Country and Sector Background

1. Since its independence in March 1990, Lithuania (3.7 million people; 65,200 square miles) has shown its commitment to both stabilization and structural reforms. It has adopted policies to promote monetary discipline, decreasing energy subsidies, privatization and social assistance reform and initiated financial sector restructuring and currency reform. While much remains to be done, the benefits of previous and present policies have become visible. Inflation has decreased from an annual rate of over 1020 percent in 1992 to 31 percent in 1995, while GNP has been growing slightly in 1994 and 1995 (GNP US$2050 per capita in 1995). Government’s continued efforts to pursue economic reforms are supported by a World Bank Structural Adjustment Loan and IMF program.

2. External trade with Former Soviet Union countries was a major activity of Lithuania and accounted for 58 percent of the GDP in 1990, before decreasing by about 50% with the breakup of the Soviet Union. After independence, three transit corridors have emerged: (i) East-West (major) from Russia and other CIS countries through Vilnius and Kaunas to the Port of Klaipeda and from there to Scandinavia and Western Europe; (ii) North-South (Via Baltica) from Finland via Estonia, Latvia and Lithuania to Poland, Germany and Central Europe; and (iii) East-West (minor) from Russia and other CIS countries through Kaunas and Kaliningrad.

3. Although infrastructure has been poorly maintained since independence, Lithuania is well serviced by the existing transport infrastructure. The Ministry of Transport is responsible for transport policies and semi-public entities which are in charge of the operational management of infrastructure. Since the transit industry is mostly private, commercializing transport activities is an imperative and urgent need. The road network is adequate to serve Lithuania’s current needs and is being rehabilitated with foreign and local financing. The railways are in substantial need of rehabilitation and of commercialization of activities. The air transport facilities are oversized with four large airports for a small country. Lithuania has only one major seaport, the Port of Klaipeda, through which most transit freight
4. The port of Klaipeda is an ice free port located on the Baltic sea. The port has 4 km of berths in operation (out of 12 km existing), a maximum draft of 10.6 meters and a throughput of 16.1 million tons in 1997. Breakwaters in the port of Klaipeda are in urgent need of rehabilitation to avoid being breached in a storm and force cessation of port activities. The large increase in traffic in 1996 (more than 20 percent) confirmed the port competitiveness. The port of Klaipeda has the best transport connection among Baltic ports to Russia (Moscow) and Belarus thanks to its 4 lane motorway in good condition and rail. The transit sea route via Klaipeda is also a sound alternative to land route through Poland. However, competition between Baltic Sea ports is very high, and ports operate well below normal capacity since cargo shipments from Europe are limited by balance of payment constraints. To maintain its competitive edge, the Port of Klaipeda needs to maintain its existing infrastructure.

5. Klaipeda State Seaport Authority (KSSA) is under the jurisdiction of Ministry of Transport; it owns and manages the land and water territory of the port of Klaipeda. KSSA is responsible for the maintenance, repair and development of the port’s infrastructure, the navigation and leasing of the territory to independent operators. The port’s main facilities include an Oil Terminal (2.0 MT in 1995), general cargo terminal, ship repair yards and RoRo terminals. Sixty five percent of cargo handled in 1995 was transit cargo. Eighty five percent of cargo through the port was transported via rail to its final destination.

6. Despite its obvious commercial potential, the port of Klaipeda suffers from: (a) its configuration of the entrance channel (the port can not be used during inclement weather; losing 40 days of operation per annum); (b) non-existent container facilities; (c) inadequate passenger terminal; (d) a limited number of deepwater berths; (e) an inefficient port-rail interconnection; (f) limited water depths at berths thus non suitable to accommodate large ships; and (g) lack of monitoring of illegal dumping of ship wastes and its containerization and disposal.

Objectives

7. The project’s main objective is to strengthen the competitiveness of the Port of Klaipeda in the Baltic region. Progress towards this objective would be measured based on (i) average time of servicing; (ii) cost of freight handling and harbor dues; (iii) maximum ship size that can be serviced in the port; (iv) number of operational days. The second project objective is to improve environmental conditions. This would be measured by (i) measuring the level of spill risk; (ii) monitoring ship waste disposal in the Port facilities.

Description

8. The components of the proposed project are:

   Technical Services Component (US$4.2 million): it would include: (i) contract/lease management (US$0.2 million) to adjust lease rates to cost recovery level; (ii) training of the port pilots to navigate through the entrance channel, as modified under the project (US$ 0.6 million); (iii) installation of a wave and current record to facilitate maneuvering of ships.
in-and-out of the port (US$0.9 million); (iv) privatization/contracting out of port services (US$0.9 million); project supervision (US$1.6 million).

Investment Component (US$37.1 million): it would include: (i) rehabilitation of the existing breakwaters to avoid a potential breach that would cause port close (US$3.4 million); (ii) North and South Breakwater extensions to reduce wave disturbance in the port (US$11.2 million); (iii) dredging of the entrance channel (widening and deepening) to improve maneuvers and access to large ships in and out of port (US$13.5 million); (iv) improvements in mooring and fendering systems (US$2.3 million) to extend ship time at berths during inclement weather; (v) establishment of a port discharge service (US$1.5 million); and (vi) environmental mitigation measures (US$ 5.2 million).

9. The total estimated cost of the project is US$ 41.2 million, net of taxes and duties, including physical and price contingencies (US$ 5.7 million). The foreign exchange component is US$ 31.4 million, or about 73% of the total costs. Costs were estimated in October 1998 US$, and include physical contingencies of US$ 3.2 million, i.e. 10 percent of base costs for civil works and equipment. Price contingencies amounting to US$ 2.5 million were estimated based on forecast of inflation in dollar for foreign goods and services of 1.9 percent annually for foreign costs and 7.3 percent for 1999, 6.7 percent in 2000 and 5.5 percent in 2001 in dollars for local costs. Contract for final engineering and preparation of tender documents will be signed in the near future.

Financing

10. An IBRD loan of US$28 million, combined with US$10 million loan from other donors and US$4.2 million from the Klaipeda State Seaport Authority, would finance urgently needed investment and technical services.

Implementation

11. Project Implementation would be the responsibility of KSSA, through their Project Implementation Unit (PIU). All PIU functions will be carried out by local consultants. Foreign experts would be used on an exceptional basis to complement local skills. The PIU would be responsible for timely implementation of the project components, and would send quarterly progress reports to the Bank. The format of these reports would be agreed upon between the Bank and KSSA. Bid documents would be prepared prior to loan negotiations. Preparation of detailed feasibility studies, detailed design, and bid professional documents will be carried out with the help of foreign consultants in close cooperation with local professionals. These activities are being financed under a Japanese Grant and Dutch Government Grant to Lithuania.

12. The Project is planned to start in January 2000, and be completed in December 2002. No delays in implementation are expected as the major contracts will be signed shortly after approval of the loan.

13. In the implementation of the construction of breakwaters and dredging, it will be necessary to cooperate closely with the Ministry of Environmental Protection on the implementation of the project’s environmental protection plan and all other environmental conditions including fish migrations to Kursiu Lagoon.
Sustainability

14. The balance between physical improvement of the port and technical services is expected to improve significantly the competitiveness of the port. While investments in infrastructure would improve the physical sea access into the port during inclement weather for ships, training of port pilots using such tools as wave and current recorders would further help extend navigability. Further privatization of port operations would result in sustained efficiency gains. The project investments consist of improvements to basic infrastructure by all traffic, and with a long economic life.

Country Strategy

15. The main objective of the Bank’s Strategy in Lithuania is to raise the living standards of the Lithuanian people by supporting policies and investments that will put the economy on a fast and sustainable path, based on a dynamic private sector operating in a competitive market economy. To achieve this objective, the Bank promotes increased policy action and investment in maintenance and development of physical infrastructure such as the Port of Klaipeda, improvements in environmental protection, Government fiscal effort and reduction of quasi public sector pressure on the financial system.

Lessons learned from past operations in the country/sector

16. The first Bank lending operation with Lithuania since it joined the World Bank in 1991 was a 1992 Rehabilitation Loan for US$ 60 million equivalent to finance imports of materials, spare parts and equipment to assist Lithuania in implementing the first economic reform steps. Loan processing and implementation proceeded expeditiously, and the loan proceeds were fully utilized. This was followed by a US$ 80 million Structural Adjustment Loan in 1996 to help government solve problems related to deficits in the key sectors of the economy. In addition, nine investment projects in various sector of the economy have been approved. Most of them are still relatively new and will be implemented over the next few years. They are a US$ 26.4 million Power Rehabilitation Loan, a US$ 7.0 million Klaipeda Environment Loan, a US$ 25 million Enterprise and Financial Sector Loan, a US$ 6.2 million Siauliai Environmental Loan, a US$ 30 million Private Agriculture Development Loan, a US$ 5.9 million Klaipeda Geothermal Demonstration Loan, a US$ 19 million Highway Project Loan, a US$ 10 million Energy Efficiency/Housing Loan and a US$ 3.7 million Social Loan. Most of the projects were approved quite recently, but experience accumulated calls for a particular attention to be paid to project implementation and institutional structures with clear responsibilities and careful planning of all procurement actions.

17. Bank’s operations in the port sector have been generally designed to reduce transport cost by improving facilities, equipment, and services. Typically port projects seek to: (a) expand port capacity or modernize existing facilities, to permit improved modes of operation; (b) make cargo handling operations more efficient; (c) improve the financial situation of port institutions; (d) restructure and develop port institutions; (e) help port authorities to gain more autonomy from government, to encourage decision making based on commercial principles. The topics of concern have broadened over the last decade with a promotion of private sector participation, a
stronger emphasis on computer management systems, and a better integration of the ports in the transport chain. The main reason for success in the Bank projects were: (i) the borrower’s commitment to projects; (ii) quality of the preparation and the appraisal; and (iii) quality of the Bank’s supervision, including flexibility in adjusting project components and objectives to changing circumstances. The main reasons for project failures have been over-optimistic traffic forecasts, and the borrower’s lack of commitment or poor implementation. Final engineering studies and reviewed traffic projections should be ready by the Bank appraisal of the project.

Poverty Category

18. Not applicable.

Environmental Aspects

19. The project would result in safe and extended period of navigation of ships entering and leaving the Klaipeda Port during adverse weather conditions. The environmentally sensitive Kursiu Lagoon, where significant amounts of Baltic sea fish are hatched, is connected to the Sea via Klaipeda Port. The project would minimize the probability of navigational mishaps resulting in oil spillage and would eliminate illegal discharges of ship wastes in the port area and its approaches. The project would also significantly improve the safety of ships at berths, thereby avoiding damage to ships and berths, which may result in damage to the Kursiu Lagoon. Oil spillage would have a dramatic effect on the food chain of the Baltic Sea.

20. The project has been classified as Category A, given the significant amount of dredging that would take place to realign and deepen the existing channel. An environmental assessment and a set of mitigation measures is being designed and should be reviewed by the Bank prior to appraisal and adopted during project implementation to address the risks or impact of civil works on the environment. These will include safe handling of spoils in accordance with the London Dumping Convention, an improvement in water quality and in sea life access to neighboring spawning areas, and scheduling of works to avoid fish migration seasons. Foreign consultants in collaboration with the local environmental organizations will carry out the environmental assessment and will recommend a detailed list of mitigation measures.

Program Objective Categories

21. The project would contribute directly to environmentally sustainable development of Lithuania by improving and extending navigability of ships in and out of the port of Klaipeda under adverse weather conditions. It would reduce the transport cost of goods and give a new dynamism to external trade, assisting the development of newly established traders in their effort to develop private business ventures. This project would help private investors to operate the port, and increase its productivity, offering better prospects for its future growth and competitiveness.

Project Benefits

22. The technical service component would facilitate the efficient use of the new port infrastructure. The training of port pilots would provide the necessary know-how for a safer and more skillful navigation of ships,
especially under adverse weather conditions, thus reducing ship waiting time and the risk of hazardous spills. The wave and current monitoring system would provide the pilots with reliable real time decision tools to navigate ships. Further privatization/contracting out of port services would enhance the efficient use of port facilities and its competitiveness within the Baltic region.

23. Investment Component: this component would improve the competitiveness of the port of Klaipeda and more specifically:

The rehabilitation of the existing breakwaters would prevent them to be breached in a storm, thereby avoiding cessation of port operations. The cost of foregone revenues and lost clients in a competitive area such as the Baltic Sea would seriously jeopardize the port financial situation. The North and South Breakwater extensions and dredging of the entrance channel would have direct benefits to the port by: (a) allowing larger ships to enter the port under severe weather conditions (preventing the risk of spillage); and (b) by improving the safety of ship maneuvers entering and leaving the port. Quantified benefits of the improved entrance channel would be: (i) prevention of traffic diversion (a 5 percent traffic difference compared to a "do nothing" situation; (i) significant time savings due to improved safety, increased number of days available for operations, and decreased congestion. The improvement in the mooring/fendering systems would ensure the safety of ships and berths. Under the existing conditions ships are exposed to longitudinal motions induced by specific waves that can lead to breaking of mooring lines thus endangering both the berth and the ship.

Risks

24. Project risks include: (a) lack of commitment from the Port Authority: (i) in implementing the project, and (ii) in continuing the ongoing program of sector reform that should lead to further privatization of port services; (b) no increase in traffic as a result of aggressive commercial strategy in neighboring ports; (c) major geotechnical or sedimentation issue faced during implementation; (d) environmental risks of jeopardizing hatching of fish in Kursiu Lagoon because of spills and dredging (mitigation measures will be proposed as part of the Environmental Assessment); (e) lack of experience in KSSA to implement the project (contracting the civil works and consultant services in accordance with the World Bank procurement guidelines).

Contact Points:

The InfoShop

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-5454
Fax: (202) 522-1500

Task Manager
Pedro Taborga
Tel: (202) 473 4312

Klaipeda State Seaport Authority (KSSA)
Tel: 37 06 25 71 86
Fax: 37 06 25 33 54
Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

Processed by the InfoShop week ending November 5, 1999.