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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
AGRICULTURAL ACQUIS COHESION PROJECT
LOAN 73600

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TO THE
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DECEMBER 22, 2011

CROATIA
AGRICULTURAL ACQUIS COHESION PROJECT

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AGRICULTURAL ACQUIS COHESION PROJECT

RESTRUCTURING PAPER

SUMMARY

The proposed changes are necessary to complete activities under Component 3, Ensuring Safe Food and Sanitary and Phytosanitary Conditions, that implement ISO 17025 testing methodologies in line with the EU requirements for plant health services and phytosanitary policy and thus would allow the project to fully achieve its project development objective (PDO). The changes are: (i) five-month closing date extension; (ii) reallocation of loan proceeds; and (iii) revision of the implementation schedule to complete Component 3 activities. The restructuring of the project does not involve any changes in the PDO, its scope, or design.

PROJECT STATUS

Project performance is satisfactory and the project continues to make steady progress across all components. The project development objective to *develop sustainable system and capacities within the Ministry of Agriculture, Fisheries and Water Management (MAFRD) to ensure timely compliance with EU acquis conditions in rural sector* is well underway of being fully achieved. Most of the project end targets have been reached. Croatia successfully closed Chapter 11 on Agriculture and Rural Development in December 2010 and Chapter 12 on Food Safety, Veterinary and Phytosanitary Policy in mid-April 2011. Some of the project's results include the following: Croatia Seeds and Seedlings Institute (CSSI) Genetically Modified Organisms laboratory is completed; the construction of the new Plant Protection Institute (PPI)/Horticulture Institute building will be completed by early February 2012; the Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD) has established an EU-compliant system for IPARD fund management, including an Integrated Administration and Control System (IACS) incorporating a Land Parcel Information System (LPIS); the MAFRD integrated data management center is operational; the rehabilitation of the national and regional veterinary laboratory institutes is completed and key laboratory tests at the National Veterinary Institute and regional veterinary centers have been ISO 17025 certified.

Disbursements now stand at 88.26 percent and commitments represent 96 percent of the total loan amount.

PROPOSED CHANGES

The proposed changes would consist of:

- **Extension of Loan Closing Date.** Although the Borrower has requested a six-month extension of the loan closing date from February 28, 2012 to August 31, 2012, a five-month extension to July 31, 2012 is proposed. This extension would provide the Borrower with sufficient time to complete the procurement and installation of laboratory furnishings for an annex of the Plant Protection Institute in Zagreb while allowing the loan to close concurrently with the associated GEF-funded Agricultural Pollution Control Project (APCP) which closes on July 31, 2012. This would also enable both the Bank and the Borrower to prepare one, consolidated Implementation Completion and Results Report for the two projects within the same timeframe. The extension would support the Borrower's capacity in implementing food safety and phytosanitary policies in compliance with EU requirements as the new plant health reference laboratories will be implementing ISO 17025 testing methodologies critical for securing access of Croatian farmers to the EU food market.

An old summer house on the site of the PPI is almost completely restored and has been annexed to a new PPI building. Its restoration took longer than planned and delayed tendering of its laboratory furnishings. However, all tender specifications are ready to be launched pending approval of closing date extension.

This would be the second extension of the project. The original closing date was October 31, 2010. In June 2010, the Bank extended the closing date by 16 months until February 28, 2012 to enable completion of construction activities, in particular the Plant Protection Institute.

The Borrower has presented a clear time line for the procurement process which has been reviewed by the Task Team and deemed realistic.

- **Reallocation of Loan Proceeds.** The request also includes reallocation of funds from the goods; consultants' services and training; and operating costs categories to the works category amounting to a €805,277 to finance additional costs associated with the completion of construction and rehabilitation works for regional veterinary institute in Rijeka and the PPI building in Zagreb.

With the proposed reallocation of funds, the disbursement categories would be amended as follows:

Category	Amount of the Loan Allocated (Expressed in Euro)		% of Expenditures to be financed
	Current	Revised	
(1) Works	7,366,515	8,171,792	100%
(2) Goods	14,000,000	13,976,000	100%
(3) Consultant Services and Training	2,800,000	2,428,723	100%
(4) Operating Costs	650,000	240,000	100%

(5) Refunding of the Project Preparation Facility	619,735	619,735	Amount due pursuant to Section 2.02 (b) of the Agreement
(6) Front-end Fee	63,750	63,750	Amount due under Section 2.04 of the Agreement
Total	25,500,000	25,500,000	

- Implementation Schedule.** A revised implementation plan has been reviewed by the Bank’s Task Team and was found to be realistic with full utilization of project funds.