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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
CROATIA AGRICULTURAL ACQUIS COHESION PROJECT

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TO THE
REPUBLIC OF CROATIA

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ABBREVIATIONS AND ACRONYMS

APCP	Agricultural Pollution Control Project
CAP	Common Agricultural Policy
CISS	Croatian Institute for Seeds and Seedlings
EU	European Union
GEF	Global Environment Facility
HAMAG	Croatian Small and Medium Enterprise Development Agency
IACS	Integrated Administration and Control System
LPIS	Land Parcel Information System
MAFWM	Ministry of Agriculture, Fisheries and Water Management <i>Ministry of Agriculture, Forestry and Water Management changed its name to Ministry of Agriculture, Fisheries and Rural Development starting from 11 January 2008, according to a decision of the Croatian Government.</i>
MAFRD	Ministry of Agriculture, Fisheries and Rural Development
PPI	Plant Protection Institute
SAPARD	Special Accession Programme for Agriculture & Rural Development
SME	Small and Medium Size Enterprises
VI	Veterinary Institute

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CROATIA
AGRICULTURAL ACQUIS COHESION PROJECT

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AGRICULTURAL ACQUIS COHESION PROJECT

RESTRUCTURING PAPER

A. SUMMARY

The proposed restructuring does not entail any changes to the project's development objectives, outcomes and scope.

A restructuring of the Project has become necessary in order to complete key project activities and thus enable the Project to achieve its development objective. The Project is important in assisting Croatia in its EU accession -- key for Croatia's meeting its *Agricultural Acquis* requirements in a timely manner. The restructuring would consist of extending the loan closing date with 16 months to enable full completion of all ongoing construction activities, in particular the Plant Protection Institute (EURO 5.4 million contract value); and cancelling a EURO 4 million sub-component for the SAPARD (Special Accession Program for Agriculture and Rural Development) guarantee facility and reallocating those funds to cover a funding shortfall caused by a previously approved increase in World Bank disbursement percentage from 85 percent to 100 percent.

The client has prepared a time-bound schedule showing the completion of critical project activities by the end of the proposed new closing date.

B. PROJECT STATUS

Until late-2009, the Project struggled with poor performance and low disbursements. Due to significant changes at all government levels, the loan effectiveness was delayed with nine months. By the time the Project was effective, Croatia's discussions with the EU had evolved rapidly requiring changes in the procurement plan which in turn required renewed consultations with the various government departments and institutes that were intended project beneficiaries, further slowing down implementation progress.

An action plan was designed and agreed upon with the Borrower in January 2010 which aimed to bring the Project back on track. The Borrower has in substance complied with the action plan resulting in nearly doubling of disbursements the past six months and nearly tripling of commitments. Disbursements now represent close to 50 percent of the total loan amount, up from 20 percent in October 2009. Commitments plus disbursements by June 30, 2010 will represent about 80 percent of the total loan amount. In view of the improved performance, the project implementation progress rating along with the rating for the project development objective was recently upgraded from "Moderately Unsatisfactory" to "Moderately Satisfactory."

C. PROPOSED CHANGES

The proposed changes would consist of:

- **Extension of Loan Closing Date.** The Borrower has requested an extension of the loan closing date by sixteen months to enable them to complete project activities and achieve the intended project development objective. This extension would enable the Borrower to complete the construction of major key facilities financed by the Project, principally the Plant Protection Institute (EURO 5.4 million contract value) that has already been contracted and for which construction is to be completed by end of January 2012.

More importantly, an extended closing date would allow the Bank to support the Borrower in completing the longer-than-expected overhaul of the food safety, veterinary and sanitary inspection systems needed for compliance with EU requirements. An extended loan closing date would also render benefits through continuity in the provision of an integrated package of financial support that also includes the funding provided by the ongoing Dutch Grant and the associated Agricultural Pollution Control Project (APCP), financed by GEF.

This would be the first extension of the Project. The Borrower has presented an action plan to complete project activities which has been reviewed by the Task Team and deemed realistic. All project activities would be completed prior to the end of the proposed new loan closing date.

- **Cancellation of a Sub-Component and Reallocation of Loan Proceeds.** An amount of Euro 4.0 million was originally allocated to a sub-component under Part A of the project (Strengthening Capacity for Absorbing EU Financial Assistance in the Agriculture Sector). These funds were intended to finance a Pilot SAPARD pre-financing facility, aiming to provide guarantees to commercial banks providing loans to eligible beneficiaries of SAPARD Rural Infrastructure Measures. These funds were never drawn upon and are no longer required given that, as a result of Croatia's progress in reaching EU accession, the Rural Infrastructure Measure within SAPARD was never accredited in Croatia.

The request also includes a reallocation of the undisbursed funds from the Project Preparation Facility. The reallocated funds would mainly be used to finance activities that were originally expected to be financed with Government funding. These include the modernization of a network of regional veterinary laboratories, the development of the Integrated Administration and Control System (IACS) and the Land Parcel Information System (LPIS), key tools for policy decisions and subsequent management of EU funds by the Ministry of Agriculture. With the proposed reallocation of funds, the disbursement categories would be amended as follows:

Category	Amount of the Loan Allocated at appraisal (expressed in EURO)	Revised Amount of the Loan Allocated (expressed in EURO)	Percentage of Expenditures to be financed
(1) Works	11,136,250	7,366,515	100%
(2) Goods	6,600,000	14,000,000	100%
(3) Consultant's Services and Training	1,450,000	2,800,000	100%
(4) Operating Costs	650,000	650,000	100%
(5) Guarantee Facility	4,000,000	0	
(6) Refunding of Project Preparation Facility	1,600,000	619,735	Amount due pursuant to Section 2.02(b) of this Agreement.
(7) Front-end Fee	63,750	63,750	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps and Interest Rate Collar			Amount due under Section 2.09(c) of this Agreement
TOTAL AMOUNT		<u>25,500,000</u>	

- **Results Indicators.** One intermediate outcome indicator would be dropped: as a result of the proposed restructuring and cancellation of the guarantee facility. The indicator is: "Number of poor municipalities using the Pilot SAPARD Pre-finance facility."
- **Institutional arrangements.** In the original project design, the administration of the guarantee facility was assigned to Croatian Small and Medium Size Enterprise (SME) Development Agency (HAMAG). The proposed cancellation of this sub-component eliminates the role of HAMAG in project implementation. Consequently, the Administrative Service Agreement between the Borrower and HAMAG will no longer be required.
- **Financing.** There are no significant changes in the project costs. Project financing table is changed to reflect the December 2009 increase in Bank disbursement from 85 percent to 100 percent, eliminating the Borrowers cash contribution. The financing plan has been revised accordingly in the Portal.
- **Implementation Schedule.** A revised implementation plan has been reviewed by the Bank's Task Team that would allow full utilization of project funds and the completion of all project activities currently in the procurement plan.