  
June 30, 2016

Global Practice  
Transport, Information and Communication Technologies  
Europe and Central Asia Region

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## ABBREVIATIONS AND ACRONYMS

<b>BCT</b>	Brajdica Container Terminal
<b>AGCT</b>	Adriatic Gate Container Terminal
<b>CEF</b>	Connecting Europe Facility
<b>EU</b>	European Union
<b>EUR</b>	Euro currency
<b>HZI</b>	Croatian Railways Infrastructure
<b>MMATI</b>	Ministry of Maritime Affairs, Transport and Infrastructure
<b>MoF</b>	Ministry of Finance
<b>PCS</b>	Port Community System
<b>PDO</b>	Project Development Objectives
<b>PRA</b>	Port of Rijeka Authority
<b>RGI</b>	Rijeka Gateway Project
<b>RGII</b>	Second Rijeka Gateway Project
<b>VAT</b>	Value Added Tax
<b>ZCT</b>	Zagreb Container Terminal

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**CROATIA**

**Rijeka Gateway II Project**

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## DATA SHEET

*Croatia*

*Rijeka Gateway II (P102365)*

*EUROPE AND CENTRAL ASIA*

*Transport & ICT*

Report No: RES20568

Basic Information									
Project ID:	P102365	Lending Instrument:	Specific Investment Loan						
Regional Vice President:	Cyril E Muller	Original EA Category:	Full Assessment (A)						
Country Director:	Arup Banerji	Current EA Category:	Full Assessment (A)						
Senior Global Practice Director:	Pierre Guislain	Original Approval Date:	11-Dec-2008						
Practice Manager/Manager:	Juan Gaviria	Current Closing Date:	15-Jun-2017						
Team Leader(s):	Jean-Francois Marteau,Liljana Sekerinska								
Borrower:									
Port of Rijeka Authority									
Responsible Agency:									
Restructuring Type									
Form Type:		Full Restructuring Paper			Decision Authority: CD Decision				
Restructuring Level:		Level 2							
Financing ( as of 23-May-2016 )									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P102365	IBRD-76380	Effective	11-Dec-2008	17-Apr-2009	14-Jul-2009	15-Dec-2014	15-Jun-2017		
Disbursements (in Millions)									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P102365	IBRD-76380	Effective	USD	122.50	122.50	0.00	42.34	71.08	35

<b>Policy Waivers</b>		
Does the project depart from the CAS/CPF in content or in other significant respects?	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Does the project require any policy waiver(s)?	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
<b>A. Summary of Proposed Changes</b>		
<p>The Bank received a request from the Ministry of Finance (MoF) as the guarantor of the loan, on behalf of the Borrower, the Port of Rijeka Authority (PRA) on June 3, 2016, to change the disbursement percentage of expenditures and the reallocation of Loan proceeds among categories, confirming a request from PRA in January 2016. This is a first step in a broader project restructuring as the Borrower expects to forward a further request for the Bank to consider a project closing date extension date which still requires additional work before the World Bank can consider it favorably.</p> <p>The proposed restructuring is a Level 2 project restructuring and consists of: (i) change of disbursement percentage of expenditures to be financed out of Loan proceeds and change of disbursement plan; and (ii) reallocation of Loan proceeds by categories. The proposed restructuring will resolve a budget constraint faced at present and will facilitate accelerated disbursement. The proposed restructuring will be followed by a more in-depth restructuring to address the achievement of project development objectives in full. The subsequent restructuring requires confirmation on financing of complementary investment, extension of project closing date and improved contract implementation. This first restructuring starts to address the implementation progress while the remaining issues are under discussion and will be addressed before end of calendar 2016 (see project status below).</p> <p>Proposed changes are the following:</p> <p>(i) Change the disbursement percentage of expenditures to be financed out of Loan proceeds from 75 percent to 95 percent which would be applied payments made on January 1, 2016, and thereafter. This is made possible by savings under the project financing plan, as part of the investment initially programmed under the project will be funded by the EU Connecting Europe Facility (CEF).</p> <p>(ii) Reallocation of Loan proceeds among categories. Relates to expenditures under category (2) including capitalized interests and other charges until September 14, 2014. The proposed change allocates the undisbursed balance under this category to the main category (1) Goods, Works, Services. After the reallocation, the total value of Category (1) will amount to EUR 83.719.685,91 while Category (2) will amount to EUR 70.314,09.</p>		
Change in Implementing Agency	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change in Project's Development Objectives	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change in Results Framework	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change in Safeguard Policies Triggered	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change of EA category	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Other Changes to Safeguards	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change in Legal Covenants	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change in Loan Closing Date(s)	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Cancellations Proposed	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]
Change to Financing Plan	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]

Change in Disbursement Arrangements	Yes [ X ] No [ ]
Reallocation between Disbursement Categories	Yes [ X ] No [ ]
Change in Disbursement Estimates	Yes [ X ] No [ ]
Change to Components and Cost	Yes [ ] No [ X ]
Change in Institutional Arrangements	Yes [ ] No [ X ]
Change in Financial Management	Yes [ ] No [ X ]
Change in Procurement	Yes [ ] No [ X ]
Change in Implementation Schedule	Yes [ ] No [ x ]
Other Change(s)	Yes [ ] No [ X ]
Appraisal Summary Change in Economic and Financial Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Technical Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Social Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Environmental Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Risk Assessment	Yes [ ] No [ X ]

## **B. Project Status**

Overall project implementation is progressing at an insufficient pace to achieve the completion of the Achievement of Project Development Objective (PDO). Current rating is Moderately Unsatisfactory. The current rating reflects that while the Brajdica Container Terminal is completed and concessioned, the Zagreb Container Terminal (ZCT) under construction has significant accumulated delays affecting its completion. The ZCT cannot be completed by the current closing date, and there are key activities that are pending and critical to achieving the PDO, including the appointment of a concessionaire, and securing road and rail access to the new terminal. The current political uncertainty is also impacting the capacity of the borrower and the government to take the needed decisions. Disbursements only reached 40 percent at the end of April 2016. PRA's financial performance as measured by the debt service coverage ratio has on the other hand remained satisfactory, showing again a ratio of 1.3.

The Brajdica Container Terminal (BCT) is operational and is currently the project's main achievement. PRA is preparing a sea bottom deepening to allow the newest generation of container vessels to use the terminal. Key preparatory activities include: completion of design studies, and modification to the concession contract with the Adriatic Gate Container Terminal (AGCT) to reflect the proposed modification in the conceded infrastructure. The estimated timeline for tender and works for this EUR 6 m investment on BCT is mid-2017 to mid-2018. However, this activity will be financed from the Loan only up to the project closing date. Financing of the rail interface is secured from CEF in the amount of EUR 30.3 m, with PRA and the Croatian Railways Infrastructure (HZI) together providing an additional EUR 5.5 m, and construction is expected to start in 2017. Project funding is no longer required for the construction works on the Brajdica rail interface.

The civil works on the Zagreb Container Terminal are progressing but technical and contractual issues during construction have required more time with completion projected only in June 2018. Important efforts are being made to secure the financing for the road and rail interfaces connecting the ZCT to the rest of the logistics chain and the selection of the terminal's concessionaire to build the superstructure and operate the terminal. A further restructuring that considers extension of the closing date will require firm agreements/ confirmation of the financing arrangements and scheduling of the related investments. The government and the PRA are preparing the corresponding action plan to make that possible.

On the facilitation/Competitiveness aspects of the project, the main outstanding activity is the development of a Port Community System (PCS). This has not progressed sufficiently and now requires reaching agreement between Ministry of Maritime Affairs, Transport and Infrastructure (MMATI), other administrations and PRA on its scope. This agreement is not yet fully reached.

Fiduciary management is overall satisfactory and there are no overdue audits, while the environmental management of the project is moderately satisfactory, leading to an overall moderately satisfactory project management.

## **C. Proposed Changes**

### **Development Objectives/Results**

#### **Project Development Objectives**

Original PDO

The overall project development objective is to develop the capacity, financial performance, and quality of services in the port of Rijeka to meet growing traffic demand, through public-private partnerships, while facilitating urban renewal by enabling the relocation of port activities.

#### **Change in Project's Development Objectives**

### **Financing**

#### **Change in Disbursement Arrangements**

Explanation:

At project start, disbursement was planned to be 95 percent of eligible expenditures. A balance of own funds from the state (EUR 17 million) was included in the financing plan of the project in 2012 to compensate for the fact that the World Bank accepted to finance 100 percent of expenditures under the first Rijeka Gateway Project (Loans no. 47140, 47150, 47151, 47160) during the 2008-2009 crisis instead of the agreed percentage.

At EU accession, all expenses under the project became subject to a VAT of 25 percent, and as a result the percentage of disbursement was decreased from 95 percent to 75 percent to allow financing of all activities, the outstanding balance being funded by state transfers. This was done through a project restructuring dated February 4, 2014.

Following the November 2015 approval of a CEF grant for the rail interface in Brajdica, the loan proceeds and government contributions initially planned for the rail interface investment become available. Consequently, the PRA and the government elected to increase the expenditures percentage financed out of the Loan from 75 percent to 95 percent but formalized it much later given the government transition. In the context of severely constrained resources in calendar years 2016 and 2017, this will reduce the State budget contributions to the Port of Rijeka Authority for the domestic share. In 2016, PRA was provided a budget for counterpart financing and this is almost exhausted and considering the intensive civil works in the Port, PRA expects large payments before the end of the calendar year. A retroactive application of the change in disbursement percentages would help PRA in completing the co-financing share. The postponed portion of domestic share from the first Rijeka Gateway Project should still be used at the end of implementation period for the outstanding balance of the activities once the loan funds are exhausted.

#### **Reallocations**

Explanation:

The total value of Category (2) - Interest and other charges - amounted to EUR 442.000 after the January 2014 restructuring. The financing of interest and other charges calculated in accordance with Section 2.04 of the Loan Agreement until September 14, 2014 amounts to EURR 70.314,09. The lower interest charges have mainly been a result of postponed Loan disbursement and changed Project implementation plan. Interest charges calculated after September 14, 2014 are not capitalized but should be paid on Payment Dates as defined under Section 2.05 of the Loan Agreement (March 15 and September 15). Therefore, this restructuring request proposes to allocate the currently available amount of EUR 371.685,91 from Category (2) -Interest and other charges- to Category (1) Goods, Works, Services. After the reallocation, the total value of Category (1) will amount to EUR 83.719.685,91 while Category (2) will amount to EUR 70.314,09.

Ln/Cr/TF	Currency	Current Category of Expenditure	Allocation		Disbursement % (Type Total)	
			Current	Proposed	Current	Proposed
IBRD-76380	EUR	G,W,Serv non-CS,CS,TR	83,348,000.00	<b>83,719,685.91</b>	75.00	<b>95.00</b>
		Int./other chrg.on/before 9/14/2014	442,000.00	<b>70,314.09</b>	0.00	
		Designated Account	0.00	0.00	0.00	0.00
		FRONT END FEE	210,000.00	210,000.00	0.00	0.00
		<b>Total:</b>	84,000,000.00	84,000,000.00		

#### Disbursement Estimates

#### Change in Disbursement Estimates

##### Explanation:

The disbursement estimates are revised to reflect current progress and planned implementation timetable revised financing plan for 2016 - 2018. The client proposed the change of dynamics of counterpart financing of the Project in order to reduce the State budget contributions to the Port of Rijeka Authority for the domestic share in calendar years 2016 and 2017. The postponed portion of domestic share from the first Rijeka Gateway Project (Loans no. 47140, 47150, 47151, 47160) may be used at the end of implementation period of the Second Rijeka Gateway Project. The disbursement estimates include a four months period where disbursement can occur after the closing date.

Fiscal Year	Current (USD)	Proposed (USD)
2009	0.00	0.00
2010	0.00	0.00
2011	0.00	0.00
2012	0.00	0.00
2013	9,991,572.58	9,991,572.58
2014	7,516,701.53	7,516,701.53
2015	25,500,000.00	25,500,000.00
2016	29,991,725.89	26,091,725.89
2017	32,500,000.00	24,400,000.00



2018	8,000,000.00	20,000,000.00
<b>Total</b>	113,500,000.00	113,500,000.00
<b>Other Change(s)</b>		
<b>Change in Implementation Schedule</b>		
Explanation:		